acting through its Grand Cayman Branch

U.S.$500,000,000 6.008% Non-Cumulative Fixed/Floating Rate Subordinated Non-Preferred Notes Due 2022
€600,000,000 4.799% Cumulative Fixed/Floating Rate Subordinated Preferred Notes Due 2017

We, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, a multiple purpose bank incorporated in accordance with the laws of the United Mexican States, or Mexico, acting through our Grand Cayman Branch, are offering the U.S.$500,000,000 6.008% Non-Cumulative Fixed/Floating Rate Subordinated Non-Preferred Notes Due 2022, or the Tier 1 Notes, and the €600,000,000 4.799% Cumulative Fixed/Floating Rate Subordinated Preferred Notes Due 2017, or the Tier 2 Notes, which we collectively refer to as the "Notes" and, separately, as a "Series of Notes," each Series of Notes being issued pursuant to a separate indenture. The Tier 1 Notes will mature on May 17, 2022, and the Tier 2 Notes will mature on May 17, 2017, in each case, subject to adjustment as described herein and unless previously redeemed or payment of principal is deferred. Subject to any regulatory requirements (including obtaining the approval of Banco de Mexico) we may redeem each Series of Notes separately, in whole or in part for such Series, (1) in the case of the Tier 1 Notes on any interest payment date, commencing on May 17, 2017 and (2) in the case of the Tier 2 Notes on any interest payment date, commencing on May 17, 2012. See "Description of the Notes—Redemption—Optional Redemption." In addition, we may redeem each Series of Notes separately, in whole but not in part for such Series, subject to any regulatory requirements (including obtaining the approval of Banco de Mexico), at any time if there are specified changes in (1) the Mexican or Cayman Islands laws affecting the withholding tax applicable to payments under such Series of Notes, (2) the Mexican laws that result in a Capital Event (as defined in this offering memorandum) or (3) the applicable tax laws that result in interest on such Series of Notes not being deductible by us in whole or in part for Mexican income tax purposes. See "Description of the Notes—Redemption—Withholding Tax Redemption" and "Description of the Notes—Redemption—Special Event Redemption." If our Capital Ratio (as defined in this offering memorandum) has declined below, or we determine that it will imminently decline below, the minimum percentage required from time to time by the Mexican Capitalization Requirements (as defined in this offering memorandum) or if a Mexican Regulatory Event (as defined in this offering memorandum) occurs, we will, in the case of the Tier 1 Notes, cancel accrual and payment of interest thereon and defer payment of principal thereof, and in the case of the Tier 2 Notes, defer payment of interest thereon and principal thereof, in each case, until the end of the related Suspension Period (as defined in this offering memorandum). Because payment of interest on the Tier 1 Notes is non-cumulative, in the event that the accrual and payment of interest is cancelled during any Suspension Period, holders of the Tier 1 Notes will not receive such accrued interest at the end of the Suspension Period. See "Description of the Notes—Treatment of Interest and Principal during a Suspension Period."

The Tier 1 Notes are denominated in U.S. dollars and will initially bear interest at a fixed rate of 6.008% per year, payable semi-annually in arrears on May 17 and November 17 of each year, commencing on November 17, 2007 until May 17, 2017. The Tier 2 Notes are denominated in Euros and will initially bear interest at a fixed rate of 4.799% per year, payable annually in arrears on May 17, commencing on May 17, 2008, until May 17, 2012. Thereafter the Notes will bear a floating rate interest (1) for the Tier 1 Notes, at a floating rate equal to the London Interbank Offered Rate, or LIBOR, (as defined in this offering memorandum) as of the second business day prior to the commencement of the relevant floating interest rate period plus 181 basis points per year, and (2) for the Tier 2 Notes, at a floating rate equal to the European Interbank Offered Rate, or EURIBOR, (as defined in this offering memorandum) as of the second TARGET business day (as defined in this offering memorandum) prior to the commencement of the relevant floating interest rate period plus 145 basis points per year. See "Description of the Notes—Principal and Interest."

The Notes will be issued by our Grand Cayman Branch but will be our general obligations, not different from our other direct obligations. The Tier 1 Notes will be our unsecured, subordinated, non-cumulative, non-preferred obligations. The Tier 2 Notes will be our unsecured, subordinated, cumulative, preferred obligations. In the event of our bankruptcy (*concurso mercantil*), liquidation or dissolution under Mexican law, (1) the Tier 1 Notes will rank junior to all of our present and future senior indebtedness and subordinated preferred indebtedness, including the Tier 2 Notes, and *pari passu* with all of our other present or future unsecured subordinated and non-preferred indebtedness, and (2) the Tier 2 Notes will rank junior to all of our present and future senior indebtedness, *pari passu* with all our other present or future subordinated preferred indebtedness and senior to all of our present and future unsecured subordinated non-preferred indebtedness, including the Tier 1 Notes. Payment of principal on the Notes may be accelerated only in the case of certain events involving our bankruptcy, liquidation or dissolution. **In accordance with Articles 134 Bis and 134 Bis 1 of the Mexican Banking Law *(Ley de Instituciones de Crédito)*, there will be no right of acceleration in the case of a default in the performance of any of our covenants, including the payment of principal and interest in respect of the Notes, or in the case of any suspension, cancellation or deferral in the payment of principal or interest in respect of the Notes.** See "Description of the Notes—Events of Default, Notice and Waiver." **The Notes will be unsecured and not insured or guaranteed by the *Instituto para la Protección al Ahorro Bancario*.**

Application is expected to be made to list the Notes on the Official List of the Luxembourg Stock Exchange, or LSE, and to trading on the Euro MTF market.

Investing in the Notes of either or both Series involves risks. See "Risk Factors" beginning on page 19.

Issue Price: 100%

plus accrued interest, if any, from and including May 17, 2007.
Delivery of the Notes in book-entry form will be made on or about May 17, 2007.

We expect that the Tier 1 Notes and Tier 2 Notes will be rated "A1" and "A1," respectively by Moody's Investor Service, Inc., and "BBB+" and "BBB+," respectively by Fitch, Inc. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) MAINTAINED BY THE NATIONAL BANKING AND SECURITIES COMMISSION (*COMISION NACIONAL BANCARIA Y DE VALORES, OR CNBV*), AND MAY NOT BE OFFERED OR SOLD PUBLICLY, OR OTHERWISE BE THE SUBJECT OF BROKERAGE ACTIVITIES, IN MEXICO, EXCEPT PURSUANT TO A PRIVATE PLACEMENT EXEMPTION SET FORTH UNDER ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*). AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, WE WILL NOTIFY THE CNBV OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY, AND THE DELIVERY TO AND THE RECEIPT BY THE CNBV OF SUCH NOTICE, DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY. THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS EXCLUSIVELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV. THE ACQUISITION OF THE NOTES BY AN INVESTOR WHO IS A RESIDENT OF MEXICO WILL BE MADE UNDER ITS OWN RESPONSIBILITY.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A and to certain non-U.S. persons in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Banco Bilbao Vizcaya Argentaria, S.A. **Credit Suisse** **Deutsche Bank Securities**

The date of this offering memorandum is May 11, 2007.

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THE MEXICAN CENTRAL BANK, OR BANCO DE MEXICO, HAS AUTHORIZED THE ISSUANCE OF THE NOTES, AS REQUIRED UNDER APPLICABLE MEXICAN LAW. AUTHORIZATION OF THE ISSUANCE OF THE NOTES BY BANCO DE MEXICO DOES NOT ADDRESS THE LEGAL, TAX OR OTHER CONSEQUENCES TO THE HOLDERS OF THE NOTES OF EITHER OR BOTH SERIES, NOR DOES IT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF SUCH NOTES OR OUR SOLVENCY OR THE TRANSLATION OF THE TERMS OF APPLICABLE MEXICAN LAW AND REGULATION, INCLUDING, WITHOUT LIMITATION, ARTICLES 134 BIS AND 134 BIS 1 OF THE MEXICAN BANKING LAW (*LEY DE INSTITUCIONES DE CRÉDITO*) AND RELEVANT PROVISIONS OF CIRCULAR 2019/95 ISSUED BY BANCO DE MEXICO.

You should rely only on the information contained in this offering memorandum or to which we have referred you. We have not, and the initial purchasers have not, authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Unless otherwise specified or the context otherwise requires, references in this offering memorandum to "the Bank," "Bancomer," "we," "us" and "our" are references to BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and its subsidiaries. References to "the Branch" are to the Grand Cayman Branch of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer. References to "the issuer" are to the Bank acting through the Branch.

In connection with the issue of the Notes, Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Banco Bilbao Vizcaya Argentaria, S.A., or the Stabilizing Managers, or the persons acting on their behalf, may over-allot Notes of either or both series or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Managers or the persons acting on their behalf will undertake stabilization action. Such stabilizing, if commenced, may be discontinued at any time and, if begun, must be brought to an end after a limited period. Any stabilization action will be undertaken in accordance with applicable laws and regulations.

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

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

Neither the CNBV, nor the U.S. Securities and Exchange Commission, or the SEC, nor any state or foreign securities commission has approved or disapproved of the Notes or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and to investors outside the United States so that they can consider a purchase of the Notes of either or both series. This offering memorandum has been prepared solely for use in connection with the placement of the Notes and for the listing of the Notes on the Official List of the Luxembourg Stock Exchange

and to trading of the Notes on the Euro MTF market. We have not authorized the use of this offering memorandum for any other purpose. This offering memorandum may be distributed and its contents disclosed only to those prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you agree to these restrictions. See "Transfer Restrictions."

This offering memorandum is based on information provided by us and by other sources that we believe are reliable, but no assurance can be given by the initial purchasers as to the accuracy or completeness of such information. The initial purchasers assume no responsibility for the accuracy or completeness of the information contained herein (financial, legal or otherwise). In making an investment decision, prospective investors must rely on their own examinations of us and the terms of this offering and the Notes, including the substantial risks involved. Moreover, the contents of this offering memorandum are not to be construed as legal, business or tax advice. You are urged to consult your own attorney, business or tax advisor for legal, business or tax advice.

This offering memorandum does not constitute an offer of, or an invitation by or on behalf of, us or the initial purchasers or any of our or their respective directors, officers and affiliates to subscribe for or purchase any securities in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Each purchaser of the Notes of either or both series must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this offering memorandum and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales.

THE NOTES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND THE APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES, PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM. YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. SEE "RISK FACTORS" FOR A DESCRIPTION OF SPECIFIED FACTORS RELATING TO AN INVESTMENT IN THE NOTES. NEITHER WE, THE INITIAL PURCHASERS, NOR ANY OF OUR OR THEIR RESPECTIVE REPRESENTATIVES IS MAKING ANY REPRESENTATION TO YOU REGARDING THE LEGALITY OF AN INVESTMENT BY YOU UNDER APPROPRIATE LEGAL INVESTMENT OR SIMILAR LAWS. YOU SHOULD CONSULT WITH YOUR OWN ADVISORS AS TO LEGAL, TAX, BUSINESS, FINANCIAL AND RELATED ASPECTS OF A PURCHASE OF THE NOTES.

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

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

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

The Notes may not be purchased or held by (1) any plan, program or arrangement subject to the Employee Retirement Income Security Act of 1974, as amended, or ERISA, Section 4975 of the Internal Revenue Code of 1986, as amended, or the Code, or comparable provisions of any federal, state, local or foreign law or (2) any person acting on behalf of or using the assets of any such plan, program or arrangement, unless such purchase and holding is covered by the exemptive relief provided by (a) Prohibited Transaction Class Exemption , or the PTCE, 96-23, 95-60, 91-38, 90-1 or 84-14, (b) Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or (c) another applicable exemption. Any purchaser or holder of Notes of either or both series or any interest

therein will be deemed to have represented by its purchase or holding thereof that either (1) it is not a plan, program or arrangement subject to ERISA, Section 4975 of the Code or substantially similar provisions of any federal, state, local or non-U.S. law and it is not purchasing securities on behalf of or using the assets of any such plan, program or arrangement or (2) such purchase and holding and any subsequent disposition of such Notes is covered by the exemptive relief provided by (a) PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, (b) Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or (c) another applicable statutory or administrative exemption. Prospective purchasers must carefully consider the restrictions on purchase set forth in "Transfer Restrictions" and "Certain ERISA Considerations." For information regarding restrictions on acquisition of the Notes, see "Description of the Notes—Restrictions Applicable to Mexican Financial Institutions."

This communication is only being distributed to and is only directed at (1) persons who are outside the United Kingdom or (2) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the Order, or (3) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

In any European Economic Area, or EEA, member state that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any member state, the "Prospectus Directive"), this communication is only addressed to and is only directed at qualified investors in that member state within the meaning of the Prospectus Directive.

This offering memorandum has been prepared on the basis that all offers of the Notes of each series will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of the Notes which are the subject of the placement contemplated in this offering memorandum should only do so in circumstances in which no obligation arises for us or any of the initial purchasers to produce a prospectus for such offer. Neither we nor the initial purchasers have authorized, nor do we or they authorize, the making of any offer of the Notes of either series through any financial intermediary, other than offers made by initial purchasers which constitute the final placement of such Notes contemplated in this offering memorandum.

In making an investment decision, you must rely on your own examination of our business and the terms of this offering, including the merits and risks involved. These Notes have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

AVAILABLE INFORMATION

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

We will make available to the holders of the Notes, at the corporate trust office of the Trustee at no cost, copies of the indentures as well as this offering memorandum, and annual audited consolidated financial statements prepared in conformity with Mexican Banking GAAP (as defined herein). We will also make available at the office of the Trustee our audited annual and our unaudited quarterly consolidated financial statements prepared in accordance with Mexican Banking GAAP. Information is also available at the office of the Luxembourg Listing Agent (as defined herein).

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market in accordance with its rules. This offering memorandum forms, in all material respects, the listing memorandum for admission to the Luxembourg Stock Exchange. We will be required to comply with any undertakings given by us from time to time to the Luxembourg Stock Exchange in connection with the Notes, and to furnish to it all such information as the rules of the Luxembourg Stock Exchange may require in connection with the listing of the Notes.

ENFORCEMENT OF JUDGMENTS

We are a multi-purpose bank (*institución de banca múltiple*) incorporated in accordance with the laws of Mexico with limited liability (*sociedad anónima*). Most of our directors and officers, as well as the experts named in this offering memorandum, reside outside of the United States, and substantially all of their assets and our assets are located outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon these persons or to enforce against them or against us in United States courts judgments predicated upon the civil liability provisions of the U.S. federal securities laws. We have been advised by our internal counsel that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to, the following: (1) statements regarding our future results of operations and financial condition, (2) statements of plans, objectives or goals, including those related to our operations, and (3) statements of assumptions underlying such statements. Words such as “believe,” “anticipate,” “should,” “estimate,” “forecast,” “expect,” “may,” “intend” and “plan” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties, both general and specific, and there are risks that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements. These factors include the following:

- competition;
- profitability of our businesses;
- acquisitions and divestitures;
- limitations on our access to sources of financing on competitive terms;
- restrictions on foreign currency convertibility and remittance outside of Mexico;
- failure to meet capital or other requirements;
- changes in reserve requirements;
- changes in requirements to make contributions to or for the receipt of support from programs organized by the Mexican government;
- changes in overall economic conditions in Mexico, including exchange rates and interest rates;
- changes in exchange rates, market interest rates or the rate of inflation; and
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives or monetary or fiscal policy in Mexico.

Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated, expected or intended, as described in this offering memorandum. We do not have any intention to update these forward-looking statements.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

Our audited financial statements as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006, contained in this offering memorandum have been prepared in accordance with the accounting principles and regulations prescribed by the CNBV for banks, as amended, or Mexican Banking GAAP.

Mexican Banking GAAP differs from Mexican Financial Reporting Standards, which we refer to as Mexican GAAP or MFRS, as published by the Mexican Board for the Research and Development of Financial Reporting Standards. Mexican Banking GAAP also differs from generally accepted accounting principles in the United States of America, or U.S. GAAP, and SEC guidelines applicable to banking institutions in the United States. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP." No reconciliation of any of our financial statements to U.S. GAAP has been prepared for the purposes of this offering memorandum. Any such reconciliation would likely result in material differences.

The CNBV requires Mexican banks to account for the comprehensive effects of inflation in accordance with rules that are substantially the same as those in Bulletin B-10, "Recognition of Effects of Inflation in the Financial Information," which requires that financial information be adjusted for the effect of inflation and presented in constant pesos as of the date of the most recent balance sheet presented in the relevant financial statements.

Our financial statements have been adjusted using the value of *Unidades de Inversión*, or UDIs, a peso currency equivalent indexed for Mexican inflation. UDIs are units of account whose value in pesos is indexed to inflation on a daily basis, as measured by the change in the Mexican National Consumer Price Index, or the NCPI. At December 31, 2006, one UDI was equal to Ps.3.788954; at March 31, 2007, one UDI was equal to Ps.3.834470 and at May 9, 2007, one UDI was equal to Ps.3.836164. For a description of the methodology used to adjust the financial statements to reflect the effects of inflation, see note 4 to our audited financial statements included elsewhere in this offering memorandum.

Unless otherwise specified, our audited financial statements and the other annual financial information contained in this offering memorandum are stated in constant pesos with purchasing power as of December 31, 2006.

Unless otherwise specified, in accordance with Mexican Banking GAAP, our financial statements and the other financial information with respect to us contained in this offering memorandum are presented in consolidated form. In accordance with Mexican Banking GAAP, only those subsidiaries that operate in the financial sector or that provide auxiliary or complementary services are consolidated for the purpose of presenting our consolidated financial information. Our other subsidiaries are accounted for under the equity method. See note 16 to our audited financial statements included elsewhere in this offering memorandum.

Currencies

In this offering memorandum, references to "pesos" or "Ps." are to Mexican pesos, and references to "U.S. dollars" or "U.S.$" are to United States dollars.

This offering memorandum contains translations of various peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated peso amounts into U.S. dollars at the exchange rate of Ps.10.8116

to U.S.$1.00, which was the rate published by Banco de Mexico, in the Official Gazette of Mexico (*Diario Oficial de la Federación*) on January 2, 2007. On January 2, 2007, the noon buying rate for pesos published by the Federal Reserve Bank of New York was Ps.10.7790 to U.S.$1.00. On May 9, 2007, the rate published by Banco de Mexico in the Official Gazette of Mexico was Ps.10.8513 to U.S.$1.00, and the noon buying rate published by the Federal Reserve Bank of New York was Ps.10.8231 to U.S.$1.00. See "Exchange Rates and Currency" for information regarding rates of exchange between the peso and U.S. dollar for the periods specified therein.

Terms Relating to our Loan Portfolio

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

"Total performing loans" and "total performing loan portfolio" refer to the aggregate of (1) the total principal amount of loans outstanding as of the date presented, (2) amounts attributable to "accrued interest," (3) "rediscounted loans" and (4) the "UDI Trusts" (as explained below). Under Mexican Banking GAAP, we include as income for any reporting period interest accrued but unpaid during that period. Such "accrued interest" is reported as part of our total performing loan portfolio in the financial statements until it is paid or becomes part of the total non-performing loan portfolio. "Rediscounted loans" are peso- and U.S. dollar-denominated loans made to finance projects in industries that qualify for priority status under the wholesale lending programs of the Mexican government's development banks. In accordance with Mexican Banking GAAP, rediscounted loans are recorded on the balance sheet as outstanding loans. As is mandated by the CNBV, total performing loans include the off-balance sheet portfolio trusts, or the UDI Trusts, which are trusts holding our loans converted into UDIs that are consolidated in our financial statements. Under a UDI-based loan or financial instrument, interest is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount of pesos equivalent to the amount due in UDIs at the stated value of the UDIs on the day of payment. Under the UDI Trust program, we are liable for all future losses, if any, on the loans in the UDI Trusts. See notes 3 and 10 to our audited financial statements included elsewhere in this offering memorandum.

The CNBV requires amounts receivable from the Bank Support Fund (*Fondo Bancario de Protección al Ahorro*), or FOBAPROA, or the IPAB to be included in a bank's loan portfolio in its financial statements. Accordingly, such amounts are sometimes referred to in this offering memorandum as "FOBAPROA and IPAB Notes and other receivables" and are included as a separate component of the loan portfolio in the financial statements contained in this offering memorandum as "FOBAPROA and IPAB Notes." In addition, although interest accrued on such amounts was generally capitalized over the life of the related receivable and was not payable until their maturity, we recognized such interest as current interest income. The FOBAPROA and IPAB Notes have matured and have been repaid, and as of the date of this offering memorandum, we are not owed any amounts receivable by FOBAPROA or the IPAB. See "Management's Discussion and Analysis of Financial and Result of Operations–Effects of changes in Interest Rates and the Rate of Inflation–Government Sponsored Support Funds."

The terms "total performing loans" and "total performing loan portfolio," as used in this offering memorandum, do not include (1) amounts receivable from FOBAPROA or the IPAB in connection with the FOBAPROA and IPAB Notes, or in connection with the acquisition of Banca Promex, S.A., or Promex, or otherwise and (2) "total non-performing loans," as defined below. The term "net total performing loans" refers to total performing loans less allowance for loan losses on these loans.

The terms "total non-performing loans" and "total non-performing loan portfolio" include past-due principal and past-due interest. For a description of our policies regarding the classification of loans as non-performing, see "Selected Statistical Information—Non-Performing Loan Portfolio." The term "net non-performing loans" refers to total non-performing loans less allowance for loan losses on these loans.

References in this offering memorandum to "provisions" are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income, except in the case of certain provisions associated with loans and foreclosed assets and other loan losses that were charged to stockholders' equity (net of deferred taxes). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations."

References in this offering memorandum to "allowance" are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item.

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

The loan portfolio information provided in "Selected Statistical Information" was determined in accordance with the manner in which we have presented the components of our loan portfolio in other sections of this offering memorandum as described above, except that the data for the loan portfolio presented under "Selected Statistical Information" does not include amounts attributable to accrued interest, which represented less than 1% of our total loan portfolio at December 31, 2006. See "Selected Statistical Information—Loan Portfolio" and the footnotes to the tables included therein.

Terms Relating to our Capital Adequacy

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

- "Total capital" or "total net capital" refers to net capital (*capital neto*), as such term is determined based on the Mexican Banking Law and the Rules for Capitalization referred to below.
- "Tier 1 capital" refers to the basic portion (*parte básica*) of the total net capital, as such term is determined based on the Rules for Capitalization.
- "Tier 2 capital" refers to the additional portion (*parte complementaria*) of the total net capital, as such term is determined based on the Rules for Capitalization.
- "Capital Ratio" refers to the ratio of the total net capital (*capital neto*) to risk-weighted assets calculated in accordance with the methodology established from time to time by the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) pursuant to the Rules for Capitalization and the Mexican Capitalization Requirements.
- "Rules for Capitalization" means the Rules for Capitalization Requirements of Commercial Banks and National Credit Institutions (*Reglas para los requerimientos de capitalización de las instituciones de banca múltiple y las sociedades nacionales de crédito, instituciones de banca de desarrollo*) published in the Official Gazette on December 28, 2005, as amended on September 6, 2006, and as such regulations may be further amended or superseded.
- "Mexican Capitalization Requirements" refers to the capitalization requirements for commercial banks set forth under the Mexican Banking Law and the General Rules for Banks, as such regulations may be amended or superseded.

Other Definitions

The following definitions are used in this offering memorandum:

- "General Rules for Banks" means the General Rules Applicable to Mexican banks (*Disposición de Carácter General Aplicables a las Instituciones de Crédito*) published by the CNBV in the Official Gazette on December 2, 2005, as amended through April 26, 2007 and as such regulations may be further amended or superseded.

- “Mexican Stock Exchange” means the *Bolsa Mexicana de Valores, S.A. de C.V.*
- “Mexico” means the United Mexican States.
- “Repurchase Agreement” means a Mexican law governed repurchase and resale agreement (*reporto*) pursuant to which a party agrees to a temporary purchase or sale of securities in exchange for (1) a specified premium to be paid or received, and (2) the obligation to resell or repurchase the underlying security. Repurchase agreements may or may not be secured.
- “Sofol” means limited purpose financial entities, or *sociedades financieras de objeto limitado*.
- “Sofom” means multiple purpose financial entities, or *sociedades financieras de objeto múltiple*.

Rounding Adjustments

Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetical aggregation of the figures preceding them.

Market Share and Ranking Information

Unless otherwise indicated, the market share and ranking information included in this offering memorandum is derived from statistics of the CNBV or the Mexican Banking Association (*Asociación de Bancos de México A.C.*), each as of December 31, 2006.

OFFERING MEMORANDUM SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this offering memorandum. For a more complete understanding of us and the offering made herein, you should read the entire offering memorandum, including the risk factors and the financial statements appearing elsewhere in this offering memorandum.

The Bank

We are a leading multi-purpose bank with limited liability organized under Mexican law and provide a wide range of banking, securities and financial services to approximately 50,000 companies and over 14 million retail customers throughout Mexico. As of December 31, 2006, we had total assets of Ps.602,770 million and total deposits of Ps.403,993 million. In 2006, we had net income of Ps.17,927 million and stockholders' equity of Ps.70,588 million. As of December 31, 2006, based on total assets and deposits, we were the largest bank in Mexico.

We are the principal subsidiary of Grupo Financiero BBVA Bancomer, or GFBB, a Mexican financial services holding company. GFBB is controlled and substantially all of its capital stock is beneficially owned by Banco Bilbao Vizcaya Argentaria, S.A., or BBVA, a leading Spanish bank. As of December 31, 2006, GFBB accounted for approximately 14% of BBVA's total assets and contributed approximately 37% of BBVA's net income. As of December 31, 2006, we accounted for approximately 96% of GFBB's total assets and approximately 83% of GFBB's net income.

As of December 31, 2006, we provided a wide variety of banking products and services in Mexico through a nationwide network of 1,754 branches, 4,850 ATMs, 83,014 point of sale terminals and our website at www.bancomer.com, an interactive portal for customer information and transactions, which should not be considered a part of this offering memorandum. We are focused on offering our services in an efficient manner, and approximately 81% of our banking transactions are done electronically (primarily through ATMs and other remote channels).

Our loan portfolio and net income has shown growth in recent years due to significant branch and product expansion. Our net income grew 10.7% in 2003, 47.2% in 2005 and 102.1% in 2006, in each case as compared to the previous year. Net income decreased 14.1% in 2004 as a result of our agreement with the IPAB to reacquire loans held in trust under the FOBAPROA program that were identified as "related party loans." Our loan portfolio grew 0.8% in 2003, 14.7% in 2004, 27.7% in 2005 and 26.4% in 2006, in each case as compared to the previous year.

The table below sets forth our market share in the following sectors of the Mexican financial system as of December 31, 2006. The following information is presented on a consolidated basis.

	As of December 31, 2006(1)	
	Market Share	**Rank**
Total assets	23.3%	1
Total deposits	24.5%	1
Total peso-denominated bond issuances(2)	16.4%	1
Total loans	27.0%	1
Number of branches	20.8%	1

(1) Except as otherwise stated, the source of the information in this table is the CNBV. Excludes banks subject to government intervention by Mexican authorities.

(2) Source: Bloomberg L.P.

Our principal subsidiaries include:

- Administradora de Fondos para el Retiro Bancomer, S.A. de C.V., or AFORE Bancomer, a pension fund management company; and
- Bancomer Financial Holdings, a holding company that owns our operations in the United States, including Bancomer Transfer Services, Inc., or Bancomer Transfer Services, a money remittance service based in the United States, and BBVA Bancomer USA (formerly named Valley Bank), a commercial bank in California that we acquired in 2004.

Organizational Structure

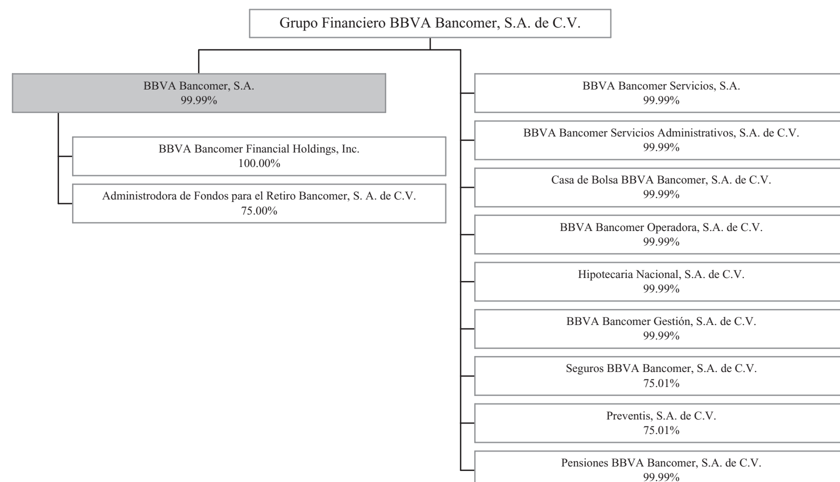
We are the principal subsidiary of GFBB, a Mexican financial services holding company.

In addition to our own products and services, we distribute and earn fee income from a wide range of financial and related products and services in Mexico for GFBB and other affiliates, including:

- bank assurance products on behalf of Seguros BBVA Bancomer, S.A. de C.V.;
- mutual funds on behalf of BBVA Bancomer Gestión, S.A. de C.V.;
- brokerage services on behalf of Casa de Bolsa BBVA Bancomer, S.A. de C.V.;
- pension fund management on behalf of Pensiones Bancomer, S.A. de C.V.; and
- trust and ATM services on behalf of BBVA Bancomer Servicios, S.A., Institución de Banca Múltiple.

We also purchase mortgage loans, at market prices, from Hipotecaria Nacional, S.A. de C.V., or Hipotecaria Nacional. As a result of the purchase of such loans, we pay Hipotecaria Nacional a service fee.

The following chart presents our current organizational structure and that of GFBB, including principal subsidiaries and affiliates, and respective ownership interests:



Our headquarters are located at Avenida Universidad No. 1200, Colonia Xoco, Mexico City, Mexico 03339. Our telephone number at that address is (5255) 5621-3434. See "The Bank—Properties."

Our History

General

Our origins can be traced back to Banco de Comercio, S.A., which was founded in 1932 in Mexico City. In 1977, various institutions comprising the Banco de Comercio group were consolidated into a multiple purpose bank under the name of "Bancomer." The merger enabled us to maintain our strong ties with local communities throughout Mexico and simultaneously offer the services of a national banking network.

Bancomer was nationalized by the Mexican government in 1982 along with nearly all other commercial banks in Mexico. As part of the subsequent privatization process, in 1991, a core group of Mexican investors led by Eugenio Garza Lagüera incorporated Grupo Financiero Bancomer, or GFB, to acquire 56% of Bancomer's outstanding capital stock directly from the Mexican government.

GFB subsequently increased its ownership of Bancomer through acquisitions and, in 1993, the Mexican government exchanged its remaining stake in Bancomer for shares of GFB's capital stock, which gave GFB control of nearly 100% of Bancomer's outstanding capital.

BBVA's investment in GFBB

In 2000, BBVA acquired operating control of Grupo Financiero Bancomer, S.A. de C.V., which was renamed Grupo Financiero BBVA Bancomer, S.A. de C.V. As a result of a merger of Grupo Financiero BBV-Probursa, S.A. de C.V., or BBV-Probursa, an indirect subsidiary of BBVA and the parent of Banco Bilbao Vizcaya Mexico, S.A., or BBV-Mexico, into GFB in July 2000, BBVA obtained an approximate 30% interest in the outstanding capital of GFB. As a result of a series of transactions effected between January 2002 and March 2004, BBVA acquired approximately 99.9% of the capital stock of GFBB.

Following BBVA's initial investment in GFBB in 2000, we grew as a result of our September 2000 merger with Promex, an insolvent bank that had been acquired by the Mexican government, and, to a lesser extent, the transfer of a substantial portion of the traditional banking business of BBV-Mexico to us in 2001. As part of such transfer, certain of our assets and activities, including our ATM network, were transferred to BBV-Mexico. In connection with such transfer, we were renamed BBVA Bancomer, S.A., Institución de Banca Múltiple and BBV-Mexico was renamed BBVA Bancomer Servicios, S.A., Institución de Banca Múltiple, or BBVA Bancomer Servicios.

Strategy

Our principal strategy is to leverage our leading position in Mexico and our relationship with BBVA to enhance our position as the leading Mexican bank. To achieve this goal, we intend to focus on the following objectives:

Continuously developing products and services

We seek to broaden the variety of products we offer to our individual, corporate and middle-market customers in order to differentiate ourselves as much as possible from our competition. To this end, in 2006, we continued our effort to identify the needs of our customers and tailoring products and services, including electronic solutions to address their needs, develop new business ideas, seek out new business opportunities and help expand our business activities.

Product offerings include the continued development of a credit-card-based customer loyalty program called "*Vida Bancomer,*" which allows our customers to easily access rewards through state of the art proprietary

technology at participating merchants; on-site check debiting for corporate customers through a new treasury service package; financial products such as the first-ever capital-guaranteed mutual fund in Mexico; payroll-linked funds; advanced e-banking services for our middle-market customers, including self-service revolving credit lines; and new mortgage products such as "*Hipoteca Cambio de Casa,*" which is designed to help our customers buy a new home without needing to sell their current home and "*Your dream home in Mexico,*" a mortgage product that has been introduced jointly with Laredo National Bank (a subsidiary of BBVA) and that is aimed at assisting residents of Canada and the U.S. interested in purchasing a home in Mexico.

Other examples of new products are "*Bancomer Platinum*," which is a credit card designed for people with income higher than Ps.40,000 a month with specific benefits for this segment, and "*Tarjeta 40*" which is a pre-paid card for young people in alliance with a major radio station in Mexico.

Our goal is to continue to provide for the needs of our customers, and to increase our revenues through creative development of products and services.

Selectively increasing and diversifying our lending activities

While we presently serve a large percentage of the major Mexican corporate market, we intend to continue to monitor the needs of this sector and to seek new opportunities to increase and diversify the range of lending to this market. In addition, we estimate that we can provide diverse financial services to a significant portion of the Mexican population that is not currently served by the banking system, thus providing us with a considerable opportunity to increase our revenues through selective lending activities. We intend to focus on opportunities to increase lending to this under-served segment and broaden our offering of loans, including loans to middle-market customers, such as working capital and fixed-asset financing, and loans to consumers, such as payroll loans. We intend to undertake all such lending based on careful risk analysis, knowledge of our customers, fine-tuning our credit terms and, to the extent necessary, our customer monitoring and collection processes.

Improving operating efficiencies and strengthening our core earnings

Over the last few years, we have made a considerable effort to reduce expenses. We believe that our efforts have afforded us an advantage over our competitors. According to the CNBV, as of December 31, 2006, our efficiency ratio, which is defined as administrative expense divided by the sum of net interest income (before provisions), commissions and fees and trading income, was 41.9% compared to an aggregate ratio of 53.3% for our principal competitors. Our efforts at reducing expenses have focused on lowering our funding costs, generating synergies with Hipotecaria Nacional and improving our operating processes.

We believe that a principal part of our strategy going forward will be to continue to seek ways to improve our operating efficiency and increase our core earnings. We intend to continue to accomplish these goals by seeking to reduce our funding costs through selective market and bank offerings, maintaining a low-cost deposit base, concentrating our efforts on higher margin products and services, and increasing our fee-based service charges. We seek to maintain this advantage by focusing on core earnings and maintaining strict investment and expense policies. We intend to continue to improve efficiencies through specialized training of our personnel, increased use of automated data and related systems and the use of external suppliers for non-strategic activities when doing so is more cost-effective than using in-house services.

Our "core earnings," which we define as net interest income before monetary gain and net commissions and fees, minus non-interest expense, grew, 22.4%, 29.2% and 46.4%, in each of 2004, 2005 and 2006, respectively as compared to the prior year.

Enhancing customer loyalty

We view customer service as a top priority, as we consider it to be one of the differentiating elements that enables us to have a market advantage in a highly competitive financial services industry.

As part of our commitment to customer loyalty, we expect to continue to introduce new services as part of "*Proyecto Cliente,*" an initiative that has been in place since 2002. As part of "*Proyecto Cliente,*" we conduct frequent surveys on customer satisfaction, which we use to implement improvements to our back and front office operations to enhance customer service.

In 2004, we also established "*Garantías Bancomer*." In 2006, the program was expanded to include a maximum response time for customer inquiries, and complete reimbursement/no liability coverage for fraudulent credit and debit card purchases, including electronic notification if debit or credit cards are used to make purchases that are greater than Ps.1,000.

In March 2005, we launched "*Vida Bancomer,*" the first customer loyalty program utilizing a credit card with an embedded intelligent microchip running proprietary software developed to offer real-time rewards to customers and marketing and merchandising flexibility to merchants. Clients can redeem points, coupons and discounts on-site and merchants can control their advertising and promotional activity by tailoring triggers to reward customer loyalty based on age, gender or spending habits.

We believe that "*Vida Bancomer*" offers us a competitive advantage that cannot be easily replicated given that it requires software development, significant investment and installation of customized microchips in merchant point-of-sale terminals as well as the issuance of cards with microchips. In 2006, we added 11,517 merchant affiliates to the program. As of March 31, 2007, we had over 26,000 merchants affiliated with the program, and had issued approximately 3.5 million credit cards with microchip technology.

We intend to continue to pursue a customer-driven business model, which is based on specialized distribution networks, in order to build and enhance customer loyalty. We intend to enhance customer loyalty by continuing to utilize the specialized services and knowledge of our 36 private bankers who cater to high net worth individuals in our Personal and Private Banking unit, increasing the availability and services of our 53 dedicated personal banking offices for high deposit individuals and improving our network of offices that service our small business, middle-market and large corporate customers. In each of these activities, our goal is to provide our personnel with detailed credit and other information concerning our customers and their activities, as well as information concerning our products and services, which enables them to better identify our customers' needs and offer them more suitable products and services.

Recent Developments

On December 6, 2006, we entered into an employer substitution agreement (*contrato de sustitución patronal*) with BBVA Bancomer Operadora, S.A. de C.V. (formerly GFB Servicios, S.A. de C.V.), or Operadora, a subsidiary of GFBB, pursuant to which, as of January 1, 2007, all of our employees (except for our Chief Executive Officer) were transferred to Operadora's payroll. The transfer was made in order to give GFBB the flexibility to deploy personnel into its different business units without the need to change employers. All employees' salaries and benefits are paid by Operadora. We pay an amount equal to all employees' salaries and benefits plus a commission to Operadora as a service fee. All of our former employees continue to enjoy their former benefits and seniority. As a result of this transfer, all of our former employees are now part of a performance-based compensation program.

In order to effect this transfer, we funded Operadora to cover the transfer of our former employees' pension liabilities and, accordingly, we took a charge of Ps.2,607 million to our 2006 results, net of deferred income taxes. See note 21 to our audited financial statements included elsewhere in this offering memorandum. See "Recent Financial Developments."

THE OFFERING

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

Tier 1 Notes and Tier 2 Notes

Issuer . . . . BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, acting through its Grand Cayman Branch.

Notes . . . . *Tier 1 Notes.* U.S.$500,000,000 aggregate principal amount of 6.008% Non-Cumulative Fixed/Floating Rate Subordinated Non-Preferred Notes due 2022.

Tier 2 Notes. €600,000,000 aggregate principal amount of 4.799% Cumulative Fixed/Floating Rate Subordinated Preferred Notes due 2017.

Unsecured; Not Guaranteed . . . . Neither series of Notes will be secured nor guaranteed by the IPAB or any Mexican governmental agency, or by any other entity that is part of Grupo Financiero BBVA Bancomer, and, by their terms, neither series of Notes is convertible into shares of our common stock.

Issue Price . . . . *Tier 1 Notes*. 100% of the principal amount.

Tier 2 Notes. 100% of the principal amount.

Issue Date . . . . May 17, 2007

Maturity Date . . . . *Tier 1 Notes*. Tier 1 Interest Payment Date (as defined herein) falling on or nearest to May 17, 2022.

Tier 2 Notes. Tier 2 Interest Payment Date (as defined herein) falling on or nearest to May 17, 2017.

Each series of Notes being subject to:

- Optional Redemption, Withholding Tax Redemption and Special Event Redemption prior thereto, and
- deferral of payments of principal in connection with a suspension period.

in each case, as discussed elsewhere in this offering memorandum.

Indentures . . . . Each series of Notes will be issued under a separate indenture, each dated as of May 15, 2007 between us and The Bank of New York as trustee.

Rating . . . . We expect that the Tier 1 Notes and Tier 2 Notes will be rated "A1" and "A1," respectively by Moody's Investor Service, Inc., and "BBB+" and "BBB+," respectively by Fitch, Inc. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice.

Interest and Principal; First Call Dates	*Tier 1 Notes.* The Tier 1 Notes will bear interest from (and including) May 17, 2007, or the "Tier 1 Issue Date," up to (but excluding) May 17, 2017, or the "Tier 1 First Call Date," at a fixed rate per annum equal to 6.008%, payable semiannually in arrears on May 17 and November 17 of each year (each a "Tier 1 Fixed Interest Payment Date"), commencing on November 17, 2007. Thereafter, the Tier 1 Notes will bear interest in respect of each Tier 1 Floating Interest Period (as defined below) at the LIBOR rate (as defined in the indenture for the Tier 1 Notes) for such Tier 1 Floating Interest Period plus 1.81% per annum, payable quarterly in arrears on February 17, May 17, August 17 and November 17 of each year, commencing on August 17, 2017, in each case subject to adjustment for non-Business Days as defined in "Description of the Notes" (each a "Tier 1 Floating Interest Payment Date"). The period beginning on (and including) the Tier 1 Issue Date and ending on (but excluding) the first Tier 1 Fixed Interest Payment Date and each successive period beginning on (and including) a Tier 1 Fixed Interest Payment Date and ending on (but excluding) the next succeeding Tier 1 Fixed Interest Payment Date up to (but excluding) the Tier 1 First Call Date is called a "Tier 1 Fixed Interest Period." The period beginning on (and including) the Tier 1 First Call Date and ending on (but excluding) the first Tier 1 Floating Interest Payment Date and each successive period beginning on (and including) a Tier 1 Floating Interest Payment Date and ending on (but excluding) the next succeeding Tier 1 Floating Interest Payment Date up to (but excluding) the Tier 1 Maturity Date is called a "Tier 1 Floating Interest Period." *Tier 2 Notes.* The Tier 2 Notes will bear interest from (and including) May 17, 2007, or the "Tier 2 Issue Date," up to (but excluding) May 17, 2012, or the "Tier 2 First Call Date," at a fixed rate per annum equal to 4.799%, payable annually in arrears on May 17 of each year (each a "Tier 2 Fixed Interest Payment Date"), commencing on May 17, 2008. Thereafter, the Tier 2 Notes will bear interest in respect of each Tier 2 Floating Interest Period (as defined below) at the EURIBOR Rate (as defined in the indenture for the Tier 2 Notes) for such Tier 2 Floating Interest Period plus 1.45% per annum, payable quarterly in arrears on February 17, May 17, August 17 and November 17 of each year, commencing on August 17, 2012, in each case subject to adjustment for non-TARGET Business Days as defined in "Description of the Notes" (each a "Tier 2 Floating Interest Payment Date"). The period beginning on (and including) the Tier 2 Issue Date and ending on (but excluding) the first Tier 2 Fixed Interest Payment Date and each successive period beginning on (and including) a Tier 2 Fixed Interest Payment Date and ending on (but excluding) the next

succeeding Tier 2 Fixed Interest Payment Date up to (but excluding) the Tier 2 First Call Date is called a "Tier 2 Fixed Interest Period." The period beginning on (and including) the Tier 2 First Call Date and ending on (but excluding) the first Tier 2 Floating Interest Payment Date and each successive period beginning on (and including) a Tier 2 Floating Interest Payment Date and ending on (but excluding) the next succeeding Tier 2 Floating Interest Payment Date up to (but excluding) the Tier 2 Maturity Date is called a "Tier 2 Floating Interest Period."

Tier 1 Notes. Prior to (and including) the Tier 1 First Call Date, if any Tier 1 Fixed Interest Payment Date would otherwise fall on a date that is not a Business Day, the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Tier 1 Fixed Interest Payment Date, and no further interest shall accrue as a result of the delay. Following the Tier 1 First Call Date, if any Tier 1 Floating Interest Payment Date would otherwise fall on a day that is not a Business Day, it shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month in which event such Tier 1 Floating Interest Payment Date shall be brought forward to the immediately preceding Business Day and the amount of interest payable shall be adjusted accordingly. Interest on the Tier 1 Notes in respect of a Tier 1 Fixed Interest Period will be calculated on the basis of a 360-day year of twelve 30-day months. From (and including) the Tier 1 First Call Date, interest on the Tier 1 Notes in respect of a Tier 1 Floating Interest Period will be calculated on the basis of the actual number of days elapsed in such Tier 1 Floating Interest Period divided by 360.

Tier 2 Notes. Prior to (and including) the Tier 2 First Call Date, if any Tier 2 Fixed Interest Payment Date would otherwise fall on a date that is not a TARGET Business Day, the required payment of interest shall be made on the next succeeding TARGET Business Day, with the same force and effect as if made on such Tier 2 Fixed Interest Payment Date, and no further interest shall accrue as a result of the delay. Following the Tier 2 First Call Date, if any Tier 2 Floating Interest Payment Date would otherwise fall on a day that is not a TARGET Business Day, it shall be postponed to the next day that is a TARGET Business Day unless it would thereby fall into the next calendar month in which event such Tier 2 Floating Interest Payment Date shall be brought forward to the immediately preceding TARGET Business Day and the amount of interest payable shall be adjusted accordingly. Interest on the Tier 2 Notes in respect of a Tier 2 Fixed Interest Period will be calculated on the basis of the actual number of days elapsed in the period from (and

including) the most recent Tier 2 Fixed Interest Payment Date (or, if none, the Tier 2 Issue Date) to (but excluding) the relevant due date for payment divided by the actual number of days in the relevant Tier 2 Fixed Interest Period (an "Actual/Actual Day Count Basis"). From (and including) the Tier 2 First Call Date, interest on the Tier 2 Notes in respect of a Tier 2 Floating Interest Period will be calculated on the basis of the actual number of days elapsed in such Tier 2 Floating Interest Period divided by 360.

Tier 1 and Tier 2 Notes. Principal will be paid on the relevant Tier 1 or Tier 2 Maturity Date unless the Notes of the relevant series have been redeemed prior thereto as provided in this offering memorandum or principal payments have been deferred in connection with a Suspension Period (as defined below).

We have the right to and will (i) in the case of the Tier 1 Notes, cancel interest accrual and interest payments and defer principal payments on the Tier 1 Notes during a Suspension Period, as described below, and (ii) in the case of the Tier 2 Notes, defer interest and principal payments on the Tier 2 Notes during a Suspension Period, as described below.

The accrual and payment of interest and payment of principal with respect to the Tier 1 Notes and the payment of interest and principal with respect to the Tier 2 Notes will resume upon the occurrence of any of the Suspension Period termination events, as described below.

Optional Redemption .... We have (1) the option under the indenture for the Tier 1 Notes to redeem the Tier 1 Notes on the Tier 1 First Call Date and thereafter on any Tier 1 Floating Interest Payment Date prior to the Tier 1 Maturity Date and (2) the option under the indenture for the Tier 2 Notes to redeem the Tier 2 Notes on the Tier 2 First Call Date and thereafter on any Tier 2 Floating Interest Payment Date prior to the Tier 2 Maturity Date, in each case in whole or in part for such series at par plus accrued and unpaid interest due on, or with respect to such Notes (an "Optional Redemption"); *provided, however*, that in the event of such an Optional Redemption with respect to a particular series of Notes, we shall be in compliance with applicable Mexican regulations in effect on the applicable Redemption Date (as defined in each of the indentures). In the event of such an Optional Redemption of either series of Notes, we are required by Banco de Mexico to obtain its authorization to redeem such Notes prior to the applicable Redemption Date. If we were to effect such an Optional Redemption with respect to the Tier 1 Notes, we would, to the extent required by Mexican law, have to comply with one of the following two requirements: (a) following such an Optional Redemption, we would have

to maintain a Capital Ratio under the Mexican Capitalization Requirements above 10%, or (b) we would have to issue or have issued prior to the applicable Redemption Date securities or other instruments that are eligible to be computed as Tier 1 capital for the same principal amount pursuant to the Rules for Capitalization. Our obligation to obtain Banco de Mexico's authorization to redeem either series of Notes and the summary of Mexican regulations described in the preceding sentences are included herein for information purposes only and shall not grant any rights to the trustee or the holders of such Notes.

Withholding Tax Redemption .... We also have (1) the option under the indenture for the Tier 1 Notes to redeem the Tier 1 Notes at any time prior to the Tier 1 First Call Date and (2) the option under the indenture for the Tier 2 Notes to redeem the Tier 2 Notes at any time prior to the Tier 2 First Call Date, in each case in whole but not in part for such series, at par plus accrued and unpaid interest due on, or with respect to, such Notes upon the occurrence of a Withholding Tax Event (which event happens upon the occurrence of certain changes in tax law and the satisfaction of certain conditions, and is described in "Description of the Notes—Redemption—Withholding Tax Redemption") affecting the relevant series of Notes (in each case, a "Withholding Tax Redemption"); *provided*, *however*, in the event of such a Withholding Tax Redemption with respect to a particular series of Notes, we shall be in compliance with applicable Mexican regulations in effect on the applicable Redemption Date. In the event of such a Withholding Tax Redemption of either series of Notes, we are required by Banco de Mexico to obtain its authorization to redeem such Notes prior to the applicable Redemption Date. If we were to effect such a Withholding Tax Redemption with respect to the Tier 1 Notes, we would, to the extent required by Mexican law, have to issue or have issued prior to the applicable Redemption Date securities or other instruments that are eligible to be computed as Tier 1 capital for the same principal amount pursuant to the Rules for Capitalization. Our obligation to obtain Banco de Mexico's authorization to redeem either series of Notes and the summary of Mexican regulations described in the preceding sentences are included herein for information purposes only and shall not grant any rights to the trustee or the holders of such Notes.

Special Event Redemption .... We also have (1) the option under the indenture for the Tier 1 Notes to redeem the Tier 1 Notes at any time prior to the Tier 1 First Call Date and (2) the option under the indenture for the Tier 2 Notes to redeem the Tier 2 Notes at any time prior to the Tier 2 First Call Date, in each case in whole but not in part for such series, at the Special Event Price (as

defined in "Description of the Notes") upon the occurrence of a Special Event (which event happens upon the occurrence of certain changes in bank regulatory or tax law and the satisfaction of certain conditions, and is described in "Description of the Notes—Redemption—Special Event Redemption") affecting the relevant series of Notes (in each case, a "Special Event Redemption"); *provided, however*, in the event of such a Special Event Redemption with respect to a particular series of Notes, we shall be in compliance with applicable Mexican regulations in effect on the applicable Redemption Date. In the event of such a Special Event Redemption of either series of Notes, we are required by Banco de Mexico to obtain its authorization to redeem such Notes prior to the applicable Redemption Date. If we were to effect such a Special Redemption with respect to the Tier 1 Notes, we would, to the extent required by Mexican law, have to issue or have issued prior to the applicable Redemption Date securities or other instruments that are eligible to be computed as Tier 1 capital for the same principal amount pursuant to the Rules for Capitalization. Our obligation to obtain Banco de Mexico's authorization to redeem either series of Notes and the summary of Mexican regulations described in the preceding sentences are included herein for information purposes only and shall not grant any rights to the trustee or the holders of such Notes.

Suspension Period . . . . (1) A Suspension Period will commence and we will (i) in the case of the Tier 1 Notes, cancel accrual and payment of interest thereon and defer the payment of principal thereof, and (ii) in the case of the Tier 2 Notes, defer, but not cancel, payment of interest thereon and defer the payment of principal thereof, upon the occurrence of the following:

(i) (x) our minimum Capital Ratio declines below the minimum percentage required from time to time by the Mexican Capitalization Requirements or (y) our board of directors reasonably determines that it is immediately imminent that our Capital Ratio will decline below the minimum percentage required from time to time by the Mexican Capitalization Requirements (in either case, a "Capital Ratio Event"); or

(ii) the CNBV institutes a preventive or corrective measure against us pursuant to Article 134 Bis or Article 134 Bis 1 of the Mexican Banking Law (including the corresponding rules set forth under the General Rules for Banks), which requires (x), in the case of the Tier 1 Notes, deferring payments of principal and canceling payments of interest otherwise due on the Tier 1 Notes, or (y), in the case of the Tier 2 Notes, deferring payment of principal and deferring payments of interest otherwise due on the Tier 2

Notes (each a "Mexican Regulatory Event"), it being understood that a Mexican Regulatory Event will apply on a per series basis.

(2) A Suspension Period shall not give rise to an Event of Default under the indentures or the Notes. A Suspension Period shall terminate and (i) the accrual and payment of interest due on the Tier 1 Notes and payment of principal thereof and (ii) the payment of interest due on the Tier 2 Notes and payment of principal thereof, will resume (a) if the Suspension Period was triggered by a Capital Ratio Event, when our Capital Ratio is no longer below, or our board of directors reasonably determines that there is no longer a risk that our Capital Ratio will decline below, the minimum percentage required by the Mexican Capitalization Requirements; (b) if such Suspension Period was triggered by a Mexican Regulatory Event, when the related Mexican Regulatory Event has terminated; or (c) if dividends or other distributions are paid by us on or in respect of our capital stock, other than the Dividend Exceptions (as defined below).

(3) During any Suspension Period, we shall not: (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock (which includes common and preferred stock); (ii) make any payment of principal of or premium, if any, or interest on or repay, repurchase or redeem any of our debt securities that rank *pari passu* with or junior in right of payment and in liquidation to (a) the Tier 1 Notes or (b) the Tier 2 Notes, as applicable, it being understood that such determination will be made on a per series basis; or (iii) to the extent any such guarantee is permitted under applicable law, make any guarantee payments with respect to any guarantee by us of the debt securities of any of our subsidiaries if such guarantee ranks *pari passu* with or junior in right of payment and in liquidation to (a) the Tier 1 Notes or (b) the Tier 2 Notes, as applicable, it being understood that such determination will be made on a per series basis; *provided, however*, that (x) the foregoing shall not, to the extent permitted by the Mexican Capitalization Requirements or applicable law, prohibit payment of the Dividend Exceptions and (y) the foregoing shall not apply to the extent that we obtain prior regulatory consent for any action that would otherwise be prohibited and resume full payment of interest due (including payment of any previously accrued interest due) on each series of the Notes and principal thereof for the period in which such action is taken. Subject to the foregoing, we shall pay interest due on the Notes and principal thereof so long as we are paying dividends or other distributions on or in respect of our capital stock.

(4) “Dividend Exceptions” shall mean (i) dividends or distributions in shares of or options, warrants or rights to subscribe for or purchase shares of, our common stock; (ii) any declaration of a stock dividend in connection with the implementation of a stockholders’ rights plan, or the issuance of stock under any such plan in the future; (iii) any reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock; (iv) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged; (v) purchases of common stock related to the issuance of common stock or rights under any of our benefit plans for our directors, officers or employees and (vi) other equivalent transactions not involving payments or distributions in cash.

Treatment of Interest and Principal During a Suspension Period

Tier 1 Notes: Cancellation of Interest and Deferral of Principal Payments. We have the right to and will cancel accrual and payments of interest due on the Tier 1 Notes and defer the payment of principal thereof for the duration of any Suspension Period. In the event of a cancellation of the accrual and payment of interest on the Tier 1 Notes or deferral of payment of principal thereof, we will notify the holders of the Tier 1 Notes in accordance with the procedures described in their indenture. Payments of interest due on the Tier 1 Notes will be non-cumulative, so that in the event that payments of interest cease during a Suspension Period, holders of the Tier 1 Notes will have no right to receive any amount of unpaid interest (which would have accrued had there not been a Suspension Period) at the end of such Suspension Period, whether or not such payments are paid at any future Tier 1 Interest Payment Date. Notwithstanding the foregoing, all interest accrued prior to a Suspension Period, but not paid as a result of such Suspension Period in effect on the relevant Tier 1 Interest Payment Date(s) on which such payments would have been payable, will be payable (without interest on such previously accrued payments) on the next succeeding Tier 1 Interest Payment Date on which no Suspension Period is in effect. If a Suspension Period exists on the Tier 1 Maturity Date, payment of principal will be deferred without interest until the date that is five Business Days after the date on which no Suspension Period is in effect. Principal payments may be deferred but not cancelled. When a Suspension Period is no longer in effect, we will notify the holders of the Tier 1 Notes in accordance with the procedures described in the indenture for the Tier 1 Notes.

Tier 2 Notes: Deferral of Interest and Deferral of Principal Payments. We have the right to and will defer the payment of interest due on the Tier 2 Notes (but do not have the right to and will not cancel the accrual of interest thereon) and defer the payment of principal thereof for the duration of any Suspension Period. In the event of a deferral of payment of interest on the Tier 2 Notes or deferral of payment of principal thereof, we will notify the holders of the Tier 2 Notes in accordance with the procedures described in their indenture. Payments of interest due on the Tier 2 Notes will be cumulative, so that in the event that payments of interest cease during a Suspension Period, holders of the Tier 2 Notes will have a right to receive all interest accrued prior to or during a Suspension Period, but not paid as a result of such Suspension Period in effect on the relevant Tier 2 Interest Payment Date(s) on which such payments would have been payable, and these interest payments will be payable (without interest on such previously accrued payments) on the date that is five TARGET Business Days after the date on which no Suspension Period is in effect. If a Suspension Period exists on the Tier 2 Maturity Date, payment of principal will be deferred with interest until the date that is five TARGET Business Days after the date on which no Suspension Period is in effect. Principal payments may be deferred but not cancelled. When a Suspension Period is no longer in effect, we will notify the holders of the Tier 2 Notes in accordance with the procedures described in the indenture for the Tier 2 Notes.

Ranking . . . .

Tier 1 Notes. The Tier 1 Notes constitute Subordinated Non-Preferred Indebtedness *(obligaciones subordinadas no preferentes)* and will rank (1) junior to our Senior Indebtedness and Subordinated Preferred Indebtedness *(obligaciones subordinadas preferentes)*, including the Tier 2 Notes, (2) pari passu among themselves and with all our other Subordinated Non-Preferred Indebtedness, including our U.S.$500 million non-cumulative fixed/floating rate subordinated non-preferred notes due 2015 and our Ps.2,500,000,000 floating rate subordinated, non-preferred, non-convertible debentures *(obligaciones subordinadas no preferentes, no susceptibles de convertirse en acciones)* due 2014, and (3) senior only to all classes of our capital stock, as described in this offering memorandum.

Tier 2 Notes. The Tier 2 Notes constitute Subordinated Preferred Indebtedness *(obligaciones subordinadas preferentes)* and will rank (1) junior to our Senior Indebtedness, (2) *pari passu* among themselves and with all our other Subordinated Preferred Indebtedness and (3) senior to our Subordinated Non-Preferred Indebtedness, including the Tier 1 Notes, our U.S.$500 million non-cumulative

fixed/floating rate subordinated non-preferred notes due 2015 and our Ps.2,500,000,000 floating rate subordinated, non preferred, non-convertible debentures *(obligaciones subordinadas, no preferentes, no susceptibles de convertirse en acciones)* due 2014 and to all classes of our capital stock, as described in this offering memorandum.

Use of Proceeds . . . . Our net proceeds from the issuance of the Notes are estimated to be approximately U.S.$499,000,000 and €598,800,000, respectively. We intend to use the net proceeds of the issuance of the Notes to strengthen our capital structure and for general corporate purposes.

Events of Default; No Acceleration Except in Case of Certain Events Involving Bankruptcy, Liquidation or Dissolution . . . . An Event of Default is defined in each of the indentures as: (i) a default for 30 calendar days in the payment of interest due and payable on the Tier 1 Notes or Tier 2 Notes, as applicable under the corresponding indenture on a per series basis and independent of other series, other than during a Suspension Period; (ii) a default in the payment of the principal due and payable on the Tier 1 Notes or Tier 2 Notes, as applicable under the corresponding indenture on a per series basis and independent of the other series, except during a Suspension Period; or (iii) certain events involving our bankruptcy (including *concurso mercantil* or *quiebra*), liquidation or dissolution.

The payment of the principal of a series of the Notes may be accelerated only upon the occurrence of an event of default described in (iii) above (a "Bankruptcy Event of Default"). There is no right of acceleration of the payment of principal of a series of the Notes upon the occurrence of any of the other Events of Default noted above, including a default in the payment of principal or interest. See "Risk Factors—Risks Relating to the Notes—If we do not satisfy our obligations under the Notes, your remedies will be limited."

Voting Rights . . . . None.

Payment of Additional Amounts . . . . All payments made by or on our behalf from our Grand Cayman Branch or otherwise under or in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico or the Cayman Islands or any other jurisdiction through which payments are made (each a " Relevant Jurisdiction") or any authority or agency therein or thereof having power to tax (collectively, "Relevant Tax") unless the withholding or

deduction of such Relevant Tax is required by law. In that event, we will pay as further distributions of interest and principal such additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders or beneficial owners of the Notes or their nominees (collectively, holders) after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder (or beneficial owner) to the extent that such Relevant Tax: (1) is imposed only by virtue of such holder (or beneficial owner) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of such Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes; or (2) is imposed only by virtue of such holder or any other person having failed to comply with any certification, identification or other reporting requirement concerning the nationality, residence**,** identity or other lack of connection with the Relevant Jurisdiction or any similar claim for exemption or reduction in the rate of withholding, if such declaration is required under applicable law, provided that (x) we have or our agent has provided the holder of such Notes or its nominee with at least 60 days' prior written notice of an opportunity to make such a declaration or claim, and (y) the procedures for making such claim or declaration are commercially reasonable; or (3) is imposed only by virtue of such holder (or beneficial owner) not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever; or (4) is imposed pursuant to any European Council Directive regarding taxation savings income (including European Council Directive 2003/48/EC) or pursuant to any law implementing or complying with, or introduced in order to conform to any such Directive; or (5) is imposed on a Note presented for payment (where presentation is required) by a holder (or beneficial owner) that could have avoided such Relevant Tax by presenting such Note to another paying agent in a member state of the European Union; or (6) in the event the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settler with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or (7) is an estate, inheritance, gift, sale transfer, personal property or similar tax or assessment; or (8) is imposed as a result of any combination of (1) through (7) above.

We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify holders for any such taxes paid by the holders. See "Description of the Notes—Payment of Additional Amounts."

Listing . . . . Application is expected to be made to list each series of the Notes on the Official List of the Luxembourg Stock Exchange and to have the bonds admitted to trading on the Euro MTF market. No assurance can be given that either series of the Notes will be approved for listing on the Luxembourg Stock Exchange and trading on the Euro MTF market.

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

Acquisition Restrictions . . . . Under applicable Mexican law, we are prohibited from acquiring, directly or indirectly, the Notes. In addition, certain Mexican financial entities may not acquire the Notes. See "Description of the Notes—Restrictions Applicable to Mexican Financial Institutions."

Transfer Restrictions . . . . The Notes have not been registered under the Securities Act and, unless so registered, may not be offered or sold except (1) to qualified institutional buyers, or QIBs (as defined in Rule 144A under the Securities Act), in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A or (2) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act. See "Transfer Restrictions."

As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico.

The Notes will not be registered in the National Registry of Securities maintained by the CNBV and may not be offered, or sold publicly or otherwise be subject to brokerage activities in Mexico, except pursuant to the private placement exemptions set forth in Article 8 of the Mexican Securities Market Law.

Governing Law . . . . The indentures, the Notes and related documents will be governed by the law of New York.

Form and Denomination . . . . *Tier 1 Notes.* The Tier 1 Notes will be issued in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1,000 and will, once issued, be represented by one or more global notes. The global notes representing the Tier 1

	Notes will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee for DTC. DTC will act as depositary. *Tier 2 Notes.* The Tier 2 Notes will be issued in minimum denominations of €50,000 and integral multiples of €1,000 and will, once issued, be represented by one or more global notes. The global notes representing the Tier 2 Notes will be deposited with The Bank of New York Depositary (Nominee) Limited as common depositary for the accounts of Euroclear Bank S.A./N.V. as the operator of the Euroclear System, or Clearsteam, Luxembourg Banking sociéteé anonyme and registered in the name of the common depositary or its nominee.
Securities Identification Numbers	*Tier 1 Notes:* 144A ISIN: US055295AB54 144A CUSIP: 055295 AB5 Reg S ISIN: USG09077AB73 Reg S CUSIP: G09077 AB7 *Tier 2 Notes:* 144A ISIN: XS0301000427 Reg S ISIN: XS0300999744

RISK FACTORS

Prospective purchasers of the Notes should carefully read this entire offering memorandum. Purchasers should consider, among other things, risk factors with respect to Mexican banks and other corporations not normally associated with investments in other countries and other issuers, including those set forth below.

Risks Relating to our Business

Intensifying competition may adversely affect our results of operations.

We face significant competition from other Mexican banks in providing financial services to the Mexican retail and corporate banking sectors and from international financial institutions. Our principal competitors are Banco Nacional de Mexico, S.A., or Banamex, a subsidiary of Citigroup, Inc., Banco Mercantil del Norte, S.A., or Banorte, and Banco Santander, S.A., or Santander, a subsidiary of Banco Santander Central Hispano, S.A., HSBC Mexico, a subsidiary of HSBC, and Scotiabank Inverlat, S.A., or Scotiabank, a subsidiary of Scotiabank.

Pursuant to the requirements of the North American Free Trade Agreement, or NAFTA, and the Free Trade Agreement between Mexico and the European Union (*Tratado de Libre Comercio entre los Estados Unidos Mexicanos y la Comunidad Europea y sus Estados Miembros*), and the Free Trade Agreement between Mexico and Japan (*Acuerdo para el fortalecimiento de la Asociación Económica entre los Estados Unidos Mexicanos y el Japón*), non-Mexican financial institutions incorporated in the United States, Canada, member states of the European Union, Japan and other countries that have entered into a free trade agreement with Mexico are now permitted to establish subsidiary financial groups, banks, broker-dealers and other financial entities in Mexico. According to the CNBV, as of December 31, 2006, Mexico's ten largest domestic banks, measured in terms of assets, held 93.5% of the total assets in the Mexican banking system. Six of these ten banks were foreign-owned.

We expect consolidation to continue in the financial services industry in Mexico, and we expect competition to intensify, including through the acquisition of Mexican banks by other financial institutions.

In addition, competition is also likely to increase as a result of the entrance of new participants into the banking sector. The Ministry of Finance and Public Credit has recently granted a number of banking licenses for the establishment and operation of several new banking institutions. The Ministry of Finance and Public Credit is likely to continue granting banking licenses to new participants.

In addition, legal and regulatory reforms in the Mexican banking industry have also increased competition among banks and among other financial institutions. We believe that the Mexican government's intention to adopt accelerated regulatory reforms in, and the liberalization of, the Mexican financial industry has resulted in increased competition among financial institutions in Mexico. As financial sector reform continues, foreign financial institutions, some with greater resources than us, have entered and may continue to enter the Mexican market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There can be no assurance that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a material adverse effect on our financial position or operating results.

Mexican governmental regulations may adversely affect our operating results and financial condition, and the value of our assets may be impaired due to regulatory initiatives and procedures.

We are subject to extensive regulation regarding our organization, operations, capitalization, transactions with related parties and other matters. These laws and regulations impose numerous requirements on us, including the maintenance of minimum risk-based capital levels and loan loss reserves, regulation of our business practices, diversification of our investments, maintenance of liquidity ratios, regulation of loan granting policies and interest rates charged, and application of required accounting regulations. Many of the applicable laws and regulations have changed extensively in recent years, with a negative impact on our financial position and results

of operations. There may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us.

As a result of the economic crisis in Mexico in late 1994 and 1995, all Mexican banks, including us, experienced rapidly escalating levels of non-performing assets. Mexican regulatory authorities and the banking system responded to this crisis in several ways, including:

- imposing stringent loan loss reserve requirements and capitalization standards,
- adopting programs designed to provide relief to Mexican borrowers in connection with the restructuring of outstanding loans, and
- revising Mexican Banking GAAP to impose stringent requirements with respect to the non-performing and non-accrual status of certain loans.

The result of these initiatives was to cause Mexican banks, including us, to report continuing and persistent asset quality problems and record relatively large loan loss provisions. We believe that recoveries of non-performing loans as a percentage of our total non-performing loan portfolio are likely to decline over time because of the aging of our non-performing loan portfolio. In addition, because foreclosure procedures on collateral in Mexico can take a long time, delays or other factors may impair the value of the collateral during the foreclosure process.

In the past, the Mexican government and commercial banks have agreed to modify the terms of loans made to states and municipalities. These modifications have included, for example, extensions in maturity up to an additional 12 years and reductions in interest rates and prepayment options. As of December 31, 2006, such modification programs included approximately Ps.1,519 million of our loan portfolio. We cannot assure you that these loans or other loans will not be similarly restructured in the future in a way that would be adverse to our business.

Loan loss reserves in Mexico differ from those applicable to banks in the United States and certain other countries.

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

We engage in transactions with subsidiaries or affiliates of BBVA that may not be on an arm's length basis.

No assurance can be given that transactions between us and any of BBVA's subsidiaries or affiliates (including subsidiaries or affiliates of our parent company, GFBB) have been or will be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. We have entered into services agreements with our affiliates. We are likely to continue to engage in transactions with BBVA and its subsidiaries or affiliates, and no assurance can be given that we will do so on an arm's length basis. In addition, future conflicts of interest between us and BBVA or any of its subsidiaries or affiliates may arise; these conflicts are not required to be and may not be resolved in our favor. See "Related Party Transactions—Affiliated Transactions."

There can be no assurance that future transactions involving BBVA or any of its affiliates or subsidiaries will not have an adverse effect on our financial condition.

Liquidity risks may adversely affect our business.

Many Mexican banks have suffered severe liquidity problems from time to time since December 1994, particularly in connection with refinancing short-term U.S. dollar liabilities in the international capital markets.

We anticipate that our customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as a source of funds. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed.

We cannot assure you that we will not face liquidity problems or liquidity constraints in the future. While we expect to be able to pay or refinance our projected liabilities, we cannot assure you that we will be able to repay our liabilities or refinance our liabilities on favorable terms.

Currency and interest rate risks may adversely affect our trading portfolio.

We are exposed to currency risk any time that we hold an open position in a currency other than pesos and to interest rate risk to the extent we have an interest rate repricing gap or carry interest-earning securities having fixed real or nominal interest rates. Because of the volatility in peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Although we follow various risk management procedures in connection with our trading and treasury activities, we cannot assure you that we will not experience losses with respect to these positions in the future, any of which could have an adverse effect on our results of operations and financial position.

Failure to successfully implement and continue to improve our credit risk management system could materially and adversely affect our business operations and prospects.

As a commercial bank, one of the principal types of risks inherent in our business is credit risk. We may not be able to improve our credit risk management system so that it can function effectively. For example, an important part of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a client. As this process involves detailed analyses of the client or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a client or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating system. In addition, we have been trying to refine our credit polices and guidelines to address potential risks associated with particular industries or types of customers, such as affiliated entities and group customers. However, we may not be able to timely detect these risks before they occur, or due to limited resources or tools available to us, our employees may not be able to effectively implement them, which may increase our credit risk. As a result, failure to effectively implement, consistently follow or continuously refine our credit risk management system may result in a higher risk exposure for us, which could materially and adversely affect us.

If we are unable to effectively control the level of non-performing or poor credit quality loans in our current loan portfolio and in new loans we extend in the future, or if our loan loss reserves are insufficient to cover actual loan losses, our financial position and results of operations may be materially and adversely affected.

Non-performing or low credit quality loans can negatively impact our results of operations. We cannot assure you that we will be able to effectively control and reduce the level of the impaired loans in our loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our loan portfolio or factors beyond our control, such as the impact of macroeconomic trends and political events affecting Mexico or events affecting given industries. In addition, while we believe our current loan loss reserve is adequate to cover all loan losses in our loan portfolio, our current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall

credit quality of our loan portfolio. As a result, if our credit quality deteriorates we may be required to increase our loan loss reserves, which may adversely affect us. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves are or will be sufficient to cover actual losses. If we are unable to control or reduce the level of our non-performing or poor credit quality loans, our financial position and results of operations could be materially and adversely affected.

We may need additional capital in the future, and may not be able to obtain such capital on acceptable terms, or at all.

In order for us to grow, remain competitive, enter into new businesses, or meet regulatory capital adequacy requirements, we may require new capital in the future. Moreover, we may need to raise additional capital in the event of large losses in connection with any of our activities that result in a reduction of our stockholders' equity. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial position, results of operations and cash flows;
- any necessary government regulatory approvals;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and
- economic, political and other conditions in Mexico and elsewhere.

We may not be able to obtain additional capital in a timely manner or on acceptable terms or at all.

Reductions in our credit ratings or those of any of our subsidiaries could increase our cost of borrowing funds and make our ability to raise new funds, attract deposits or renew maturing debt more difficult.

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our loan portfolio, the level and volatility of our earnings, our capital adequacy, the quality of management, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits, and our ability to access a broad array of wholesale funding sources. Our lenders and counterparties in derivatives transactions are sensitive to the risk of a ratings downgrade. A downgrade in our credit ratings or those of our subsidiaries could increase the cost of refinancing our existing obligations, raising funds in the capital markets or of borrowing funds from private lenders.

The retail banking market is exposed to macroeconomic shocks that may negatively impact household income, and a downturn in the economy could result in increased loan losses.

Our strategy is to focus on the retail banking sector and to grow our retail loan portfolio rapidly. As a result, our loan portfolio may become increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses. Furthermore, because the penetration of bank lending products in the Mexican retail sector historically has been low, there is no basis on which to evaluate how the retail sector will perform in the event of an economic crisis, such as a recession or a significant devaluation, and our historical loan loss experience may not be indicative of the performance of our loan portfolio in the future.

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

As part of our business strategy, we seek to increase lending and other services to individuals and to small and medium-sized companies. Individuals and small and medium-sized companies are, however, more likely to

be adversely affected by downturns in the Mexican economy than large corporations and high-income individuals who have greater resources. Consequently, in the future we may experience higher levels of non-performing loans, which could result in higher provisions for loan losses. There can be no assurance that the levels of non-performing loans and subsequent charge-offs will not be materially higher in the future.

Our businesses rely heavily on data collection, processing and storage systems, the failure of which could materially and adversely affect the effectiveness of our risk management and internal control systems as well as our financial position and results of operations.

All of our principal businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets and products at our various branches, at a time when transaction processes have become increasingly complex, with increasing volume. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision-making process and our risk management and internal control systems, as well as our timely response to changing market conditions. If we cannot maintain an effective data collection and management system, our business operations, financial position and results of operations could be materially and adversely affected.

Furthermore, we are dependent on information systems, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect our financial position and results of operations.

Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could adversely affect our competitiveness, financial position and results of operations.

Our ability to remain competitive will depend in part on our ability to upgrade our information technology on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could materially and adversely affect our competitiveness, financial position and results of operations.

The financial statements included in this offering memorandum have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP.

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

Risks Relating to Mexico and Other Markets

Economic and political developments in Mexico could affect Mexican economic policy and our business, financial condition and results of operations.

We are a Mexican bank and substantially all of our operations and assets are located in Mexico. As a result, our business, financial condition and results of operations may be affected by the general condition of the Mexican economy, the devaluation of the peso as compared to the U.S. dollar, price instability, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico over which we have no control.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican governmental actions concerning the economy and state-owned enterprises could have a significant effect on Mexican private sector entities in general, and us in particular, and on market conditions, prices and returns on Mexican securities, including our securities.

On July 2, 2006, federal presidential and congressional elections were held in which Felipe de Jesús Calderón Hinojosa, candidate of the PAN, was elected president. Calderón Hinojosa's six-year term in office started in December 2006 and this administration may not continue to support previous government policies. Any change in such policies could have a significant effect on Mexican financial institutions, including us, as well as on market conditions and the prices of and returns on Mexican securities.

We cannot provide any assurance that future political developments in Mexico, over which we have no control, will not have an unfavorable impact on our financial position or results of operations and impair our ability to make payments under the Notes.

Adverse economic conditions in Mexico may adversely affect our financial position and results of operations.

We are a Mexican bank, and substantially all of our operations are conducted in Mexico and are dependent upon the performance of the Mexican economy. As a result, our business, financial position and results of operations may be affected by the general condition of the Mexican economy, the devaluation of the Peso compared to the U.S. dollar, price instability, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on us. We cannot assume that such conditions will not return or that such conditions will not have a material and adverse effect on us.

Depreciation or fluctuation of the peso relative to the U.S. dollar and other currencies could adversely affect our results of operations and financial condition.

Severe devaluation or depreciation of the peso may limit our ability to transfer pesos or to convert pesos into U.S. dollars and other currencies and may have an adverse effect on our financial condition, results of operations and cash flows in future periods by, for example, increasing in peso terms the amount of our foreign currency-denominated liabilities and the rate of default among our borrowers.

Severe devaluation or depreciation of the peso may also result in governmental intervention, as has occurred in other countries, or disruption of international foreign exchange markets. While the Mexican government does not currently restrict the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer other currencies outside of Mexico, the Mexican government could institute restrictive exchange control policies in the future. Devaluation or depreciation of the peso against the U.S. dollar may also adversely affect our business, financial condition and results of operations.

Developments in other countries may adversely affect us and the prices of our debt securities.

Economic and market conditions in other countries may, to varying degrees, affect the market value of securities of Mexican companies. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican companies. For example, in October 1997, prices of both Mexican debt and equity securities decreased substantially as a result of the sharp drop in Asian securities markets. Similarly, in the second half of 1998 and in early 1999, prices of Mexican securities were adversely affected by the economic crises in Russia and Brazil.

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

Our corporate disclosures may be different or less substantial than those of issuers in other countries.

Issuers of securities in Mexico are required to make public disclosures that are different and that may be less substantial than disclosures required in countries with highly developed capital markets. In addition, accounting and other reporting principles and standards for credit and other financial institutions in Mexico and the financial results reported using such principles and standards may differ substantially from those results that would have been obtained using other principles and standards, such as U.S. GAAP. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

Risks Relating to the Notes

The Tier 1 Notes will be unsecured and subordinated and rank junior in right of payment and in liquidation to all of our present or future senior indebtedness and subordinated preferred indebtedness (including the Tier 2 Notes).

The Tier 1 Notes constitute our non-cumulative, unsecured, subordinated, non-preferred indebtedness, and will be subordinated and junior in right of payment and in liquidation to all of our senior indebtedness and subordinated preferred indebtedness (including the Tier 2 Notes) and will rank *pari passu* without preference among themselves and with all of our other unsecured subordinated non-preferred indebtedness (including our U.S.$500 million non-cumulative fixed/floating rate subordinated non-preferred Notes due 2015, which we refer to as the 2015 Notes and our Ps.2,500,000,000 floating rate subordinated, non-preferred, non-convertible debentures (*obligaciones subordinadas, no preferentes, no susceptibles de convertirse en acciones*) due 2014, which we refer to as the 2014 Debentures). The Tier 1 Notes will also rank effectively junior to all of our subsidiaries' indebtedness and our liabilities. No payment of principal (including redemption payments), premium, if any, or interest on the Tier 1 Notes may be made at any time when any senior indebtedness or subordinated preferred indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or the maturity of any senior indebtedness or subordinated preferred indebtedness (including the Tier 2 Notes) has been accelerated because of a default.

By reason of the subordination of the Tier 1 Notes, in the case of certain events involving bankruptcy, liquidation or dissolution, although the Tier 1 Notes would become immediately due and payable at their principal amount together with accrued interest thereon, our assets would be available to pay such amounts only after all of our senior indebtedness and subordinated preferred indebtedness (including the Tier 2 Notes) have been paid in full. As of December 31, 2006, we had, on a consolidated basis, an aggregate of Ps.9,049 million of senior long-term indebtedness outstanding and, after giving effect to this offering, reflecting the issuance of the

Tier 2 Notes in an aggregate principal amount of €600,000,000, we will have an aggregate of Ps.17,642 million of subordinated preferred indebtedness (including the Tier 2 Notes). The indentures do not limit our ability to incur additional senior indebtedness and subordinated preferred indebtedness from time to time. See "Description of the Notes—Subordination."

The Tier 2 Notes will be unsecured and subordinated and rank junior in right of payment and in liquidation to all of our present or future senior indebtedness.

The Tier 2 Notes constitute subordinated preferred indebtedness, and will be subordinate and junior in right of payment and in liquidation to all of our senior indebtedness and will rank *pari passu* without preference among themselves and with all of our other subordinated preferred indebtedness (including the 2014 Debentures), but will be senior to the Tier 1 Notes and all of our other subordinated non-preferred indebtedness (including the 2015 Notes and the 2014 Debentures). No payment of principal (including redemption payments), premium, if any, or interest on the Tier 2 Notes may be made at any time when any senior indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or the maturity of any senior indebtedness has been accelerated because of a default.

By reason of the subordination of the Tier 2 Notes, in the case of certain events involving bankruptcy, liquidation or dissolution, although the Tier 2 Notes would become immediately due and payable at their principal amount together with accrued interest thereon, our assets would be available to pay such amounts only after all of our senior indebtedness has been paid in full. The indentures do not limit our ability to incur additional senior indebtedness from time to time. See "Description of the Notes—Subordination."

Payments to be made by us under the Tier 1 Notes could be cancelled, in respect of interest, or indefinitely suspended, in respect of principal and payments of interest and principal on the Tier 2 Notes could be indefinitely suspended if our Capital Ratio has declined below, or if we determine that it will imminently decline below, the Capital Ratio required under the Mexican Capitalization Requirements, or if a Mexican Regulatory Event has occurred and is continuing.

Under the Rules for Capitalization, capital securities issued by us will be taken into account when assessing our risk-weighted capital adequacy. In order for the subordinated debentures represented by the Notes to qualify as our capital, the "Description of the Notes" section provides that (1) under the Tier 1 Notes, interest payments will be cancelled and principal payments will be deferred and (2) under the Tier 2 Notes, interest payments and principal payments will be deferred, in each case, on the corresponding payment dates and maturity dates, if our Capital Ratio declines below the minimum percentage required from time to time by the Mexican Capitalization Requirements (as of the date of this offering memorandum, the minimum percentage required in order for the CNBV not to require the cancellation or deferral of interest or deferral of principal of subordinated debt such as the Notes is 8%), or if we determine that our Capital Ratio will imminently decline below such minimum percentage, or if any Mexican Regulatory Event has occurred and is continuing. See "Description of the Notes—Treatment of Interest and Principal During a Suspension Period."

In any such case, or Suspension Period, all principal payments under the Notes will be deferred until our Capital Ratio is, and after making such payment our Capital Ratio would be, equal to or greater than the minimum percentage required under the Mexican Capitalization Requirements. If a Suspension Period exists on the maturity date of the Notes, payment of principal will be deferred with interest until the date that is five Business Days after the date on which no Suspension Period is in effect. Principal payments may be deferred indefinitely but not cancelled. In addition, interest on our Tier 1 Notes will be non-cumulative, so that in the event that payments of interest cease during a Suspension Period, holders of the Tier 1 Notes will have no right to receive any amount of unpaid interest (which would have accrued had there not been a Suspension Period) at the end of such Suspension Period, whether or not such payments are paid on any other interest payment date. Also, payments of interest due on the Tier 2 Notes will be cumulative, so that in the event payments of interest cease

during a Suspension Period, holders of the Tier 2 Notes will have a right to receive all interest accrued prior to or during a Suspension Period, but not paid as a result of such Suspension Period in effect on the relevant interest payment date(s) on which such payments would have been payable (without interest on such previously accrued payments). See "Description of the Notes." Any suspension or cancellation, as the case may be, of payments due to our failure to maintain a Capital Ratio equal to or greater than the minimum percentage required under the Mexican Capitalization Requirements would have a material adverse effect on our ability to make scheduled payments under the Notes.

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

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

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

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

- all of our senior obligations have been paid in full, and, in addition, in the case of payment of principal on the Tier 1 Notes, all of our subordinated preferred indebtedness (including the Tier 2 Notes) has been paid in full, as described in "Description of the Notes—Subordination;" and
- we are actually declared bankrupt or are dissolved or put into liquidation for purposes of Mexican law.

As a result, recoveries on the Notes may be substantially limited.

The Notes are subject to optional redemption and redemption in the event of specified changes affecting the treatment of Notes under the Rules for Capitalization or changes affecting the taxation of the Notes.

Subject to any regulatory requirements, we have the option under the indenture for the Tier 1 Notes to redeem the Tier 1 Notes and the option under the indenture for the Tier 2 Notes to redeem the Tier 2 Notes, in each case in whole or in part for such series at par plus accrued and unpaid interest due on, or with respect to, such Notes, on any interest payment date commencing on May 17, 2017 in the case of the Tier 1 Notes, and commencing on May 17, 2012 in the case of the Tier 2 Notes. See "Description of the Notes—Redemption—Optional Redemption."

Upon the occurrence and continuation of certain specified changes affecting taxation of the Notes of a particular series or treatment of the Notes of a particular series as capital securities under the Rules for Capitalization, as described under "Description of the Notes—Redemption—Withholding Tax Redemption" and "Description of the Notes—Redemption—Special Event Redemption," we will have the option under the indenture for the Tier 1 Notes to redeem the Tier 1 Notes and the option under the indenture for the Tier 2 Notes to redeem the Tier 2 Notes, in each case at any time prior to May 17, 2017 or May 17, 2012, respectively, in whole (but not in part) subject to any regulatory requirements. See "Description of the Notes—Redemption—Withholding Tax Redemption" and "Description of the Notes—Redemption—Special Event Redemption."

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

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

The non-payment of funds by any of our subsidiaries could have a material and adverse effect on our business, financial condition, results of operations and ability to service our debt, including the Notes.

Our cash flow and our ability to service debt depend in part on the cash flow and earnings of our subsidiaries and the payment of funds by those subsidiaries to us in the form of loans, interest, dividends or otherwise. The subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due under the terms of the Notes or to make any funds available for such purpose. Furthermore, claims of creditors of such subsidiaries, including trade creditors of such subsidiaries, will have priority over our creditors, including the holders of the Notes, with respect to the assets and cash flow of such subsidiaries. Any right we may have to receive assets of any of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of Notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors.

There is no existing market for the Notes and one may not develop in the future; thus it may be difficult to resell your Notes.

We have submitted an application to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market, although no assurance can be given that such listing will be accomplished. Each series of Notes constitutes a separate and new issue of securities with no established trading market. In addition, in the event there are changes in the listing requirements, we may conclude that continued listing on the Luxembourg Stock Exchange is unduly burdensome. See "General Information." No assurance can be given as to (1) the liquidity of any markets that may develop for the Notes, (2) whether an active public market for the Notes will develop, (3) your ability to sell your Notes of a particular series (or beneficial interests therein) or (4) the price at which you will be able to sell your Notes of a particular series, as the case may be. In addition, the Notes have not been registered under the Securities Act and will be subject to transfer restrictions. See "Transfer Restrictions."

We do not intend to provide registration rights to holders of Notes and do not intend to file any registration statement with the SEC in respect of the Notes. The Notes have not been registered with the Mexican National Securities Registry and therefore the Notes may not be publicly offered or sold nor be the subject of intermediation in Mexico except pursuant to the private placement exemptions under Article 8 of the Mexican Securities Market Law. Future trading prices of the Notes will depend on many factors including, among other things, prevailing interest rates, our operating results, and the market for similar securities. The initial purchasers have informed us that they may make a market in the Notes. However, the initial purchasers are not obligated to do so and any such market-making activity may be terminated at any time without notice to you. In addition, such market-making activity will be subject to the limits of the Securities Act. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes of either series may be adversely affected. See "Plan of Distribution." In addition, trading or resale of the Notes of a particular series (or beneficial interests therein) may be negatively affected by other factors described in this offering memorandum arising from this transaction or the market for securities of Mexican issuers generally.

Holders of Notes may find it difficult to enforce civil liabilities against us or our directors, officers and controlling persons.

We are organized under the laws of Mexico. Most of our directors, officers and controlling persons reside outside of the United States. In addition, all or a substantial portion of our assets and their assets are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of our Mexican counsel, there is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

Mexican law does not require us to pay our foreign-currency judgments in a currency other than Pesos.

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

Under the Mexican Bankruptcy Law (*Ley de Concursos Mercantiles*), in the case of our bankruptcy, and under the Mexican Banking Law, in case of a revocation of our license to operate as bank, foreign currency-denominated liabilities would be converted into pesos at the prevailing rate of exchange on the date the insolvency judgment is rendered, and the resulting amount, in turn, would be converted into UDIs.

USE OF PROCEEDS

Our net proceeds from the issuance of the Notes are estimated to be approximately U.S.$499,000,000 and €598,800,000, respectively. We intend to use the net proceeds of the issuance of the Notes to strengthen our capital structure and for general corporate purposes.

EXCHANGE RATES AND CURRENCY

Mexico has had a free market for foreign exchange since 1991 and the Mexican government allows the peso to float against the U.S. dollar. There can be no assurance that the government will maintain its current policies with regard to the peso or that the peso will not depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates published by Banco de Mexico in the Official Gazette of Mexico, expressed in pesos per U.S. dollar. The rates shown below are in nominal pesos that have not been restated in constant currency units.

Period(1)	Low	High	Average(2)	Period-end
	(nominal pesos per U.S. dollar)			
2002	9.00	10.44	9.67	10.44
2003	10.11	11.40	10.79	11.24
2004	10.82	11.63	11.29	11.15
2005	10.41	11.40	10.89	10.63
2006	10.43	11.48	10.90	10.81
November	10.74	11.05	10.91	11.00
December	10.77	11.00	10.86	10.81
2007				
January	10.77	11.09	10.95	11.04
February	10.92	11.17	11.00	11.17
March	11.02	11.19	11.12	11.02
April	10.93	11.03	10.99	10.93

(1) Source: Banco de Mexico.

(2) Average of month-end rates for 2002, 2003, 2004, 2005 and 2006. Average of daily rates for each complete month of 2007 and for November and December of 2006.

The Mexican economy has suffered balance of payment deficits and shortages in foreign exchange reserves in the past. While the Mexican government has not restricted for more than ten years the ability of both Mexican and foreign persons or entities to convert pesos to U.S. dollars, we cannot assure you that the Mexican government will not institute restrictive exchange control policies in the future. To the extent that the Mexican government institutes restrictive exchange control policies in the future, our ability to transfer or convert pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal of indebtedness, including the Notes, would be adversely affected.

DIVIDENDS

We paid dividends of Ps.2,500 million and Ps.5,567 million on November 28, 2005 and May 5, 2006, respectively, in each case from our "results from prior years" account. We did not pay dividends on our equity securities in any of 2004, 2003 or 2002. Our board of directors has proposed a dividend of Ps.13,882 million from our 2006 earnings. The payment of this dividend is subject to the affirmative vote of a majority of our shareholders.

The declaration, amount and payment of dividends is determined, subject to the limitations set forth below, by the affirmative vote of a majority of the holders of our common voting shares, substantially all of which are owned by GFBB, which, in turn is controlled by BBVA. We may not declare or pay dividends to GFBB unless we meet the Capital Ratio requirements under the Mexican Capitalization Requirements. See "Supervision and Regulation." At March 31, 2007, we had reached this capitalization requirement, and were entitled to declare and pay dividends. Although no assurance can be given, we expect to continue to be in compliance with these Capital Ratio requirements during 2007.

Under Mexican law, we are required to allocate 10% of our net income (on a unconsolidated basis and after employee profit sharing and other deductions required by Mexican law) to a legal reserve fund, which is not thereafter available for distribution except as a stock dividend, until the amount of the legal reserve equals at least 100% of our paid-in capital. We may pay dividends only out of earnings (including retained earnings after all losses have been absorbed or paid up) and only after such allocation to the legal reserve fund. The reserve fund is required to be funded on a stand-alone basis for each company, rather than on a consolidated basis. The level of earnings available for the payment of dividends is determined under Mexican Banking GAAP. At March 31, 2007, we were in compliance with the regulations pertaining to our legal reserve. Our subsidiaries are required to allocate earnings to their respective legal reserve funds before paying dividends to us, and at March 31, 2007, were in compliance with this requirement. As of March 31, 2007, we had set aside Ps.6,013 million in legal reserves compared to paid-in capital of Ps.34,096 million.

CAPITALIZATION

The following table sets forth, as of December 31, 2006, our actual capitalization and our capitalization as adjusted to reflect the issuance of the Notes.

	As of December 31, 2006		
	Actual	As Adjusted for the Offering	
	(Ps. millions)	(Ps. millions)	(millions of U.S.$)
Long-term indebtedness			
Senior indebtedness	Ps. 9,049	Ps. 9,049	U.S.$ 840
Subordinated preferred indebtedness(1)	—	8,593	797
Subordinated non-preferred indebtedness(2)	8,040	13,430	1,246
Bank bonds	2,715	2,715	252
Total long-term indebtedness	19,804	33,786	3,134
Stockholders' equity			
Subscribed capital(3)	33,691	33,691	3,126
Earned capital	36,335	36,335	3,371
Subtotal	70,026	70,026	6,497
Minority interest	562	562	52
Total stockholders' equity	70,588	70,588	6,549
Total capitalization(4)	Ps. 90,392	Ps.104,374	U.S.$9,683

(1) Includes €600 million of Tier 2 Notes in the columns entitled "As adjusted for the Offering" converted at a rate of €0.7527 to U.S.$1.00, which was the noon buying rate for euros published by the Federal Reserve Bank of New York on January 2, 2007.

(2) Includes U.S.$500 million of Tier 1 Notes in the columns entitled "As Adjusted for the Offering."

(3) As of December 31, 2006, our authorized capital stock consisted of 9,107,142,859 Series "F" shares and 8,749,999,999 Series "B" shares. Of these shares, 6,972,189,866 Series "F" shares and 6,698,770,654 Series "B" shares were issued and outstanding.

(4) Except as disclosed in this offering memorandum, there has been no material change in our capitalization since December 31, 2006.

RECENT FINANCIAL DEVELOPMENTS

The interim financial information presented in this section for the three-month periods ended March 31, 2006 and 2007 has not been audited. Such unaudited interim financial information should be read in conjunction with our audited consolidated financial statements and the notes thereto included elsewhere in this offering memorandum. The unaudited interim financial information presented in this section is stated in constant pesos with purchasing power as of March 31, 2007. As a result of Mexican inflation during the first three months of 2007, one peso of December 31, 2006 purchasing power is equal to 1.012 pesos of March 31, 2007 purchasing power. Accordingly, although we do not consider the change in purchasing power to be material, the interim quarterly financial information contained in this section is not directly comparable to our audited financial statements and other annual financial information contained in this offering memorandum because they are stated in constant pesos as of a different date.

In our opinion, the unaudited interim financial information presented in the following table includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our financial condition and results of operations as of the dates and for the periods specified. Results for the three months ended March 31, 2007 are not, however, indicative of the results expected for the full year.

	For the periods ended March 31,		
	2006	2007	2007(1)
	(millions of constant pesos as of March 31, 2007)		(millions of US$)
Income Statement Data:			
Interest income	17,235	20,048	1,817
Interest expense	(7,065)	(7,970)	(722)
Monetary gain, (net)	(251)	(504)	(46)
Net interest income	9,919	11,574	1,049
Provisions	(1,052)	(2,641)	(239)
Net interest income after provisions	8,867	8,933	810
Non-interest income(2)	4,607	4,853	440
Operating revenue	13,474	13,786	1,250
Non-interest expense	(6,397)	(7,025)	(637)
Operating income	7,077	6,761	613
Net income	4,340	4,047	367
Balance Sheet Data:			
Cash and due from banks	99,341	110,430	10,010
Total loan portfolio	323,923	387,572	35,131
Total assets	560,928	648,508	58,783
Deposits	400,054	393,599	35,677
Interbank loans and loans form other entities	37,403	46,545	4,219
Total liabilities	497,633	571,261	51,781
Total stockholders' equity	63,295	77,245	7,002
Other Financial Data and Ratios:			
Profitability and Efficiency:			
Return on average total assets(3)	3.1%	2.6%	2.6%
Return on average stockholders' equity(3)	28.6%	22.0%	22.0%
Net interest margin(4)	7.1%	7.4%	7.4%
Efficiency ratio(5)	44.0%	42.8%	42.8%
Capitalization:			
Stockholders' equity as a percentage of total assets	11.3%	11.9%	11.9%

	For the periods ended March 31,		
	2006	2007	2007(1)
	(millions of constant pesos as of March 31, 2007)		(millions of US$)
Tier 1 capital as a percentage of risk-weighted assets	13.1%	14.7%	14.7%
Total capital as a percentage of risk-weighted assets	13.8%	15.6%	15.6%
Credit Quality:			
Total performing loans	317,953	378,264	34,287
Total non-performing loans	5,970	9,308	844
Total loans	323,923	387,572	35,131
Loans graded "C," "D" and "E"(6)	15,741	17,982	1,630
Allowance for loan losses	13,775	15,943	1,445
Allowance for loan losses as a percentage of total loans	4.3%	4.1%	4.1%
Allowance for loan losses as a percentage of total non-performing loans	230.7%	171.3%	171.3%
Allowance for loan losses as a percentage of loans graded "C," "D" and "E"(6)	87.5%	88.7%	88.7%
Total non-performing loans as a percentage of total loans	1.8%	2.4%	2.4%

(1) Translated at the rate of Ps.11.0322 per U.S.$1.00, the exchange rate published by Banco de México in the Official Gazette of Mexico on April 2, 2007. See "Exchange Rates and Currency."
(2) Non-interest income for 2007 is not directly comparable to non-interest income for 2006 as a result of new accounting rules promulgated by the CNBV that became effective on January 1, 2007. For an explanation of these new rules, see "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP—Recent Mexican Banking GAAP pronouncements." Using the new accounting rules, non-interest income for 2006 would have been Ps.4,539 million, or 1.5% less.
(3) Determined on an annual basis based on beginning- and end-of-period balances using constant pesos.
(4) Represents net interest income divided by the average interest earning assets. Average interest-earning assets are determined on an annualized basis, based on beginning- and end-of-period balances using constant pesos.
(5) Efficiency ratio is equal to administrative expense divided by the sum of net interest income (before provisions), commissions and fees and trading income.
(6) See "Selected Statistical Information—Grading of Loan Portfolio."

Net interest income

Net interest income was Ps.11,574 million for the first three months of 2007 compared to Ps.9,919 million for the first three months of 2006, an increase of Ps.1,655 million, or 16.7%. The increase was primarily the result of growth in our total loan portfolio, particularly in the balance of credit cards, and consumer, mortgage and middle market loans. Our total loan portfolio grew 19.0% from period to period.

The growth of our loan portfolio was primarily attributable to an increase in the demand for credit for the first three months of 2007 compared to the first three months of 2006 as a result of macroeconomic and financial stability, lower interest rates and better credit conditions.

In terms of margins, the difference between the interest rate we charged on average interest-earning assets of 11.1% and the interest rate we paid on average interest-bearing liabilities of 4.7% resulted in a yield spread of 6.4% for the first three months of 2007, or 60 basis point higher than the yield spread of 5.8% for the first three months of 2006.

Provisions

Provisions for loan losses for the first quarter of 2007 was Ps. 2,641 million compared to Ps.1,052 million in the same period of 2006, an increase of Ps.1,589 million or 157.3%. The increase in loan loss provisions was

primarily attributable to the growth of our loan portfolio, since we increased the penetration of our credit products to underserved segments of the Mexican population with little or no experience in borrowing funds, and reflected a higher proportion of newer accounts with such lower- income customers, thus changing the risk profile of our loan portfolio.

Non-interest income

Non-interest income was Ps.4,853 million for the first three months of 2007 compared to Ps.4,607 million for the first three months of 2006, an increase of Ps.246 million or 5.3%, primarily as a result of a greater number of credit and debit card transactions, which offset a small decrease in trading income. During the first three months of 2007, credit card billing increased 10.0%, compared to first quarter of 2006, primarily as a result of an increase in credit card issuances.

Non-interest expense

Non-interest expense was Ps.7,025 million for the first three months of 2007 compared to Ps.6,397 million for the first three months of 2006, an increase of Ps.628 million or 9.8%, primarily as a result of an increase in operating expenses as a consequence of higher business volumes.

Net income

Net income was Ps.4,047 million for the first three months of 2007 compared to Ps.4,340 million for the first three months of 2006, a decrease of Ps.293 million, or 7.0%. This decrease resulted primarily from a 157.3% increase in provisions for loan losses and from recurrent loan acquisitions of Hipotecaria Nacional's mortgage loan portfolio, which accounted for other expenses of Ps.532 million, net of taxes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information presented below should be read in conjunction with "Presentation of Certain Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," our audited financial statements and other financial information included elsewhere in this offering memorandum.

Our financial statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain important respects from Mexican GAAP and U.S. GAAP. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

Our financial statements and the financial information presented below are presented on a consolidated basis in accordance with Mexican Banking GAAP. Under the rules issued by the CNBV, only subsidiaries that operate in the financial sector or provide services that are auxiliary or complementary to the financial sector are consolidated. Other subsidiaries are accounted for under the equity method. See note 16 to our audited financial statements included elsewhere in this offering memorandum.

Financial Information

The selected annual financial information presented below has been derived from and should be read in conjunction with our audited financial statements included elsewhere in this offering memorandum. Such financial information is presented in pesos of constant purchasing power as of December 31, 2006.

	For the years ended December 31,					
	2002	2003	2004	2005	2006	2006(1)
	(millions of constant pesos as of December 31, 2006, except for percentages)					(millions of U.S.$)
Income Statement Data:						
Interest income	Ps.57,236	Ps.55,511	Ps.56,629	Ps.68,959	Ps.73,845	U.S.$ 6,830
Interest expense	(35,839)	(32,352)	(29,531)	(34,922)	(28,773)	(2,661)
Monetary gain, net	1,220	432	50	(410)	(1,595)	(147)
Net interest income	22,617	23,591	27,148	33,627	43,477	4,022
Provisions	(3,168)	(4,340)	(2,354)	(3,312)	(6,784)	(628)
Net interest income after provision for loan losses	19,449	19,251	24,794	30,315	36,693	3,394
Commissions and fees	11,756	13,294	13,996	15,275	17,166	1,587
Trading income (loss), net	993	1,262	(97)	1,072	2,895	268
Operating revenue	32,198	33,807	38,693	46,662	56,754	5,249
Non-interest expense	(20,828)	(21,056)	(22,248)	(24,966)	(26,601)	(2,460)
Operating income	11,370	12,751	16,445	21,696	30,153	2,789
Other income (expense), net	(215)	(1,503)	(831)	(515)	295	27
Monetary loss	(996)	(871)	(1,096)	(443)	(215)	(20)
Earnings before income taxes and employee profit sharing	10,159	10,377	14,518	20,738	30,233	2,796
Current income taxes and employee profit sharing	(628)	(653)	(542)	(505)	(3,868)	(358)
Deferred income taxes and employee profit sharing	(2,451)	(2,438)	(5,258)	(7,828)	(5,937)	(549)
Income before share in net income (loss) of unconsolidated subsidiaries and affiliates	7,080	7,286	8,718	12,405	20,428	1,889

	For the years ended December 31,					
	2002	2003	2004	2005	2006	2006(1)
	(millions of constant pesos as of December 31, 2006, except for percentages)					(millions of U.S.$)
Share in net income (loss) of unconsolidated subsidiaries and affiliates	(472)	2	(83)	179	281	26
Income from continuing operations	6,608	7,288	8,635	12,584	20,709	1,915
Discontinued operations, extraordinary items and changes in accounting policies, net	—	—	(2,368)	(3,461)	(2,607)	(241)
Net income before minority interest	6,608	7,288	6,267	9,123	18,102	1,674
Minority interest	(266)	(268)	(239)	(251)	(175)	(16)
Net income	Ps.6,343	Ps.7,020	Ps.6,028	Ps.8,872	Ps.17,927	U.S.$1,658

	As of or for the years ended December 31,					
	2002	2003	2004	2005	2006	2006(1)
	(millions of constant pesos as of December 31, 2006, except for percentages)					(millions of U.S.$)
Balance Sheet Data:						
Total assets	Ps.489,989	Ps.560,487	Ps.597,230	Ps.568,096	Ps.602,770	U.S.$55,752
Cash and due from banks	83,724	79,816	103,556	128,664	114,738	10,612
Securities	71,592	134,274	125,190	70,571	50,414	4,663
Total loans	199,192	200,777	230,183	293,988	371,619	34,372
FOBAPROA and IPAB Notes	91,483	90,322	86,154	30,112	—	—
Allowance for loan losses	(14,509)	(10,675)	(13,194)	(13,311)	(15,854)	(1,466)
Deferred taxes, net	24,893	22,451	16,358	9,617	4,720	437
Other assets	33,614	43,522	48,983	48,455	77,133	7,134
Total funding	427,974	480,355	507,296	458,971	436,777	40,399
Deposits	373,377	410,082	429,769	396,010	401,278	37,116
Bank bonds outstanding	—	—	—	—	2,715	251
Subordinated debt	6,147	6,027	2,688	8,573	8,040	744
Interbank loans and loans from other entities	48,450	64,246	74,839	54,388	24,744	2,289
Other liabilities	9,094	19,991	31,628	45,107	95,405	8,823
Total liabilities	437,068	500,346	538,924	504,078	532,182	49,223
Total stockholders' equity	Ps.52,921	Ps.60,141	Ps.58,306	Ps.64,018	Ps.70,588	U.S.$ 6,529
Profitability and Efficiency:						
Return on average total assets(2)	1.26%	1.34%	1.04%	1.52%	3.06%	
Return on average stockholders' equity(2)	14.78%	14.12%	11.49%	16.18%	28.03%	

	As of or for the years ended December 31,					
	2002	2003	2004	2005	2006	2006(1)
	(millions of constant pesos as of December 31, 2006, except for percentages)					(millions of U.S.$)
Net interest margin(3)	4.49%	4.49%	4.69%	5.77%	7.43%	
Efficiency ratio(4)	58.89%	55.20%	54.20%	49.96%	41.87%	
Capitalization:						
Stockholders' equity as a percentage of total assets	10.80%	10.73%	9.76%	11.27%	11.71%	
Tier 1 capital as a percentage of risk-weighted assets	11.28%	12.46%	11.88%	13.29%	14.07%	
Total capital as a percentage of risk-weighted assets	13.98%	14.67%	13.19%	14.62%	15.19%	
Credit Quality Data:						
Total performing loans	Ps.186,327	Ps.193,498	Ps.225,230	Ps.288,860	Ps.363,469	U.S.$33,618
Total non-performing loans	12,865	7,279	4,953	5,128	8,150	754
Total loans	199,192	200,777	230,183	293,988	371,619	34,372
Loans graded "C," "D" and "E"(5)	17,005	10,375	16,352	14,580	17,003	1,573
Allowance for loan losses	(14,509)	(10,675)	(13,194)	(13,311)	(15,854)	(1,466)
Loan Recovery and Write-offs:						
Non-performing loans—average balance	14,292	10,072	6,116	5,041	6,639	614
Non-performing loans written-off	567	2,230	1,889	1,350	2,380	220
Recoveries in respect of non-performing loans	(273)	(335)	(341)	(325)	(259)	(24)
Recovered amounts as a percentage of average non-performing loans	1.91%	3.33%	5.58%	6.45%	3.90%	

(1) Translated at the rate of Ps.10.8116 per U.S.$1.00, the exchange rate published by Banco de Mexico in the Official Gazette of Mexico on January 2, 2007. See "Exchange Rates and Currency."
(2) Determined on an annualized basis, based on beginning- and end-of-period balances using constant pesos.
(3) Represents net interest income divided by average total assets. Average total assets are determined on an annualized basis, based on beginning and end-of-period balances using constant pesos.
(4) Efficiency ratio is equal to total non-interest expense as a percentage of the aggregate of net interest income and non-interest income.
(5) See "Selected Statistical Information—Grading of Loan Portfolio."

Other Financial Data and Ratios

The selected financial data and ratios presented below have been derived from and should be read in conjunction with our audited financial statements and the other financial information contained in this offering memorandum, together with the notes thereto, included elsewhere in this offering memorandum.

	As of or for the years ended December 31,				
	2002	2003	2004	2005	2006
Credit Quality Ratios:					
Allowance for loan losses as a percentage of total loans	7.28%	5.32%	5.73%	4.53%	4.27%
Allowance for loan losses as a percentage of total non-performing loans	112.78%	146.66%	266.36%	259.59%	194.53%
Allowance for loan losses as a percentage of loans graded "C," "D" and "E"(1)	85.32%	102.90%	80.69%	91.30%	93.24%
Total non-performing loans as a percentage of total loans	6.46%	3.63%	2.15%	1.74%	2.19%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (net performing loans plus net non-performing loans)	0.83%	1.72%	3.71%	2.86%	2.12%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders' equity	3.11%	5.65%	14.13%	12.78%	10.91%
Provision for loan losses as a percentage of average total loans	7.93%	6.30%	5.54%	5.06%	4.38%
Charge-offs (net of recoveries) as a percentage of average total loans	0.17%	0.55%	0.80%	0.49%	0.47%
Loans graded "C," "D" and "E" as a percentage of total loans(1)	8.54%	5.17%	7.10%	4.96%	4.58%

(1) See "Selected Statistical Information—Grading of Loan Portfolio."

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

The financial information presented in this section as of and for the years ended December 31, 2004, 2005 and 2006 and should be read in conjunction with our audited financial statements included elsewhere in this offering memorandum. Our financial statements have been prepared in accordance with Mexican Banking GAAP, which differs in significant respects from Mexican GAAP and U.S. GAAP. For a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP, see "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP." No reconciliation of any of our financial statements to U.S. GAAP has been prepared for this offering memorandum. Any such reconciliation could result in material quantitative differences. See "Presentation of Certain Financial and Other Information."

Economic Environment

During 2004, the Mexican economy showed signs of recovery from the recession that had started at the end of 2000, and GDP grew by 4.2% (its highest growth since 1999) despite an increase in the inflation rate from 4.0% in 2003 to 5.2%. We believe that the improvement in the economy was primarily attributable to a reduction in both debt financing pressure and foreign capital accounts hedged with long-term financing. During 2004, a decrease in employment rates was offset by a recovery in real wages, so that total wages increased. A decrease in interest rates (primarily due to the reduction in the inflation rate) favored the reactivation of credit. The exchange rate was Ps.11.15 per U.S. dollar on December 31, 2004, an appreciation of 0.8% from December 31, 2003.

During 2005, the Mexican economy slowed as industrial production decreased throughout the year, associated mainly with poor manufacturing performance particularly in the electronics, auto parts, vehicles, iron and steel sectors. As a consequence, GDP grew only 2.8% while the inflation rate for the year was limited to 3.3%, the lowest level in 35 years. The exchange rate showed stability during 2005, supported by strong dollar inflows resulting from higher oil prices and remittances. As of December 31, 2005, the exchange rate was Ps.10.63 per U.S. dollar. During 2005, interest rates decreased significantly due to a decrease in inflation, the strength of the Mexican peso and high international liquidity.

During 2006, the Mexican economy grew across all of its economic sectors. The positive dynamics of external demand in the first part of the year was reflected in export growth, which was greatest in the auto industry and manufacturing. The Mexican economy was also favorably impacted by high oil prices, which led to increased revenues from oil exports. Domestically, consumption and private sector investment expanded reaching their highest growth rates since 1999. On the supply side, the industrial and services sectors also grew in 2006, in each case by approximately 5%. As a result, GDP grew 4.8% in 2006, and the inflation rate increased to 4.1%.

Effect of Loan Classification Regulations

On December 1, 2004, amendments to CNBV regulations related to the classification of loan portfolios went into effect. Such regulations mandated changes to the valuation methods to determine the allowance requirements for (1) loans to states and municipalities and mortgage and consumer loans and (2) holding repossessed assets.

In accordance with the amended regulations, we reclassified our loan portfolio and recognized the effect in 2004 as a Ps.7,504.6 million reduction in retained earnings.

Effect of Tax Reduction Legislation

The Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) was amended in December 2004 (effective January 1, 2005), to provide for a gradual reduction in the income tax rate from 33% for 2004, to 30%

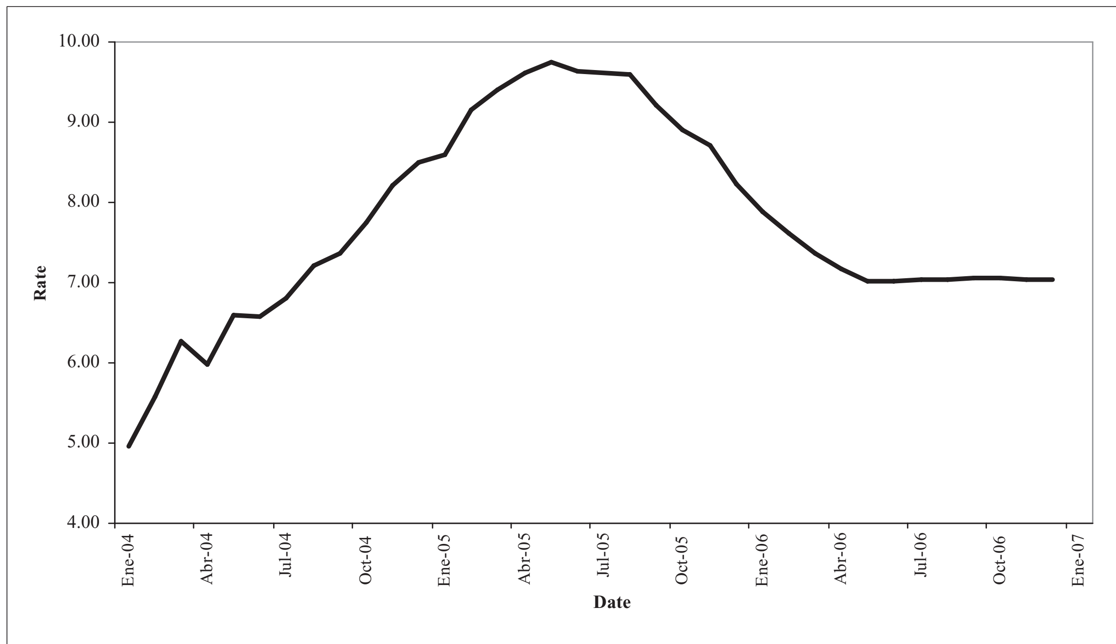
for 2005, 29% for 2006 and 28% for 2007 and future periods. Pursuant to Mexican Banking GAAP, we revised downward our projections for the recovery of net operating loss carryforwards in anticipation of the reduction in expected tax obligations. Accordingly, the amount of deferred tax assets (and, hence, net income) was reduced by Ps.1,426 million (in nominal terms) in 2004, Ps.339 million (in nominal terms) in 2005, and Ps.32 million (in nominal terms) in 2006, to account for the reduction in the tax rate. See note 17 to our audited financial statements included elsewhere in this offering memorandum.

Effects of changes in interest rates

Interest rate fluctuations in Mexico have a significant effect on our interest income, interest expense and trading income. Changes in market interest rates may lead to temporary repricing gaps between our interest-earning assets and our interest-bearing liabilities. Most of our interest-earning assets and interest-bearing liabilities carry floating interest rates or are subject to frequent repricing. Upward or downward adjustments of the interest rates on our assets and liabilities generally occur approximately every 28 days. The repricing generally limits the effects of net exposures that regularly occur upon movements in interest rates. See "Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities." In addition, sustained high interest rate environments have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and a deterioration in asset quality.

During the periods discussed below, the benchmark market interest rate in Mexico was the annual interest rate paid in connection with primary offerings of Cetes (*Certificados de la Tesorería de la Federación*), which are Mexican government peso-denominated treasury bills, with 28-day maturities.

Average Monthly Cetes Rate(1)



Source: Banco de Mexico

(1) Monthly average based on rates established at weekly auctions.

During 2004, interest rates began an upward trend mainly due to a more restrictive monetary policy implemented by Banco de Mexico in an effort to control inflation. The Cetes rate reached 8.6% on December 31, 2004, the highest level reached in that year. The Cetes rate averaged 6.8% in 2004, compared to an average of 6.2% in 2003.

During 2005, a decrease in inflation, the strength of the peso in response to high international liquidity and the growth of the Mexican economy contributed to lower banking funding rates. These factors resulted in lower interest rates, and the Cetes rate ranged between 8.0% and 9.8%, with an average rate of 9.2% for the year.

During 2006, the performance of the financial markets in Mexico was influenced by uncertainty linked to the monetary policy of the United States, the persistence of international flows and the elections in Mexico. The Cetes rate ranged between 7.0% and 8.0%, with an average rate of 7.2% for the year.

Effects of changes in the rate of inflation

The annual inflation rate was 5.2% for 2004, 3.3% for 2005 and 4.1% for 2006.

The CNBV requires Mexican banks to account for the comprehensive effects of inflation in accordance with rules that are substantially the same as those in Bulletin B-10, "Recognition of Effects of Inflation in the Financial Information." In addition, Mexican Banking GAAP requires that financial information be adjusted for the effect of inflation and presented in constant pesos as of the date of the most recent balance sheet presented in the relevant financial statements. For a description of the methodology used to adjust the financial statements to reflect the effects of inflation see note 4 to our audited financial statements included elsewhere in this offering memorandum.

In addition, as part of the Mexican government's debt restructuring program for borrowers facing cash flow constraints, we, along with other commercial banks in Mexico, converted a substantial amount of non-performing peso-denominated loans of such borrowers to UDI-denominated loans. UDIs are a unit of account created by the Mexican government that express in pesos, at a given time, the principal amount of financial transactions, as adjusted for inflation.

Government-Sponsored Support Funds

The adverse economic conditions in Mexico that began in late 1994 and continued into 1995 significantly impacted our business, financial condition and results of operations. We responded to these conditions by participating in various government support programs under which we transferred a portion of our loan portfolio to the Mexican government, and GFB committed to increase Bancomer's capital levels through a recapitalization program. BBV-Mexico and Promex also participated in these support programs.

Unless otherwise indicated, figures presented in "—Government-Sponsored Support Funds" are in nominal pesos that have not been restated in constant currency units.

FOBAPROA/IPAB

Bancomer and BBV-Mexico transferred a portion of their loan portfolio to FOBAPROA.

Bancomer transferred a portion of its loan portfolio to FOBAPROA in two transactions. In the first transaction, Bancomer transferred certain troubled commercial loans valued at Ps.15,600 million (Ps.17,755 million of gross loans minus Ps.2,155 million of loan loss allowances) to a trust administered by Bancomer for the benefit of FOBAPROA. The aggregate total loans transferred represented approximately 15.0% of Bancomer's total loan portfolio as of December 31, 1995. We refer to this transfer of loans to FOBAPROA as "FOBAPROA I."

In the second transaction, Bancomer transferred approximately Ps.8,000 million of mortgage loans (net of allowances) (Ps.12,308 million of gross mortgage loans), effective as of December 31, 1996. The aggregate total loans transferred represented approximately 10.6% of Bancomer's total loan portfolio as of December 31, 1996. The transferred loans were placed in a trust administered by Bancomer for the benefit of FOBAPROA. We refer to this transfer of loans to FOBAPROA as "FOBAPROA II."

In exchange for the transfer of these loans, Bancomer received interest-bearing 10 year notes from FOBAPROA with an aggregate principal amount equal to the net amount of the loans transferred. We refer to the notes received from FOBAPROA as a result of FOBAPROA I as the "FOBAPROA I Notes," and to the notes received from FOBAPROA as a result of FOBAPROA II as the "FOBAPROA II Notes." The notes provided that interest, which accrued at varying rates, was to be capitalized and payable at maturity. We recognized capitalized interest on the notes as current interest income. During 2005, the IPAB made a prepayment of Ps.33,424 million on the FOBAPROA Notes, and the IPAB fully repaid the FOBAPROA Notes in January 2006 in a total amount of Ps.8,211 million.

BBV-Mexico transferred a portion of its loan portfolio to FOBAPROA in two transactions. In 1995, BBV-Mexico transferred to FOBAPROA approximately Ps.4,900 million of net loans (Ps.6,177 million of gross loans), equivalent to approximately 36% of BBV-Mexico's total loan portfolio. In exchange for the transfer of loans to FOBAPROA, BBV-Mexico received interest-bearing 10-year Notes from FOBAPROA in an aggregate principal amount equal to the net amount of the loans transferred. The Notes received in exchange for these loans matured on June 30, 2005, and we received Ps.4,479 million from the IPAB. We refer to this transfer of loans to FOBAPROA as "FOBAPROA BBV-Mexico I."

In 1996, BBV-Mexico transferred to FOBAPROA approximately Ps.2,600 million of net non-performing loans (Ps.3,700 million of gross loans), equivalent to approximately 35% of BBV-Mexico's total loan portfolio. The loans transferred consisted mostly of corporate loans. In exchange for the transfer of loans to FOBAPROA, BBV-Mexico received interest-bearing 10-year notes from FOBAPROA in an aggregate principal amount equal to the net amount of the loans transferred. The notes received in exchange for these loans matured in January 2006, and we received Ps.7,746 million from the IPAB. We refer to this transfer of loans to FOBAPROA as "FOBAPROA BBV-Mexico II."

Bancomer also acquired IPAB Notes when it acquired Promex from the Mexican government in 2000.

Transfer of collection rights

In addition, in 1996, BBV-Mexico purchased collection rights related to financial leasing transactions from a third-party leasing company for a total of Ps.100 million. The collection rights were deposited in a trust in exchange for a FOBAPROA Note in the same amount due in January 2006, which we refer to as "Arrendadora Atlas Note." The Arrendadora Altlas Note matured in 2006. During 2005, the IPAB made a prepayment of Ps.240 million on the Arrendadora Atlas Note, and the IPAB fully repaid this Note in January 2006 in a total amount of Ps.4 million.

Exchange of FOBAPROA Notes for IPAB Notes

In July 2004, we agreed with the IPAB to reacquire loans held in trust under the FOBAPROA program that were identified as "related party loans" by the IPAB, which in turn caused us to realize an extraordinary expense of Ps.2,136 million on our 2004 income statement. Under the terms of this agreement, (1) the IPAB assumed FOBAPROA's obligations in respect of 75% of the principal amount of FOBAPROA Notes then outstanding, effectively converting such FOBAPROA obligations into IPAB obligations, and (2) the IPAB trusts, which succeeded the trusts established under the FOBAPROA program, assumed FOBAPROA's obligations in respect of the remaining principal amount. In May 2005 we exchanged the debt instruments originally issued by FOBAPROA for new debt instruments issued by the IPAB and the IPAB trusts. The IPAB Notes had terms

substantially similar to those of the FOBAPROA Notes and bore interest at the same rate. As with the FOBAPROA Notes, we recognized capitalized interest on these IPAB Notes as current interest income. The IPAB Notes were repaid in a total amount of Ps.54,104 million, of which Ps.41,410 million was prepaid during the life of the IPAB Notes and Ps.12,694 million were paid at maturity.

IPAB contingencies and related reserves

Under the terms of an agreement with the IPAB, we were responsible for 25% of the losses resulting from the difference between: (1) the principal amount plus accrued interest on the FOBAPROA I Notes, FOBAPROA II Notes and FOBAPROA BBV-Mexico II Notes (exchanged for IPAB Notes) and (2) any amounts collected under the troubled commercial loans held in trust for the benefit of the IPAB pursuant to FOBAPROA I, FOBAPROA II and FOBAPROA BBV-Mexico II. We were responsible for 30% of the default risk on the collection rights in respect of the troubled corporate loans originally transferred by BBV-Mexico to FOBAPROA in 1996 (later held in trust for the benefit of the IPAB). We no longer have a loss-sharing contingency as the FOBAPROA Notes have matured.

Critical Accounting Policies

The following is a description of certain key accounting policies on which our financial condition and results of operations are dependent. These key accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions. In the opinion of our management, the most critical accounting policies under Mexican Banking GAAP are those related to the establishment of allowances for loan losses, valuation of securities and derivatives, valuation of the deferred income tax assets, and employee retirement obligations. For a full description of our accounting policies, see notes 3 and 4 to our audited financial statements included elsewhere in this offering memorandum.

Allowances for loan losses

Our allowance for loan losses is maintained in accordance with the rules for the classification and rating of loan portfolios of Mexican banks and the creation of related reserves, or the Loan Classification and Rating Rules, set forth under the General Rules for Banks, which require that the commercial portfolio must be rated every three months and the consumer and mortgage loan portfolios must be rated every month.

The allowance for loan losses for our commercial loan portfolio is calculated primarily based on the classification of the loans into prescribed categories. To calculate our commercial loan loss reserve, the Loan Classification and Rating Rules require that we follow a methodology that incorporates an evaluation of the borrower's ability to repay its loan and of the related collateral and guarantees in the loan's rating analysis to estimate a probable loss and define the percentage of necessary reserves. The Loan Classification and Rating Rules allow us to use our own methodology following certain parameters to assign a risk rating to each borrower. This methodology is subject to the review of the CNBV. The CNBV initially approved our methodology in June 2001, and reapproved it in December 2004 and December 2006. Our current methodology is effective through December 2008. We are required to classify 100% of the aggregate balance of our commercial loans, including all loans with an outstanding balance equal to or greater than 900,000 UDIs, as of the classification date. If our analysis of the classification of a commercial loan changes from period to period, then the calculation of the amount of our loan loss reserve will adjust accordingly.

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

The determination of the allowance for loan losses, particularly for commercial loans, requires management's judgment. The loan loss reserve calculation that results from using the estimated and prescribed

loss percentages may not be indicative of future losses. See "Selected Statistical Information—Grading of Loan Portfolio" and "—Allowance for Loan Losses." Differences between the estimate of the loan loss reserve and the actual loss will be reflected in our financial statements at the time of charge-off.

Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of the collectibility of loans will be made in the short term.

Securities and derivatives

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

Deferred income tax assets

Our taxable income can differ from our net income due to a variety of factors that are further described in note 24 to our audited financial statements included elsewhere in this offering memorandum. Deferred income taxes are also recognized for tax loss carryforwards, but are subject to a recoverability test. Management anticipates that such net operating loss carryforwards will be realized in 2008 before their expiration dates, as described in note 17 to our audited financial statements. The determination of whether or not these assets will be realized is based on the most recent taxable income projections. Projections are based on certain assumptions, some of which are under our control and others of which are not. Key assumptions include inflation, devaluation, interest rates and future lending activities. If such assumptions are not correct, we would recognize a charge-off to this asset and charge the amount of the impairment against earnings.

Employee retirement obligations

Our employee retirement obligations include employee pension plans, seniority premium benefits and severance indemnities. The determination of our obligations and expenses is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. We evaluate our assumptions at least annually. Our assumptions depend on Mexico's economic circumstances.

In accordance with Mexican Banking GAAP, actual results that differ from our assumptions (actuarial gains or losses) are accumulated and amortized over future periods and, therefore, generally affect our recognized expenses and recorded obligations in these future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our employees' retirement obligations and our future expense.

Results of Operations

Year ended December 31, 2006 compared to year ended December 31, 2005

The annual financial information presented in this section for the years ended December 31, 2005 and 2006 has been derived from and should be read in conjunction with our audited financial statements and the notes thereto included elsewhere in this offering memorandum. Such annual financial information is presented in constant pesos as of December 31, 2006.

Net interest income

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

	For the years ended December 31,	
	2005	2006
	(millions of constant pesos as of December 31, 2006)	
Interest Income:		
Interest and fees on loans(1)	Ps. 35,229	Ps. 45,984
Interest on FOBAPROA and IPAB Notes	6,159	1,632
Interest on securities	6,672	5,416
Interest on cash and due from banks	6,828	6,314
Interest on repurchase agreements(2)	14,071	14,499
Total interest income	68,959	73,845
Interest Expense:		
Interest on demand deposits	2,145	2,144
Interest on time deposits	14,059	9,562
Interest on repurchase agreements(2)	14,834	14,354
Interest on other short-term loans	2,261	2,272
Interest on funding for rediscounted loans	698	557
Interest on long-term funding	925	116
Total interest expense	34,922	28,773
Monetary gain, (loss) net	(410)	(1,595)
Net interest income	Ps. 33,627	Ps. 43,477

(1) Interest income includes origination fees on loans of Ps.1,313 million for 2006 and Ps.729 million for 2005. Under Mexican Banking GAAP, such fees are recorded as income at the time of incurrence and are not amortized over the life of the related loan. Includes interest earned on Special Cetes held in connection with funding the UDI Trusts. See "—Financial Position—Funding."

(2) Interest income on repurchase agreements primarily represents interest income on securities purchased under agreements to resell in accordance with Mexican Banking GAAP. Interest expense on repurchase agreements primarily represents interest expense on funds received in connection with securities sold under agreements to repurchase in accordance with Mexican Banking GAAP. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

Net interest income was Ps.43,477 million for 2006 compared to Ps.33,627 million for 2005, an increase of Ps.9,850 million, or 29.3%. This increase was the result of the combination of 7.1% increase in interest income, and a 17.6% decrease in interest expense. The growth in interest income was primarily the result of an increase in retail loan volumes, as well as loan origination fees.

Mexican Banking GAAP requires us to recognize as part of net interest income the effects of inflation on monetary assets and liabilities that generate interest income or expense. As a result, we recorded a net monetary loss of Ps.1,595 million for 2006 compared to a loss of Ps.410 million for 2005, an increase of Ps.1,185 million, or 289.0%. This increase was primarily the result of an increase in our monetary assets and increased inflation in 2006.

In terms of margins, the difference between the interest rate we charged on average interest-earning assets of 10.6% and the interest rate we paid on average interest-bearing liabilities of 4.6% resulted in a yield spread of 6.0% for 2006, compared to a yield spread of 4.5% for 2005.

Interest income

Interest income was Ps.73,845 million for 2006 compared to Ps.68,959 million for 2005, an increase of Ps.4,886 million, or 7.1%. This increase was primarily the result of an increase in the total loans outstanding in

our credit card portfolio resulting from a significant increase in issuances of credit cards. This increase was also a result of higher volumes of consumer and middle market and mortgage loans, which contributed with higher interest income. These factors offset lower interest rates and a decrease in interest earned on FOBAPROA and IPAB Notes as a result of their repayment.

Interest and fees on loans was Ps.45,984 million (or 62.3% of interest income) for 2006 compared to Ps.35,229 million (or 51.1% of interest income) for 2005, an increase of Ps.10,755 million, or 30.5%. This increase was primarily attributable to an increase of 14.0% in the size of our performing loan portfolio in 2006 (particularly in credit card, consumer and mortgage loans).

Interest on FOBAPROA and IPAB Notes was Ps.1,632 million (or 2.2% of interest income) for 2006 compared to Ps.6,159 million (or 8.9% of interest income) for 2005, a decrease of Ps.4,527 million due to the prepayment of almost all of the FOBAPROA and IPAB Notes during the third and fourth quarters of 2005.

Interest on repurchase agreements was Ps.14,499 million (or 19.6% of interest income) for 2006 compared to Ps.14,071 million (or 20.4% of interest income) for 2005, an increase of Ps.428 million, or 3.0%. This increase was primarily due to a change in our funding mix from time deposits to repurchase agreements and mutual funds in order to eliminate the insurance cost of such deposits and, therefore, reduce our funding cost.

Interest on cash and due from banks was Ps.6,314 million (or 8.6% of interest income) for 2006 compared to Ps.6,828 million (or 9.9% of interest income) for 2005, a decrease of Ps.514 million or 7.5%. The decrease was primarily attributable to lower interest earned as a result of lower interest rates.

Interest expense

Interest expense was Ps.28,773 million for 2006 compared to Ps.34,922 million for 2005, a decrease of Ps.6,149 million, or 17.6%. This decrease was primarily the result of a reduction in our funding costs, which resulted from generally lower interest rates.

Interest on time deposits was Ps.9,562 million (or 33.2% of interest expense) for 2006, compared to Ps.14,059 million (or 40.3% of interest expense) for 2005, a decrease of Ps.4,497 million or 32%. This decrease was primarily attributable to a decrease in interest rates in 2006, which was coupled with our decision to change our funding mix from time deposits to repurchase agreements and mutual funds in order to eliminate the insurance cost of such deposits, and, therefore, reduce our funding cost.

Interest on repurchase agreements was Ps.14,354 million (or 49.9% of interest expense) for 2006 compared to Ps.14,834 million (or 42.5% of interest expense) for 2005, a decrease of Ps.480 million, or 3.2%. This decrease primarily reflected a decrease in our customers' preference for earning deposits as interest rates decreased over the period.

Provisions

Provisions for loan losses charged against earnings were Ps.6,784 million for 2006 compared to Ps.3,312 million for 2005, an increase of Ps.3,472 million, or 104.9%. The increase in loan loss provisions was primarily attributable to the growth of our loan portfolio, since we increased the penetration of our credit products to underserved segments of the Mexican population with little or no experience in borrowing funds, and reflected a higher proportion of newer accounts with such lower-income customers, thus changing the risk profile of our loan portfolio. See "Risk Factors—Risks Relating to Our Business—The retail banking market is exposed to macroeconomic shocks that may negatively impact household income, and a downturn in the economy could result in increased loan losses."

Non-interest income

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

	For the years ended December 31,	
	2005	2006
	(millions of constant pesos as of December 31, 2006)	
Commissions and Fees:		
Account management	Ps. 2,797	Ps. 2,776
Cash management and fund transfers	2,738	2,716
Credit card	5,148	7,080
ATMs(1)	719	801
Pension fund management	2,868	2,449
Mutual fund management(1)	319	428
Insurance(1)	791	854
Other	(105)	62
Total commissions and fees	15,275	17,166
Trading Income:		
Foreign exchange	1,031	962
Realized gains (loss) on securities	(572)	2,840
Unrealized gains (loss) on securities	613	(907)
Total trading income (loss), net	1,072	2,895
Total non-interest income	Ps. 16,347	Ps. 20,061

(1) These are services provided through our affiliates.

Non-interest income was Ps.20,061 million for 2006 compared to Ps.16,347 million for 2005, an increase of Ps.3,714 million, or 22.7%. This increase reflected an increase in commissions and fees from credit cards and debit cards, primarily because of higher volumes. Additionally, the increase in non-interest income reflected a one-time gain from the sale of a trading position in Mexican government securities, including related derivative instruments.

Commissions and fees were Ps.17,166 million for 2006 compared to Ps.15,275 million for 2005, an increase of Ps.1,891 million, or 12.4%. This increase was primarily attributable to a 42.7% increase in the issuance of new credit cards during 2006, a significant percentage of which were private label credit cards. We expect private label credit cards to continue to have better margins than those of our traditional credit cards, which we expect to offset the greater risk associated with the issuance of such cards. See "The Bank—Business Divisions—Retail Banking Division—Specialty Consumer Finance."

Account management fees were Ps.2,776 million (or 16.2% of commissions and fees) for 2006, compared to Ps.2,797 million (or 18.3% of commissions and fees) for 2005, a decrease of Ps.21 million or 0.8%, which was primarily attributable to more competitive pricing on basic account services.

Cash management and fund transfers fees were Ps.2,716 million (or 15.8% of commissions and fees) for 2006, compared to Ps.2,738 million (or 17.9% of commissions and fees) for 2005, a decrease of Ps.22 million, or 0.8%, which reflected the consistent use of cash management services by our corporate clients and a more competitive pricing in cash management services, as well as decrease in remittances fees resulting from increased competition.

Credit card fees, which include merchant fees were Ps.7,080 million (or 41.2% of commissions and fees) for 2006 compared to Ps.5,148 million (or 33.7% of commissions and fees) for 2005, an increase of Ps.1,932 million,

or 37.5%. This increase in credit card fees charged during 2006 was primarily attributable to the issuance of more than 4.1 million new credit cards, a 29.4% increase in credit card billing in 2006 and an increase in the collection of late payment and other collection fees.

Pension fund management fees were Ps.2,449 million (or 14.3% of commissions and fees) for 2006 compared to Ps.2,868 million (or 18.8% of commissions and fees) for 2005, a decrease of Ps.419 million, or 14.6%. This decrease was primarily attributable to new pricing at AFORE Bancomer, our subsidiary in charge of the management of pension funds, which was aimed at making it more competitive and which reduced its fees scheme in September 2006.

Commissions and fees represented 64.5% of non-interest expense for 2006 compared to 61.2% for 2005.

Gains from trading activities were Ps.2,895 million for 2006 compared to a gain of Ps.1,072 million for 2005, an increase of Ps.1,823 million, or 170.1%. The change was primarily attributable to a one time gain obtained from the sale of a hedging position in Mexican government securities. The sale resulted in a gain of Ps. 1,534 million.

Foreign exchange revenues were Ps.962 million for 2006 compared to Ps.1,031 million for 2005, a decrease of Ps.69 million, or 6.7%. This decrease was due to a lower volatility in exchange rates with respect to 2005, which reduced our spreads despite an increase in the volume of transactions.

Non-interest expense

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

	For the years ended December 31,	
	2005	2006
	(millions of constant pesos as of December 31, 2006)	
Salaries and employee benefits	Ps.10,936	Ps.11,442
Administrative and operational expenses	7,708	9,047
Rent, depreciation and amortization	2,919	2,961
Taxes other than income taxes	1,552	1,372
Contribution to IPAB	1,851	1,779
Total non-interest expense	Ps.24,966	Ps.26,601

Non-interest expense was Ps.26,601 million for 2006 compared to Ps.24,966 million for 2005, an increase of Ps.1,635 million, or 6.5%, which was primarily the result of higher administrative and operational expenses, as well as an increase in salaries and employee benefits. Our efficiency ratio, however, improved from 50.0% as of December 31, 2005 to 41.9% as of December 31, 2006. The improvement in our efficiency ratio was the result of a 27.1% increase in net interest income and non-interest income compared to a 6.5% increase of non-interest expense. See “The Bank—Strategy—Improving operating efficiencies and strengthening our core earnings.”

Salaries and employee benefits, the largest component of non-interest expense, was Ps.11,442 million (or 43.0% of non-interest expense) for 2006 compared to Ps.10,936 million (or 43.8% of non-interest expense) for 2005, an increase of Ps.506 million, or 4.6%. This increase was primarily attributable to an increase in salaries. The increase was primarily attributable to an increase in salaries, mainly related to an increase in performance-based compensation and a small increase in the number of full time employees.

Administrative and operational expenses were Ps.9,047 million (or 34.0% of non-interest expense) for 2006 compared to Ps.7,708 million (or 30.9% of non-interest expense) for 2005, an increase of Ps.1,339 million, or

17.4%. This increase was primarily the result of an increase in volumes, such as a 10.9% increase in the number of retail banking transactions and a 42.7% increase in the number of credit cards issued in 2006 compared to 2005.

Rent, depreciation and amortization expenses were Ps.2,961 million (or 11.1% of non-interest expense) for 2006 compared to Ps.2,919 million (or 11.7% of non-interest expense) for 2005, an increase of Ps.42 million, or 1.4%. The increase was primarily the result of an increase in rental rates. Our network grew from 1,718 branches in 2005 to 1,754 branches in 2006.

Taxes other than income taxes were Ps.1,372 million for 2006 compared to Ps.1,552 million for 2005, a decrease of Ps.180 million, or 11.6%, which was primarily attributable to an improvement in the proportion of value-added taxes that are creditable against such value-added taxes actually paid by us.

Contributions to IPAB were Ps.1,779 million for 2006 compared to Ps.1,851 million for 2005, a decrease of Ps.72 million, or 3.9%. This decrease was attributable to a decrease in time deposits and new regulations, effective December 2005, which permitted us to deduct interbank credit operations from the amounts we are required to contribute to the IPAB.

Other income (expense), net

Other income net was Ps.295 million for 2006 compared to an expense of Ps.515 million for 2005, an increase of Ps.811 million. The increase was primarily the result of a one time gain that resulted from the sale of our 25.4% interest in Onexa, S.A. de C.V., or Onexa, a holding company that owns Alestra, S.A. de C.V., or Alestra, a leading provider of domestic and international long distance telecommunications services in Mexico, to Alfa, S.A. de C.V., which indirectly owned 25.6% of Alestra. As a result of the sale of our participation in Alestra, we received U.S.$58.5 million in cash and a warrant under which we share in the potential upside if Alestra enters into any merger, disposition, or acquisition transaction during 2007-2010. We have not recorded any value for this warrant in our financial statements. The sale of our participation in Alestra resulted in a net gain of approximately Ps.405 million. See note 15 to our audited financial statements included elsewhere in this offering memorandum.

Monetary loss

We recorded a net monetary loss of Ps.215 million in 2006 as a result of recognizing the effects of inflation on the net position of our balance sheet compared to a net loss of Ps.443 million for 2005, decrease of Ps.228 million, or 51.5%. This decrease reflected an improvement in our balance sheet with respect to our non-earning-assets, which more than offset a 0.8% increase in inflation.

Current and deferred income tax and employee profit sharing

Current and deferred income tax and employee profit sharing expense was Ps.9,805 million for 2006 compared to Ps.8,333 million for 2005, an increase of Ps.1,473 million, or 17.7%. This increase was primarily attributable to an increase in net income before taxes in 2006.

Share in net income (loss) of unconsolidated subsidiaries and affiliates

Our share of the results of our unconsolidated subsidiaries and affiliates was a gain of Ps.281 million for 2006 compared to a gain of Ps.179 million for 2005, which represents an increase of Ps.102 million or 57.0%. This increase was primarily attributable to the results of Telepeajes Electrónicos, S.A. de C.V., or Telepeajes Electrónicos, a Mexican holding company that owns I + D, S.A. de C.V., an electronic toll-booth operator, which contributed with a gain of Ps.154 million. We acquired 50% of Telepeajes Electrónicos in May 2005 for

U.S.$45.5 million in connection with workout efforts, which we continue to own jointly through a joint venture with an affiliate of a Mexican bank. See "Selected Statistical Information—Other restructuring programs—Corporate banking."

Discontinued operations and extraordinary items

Extraordinary items for 2006 amounted to a loss of Ps.2,607 million, resulting from pending items for amortization related to seniority payments and our pension program. See note 28 of our audited financial statements included elsewhere in this offering memorandum.

Net income

Net income was Ps.17,927 million for 2006 compared to Ps.8,872 million for 2005, an increase of 102.1%, primarily as a result of a number of non-recurring items as described above. Eliminating the one time gain of Ps.2,607 million for discontinued operations and extraordinary items registered in 2006 and the Ps.3,461 million registered in 2005 under the same heading, net income would have increased Ps.8,201 million or 66.5%, primarily as a result of greater volumes in retail banking, and an increase in net interest margin and non-interest income as well as trading income and other income.

Year ended December 31, 2005 compared to year ended December 31, 2004

The annual financial information presented in this section for the years ended December 31, 2004 and 2005 has been derived from our audited financial statements and its notes thereto included elsewhere in this offering memorandum. Such annual financial information is presented in this offering memorandum in constant pesos as of December 31, 2006.

Net interest income

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

	For the years ended December 31,	
	2004	2005
	(millions of constant pesos as of December 31, 2006)	
Interest Income:		
Interest and fees on loans(1)	Ps. 25,223	Ps. 35,229
Interest on FOBAPROA and IPAB Notes	6,068	6,159
Interest on securities	6,536	6,672
Interest on cash and due from banks	3,998	6,828
Interest on repurchase agreements(2)	14,804	14,071
Total interest income	56,629	68,959
Interest Expense:		
Interest on demand deposits	1,257	2,145
Interest on time deposits	10,189	14,059
Interest on repurchase agreements(2)	14,396	14,834
Interest on other short-term loans	2,288	2,261
Interest on funding for rediscounted loans	569	698
Interest on long-term funding	832	925
Total interest expense	29,531	34,922
Monetary gain, net	50	(410)
Net interest income	Ps. 27,148	Ps. 33,627

(1) Interest income includes origination fees on loans of Ps.729 million for 2005 and Ps.738 million for 2004. Under Mexican Banking GAAP, such fees are recorded as income at the time of incurrence and are not amortized over the life of the related loan. Includes interest earned on Special Cetes held in connection with funding the UDI Trusts.

(2) Interest income on repurchase agreements primarily represents interest income on securities purchased under agreements to resell in accordance with Mexican Banking GAAP. Interest expense on repurchase agreements primarily represents interest expense on funds received in connection with securities sold under agreements to repurchase in accordance with Mexican Banking GAAP. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

Net interest income was Ps.33,627 million for 2005 compared to Ps.27,148 million for 2004, an increase of Ps.6,479 million, or 23.9%. The growth in interest income was primarily the result of an increase in interest rates, which was coupled with an increase in retail loan volumes and an improvement in our funding cost structure.

We recorded a net monetary loss of Ps.410 million for 2005 compared to Ps.50 million gain for 2004, a decrease of Ps.460 million. This decrease was primarily the result of a change in our earning asset monetary position, which was offset by a lower inflation rate during 2005.

In terms of margins, the difference between the interest rate we charged on average interest-earning assets of 10.2% and the interest rate paid on average interest-bearing liabilities of 5.8% resulted in a yield spread of 4.5% for 2005, compared to a yield spread of 3.7% for 2004.

Interest income

Interest income was Ps 68,959 million for 2005 compared to Ps.56,629 million for 2004, an increase of Ps.12,330 million, or 21.8%. This increase was primarily attributable to an increase in the average return on interest earning assets, which reflected higher interest rates and an increase in retail loan volumes. In 2005, the Cetes rate averaged 9.2%, 240 basis points greater than the 6.8% average rate recorded during 2004.

Interest and fees on loans was Ps.35,229 million (or 51.1% of interest income) for 2005 compared to Ps.25,223 million (or 44.5% of interest income) for 2004, an increase of Ps.10,006 million, or 39.7%. This increase was primarily the result of a greater contribution of loan revenues, which resulted from a 39.7% increase in the size of our performing loan portfolio (primarily consumer and mortgage loans).

Interest on FOBAPROA and IPAB Notes was Ps.6,159 million (or 8.9% of interest income) for 2005 compared to Ps.6,068 million (or 10.7% of interest income) for 2004, an increase of Ps.91 million. This increase was primarily the result of an increase in market interest rates, which was reflected in the rate paid by the floating rate-based FOBAPROA and IPAB Notes. This increase was offset by the prepayment of the FOBAPROA and IPAB Notes in the third and fourth quarter of 2005. See note 28 of the audited financial statements of 2005.

Interest on repurchase agreements was Ps.14,071 million (or 20.4% of interest income) for 2005 compared to Ps.14,804 million (or 26.1% of interest income) for 2004, a decrease of Ps.733 million, or 5.0%. Interest income on securities purchased under agreements to resell decreased as a result of a decrease in the volume of repurchase agreements with customers.

Interest on cash and due from banks was Ps.6,828 million (or 9.9% of interest income) for 2005 compared to Ps.3,998 million (or 7.1% of interest income) for 2004, an increase of Ps.2,830 million or 70.8%. The increase was primarily the result of an increase in interest rates and an increase in the volume of our regulatory deposits.

Interest expense

Interest expense was Ps.34,922 million for 2005 compared to Ps.29,531 million for 2004, an increase of Ps.5,391 million, or 18.3%. This increase was primarily attributable to an increase in interest rates and volume in time deposits.

Interest on time deposits was Ps.14,059 million (or 40.3% of interest expense) for 2005, compared to Ps.10,189 million (or 34.5% of interest expense) for 2004, an increase in time deposits of Ps.3,870 million or 38.0%. This increase was primarily the result of an increase in interest rates and volume. In 2005, we substantially improved our funding cost structure by increasing the proportion of our demand deposits from 49.4% in 2004 to 58.7% in 2005, while our time deposits decreased from 50.6% in 2004 to 41.3% in 2005.

Interest on repurchase agreements was Ps.14,834 million (or 42.5% of interest expense) for 2005 compared to Ps.14,396 million (or 48.7% of interest expense) for 2004, an increase of Ps.438 million, or 3.0%. This increase was primarily the result of an increase in interest rates, as we had a relatively stable level of transaction volumes with customers of securities sold under agreements to repurchase.

Provisions

Provisions for loan losses charged against earnings were Ps.3,312 million for 2005 compared to Ps.2,354 million for 2004, an increase of Ps.958 million, or 40.7%. This increase was primarily the result of an increase in the size of our loan portfolio, an increase in the required provisioning levels for consumer loans and the implementation of a new methodology for the classification of mortgage loans. Of this Ps.958 million increase, approximately Ps.517 million was attributable to the transfer of credits from Hipotecaria Nacional to us, as the transfer was made at market value and we had to recognize the necessary reserves in our books.

Provisions for loan losses charged against stockholders' equity were Ps.6,227 million in 2004 due to a one-time charge resulting from the implementation of new regulations issued by the CNBV. No provisions for loan losses charged against stockholders' equity were made in 2005. See note 12 to our audited financial statements included elsewhere in this offering memorandum.

Non-interest income

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

	For the years ended December 31,	
	2004	2005
	(millions of constant pesos as of December 31, 2006)	
Commissions and Fees:		
Account management	Ps. 2,901	Ps. 2,797
Cash management and fund transfers	2,657	2,738
Credit card	3,974	5,148
ATMs(1)	701	719
Pension fund management	2,819	2,868
Trust	58	32
Mutual fund management(1)	356	319
Insurance(1)	623	791
Other	(93)	(137)
Total commissions and fees	13,996	15,275
Trading Income:		
Foreign exchange	785	1,031
Realized gains (loss) on securities	(1,700)	(572)
Unrealized gains (loss) on securities	818	613
Total trading income (loss), net	(97)	1,072
Total non-interest income	Ps. 13,899	Ps. 16,347

(1) These are services provided through our affiliates.

Non-interest income was Ps.16,347 million for 2005 compared to Ps.13,899 million for 2004, an increase of Ps.2,448 million, or 17.6%. This increase primarily reflected an increase in commissions and fees from credit cards and debit cards, primarily because the issuance of more than 2.9 million new credit cards. Additionally, we obtained higher profits in foreign exchange transactions.

Commissions and fees were Ps.15,275 million for 2005 compared to Ps.13,996 million for 2004, an increase of Ps.1,279 million, or 9.1%. This increase primarily resulted from a 9.9% increase in the number of transactions processed in 2005.

Account management fees were Ps.2,797 million (or 18.3% of commissions and fees) for 2005, compared to Ps.2,901 million (or 20.7% of commissions and fees) for 2004, a decrease of Ps.104 million or 3.6%, which was primarily attributable to more competitive pricing on basic account services as the number of checking accounts increased approximately 3% in 2005 as compared to 2004, while the number of savings accounts increased approximately 11% in the same period.

Cash management and fund transfers fees were Ps.2,738 million (or 17.9% of commissions and fees) for 2005, compared to Ps.2,657 million (or 19.0% of commissions and fees) for 2004, an increase of Ps.81 million, or 3.0%, which was primarily attributable to greater use of cash management services by our corporate clients.

Credit card fees, which include merchant fees, were Ps.5,148 million (or 33.7% of commissions and fees) for 2005 compared to Ps.3,974 million (or 28.4% of commissions and fees) for 2004, an increase of Ps.1,174 million, or 29.5%. The increase in credit card fees was primarily attributable to the issuance of more than 2.9 million new credit cards and a 32.9% increase in total credit card billings.

Pension fund management fees were Ps.2,868 million (or 18.8% of commissions and fees) for 2005 compared to Ps.2,819 million (or 20.1% of commissions and fees) for 2004, an increase of Ps.49 million, or 1.7%. This small increase reflected larger transaction volumes, but with a strong competition in the pension fund market.

Commissions and fees represented 61.2% of non-interest expense for 2005 which compared to 62.9% for 2004 represented a lightly decrease of 1.7%.

Trading income was a gain of Ps.1,072 million for 2005 compared to a loss of Ps.97 million for 2004. The change from a loss to a gain was a result of lower losses on sales of trading securities of Ps.572 million for 2005 compared to losses of Ps.1,700 million for 2004. Trading income was also affected by a loss resulting from the sale in 2005 of our 25.4% interest in Hoteles Presidente in connection with our work out strategy related to such investment in the equity of Hoteles Presidente. Our investment in Hoteles Presidente originated when GFBB was owned and managed by the Mexican government.

Foreign exchange revenues were Ps.1,031 million for 2005 compared to Ps.785 million for 2004, an increase of Ps.246 million, or 31.3%, which was primarily attributable to a larger volume of foreign currency transactions conducted through our retail network.

Non-interest expense

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

	For the years ended December 31,	
	2004	**2005**
	(millions of constant pesos as of December 31, 2006)	
Salaries and employee benefits	Ps. 9,704	Ps. 10,936
Administrative and operational expenses	6,731	7,708
Rent, depreciation and amortization	2,802	2,919
Taxes other than income taxes	1,220	1,552
Contribution to IPAB	1,791	1,851
Total non-interest expense	Ps. 22,248	Ps. 24,966

Non-interest expense was Ps.24,966 million for 2005 compared to Ps.22,248 million for 2004, an increase of Ps.2,718 million, or 12.2%, which was primarily the result of higher administrative and operational expenses, as well as an increase in salaries and employee benefits. Despite this increase in non-interest expense our efficiency ratio improved from 54.2% as of December 31, 2004 to 50.0% as of December 31, 2005.

Salaries and employee benefits, the largest component of non-interest expense, was Ps.10,936 million (or 43.8% of non-interest expense) for 2005 compared to Ps.9,704 million (or 43.6% of non-interest expense) for 2004, an increase of Ps.1,232 million, or 12.7%. This increase was the result of a 1.0% increase in the number of employees and an increase in compensation levels.

Administrative and operational expenses were Ps.7,708 million (or 30.9% of non-interest expense) for 2005 compared to Ps.6,731 million (or 30.3% of non-interest expense) for 2004, an increase of Ps.977 million, or 14.5%. This increase was to a great extent due to larger business volumes. In 2005, we reordered a 10.0% increase in the number of retail banking transactions, with total credit card billings of Ps.107,406 million during 2005, or an increase of 32.9% with regards to 2004.

Taxes other than income taxes were Ps.1,552 million for 2005 compared to Ps.1,220 million for 2004, an increase of Ps.332 million, or 27.2%. This increase was primarily attributable to an increase in operating

expenses that generate value-added taxes, and a decrease in the proportion of value-added taxes that are creditable against such value-added taxes actually paid by us.

Rent, depreciation and amortization expenses were Ps.2,919 million (or 11.7% of non-interest expense) for 2005 compared to Ps.2,802 million (or 12.6% of non-interest expense) for 2004, an increase of Ps.117 million, or 4.2%. The increase was the result of the opening of 47 new branches in 2005.

Contributions to IPAB were Ps.1,851 million for 2005 compared to Ps.1,791 million for 2004, an increase of Ps.60 million, or 3.4%. This increase was primarily the result of an increase in the deposits that are subject to deposit insurance.

Monetary loss

We recorded a net monetary loss of Ps.443 million in 2005 compared to a net loss of Ps.1,096 million for 2004 in connection with the recognition of the effects of inflation on our balance sheet, a decrease of Ps.652 million, or 59.6%. This decrease was primarily the result of higher inflation registered in 2004 (5.2% against 3.3% registered in 2005). This decrease reflected an improvement in our balance sheet with respect to the net position of our non-interest earning-assets and non-interest-bearing liabilities, which more than offset a 2.9% increase in inflation.

Current and deferred income tax and employee profit sharing

Current and deferred income tax and employee profit sharing was an expense of Ps.8,333 million for 2005 compared to Ps.5,801 million for 2004, an increase of Ps.2,532 million, or 43.6%, primarily as a result of an increase in net income and the reversal of a deductible temporary difference related to the repayment of the FOBAPROA and IPAB Notes.

Current taxes were Ps.505 million for 2005 compared to Ps. 542 million for 2004, a decrease of Ps. 37 million or 6.8%.

Deferred income tax was Ps.7,828 million for 2005 compared to Ps.5,258 million for 2004, an increase of Ps.2,570 million, or 48.9%. The increase was primarily the result of (1) employee profit sharing in deferred income; (2) an adjustment due to inflation; (3) the deduction of a preventive estimate for loan risks not exceeding 2.5% of our average annual loan portfolio; (4) the valuation of financial instruments; and (5) the decrease in the amount of the reserve associated with our IPAB Note loss-sharing contingency once the IPAB Notes were repaid. See note 24 to our financial statements included elsewhere in this offering memorandum.

Share in net income (loss) of unconsolidated subsidiaries and affiliates

Our share of the results of our unconsolidated subsidiaries and affiliates was a gain of Ps.179 million for 2005 compared to a loss of Ps.83 million for 2004, an increase of Ps.262 million. The loss recorded in 2004 was primarily attributable to the loss incurred by Servicio Panamericano de Protección, S.A. de C.V., or Servicio Panamericano, an armored vehicle transportation company.

Discontinued operations and extraordinary items

Extraordinary items for 2005 amounted to a loss of Ps.3,461 million compared to a loss of Ps.2,367 for 2004, an increase of Ps.1,094 million or 46.2%. The increase was mainly the result of (1) the early amortization of the transition asset derived from the first implementation of postretirement medical benefits of Ps.1,269 million; (2) the recognition of the liability for remuneration paid at the end of the employment relationship for reasons other than restructuring of Ps.1,043 million; (3) the recognition of certain real estate property at appraisal value which resulted in a loss compared to book value of Ps.1,037 million, allowing us to

anticipate any future loss when those properties were actually sold; and (4) an audit by the IPAB of certain loans under the FOBAPROA program which resulted in a one-time payment by us to the IPAB.

Net income

Net income was Ps.8,872 million for 2005 compared to Ps.6,029 million for 2004, an increase of Ps.2,843 million, or 47.2%, largely as a result of the net interest income growth, in turn due to stronger lending activity.

Financial Position

The following discussion compares our consolidated financial position as of December 31, 2004, December 31, 2005 and December 31, 2006. In this section the annual financial information as of December 31, 2004 and as of December 31, 2005 is presented in constant pesos with purchasing power as of December 31, 2006. As a result of Mexican inflation during the year of 2006, one peso of December 31, 2004 purchasing power is equal to 1.071926 pesos of December 31, 2006 purchasing power and one peso of December 31, 2005 purchasing power is equal to 1.041628 pesos of December 31, 2006 purchasing power.

Assets

As of December 31, 2006, we had total assets of Ps.602,770 million, compared to Ps.568,095 million as of December 31, 2005, representing an increase of 6.1%. This increase was attributable to a 25.8% increase in our total performing loan portfolio, primarily related to increased mortgage, consumer and middle-market lending.

As of December 31, 2005, we had total assets of Ps.568,095 million, a decrease of 4.9% compared to Ps.597,230 million as of December 31, 2004. The decrease was primarily attributable to a decrease in the amount of securities held for sale.

As of December 31, 2004, we had total assets of Ps.597,230 million, an increase of 6.5% compared to Ps.560,487 million as of December 31, 2003. The increase was primarily attributable to a 16.4% increase in our total performing loan portfolio, primarily related to increased consumer and middle-market lending.

Total performing loans

As of December 31, 2006, we had total performing loans of Ps.363,469 million compared to Ps.288,860 million as of December 31, 2005, an increase of 25.8%. This increase was primarily the result of 49% increase in mortgage loans and 39.9% increase in consumer loans. Performing commercial loans represented 26.6% of total loans as of December 31, 2006, performing consumer loans represented 28.9% of total loans, performing mortgage loans represented 29.6% of total loans and performing loans to the Mexican government represented 10.5% of total loans.

We had total performing loans of Ps.288,860 million as of December 31, 2005, compared to Ps.225,230 million as of December 31, 2004 an increase of 28.3%. This increase was the result of greater loan origination. Performing commercial loans represented 28.8% of total loans as of December 31, 2005, performing consumer loans represented 26.1% of total loans, performing mortgage loans represented 25.1% of total loans, and performing loans to the Mexican government represented 14.4% of total loans.

We had total performing loans of Ps.225,230 million as of December 31, 2004 compared to Ps.193,498 million as of December 31, 2003, an increase of Ps.31,732 million, or 16.4%. This increase was primarily the result of an increase in consumer and middle-market loans. Performing commercial loans represented 37.2% of total loans as of December 31, 2004, performing consumer loans represented 19.2% of total loans, performing mortgage loans represented 17.6% of total loans and performing loans to the Mexican government represented 19.3% of total loans.

Total non-performing loans

As of December 31, 2006 we had total non-performing loans of Ps.8,150 million compared to Ps.5,128 million as of December 31, 2005, an increase of Ps.3,022 million. This increase was the result of greater loan origination, primarily due to a 49% increase in mortgage loans and 39.9% in consumer loans. As of December 31, 2006, non-performing mortgage loans represented 0.7% of total loans, non-performing consumer loans represented 1.4% of total loans; non-performing commercial loans represented 0.1% of total loans and non-performing loans to financial entities did not represent any of our total loans.

We had total non-performing loans of Ps.5,128 million as of December 31, 2005 compared to Ps.4,954 million as of December 31, 2004, an increase of Ps.174 million. As of December 31, 2005, non-performing mortgage loans represented 0.8% of total loans; non-performing consumer loans represented 0.7% of total loans; non-performing commercial loans represented 0.3% of total loans; and non-performing loans to financial entities did not represent any of our total loans.

We had total non-performing loans of Ps.4,954 million as of December 31, 2004 compared to Ps.7,279 million as of December 31, 2003, a decrease of Ps.2,326 million. This decrease reflects the results of our risk management efforts to reduce the amount of non-performing loans in our loan portfolio. As of December 31, 2004, non-performing mortgage loans represented 1.4% of total loans, non-performing consumer loans represented 0.5% of total loans, non-performing commercial loans represented 0.2% of total loans and non-performing loans to financial entities did not represent any of our total loans.

Deferred taxes, net

Our net deferred taxes were Ps.4,720 million for 2006 compared to Ps.9,617 million for 2005. This decrease was primarily attributable to the reduction in tax loss carryforwards as a result of the deductions made to the employee pension plan and seniority bonus, as well as by losses in connection with our sales of securities.

Liabilities

We had total liabilities of Ps.532,183 million as of December 31, 2006 compared to Ps.504,077 million as of December 31, 2005, as explained below.

We had total liabilities of Ps.504,077 million as of December 31, 2005 compared to Ps.538,924 million as of December 31, 2004, a decrease of Ps.34,847 million. This decrease was primarily attributable to lower interbank loans and loans from other entities.

Deposits

As of December 31, 2006 we had total deposits of Ps.403,993 million compared to Ps.396,010 million as of December 31, 2005, an increase of Ps.7,983 million. This increase was primarily the result of an increase of deposits by mutual funds, which grew Ps.34,313 million or 32.1% in client assets.

We had total deposits of Ps.396,010 million as of December 31, 2005 compared to Ps.429,769 million as of December 31, 2004, a decrease of Ps.33,759. Demand deposits grew 9.8%, but time deposits decreased 25% due to a change in our funding mix from time deposits to repurchase agreements and mutual funds in order to eliminate the deposit insurance payable to IPAB in connection with such deposits.

We had total deposits of Ps.429,769 million as of December 31, 2004 compared to Ps.410,082 million as of December 31, 2003, an increase of Ps.19,687 million, or 4.8%. This increase was primarily attributable to an increase of Ps.11,337 million, or 5.5%, in time deposits and an increase of Ps.8,350 million, or 4.1%, in demand deposits.

As of December 31, 2006, we had issued approximately Ps.14,600 million of "*Certificados Bursátiles,*" which we record as time deposits. See "—Liquidity and Funding" for a description of the "*Certificados Bursátiles*."

Interbank loans and loans from other entities

We had interbank loans and loans from other entities of Ps.24,744 million as of December 31, 2006 compared to Ps.54,388 million as of December 31, 2005. This decrease was the result of a decrease in payable on demand loans and short-term loans. Interbank loans and loans from other entities represented 4.6% of total liabilities as of December 31, 2006.

We had interbank loans and loans from other entities of Ps.54,388 million as of December 31, 2005 compared to Ps.74,839 million as of December 31, 2004. This decrease was the result of a decrease in short-term loans. Interbank loans and loans from other entities represented 10.8% of total liabilities as of December 31, 2005.

We had interbank loans and loans from other entities of Ps.74,839 million as of December 31, 2004 compared to Ps.64,246 million as of December 31, 2003, an increase of Ps.10,593 million, or 16.5%. Interbank loans and loans from other entities represented 15.0% of total liabilities as of December 31, 2004 compared to 12.1% as of December 31, 2003.

Subordinated debt

On September 30, 2006, we issued the 2014 Debentures at TIIE plus 0.30%, payable every 28 days and maturing on September 18, 2014. At December 31, 2006, the 2014 Debentures represented 0.5% of our total liabilities.

On July 22, 2005, we issued the 2015 Notes. Initially, the 2015 Notes bear interest at an annual fixed rate of 5.3795%, payable semiannually, and beginning on July 22, 2010 will bear interest at an annual rate of Libor plus 1.95%, payable quarterly. The 2015 Notes mature on July 22, 2015.

Stockholders' equity

As of December 31, 2006 our stockholders´ equity was Ps.70,588 million compared to Ps.64,018 million as of December 31, 2005 an increase of Ps.6,570 million or 10.3%. This increase was a result of increased retained earnings.

Our stockholders' equity was Ps.64,018 million as of December 31, 2005 compared to Ps.58,306 million as of December 31, 2004. The increase was a result of higher retained earnings. Stockholders' equity represented 11.3% of our total assets as of December 31, 2005.

Our stockholders' equity was Ps.58,306 million as of December 31, 2004 compared to Ps.60,141 million as of December 31, 2003, a decrease of Ps.1,835 million, or 3.0%. The main component of this decrease was the application of new regulations related to the classification of our loan portfolio. See note 4 of our audited financial statements included elsewhere in this offering memorandum.

Liquidity and Funding

The purpose of liquidity management is to ensure that we have funds available to meet our present and future financial obligations and to respond to business opportunities as they arise. Liquidity needs arise from withdrawals of deposits, repayments on maturity of borrowed funds, extensions of loans or other forms of credit and working capital needs.

We have three principal sources of peso funding: (1) customer deposits, which are highly concentrated in interest bearing demand deposits, (2) *pagarés bancarios*, which are short-term promissory notes and (3) repurchase agreements. The high concentration of interest bearing demand deposits as compared with term obligations reflects public demand for highly liquid deposit instruments with high yields as a result of Mexico's long history of high inflation. Our policy is to price our assets based upon our highest cost source of funds both to ensure that loan pricing reflects our current liquidity conditions and to maximize net interest income.

Customer deposits are our most important funding source and are also our least expensive one. *Pagarés bancarios* are generally issued to meet our short-term funding needs; we seek to replace them with deposits as soon as practical. *Pagarés bancarios* are generally issued with maturities ranging from one to 128 days. As of December 31, 2006, we had Ps.403,993 million (75.9% of total funding) of total deposits.

In the future, we expect to continue using all three funding sources in accordance with their availability, their cost, and our asset and liability management needs. We are aware of the liquidity risk represented by the short-term nature of our funding sources; however, we believe we can respond to a liquidity problem by increasing the interest rates we pay on deposits, by altering our mix of funding sources and by liquidating our short-term assets. We review our pricing policy daily and we believe we are able to reflect higher costs of funding in the pricing of our loans quickly, reducing the effect of any increases in interest paid on deposits as a result of decreased liquidity on our results of operations.

We complement our medium and long-term peso funding by issuing securities in the Mexican market. In November 2006, we established a Ps.20,000 million program for the issuance of "*Certificados Bursátiles*" in Mexico. The "*Certificados Bursátiles*" program provides for the issuance of peso or UDI denominated notes with tenors of up to 35 years. As of the date of this offering memorandum, we issued approximately Ps.14,550 million of notes under the program, of which approximately Ps.6,000 million was denominated in pesos and approximately Ps.8,550 million was denominated in UDIs. In addition, in September 2006, we issued subordinated notes in the Mexican market in the amount of Ps.2,500 million. The subordinated notes have an 8-year term.

The funding for our UDI Trusts is provided by UDI-denominated deposits from the Mexican government. In return, we purchased from the Mexican government Special Cetes having an interest rate based on the Cetes rate and maturities and principal amounts that mirror the maturities and the principal amount of the loans in the UDI Trusts. The Special Cetes pay interest in cash only as the loans in the UDI Trusts mature. The Mexican government's UDI-denominated deposits have a fixed real interest rate, which varies depending on the type of loan in the UDI Trusts. We have complemented our UDI funding by issuing "*Certificados Bursátiles*" as described above.

Our foreign-currency denominated assets, substantially all of which are dollar denominated, are funded from a number of sources. These sources include deposits of the same currency obtained from various sources, primarily through deposits of private banking customers, medium and large Mexican companies, primarily in the export sector, the placement of certificates of deposit in the Eurodollar market, interbank deposits, fixed-rate notes and subordinated debentures and asset securitizations. In the case of foreign trade transactions, we use trade financing facilities from Mexican development banks and foreign export-import banks. Foreign currency funding rates are generally based on the London Interbank Offered Rate, or LIBOR.

Our management expects that cash flow from operations and other sources of liquidity, including the net proceeds of this offering will be sufficient to meet our liquidity requirements over the next 12 months, including our expected 2007 capital expenditures discussed below.

Foreign Currency Position

Banco de Mexico regulations require that a bank maintain open positions in foreign currencies no higher than a specified level with respect to its total Tier 1 capital. As of December 31, 2006, our foreign currency-denominated assets, including derivative transactions, totaled U.S.$25.7 billion (Ps.278,283 million). At that date, our foreign currency-denominated liabilities, including derivative transactions, totaled to U.S.$25.9 billion

(Ps.279,605 million), representing 52.5% of our total liabilities. See "Selected Statistical Information—Interest-Bearing Deposits with Other Banks." As part of our asset liability management strategy, we monitor closely our exposure to foreign currencies, with a view to minimizing the effect of exchange rate movements on our income.

As of December 31, 2006, we are also in compliance with the limit established for us by Banco de Mexico for maturity-adjusted net foreign currency-denominated liabilities, which was U.S.$10.9 billion (Ps.117,959 million). As of such date, our maturity-adjusted net foreign currency-denominated liabilities were U.S.$1.6 billion (Ps.17,754 million). For a discussion of the components of Tier 1 and Tier 2 capital, see "Supervision and Regulation."

For the years ended December 31, 2004, 2005, and 2006 we were in compliance with all regulatory requirements relating to the ratio of dollar-denominated liabilities to total liabilities.

Capital Expenditures

In the past two years, capital expenditures have primarily consisted of maintenance, renewal and acquisition of infrastructure and software. During 2006, we made capital expenditures in an aggregate amount of U.S.132.2 million, which primarily consisted of new ATMs, new point-of-sale terminals and the opening of new branches. These expenditures were funded with cash generated from our operations and other sources of liquidity. We expect to maintain capital expenditures for each of 2007 and 2008 consistent with the types of expenditures in 2006, and our total capital expenditures are expected to be approximately between U.S.$140 million and U.S.$150 million for each year. We intend to fund such capital expenditures with our own cash flow.

Risk-Based Capital

Pursuant to the Mexican Capitalization Requirements, we are required to maintain specified levels of net capital on an unconsolidated basis as a percentage of risk-weighted assets and credit risk. The Rules for Capitalization and the Mexican Capitalization Rules set forth the methodology to determine the net capital required relative to market risk and risk-weighted assets. See "Supervision and Regulation—Capitalization." Those regulations provide that (1) our investment in subsidiaries that are related to us in accordance with Article 73 of the Mexican Banking Law, (2) our investment in subsidiaries that do not operate in the financial sector, and (3) revaluation surpluses related to the investments referred to in (1) and (2) above, must be subtracted from the calculation of Tier 1 capital. The minimum Capital Ratio required by the Mexican Capitalization Requirements in order not to be required to defer or cancel interest payments or defer principal payments of our subordinated debt that qualifies to be computed as part of our total net capital, such as the Notes, is 8.0%. As of December 31, 2006, our capital ratio was 15.19%. The tables below present our risk-weighted assets and Capital Ratios as of December 31, 2005 and 2006, determined, as required by regulations, on an unconsolidated basis.

	As of December 31,	
	2005	2006
	(millions of constant pesos as of December 31, 2006)	
Tier 1	Ps. 58,523	Ps. 69,190
Tier 2	5,865	5,500
Total capital	Ps. 64,388	Ps. 74,690
Risk-weighted assets:		
Credit risk	281,282	353,714
Credit and market risk	440,368	495,410
Capital ratios (credit and market risk)(1):		
Tier 1 capital to risk-weighted assets	13.29%	13.97%
Tier 2 capital to risk-weighted assets	1.33%	1.11%
Total capital to risk-weighted assets	14.62%	15.08%

(1) The difference between the capital ratios presented in this table and the capital ratios presented in note 25 to the audited financial statements included elsewhere in this offering memorandum is attributable to the fact that the capital ratios presented in this table are based on numbers furnished to the CNBV after the issuance of such financial statements.

After giving effect to the completion of this offering, and the application of the proceeds of the Notes, we expect that our Tier 1 capital will increase by Ps.5,161 million and our Tier 2 capital will increase by Ps.9,208 million.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to a number of off-balance sheet activities that contain credit, market and operational risk that are not reflected in our consolidated financial statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit, and long-term contractual obligations under operating leases or service contracts. We record our off-balance sheet arrangements as memorandum accounts, which are described more fully in note 29 to our audited financial statements included elsewhere in this offering memorandum.

We provide customers with off-balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. These loan commitments totaled Ps.11,133 million as of December 31, 2006 and Ps.7,918 million as of December 31, 2005.

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness. We may also require comfort letters and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is required when appropriate.

SELECTED STATISTICAL INFORMATION

The following information should be read in conjunction with "Presentation of Certain Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements, together with the notes thereto, included elsewhere in this offering memorandum. The selected statistical information included in this offering memorandum as of December 31, 2004, December 31, 2005 and December 31, 2006 includes full year information for BBVA Bancomer USA (formerly Valley Bank), since Valley Bank was acquired on October 7, 2004.

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

Unless otherwise indicated, annual financial information in the following tables is presented in constant pesos as of December 31, 2006.

Because Mexican tax law does not currently provide income tax exemptions for any investment securities, we do not hold any income tax-exempt investment securities and no tax-equivalence adjustments are considered necessary.

The loan portfolio information provided in this "Selected Statistical Information" was determined in accordance with the manner in which we have presented the components of our loan portfolio elsewhere in this offering memorandum, except that the loan portfolio data presented under this "Selected Statistical Information" does not include amounts attributable to accrued interest, which as of December 31, 2006 represented less than 1.0% of our total loan portfolio.

Presentation of Selected Statistical Information

Presentation of the financial and statistical information included in this "Selected Statistical Information" may differ from the manner of presentation required by Mexican Banking GAAP for the presentation of our financial statements. For example, in this "Selected Statistical Information," instruments receivable and instruments deliverable from repurchase and reverse repurchase agreements are netted and presented under government securities or investment securities amounts due or owing in respect of reverse repurchase debtors and repurchase creditors are presented as part of assets and liabilities, respectively. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

Average Balance Sheet and Interest Rate Data

Peso-denominated average balances and interest income

Average balances for our peso-denominated assets and liabilities have been calculated in the following manner. For each month, an average of the daily peso balances was determined. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months.

For our consolidated subsidiaries, average balances have been calculated on the basis of the average of month-end balances.

Foreign currency-denominated and UDI-denominated average balances and interest income

Average balances and interest income (expense) for our foreign currency-denominated and UDI-denominated assets and liabilities have been translated into pesos and calculated in the following manner. For each month, an average of the daily foreign currency or UDI balances and of the interest income 4e(expense) was determined. Such

daily average balances and interest income (expense) are converted into pesos using the closing exchange rate for the applicable month as published by Banco de Mexico in the Official Gazette of Mexico. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months so determined.

For our consolidated subsidiaries, average balances have been calculated on the basis of the average of month-end balances.

Average interest rate

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

Average assets and interest rates

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

	For the years ended December 31,								
	2004			2005			2006		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
	(Millions of constant pesos as of December 31, 2006, except percentages)								
Deposits in banks:									
Pesos	Ps. 50,129	Ps. 3,457	6.90%	Ps. 59,094	Ps. 5,504	9.31%	Ps. 67,386	Ps. 4,982	7.39%
Foreign currency	24,750	330	1.33%	30,756	1,084	3.52%	24,616	1,000	4.06%
Subtotal	74,879	3,787	5.06%	89,850	6,588	7.33%	92,002	5,982	6.50%
Government securities:									
Pesos	121,276	8,822	7.27%	162,408	12,617	7.77%	147,391	7,416	5.03%
UDIs	4,655	536	11.51%	3,423	295	8.62%	9,253	775	8.38%
Foreign currency	21,171	1,229	5.81%	13,201	816	6.18%	14,519	731	5.03%
Subtotal	147,102	10,587	7.20%	179,032	13,728	7.67%	171,163	8,922	5.21%
Investment in other fixed income securities:									
Pesos	14,175	1,047	7.39%	5,565	458	8.23%	4,030	304	7.54%
UDIs	13	—	0.00%	920	11	1.20%	805	13	1.61%
Foreign currency	2,043	111	5.43%	1,700	114	6.71%	1,264	89	7.04%
Subtotal	16,231	1,158	7.13%	8,185	583	7.12%	6,099	406	6.66%
Loans:(1)									
Pesos	130,532	20,868	15.99%	188,766	36,148	19.15%	261,018	48,821	18.70%
UDIs	42,622	3,657	8.58%	28,744	2,537	8.83%	42,128	2,920	6.93%
Foreign currency	35,819	1,525	4.26%	33,357	2,242	6.72%	31,585	2,380	7.54%
FOBAPROA and IPAB Notes (pesos)	120,143	7,867	6.55%	104,447	5,792	5.55%	31,280	1,400	4.48%
Subtotal	329,116	33,917	10.31%	355,314	46,719	13.15%	366,011	55,521	15.17%
Securities purchased under agreements to resell:									
Pesos	70,496	4,695	6.66%	22,018	1,991	9.04%	23,287	1,739	7.47%
Subtotal	70,496	4,695	6.66%	22,018	1,991	9.04%	23,287	1,739	7.47%
Other interest-earning assets:									
Pesos	3,726	267	7.17%	4,059	292	7.19%	4,985	337	6.76%
Subtotal	3,726	267	7.17%	4,059	292	7.19%	4,985	337	6.76%
Total interest-earning assets:									
Pesos	510,477	47,023	9.21%	546,357	62,802	11.49%	539,377	64,999	12.05%
UDIs	47,290	4,193	8.87%	33,087	2,843	8.59%	52,186	3,708	7.11%
Foreign currency	83,783	3,195	3.81%	79,014	4,256	5.39%	71,984	4,200	5.83%
Subtotal	641,550	54,411	8.48%	658,458	69,901	10.62%	663,547	72,907	10.99%

	For the years ended December 31,								
	2004			2005			2006		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
	(Millions of constant pesos as of December 31, 2006, except percentages)								
Equity investment:									
Pesos	5,482			5,474			3,961		
Foreign currency	990			318			46		
Subtotal	6,472			5,792			4,007		
Cash and due from banks:									
Pesos	8,452			9,610			11,951		
Foreign currency	1,329			1,223			1,103		
Subtotal	9,781			10,833			13,054		
Allowance for loan losses:									
Pesos (includes UDIs)	(9,246)			(11,105)			(12,986)		
Foreign currency	(2,677)			(1,966)			(1,220)		
FOBAPROA and IPAB Notes (Pesos)	(31,935)			(31,702)			(10,815)		
Subtotal	(43,858)			(44,773)			(25,021)		
Premises and equipment:									
Pesos	16,097			14,871			13,616		
Foreign currency	78			116			158		
Subtotal	16,175			14,987			13,774		
Other non interest—earning assets:									
Pesos	27,114			30,887			31,683		
UDIs	241			954			310		
Foreign currency	3,452			4,221			1,176		
Subtotal	30,807			36,062			33,169		
Total Assets:									
Pesos	540,054	47,023	8.71%	577,642	62,802	10.87%	590,584	64,999	11.01%
UDIs	33,918	4,193	12.36%	20,791	2,843	13.67%	38,699	3,708	9.58%
Foreign currency	86,955	3,195	3.67%	82,926	4,256	5.13%	73,247	4,200	5.73%
Total	Ps. 660,927	Ps. 54,411	8.23%	Ps. 681,359	Ps. 69,901	10.26%	Ps. 702,530	Ps. 72,907	10.38%

(1) Interest income includes fees on loans of Ps.2,148 million in 2004, Ps.2,371 million in 2005, Ps.4,376 million in 2006, which have been included in interest income on a current basis and are not deferred and subsequently amortized. Fees on loans include origination fees and credit card annual fees. Under Mexican Banking GAAP, such fees are recorded as income at the time of incurrence and are not amortized over the life of the related loan, as would be required under U.S. GAAP.

Average liabilities, stockholders' equity and interest rates

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

	For the years ended December 31,								
	2004			2005			2006		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
	(Millions of constant pesos as of December 31, 2006, except percentages)								
Demand deposits (checking accounts):									
Pesos	Ps. 68,614	Ps. 710	1.03%	Ps. 70,198	Ps. 1,209	1.72%	Ps. 74,826	Ps. 1,178	1.57%
Foreign currency	32,638	259	0.79%	31,632	546	1.73%	31,443	488	1.55%
Subtotal	101,252	969	0.96%	101,830	1,755	1.72%	106,269	1,666	1.57%
Saving deposits:									
Pesos	56,542	308	0.54%	60,977	323	0.53%	67,621	352	0.52%
Foreign currency	6	—	0.00%	6	—	0.00%	6	—	0.00%
Subtotal	56,548	308	0.54%	60,983	323	0.53%	67,627	352	0.52%
Time deposits:									
Pesos	184,940	9,254	5.00%	190,594	13,368	7.01%	157,378	9,822	6.24%
UDIs	79	3	3.80%	—	—	0.00%	75	3	4.00%
Foreign currency	8,988	105	1.17%	9,669	260	2.69%	7,862	340	4.32%
Subtotal	194,007	9,362	4.83%	200,263	13,628	6.81%	165,315	10,165	6.15%
Short-term borrowings:									
Pesos	23,302	1,608	6.90%	18,201	1,742	9.57%	22,528	1,655	7.35%
Foreign currency	4,560	101	2.21%	4,115	167	4.06%	4,596	240	5.22%
Subtotal	27,862	1,709	6.13%	22,316	1,909	8.55%	27,124	1,895	6.99%
Long-term debt:									
Pesos	8,168	570	6.98%	8,157	750	9.19%	6,922	624	9.01%
Foreign currency	11,310	434	3.84%	10,100	364	3.60%	7,483	356	4.76%
Subtotal	19,478	1,004	5.15%	18,257	1,114	6.10%	14,405	980	6.80%
Subordinated Notes:									
Pesos	2,756	208	7.55%	2,648	272	10.27%	2,556	210	8.22%
Foreign currency	7,746	710	9.17%	8,452	726	8.59%	6,278	375	5.97%
Subtotal	10,502	918	8.74%	11,100	998	8.99%	8,834	585	6.62%
Securities sold under agreements to repurchase:									
Pesos	145,617	9,880	6.78%	133,086	12,339	9.27%	165,784	11,894	7.17%
Subtotal	145,617	9,880	6.78%	133,086	12,339	9.27%	165,784	11,894	7.17%
Total interest-bearing liabilities:									
Pesos	489,939	22,538	4.60%	483,861	30,003	6.20%	497,615	25,735	5.17%
UDIs	79	3	3.80%	—	—	0.00%	75	3	4.00%
Foreign currency	65,248	1,609	2.47%	63,974	2,063	3.22%	57,668	1,799	3.12%
Subtotal	555,266	24,150	4.35%	547,835	32,066	5.85%	555,358	27,537	4.96%
Non interest-bearing liabilities:									
Pesos	24,943			52,104			64,425		
UDIs	7,140			6,330			2,082		
Foreign currency	18,564			17,601			15,289		
Subtotal	50,647			76,035			81,796		
Stockholders' equity:									
Pesos	53,821			56,953			64,826		
Foreign currency	1,193			536			550		
Subtotal	55,014			57,489			65,376		
Total liabilities and stockholders' equity:									
Pesos	568,703	22,538	3.96%	592,918	30,003	5.06%	626,866	25,735	4.11%
UDIs	7,219	3	0.04%	6,330	—	0.00%	2,157	3	0.14%
Foreign currency	85,005	1,609	1.89%	82,111	2,063	2.51%	73,507	1,799	2.45%
Total	Ps. 660,927	Ps. 24,150	3.65%	Ps. 681,359	Ps. 32,066	4.71%	Ps. 702,530	Ps. 27,537	3.92%

Changes in net interest income and expense—volume and rate analysis

The following tables allocate, by currency of denomination, changes in our net interest income between changes in volume and changes in rates for 2006 compared to 2005 and 2004. Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average balances of interest-earning assets and average balances of interest-bearing liabilities. The variances caused by changes in both volume and rate have been allocated to volume.

Interest-earning assets

	2005/2004			2006/2005		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
	(Millions of constant pesos as of December 31, 2006)					
Deposits in banks:						
Pesos	Ps. 835	Ps. 1,212	Ps. 2,047	Ps. 613	Ps.(1,135)	Ps. (522)
Foreign currency	212	542	754	(249)	165	(84)
Subtotal	1,047	1,754	2,801	364	(970)	(606)
Government securities:						
Pesos	3,195	600	3,795	(756)	(4,445)	(5,201)
UDIs	(106)	(135)	(241)	488	(8)	480
Foreign currency	(493)	80	(413)	66	(151)	(85)
Subtotal	2,596	545	3,141	(202)	(4,604)	(4,806)
Fixed income securities:						
Pesos	(709)	120	(589)	(116)	(38)	(154)
UDIs	11	—	11	(2)	4	2
Foreign currency	(23)	26	3	(31)	6	(25)
Subtotal	(721)	146	(575)	(149)	(28)	(177)
Loans:(1)						
Pesos	11,152	4,128	15,280	13,514	(841)	12,673
UDIs	(1,225)	105	(1,120)	928	(545)	383
Foreign currency	(165)	882	717	(134)	272	138
FOBAPROA and IPAB Notes:	(870)	(1,205)	(2,075)	(3,275)	(1,117)	(4,392)
Subtotal	8,892	3,910	12,802	11,033	(2,231)	8,802
Securities purchased under agreements to resell:						
Pesos	(4,384)	1,680	(2,704)	95	(347)	(252)
Subtotal	(4,384)	1,680	(2,704)	95	(347)	(252)
Other interest—earning assets:						
Pesos	24	1	25	63	(18)	45
Subtotal	24	1	25	63	(18)	45
Total interest-earning assets:						
Pesos	9,243	6,536	15,779	10,138	(7,941)	2,197
UDIs	(1,320)	(30)	(1,350)	1,414	(549)	865
Foreign currency	(469)	1,530	1,061	(348)	292	(56)
Total	Ps. 7,454	Ps. 8,036	Ps. 15,490	Ps. 11,204	Ps. (8,198)	Ps. 3,006

(1) Interest income includes fees on loans of Ps.4,376 million in 2006, Ps.2,371 million in 2005, Ps.2,148 million in 2004, which have been included in interest income on a current basis and are not deferred and subsequently amortized. Fees on loans include origination fees and credit card annual fees. Under Mexican Banking GAAP, such fees are recorded as income at the time of incurrence and are not amortized over the life of the related loan, as would be required under U.S. GAAP.

Interest-bearing liabilities

	2005/2004			2006/2005		
	Increase (decrease) due to changes in:			Increase (decrease) Due to changes in:		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
	(Millions of constant pesos as of December 31, 2006)					
Demand deposits (checking accounts):						
Pesos	Ps. 27	Ps. 472	Ps. 499	Ps. 73	Ps. (104)	Ps. (31)
Foreign currency	(17)	304	287	(3)	(55)	(58)
Subtotal	10	776	786	70	(159)	(89)
Saving deposits:						
Pesos	23	(8)	15	35	(6)	29
Subtotal	23	(8)	15	35	(6)	29
Time deposits:						
Pesos	397	3,717	4,114	(2,073)	(1,473)	(3,546)
UDIs	—	(3)	(3)	3	—	3
Foreign currency	18	137	155	(78)	158	80
Subtotal	415	3,851	4,266	(2,148)	(1,315)	(3,463)
Short-term borrowings:						
Pesos	(488)	622	134	318	(405)	(87)
Foreign currency	(18)	84	66	25	48	73
Subtotal	(506)	706	200	343	(357)	(14)
Long-term debt:						
Pesos	(1)	181	180	(111)	(15)	(126)
Foreign currency	(44)	(26)	(70)	(125)	117	(8)
Subtotal	(45)	155	110	(236)	102	(134)
Subordinated Notes:						
Pesos	(11)	75	64	(8)	(54)	(62)
Foreign currency	61	(45)	16	(130)	(221)	(351)
Subtotal	50	30	80	(138)	(275)	(413)
Securities sold under agreements to repurchase:						
Pesos	(1,162)	3,621	2,459	2,346	(2,791)	(445)
Subtotal	(1,162)	3,621	2,459	2,346	(2,791)	(445)
Total interest-bearing liabilities:						
Pesos	(1,215)	8,680	7,465	580	(4,848)	(4,268)
UDIs	—	(3)	(3)	3	—	3
Foreign currency	—	454	454	(311)	47	(264)
Total	(1,215)	9,131	7,916	272	(4,801)	(4,529)
Total net change:						
Pesos	10,458	(2,144)	8,314	9,558	(3,093)	6,465
UDIs	(1,320)	(27)	(1,347)	1,411	(549)	862
Foreign currency	(469)	1,076	607	(37)	245	208
Total	Ps. 8,669	Ps. (1,095)	Ps. 7,574	Ps. 10,932	Ps. (3,397)	Ps. 7,535

Interest earning assets—yield and yield spread

The following table sets forth, by currency of denomination, the levels of our average interest-earning assets and net interest income, and gross and net yield and yield spread obtained, for each of the periods indicated. In addition, because loan fees are a component of pricing, a table including loan fees (which include loan origination fees and credit card fees) in net interest income has been included. For purposes of this presentation, as required under Mexican Banking GAAP, loan fees are recognized as interest income at the time the related loan is made.

	For the years ended December 31,		
	2004	2005	2006
	(Millions of constant pesos as of December 31, 2006, except percentages)		
Total average earning assets:			
Pesos	Ps. 510,477	Ps. 546,357	Ps. 539,377
UDIs	47,290	33,087	52,186
Foreign Currency	83,783	79,014	71,984
Total	641,550	658,458	663,547
Historical not including loan fees:			
Net interest income:			
Pesos	22,357	30,444	34,898
UDIs	4,190	2,843	3,705
Foreign Currency	1,566	2,177	2,391
Total	28,113	35,464	40,994
Gross yield:(1)			
Pesos	8.79%	11.06%	11.24%
UDIs	8.87%	8.59%	7.11%
Foreign Currency	3.79%	5.37%	5.82%
Weighted-average rate	8.15%	10.26%	10.33%
Net yield: (2)			
Pesos	4.38%	5.57%	6.47%
UDIs	8.86%	8.59%	7.10%
Foreign Currency	1.87%	2.76%	3.32%
Weighted-average rate	4.38%	5.39%	6.18%
Yield spread:(3)			
Pesos	4.19%	4.86%	6.07%
UDIs	5.07%	8.59%	3.11%
Foreign Currency	1.32%	2.14%	2.70%
Weighted-average rate	3.80%	4.40%	5.37%
Historical including loan fees:			
Net interest income:			
Pesos	Ps. 24,485	Ps. 32,799	Ps. 39,264
UDIs	4,190	2,843	3,705
Foreign Currency	1,586	2,193	2,401
Total	30,261	37,835	45,370
Gross yield:(1)			
Pesos	9.21%	11.49%	12.05%
UDIs	8.87%	8.59%	7.11%
Foreign Currency	3.81%	5.39%	5.83%
Weighted-average rate	8.48%	10.62%	10.99%
Net yield:(2)			
Pesos	4.80%	6.00%	7.28%
UDIs	8.86%	8.59%	7.10%
Foreign Currency	1.89%	2.78%	3.34%
Weighted-average rate	4.72%	5.75%	6.84%
Yield spread:(3)			
Pesos	4.61%	5.29%	6.88%
UDIs	5.07%	8.59%	3.11%
Foreign Currency	1.35%	2.16%	2.72%
Weighted-average rate	4.13%	4.76%	6.03%

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

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

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

Return on average total assets and average stockholders' equity

The following table presents certain of our selected financial data and ratios for the periods indicated.

	For the years ended December 31,		
	2004	2005	2006
	(Millions of constant pesos as of December 31, 2006, except percentages)		
Net income	Ps. 6,028	Ps. 8,872	Ps. 17,927
Average total assets	660,927	681,359	702,530
Average stockholders' equity	55,014	57,489	65,376
Return on average assets	0.91%	1.30%	2.55%
Return on average equity	10.96%	15.43%	27.42%
Average stockholders' equity as a percentage of average total assets	8.32%	8.44%	9.31%

Interest Rate Sensitivity of Assets and Liabilities

Interest rates

Banco de Mexico's regulations mandate that Mexican banks base their interest rates on loans on a fixed rate or a single reference rate published regularly by official sources and that the agreements for such loans specify the factor used to determine the interest rate and, if applicable, the minimum and maximum spread over the reference rate. Currently, we base the interest rates on most of our peso-denominated loans on the TIIE.

In accordance with Banco de Mexico's regulations, our policy with respect to foreign currency-denominated loans, which are principally in U.S. dollars, is generally to price such loans on the basis of LIBOR with repricing intervals of one, three or six months. Spreads over LIBOR are determined in accordance with the marginal cost of funding in currencies other than pesos. Interest on loans to Mexican borrowers paid to our Grand Cayman or Houston branches is subject to a 4.9% withholding tax, the cost of which is reflected in the determination of the overall cost of the loan to the customer. No withholding tax is applicable on loans to Mexican borrowers obtained from approved export credit agencies. Under Banco de Mexico's regulations, an amount equivalent to a portion of our foreign currency-liabilities must be invested in low-risk, highly liquid instruments and deposits. See "Supervision and Regulation—Reserve Requirements and Liquidity Coefficients." The cost associated with funding this reserve is also included in determining the cost to customers of foreign currency-denominated loans.

Interest rate sensitivity

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

Our interest rate sensitivity strategy takes into account, among other things, the rates of return and the underlying degree of risk, liquidity requirements, including minimum regulatory cash reserves, mandatory liquidity ratios (inapplicable to peso lending), withdrawal and maturity deposits, capital cost and additional demands for funds. Our rate and maturity mismatches and positions are monitored by us and are managed within established limits.

The following table reflects our interest-earning assets and interest-bearing liabilities as of December 31, 2006. Fixed-rate instruments were classified in this table according to their final maturity and other instruments according to their time of repricing.

	As of December 31, 2006					
	0-30 days	31-90 days	91-180 days	181-365 days	Non-rate sensitive or over one year	Total
	(millions of constant pesos as of December 31, 2006, except percentages)					
Assets:						
Variable-rate commercial loans	Ps. 70,785	Ps. —	Ps.13,233	Ps. 2,281	Ps. 1,057	Ps. 87,356
FOBAPROA and IPAB Notes	—	—	—	—	—	—
Consumer loans, mortgage loans and lease receivables	116,257	6,396	8,429	13,594	80,693	225,369
Fixed-rate commercial loans	20,947	1,991	5,890	3,140	26,926	58,894
Total loans	207,989	8,387	27,552	19,015	108,676	371,619
Securities and derivatives	106,066	(5,127)	5,339	21,458	(24,741)	102,995
Securities sold under agreements to repurchase	122,089	22,039	9,093	2,589	51,272	207,082
Borrowed securities	(203,658)	(978)	(1,566)	—	—	(206,202)
Securities purchased under agreements to resell	(528)	(500)	—	(480)	(4,895)	(6,403)
Borrowing securities	6,621	—	—	—	—	6,621
Total interest-earning assets	238,579	23,821	40,418	42,582	130,312	475,712
Equity securities	—	—	—	—	2,622	2,622
Cash, property and other non-interest earning assets	—	—	—	—	86,636	86,636
Less: Allowance for loan losses	—	—	—	—	(15,854)	(15,854)
Total assets	Ps. 238,579	Ps.23,821	Ps.40,418	Ps. 42,582	Ps. 203,716	Ps. 549,116
Liabilities and stockholders' equity:						
Notes sold through intermediaries	Ps. 13,724	Ps. 7,813	Ps. 300	Ps. —	Ps. 2,552	Ps. 24,389
Notes sold through branches	120,924	7,204	277	72	—	128,477
Demand deposits	67,214	—	—	—	181,198	248,412
Total deposits	201,862	15,017	577	72	183,750	401,278
Short-term debt.	11,763	1,399	450	—	2,083	15,695
Long-term debt	8,597	485	459	568	1,655	11,764
Subordinated debentures	2,500	—	—	—	5,540	8,040
Other liabilities	—	—	—	—	41,751	41,751
Stockholders' equity	—	—	—	—	70,588	70,588
Total liabilities and stockholders' equity	Ps. 224,722	Ps.16,901	Ps. 1,486	Ps. 640	Ps. 305,367	Ps. 549,116
Interest rate sensitivity gap	13,857	6,920	38,932	41,942	(101,651)	—
Cumulative interest rate sensitivity gap	13,857	20,777	59,709	101,651	—	—
Cumulative gap as percentage of total interest-earning assets	2.91%	4.37%	12.55%	21.37%		

As of December 31, 2006, interest-earning assets totaled Ps.475,712 million. Of these assets, 50.2% repriced periodically every thirty days or less; such assets included 62.7% of commercial loans, 51.6% of consumer and mortgage loans, 103% of investment securities and derivatives (excluding equity investments) and 59% of repurchase agreements. The interest rates for 4.4% of interest-earning assets, comprising mostly commercial loans, are reset periodically every 31 to 180 days.

Non-interest rate sensitive assets and assets that are not repriced within a period of 365 days include, among others, cash, real and personal property and equity investments. Investments in the foregoing assets amounted to Ps.203,716 million as of December 31, 2006, which represented 37.1% of total assets.

Of our liabilities as of December 31, 2006, 83.9% consisted of deposits, totaling Ps.401,278 million, of which 50.3% reprice every 30 days or less, and 3.9% every 31 to 180 days. The remaining 16.1% of our liabilities amounting to Ps.77,250 million consisted of Ps.15,695 million of short-term borrowings, Ps.19,804 million of long-term debt, subordinated debt, funding from the *Fondo de Operación y Fomento Bancario de la Vivenda*, or FOVI, the Mexican government's fund for low-income housing assistance, and Ps.41,751 million of other liabilities. Of such Ps.77,250 million of liabilities, 29.6% reprice every 30 days or less, 3.6% every 31 to 180 days, 0.7% every 181-365 days, and the remaining 66.1% reprice in periods exceeding a year.

Interest-Bearing Deposits with Other Banks

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

Banco de Mexico regulations require that a bank maintain balanced positions in foreign currencies no higher than a specified level with respect to its Tier 1 capital. As of December 31, 2006, our aggregate limit established by Banco de Mexico for maturity-adjusted net foreign currency-denominated liabilities was U.S.$ 10.9 billion (Ps. 117,959 million). As of such date, our maturity-adjusted net foreign currency-denominated liabilities totaled U.S.$ 1.6 billion (Ps.17,754 million).

Securities

As of December 31, 2006, we held securities in the amount of Ps.253,570 million representing 42.1% of our total assets as of that date. The following table presents our portfolio of securities at the dates indicated, including securities under repurchase and resale agreements.

	As of December 31,		
	2004	2005	2006
	(millions of constant pesos as of December 31, 2006)		
Peso-denominated:			
Mexican government securities:			
Cetes (federal treasury securities)	Ps. 33,497	Ps. 21,266	Ps. 9,671
Special Cetes (federal treasury securities)	9,935	10,850	11,071
Bondes (federal government development bonds)	8,048	22,937	48,516
BPAs (floating rate bonds issued by IPAB)	49,683	44,976	74,133
Bono Tasa Fija (fixed-rate bond)	51,763	30,496	37,890
BREMS (monetary regulation bonds)	1,519	13,262	36,852
Total Mexican government securities	154,445	143,787	218,133
Non government securities:			
Bank bonds and certificates	7,309	2,925	2,404
Commercial paper	239	203	422
Other fixed-income securities	12	—	—
Total non-government securities	7,560	3,128	2,826
Equity securities:			
Listed	1,002	2,748	1,271
Unlisted	735	—	—
Investment in subsidiaries	1,637	1,712	1,904
Investment in affiliated companies	1,012	586	512
Total Equity Securities	4,386	5,046	3,687
Total peso-denominated	166,391	151,961	224,646
UDI-denominated:			
Udibonos (Federal government development bonds)	3,357	3,865	7,973
Promissory Notes issued for highway program	1	382	1,097
CBICs	—	107	703
Bank bonds and certificates	1,075	1,096	1,110
Total UDI-denominated	4,433	5,450	10,883
Foreign currency-denominated:			
Government securities:			
Mexican Government securities issued abroad	28,758	27,022	7,616
US Treasury securities	2,542	122	9,341
Total government securities	31,300	27,144	16,957
Commercial paper	596	997	162
Other fixed-income securities	4,263	24	19
Equity securities (listed)	679	1,452	895
Investment in subsidiaries	—	4	4
Investment in affiliated companies	—	4	4
Total foreign currency-denominated	36,838	29,625	18,041
Total securities	Ps.207,662	Ps.187,036	Ps.253,570

Securities—maturities and average yields

The following table analyzes by currency, as of December 31, 2006, remaining maturities and weighted-average yields of securities held by us that have a specific date of maturity without the mark-to-market effect on securities.

	From 1 to 89 days		From 90 to 179 days		From 6 to 12 months		From 1 to 2 years		From 2 to 3 years		From 3 to 4 years		From 4 to 5 years		More than 5 years		
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total
	(millions of constant pesos as of December 31, 2006, except percentages)																
Peso-denominated:																	
Mexican government securities:																	
Cetes (federal treasury securities)	Ps. 6,797	7.00%	Ps. 1,882	7.02%	Ps. 991	7.02%	Ps. —	—	Ps. —	—	Ps. —	—	Ps. —	—	Ps. —	—	Ps. 9,670
Special Cetes (federal treasury securities)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	11,072	7.04%	11,072
Bondes (federal government development bonds)	5,273	7.41%	1,391	7.22%	744	7.07%	1,711	7.06%	9,471	7.05%	15,889	7.05%	11,261	7.05%	1,447	7.25%	47,187
BPAs (floating rate bonds issued by IPAB)	607	7.03%	891	7.03%	5,957	7.03%	17,348	7.04%	34,782	7.04%	506	7.15%	6,427	7.18%	7,280	7.35%	73,798
Bono Tasa Fija (fixed-rate bond)	185	9.50%	—	—	—	—	—	—	1,549	8.00%	107	9.00%	1,220	8.86%	34,821	8.91%	37,882
BREMS (monetary regulation bonds)	117	7.07%	633	7.05%	292	7.05%	25,487	7.05%	6,835	7.05%	1,288	7.07%	2,097	7.05%	—	0.00%	36,749
Total Mexican government securities	12,979	7.21%	4,797	7.09%	7,984	7.04%	44,546	7.05%	52,637	7.07%	17,790	7.07%	21,005	7.19%	54,620	8.28%	216,358
Non government securities:																	
Bank bonds and certificates	394	6.90%	—	—	2	8.09%	76	8.37%	233	8.87%	406	8.11%	55	7.72%	1,245	9.58%	2,411
Commercial paper	407	7.26%	15	7.51%	—	—	—	—	—	—	—	—	—	—	—	—	422
Total peso-denominated	13,780	7.20%	4,812	7.09%	7,986	7.04%	44,622	7.05%	52,870	7.08%	18,196	7.09%	21,060	7.20%	55,865	8.31%	219,191
Udi-denominated:																	
Udibonos (federal government development bonds)	—	—	—	—	—	—	—	—	3,049	6.75%	—	—	4,334	6.50%	625	3.84%	8,008
Promissory Notes issued for highway program	—	—	—	—	1,097	6.61%	—	—	—	—	—	—	—	—	—	—	1,097
CBICs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	646	5.65%	646
Banks bonds and certificates	—	—	—	—	—	—	701	3.93%	—	—	—	—	—	—	413	5.00%	1,114
Total UDI-denominated	—	—	—	—	1,097	6.61%	701	3.93%	3,049	6.75%	—	—	4,334	6.50%	1,684	4.82%	10,865
Foreign currency-denominated:																	
Mexican Government securities issued abroad	34	5.09%	14	4.94%	—	—	199	2.83%	62	8.15%	13	9.88%	—	—	7,278	8.51%	7,600
US Treasury bills	129	4.92%	9,216	5.01%	—	—	—	—	—	—	—	—	—	—	—	—	9,345
Commercial paper	—	—	—	—	—	—	—	—	—	—	—	—	162	6.07%	—	—	162
Other fixed-income securities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	19	4.24%	19
Total foreign currency-denominated	163	4.95%	9,230	5.01%	—	—	199	2.83%	62	8.15%	13	9.88%	162	6.07%	7,297	8.50%	17,126
Total securities (excluding equity securities)	Ps. 13,943	7.17%	Ps. 14,042	5.72	Ps.9,083	6.98%	Ps.45,522	6.98%	Ps.55,981	7.06%	Ps.18,209	7.09%	Ps.25,556	7.07%	Ps.64,846	8.24%	Ps.247,182

Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of total performing and total non-performing loans outstanding at the date presented, which include rediscounted loans and loans in the UDI Trusts. The terms "total loans" and "total loan portfolio" include total performing loans plus total non-performing loans. The terms "net total loans" and "net total loan portfolio" refer to net total performing loans plus net non-performing loans. The amounts corresponding to FOBAPROA and IPAB Notes include amounts net of loan recoveries and reserves. See "Presentation of Certain Financial and Other Information."

As of December 31, 2006, our loan portfolio amounted to Ps.373,008 million, an increase of 27.5% compared to December 31, 2005. This increase reflected a 44.3% increase in consumer loans due to greater activity in credit card and other consumer credits, including automobile and personal loans.

Loans by type and by borrower

The following table analyzes our loan portfolio by loan type. Total loans reflect the sum of the total performing loan portfolio and the total non-performing loan portfolio and include FOBAPROA and IPAB Notes including accrued interest. We had no FOBAPROA or IPAB Notes as of December 31, 2006. For a breakdown of non-performing loans by loan type, see "—Non-Performing Loan Portfolio" below. See note 28 to our audited financial statements included elsewhere in this offering memorandum.

	As of December 31,				
	2002	2003	2004	2005	2006
	(millions of constant pesos as of December 31, 2006)				
Performing loans:(1)					
Commercial and corporate loans:(2)					
Secured or guaranteed by:					
Real estate(3)	Ps. 28	Ps. 8	Ps. 9	Ps. 6	Ps. 61
Fixed assets	2,926	3,200	2,641	2,954	3,056
Inventories	1,360	1,370	1,700	2,140	1,963
Other(4)	4,258	6,093	4,204	4,224	3,124
Subtotal	8,572	10,671	8,554	9,324	8,204
Unsecured:					
Term loans	46,639	43,116	23,151	14,670	17,293
Revolving credits	59,737	68,541	103,329	108,632	115,064
Original issue discounts	479	1,476	1,763	2,648	3,139
Subtotal	106,855	113,133	128,243	125,950	135,496
Total commercial and corporate loans	115,427	123,804	136,797	135,274	143,700
Consumer loans:					
Residential mortgage	46,649	41,492	40,352	73,707	109,743
Credit card	17,549	20,014	28,432	49,393	69,039
Other consumer credits	6,113	8,369	15,613	27,107	37,984
Total consumer loans	70,311	69,875	84,397	150,207	216,766
Leasing credit	1,882	2,156	3,304	2,168	4,782
Total performing loans	187,620	195,835	224,498	287,649	365,248
Total non-performing loans	12,018	6,969	4,767	4,903	7,760
Total Loans	199,638	202,804	229,265	292,552	373,008
FOBAPROA and IPAB Notes	123,972	122,933	117,447	52,758	—
Total loans and FOBAPROA and IPAB Notes	Ps. 323,610	Ps. 325,737	Ps. 346,712	Ps. 345,310	Ps. 373,008

(1) The loan amounts set out in the above table do not include accrued interest (except in respect of the FOBAPROA and IPAB Notes).
(2) Includes loans to government entities and financial entities.
(3) Includes loans secured in whole or in part by cash, securities or property (including plant, inventory and equipment) and loans guaranteed by third parties.
(4) Includes various types of loans secured in whole or in part by cash, securities or other property (including plant, equipment otherwise not included above) and loans guaranteed by third parties.

Loans by currency

Foreign currency-denominated loans totaled Ps.27,118 million as of December 31, 2006, measured in constant pesos as of such date. Foreign currency-denominated loans decreased as a percentage of the total loan portfolio from 11.3% as of December 31, 2005 to 7.3% as of December 31, 2006. Foreign currency-denominated loans totaled Ps.32,964 million as of December 31, 2005, a decrease of 10.2% from Ps.36,716 as of December 31, 2004.

The following table presents the peso- and foreign currency-denominated loan portfolio at the dates indicated. Foreign currency-denominated loans that were not denominated in U.S. dollars were converted into U.S. dollars and then expressed in pesos in accordance with the methodology described in the introduction to the table under "—Average Balance Sheet and Interest Rate Data" above.

	As of December 31,									
	2002		2003		2004		2005		2006	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of constant pesos as of December 31, 2006, except percentages)									
Peso-denominated loans	Ps. 153,229	76.75%	Ps. 163,696	80.72%	Ps. 192,549	83.99%	Ps. 259,588	88.73%	Ps. 345,890	92.73%
Foreign currency-denominated loans	46,409	23.25%	39,108	19.28%	36,716	16.01%	32,964	11.27%	27,118	7.27%
Total loans	199,638	100.00%	202,804	100.00%	229,265	100.00%	292,552	100.00%	373,008	100.00%
FOBAPROA and IPAB Notes(1)	123,972		122,933		117,447		52,758		—	
Total loans and FOBAPROA and IPAB Notes(2)	Ps. 323,610		Ps. 325,737		Ps. 346,712		Ps. 345,310		Ps. 373,008	

(1) FOBAPROA and IPAB Notes are substantially peso-denominated.
(2) The loan amounts set out in the above table do not include accrued interest (except in respect of the FOBAPROA and IPAB Notes).

Loans to the public and private sectors

As of December 31, 2006, our loans to the public sector totaled Ps.39,396 million, accounting for 10.6% of our total loan portfolio. As of December 31, 2005, our loans to the public sector amounted to Ps.42,376 million, accounting for 14.5% of our total loan portfolio.

Loans to individuals are comprised of loans to sole proprietors, mortgage loans, credit card loans and other consumer loans. As of December 31, 2006, loans to individuals totaled Ps.206,756 million, representing 55.4% of our total loan portfolio and a 39.2% increase from our total of 2005. As of December 31, 2005, loans to individuals totaled Ps.148,486 million, representing 50.8% of our total loan portfolio and reflecting an increase of 72.1% from December 31, 2004. The increase in loans to individuals in 2006 and 2005 was primarily the result of greater loan origination. In 2006, we issued 4.1 million credit cards. In addition, mortgage loans increased 49.0% compared to 2005. In 2005, we issued more than 2.9 million new credit cards, and we had a 82.7% increase in mortgage loans compared to 2004.

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

	As of December 31,									
	2002		2003		2004		2005		2006	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of constant pesos as of December 31, 2006, except percentages)									
Public sector(1)	Ps. 36,527	18.30%	Ps. 43,827	21.61%	Ps. 44,696	19.50%	Ps. 42,376	14.48%	Ps. 39,396	10.56%
Private sector:										
Businesses	82,031	41.09%	79,203	39.05%	96,635	42.15%	98,709	33.74%	125,814	33.73%
Individuals(2)	77,669	38.90%	75,594	37.27%	86,293	37.64%	148,486	50.76%	206,756	55.43%
Other private sector(3)	3,411	1.71%	4,180	2.06%	1,641	0.72%	2,981	1.02%	1,042	0.28%
Total private sector loans	163,111	81.70%	158,977	78.39%	184,569	80.50%	250,176	85.52%	333,612	89.44%
Total loans	199,638	100.00%	202,804	100.00%	229,265	100.00%	292,552	100.00%	373,008	100.00%
FOBAPROA and IPAB Notes	123,972		122,933		117,447		52,758		—	
Total Loans and FOBAPROA and IPAB Notes	Ps. 323,610		Ps. 325,737		Ps. 346,712		Ps. 345,310		Ps. 373,008	

(1) Includes loans supported by the full faith and credit of the federal government of Mexico.
(2) Includes loans to individuals for business activities as well as mortgage, credit card and other consumer loans and credit exposures connected to leasing.
(3) Includes loans to foreign banks, foreign companies, non-profit entities and certain other entities.

Performing commercial loans

As of December 31, 2006, performing commercial and corporate loans totaled Ps.143,700 million, reflecting an increase of 6.2% from December 31, 2005. The increase was attributable primarily to a 5.9% increase in unsecured revolving lines of credit.

As of December 31, 2006, the aggregate outstanding principal amount of our 15 largest loans represented 14.5% of total loans. Of these loans, 11 were classified as “A1,” one was classified as “A2” and one was classified as “C1” and two were classified as “loan exempt” (loans made to the Mexican Federal Government or guaranteed by the Mexican Federal Government) under the CNBV’s regulatory loan classification guidelines. None of the top 15 loans were with related parties. We believe that all of those loans are on terms and conditions comparable to other loans of similar credit quality.

As of December 31, 2006, approximately 94.3% of our performing commercial loan portfolio was unsecured. Unsecured commercial loans, consisting primarily of short-term working capital loans (with terms of 30 to 90 days), are common in Mexico. The credit analysis process and administration of these loans are the same as for secured loans. If we establish an unsecured line of credit, it is because we believe the borrower is a creditworthy customer, and the fact that it is an unsecured line is taken into consideration during the approval process. The additional risk from originating unsecured commercial loans is generally accounted for through larger spreads to cover possible losses. The fact that a loan is unsecured is among several factors considered when we grade the portfolio and, depending on the results of this grading, an appropriate allowance for loan losses is created.

Performing consumer and mortgage loans

As of December 31, 2006, performing consumer and mortgage loans totaled Ps.216,766 million, an increase of 44.3% from December 31, 2005. As of December 31, 2005, performing consumer and mortgage loans totaled Ps.150,207 million, an increase of 78.0% from December 31, 2004. The preferred lending products for this market segment have been residential first mortgage financing and credit card loans.

Our performing mortgage loan portfolio totaled Ps.109,743 million as of December 31, 2006, an increase of 48.9% from December 31, 2005. Our performing mortgage loan portfolio totaled Ps.73,707 million as of December 31, 2005, an increase of 82.7% from December 31, 2004. The increase in our performing mortgage loan portfolio in 2005 compared to 2004 was primarily attributable to the transfer of a substantial portion of Hipotecaria Nacional's mortgage portfolio to us.

As of December 31, 2006, our performing credit card portfolio totaled Ps.69,039 million, an increase of 39.8% from December 31, 2005. As of December 31, 2005, our performing credit card portfolio totaled Ps.49,393 million, an increase of 73.7% from December 31, 2004. The increases in our performing credit card portfolio for each of these years is attributable to increased credit card issuances. We, like other Mexican banks, reflect, in our interest rates for credit cards, the greater risk associated with such loans. Other types of loans are generally less risky because borrowers are not able to increase their borrowings without prior approval and must generally provide some kind of collateral.

We provide a variety of mortgage products to individuals and housing developers in Mexico, and to a lesser extent, to developers of commercial real estate. Since 2005, we have originated all mortgage loans through specialized personnel of Hipotecaria Nacional assigned to our Mortgage Banking unit. Substantially all mortgage loans that we originate are recorded on our books, excluding certain mortgage loans granted under government programs for low-income housing.

Loans by economic activity

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

As of December 31, 2006 our mortgage loans totaled Ps.112,345 million, our credit card loans totaled Ps.73,091 million and our commercial loans totaled Ps.21,947 million. In 2006, our mortgage unit granted approximately 63,000 mortgages directly to individuals and approximately 88,000 mortgages through housing developers, an increase of 25% and 27% respectively.

During 2006, our loans to the commercial sector increased 22.9%. Our credit card loans increased 43.9% reflecting an increase in new credit card issuances. Our loans to major economic sectors (social and community services and manufacturing) decreased 18.1%. Loans to the services sector increased 81.2% reflecting growth in the services sector. The following table sets forth an analysis of our loan portfolio's composition at the dates indicated according to the borrower's principal economic activity.

	As of December 31,									
	2002		2003		2004		2005		2006	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of constant pesos as of December 31, 2006, except percentages)									
Economic Activity:(1)										
Residential mortgages	Ps. 52,209	26.15%	Ps. 45,621	22.50%	Ps. 43,540	18.99%	Ps. 75,943	25.96%	Ps. 112,345	30.12%
Social and community services(2)	48,853	24.47%	57,603	28.40%	51,218	22.34%	52,753	18.03%	39,850	10.68%
Manufacturing	20,648	10.34%	15,884	7.83%	21,248	9.27%	18,081	6.18%	18,141	4.86%
Construction and real estate development	4,149	2.08%	2,533	1.25%	10,609	4.63%	9,276	3.17%	14,469	3.88%
Commercial(3)	19,080	9.56%	17,461	8.61%	20,149	8.79%	17,861	6.11%	21,947	5.88%
Credit card	18,526	9.28%	21,066	10.39%	29,292	12.78%	50,777	17.36%	73,091	19.60%
Services(4)	5,163	2.59%	6,520	3.21%	11,896	5.19%	15,876	5.43%	28,762	7.71%
Energy and utilities	10,202	5.11%	10,961	5.40%	13,592	5.93%	12,288	4.20%	16,760	4.49%
Other	20,808	10.42%	25,155	12.40%	27,721	12.09%	39,697	13.57%	47,643	12.77%
Total loans	199,638	100.00%	202,804	100.00%	229,265	100.00%	292,552	100.00%	373,008	100.00%
FOBAPROA and IPAB Notes	123,972		122,933		117,447		52,758		—	
Total loans and FOBAPROA and IPAB Notes(1)	Ps. 323,610		Ps. 325,737		Ps. 346,712		Ps. 345,310		Ps. 373,008	

(1) The loan amounts set out in the above table do not include accrued interest amounts (except in respect of the FOBAPROA and IPAB Notes).
(2) Includes loans to the public sector.
(3) Includes loans for commercial activities not directly related to manufacturing as well as loans related to tourism.
(4) Includes credit extended to financial institutions.

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

Maturity composition of the commercial and leasing loan portfolio

The following table sets forth an analysis with reference to the time remaining to maturity of our performing commercial and leasing loan portfolio as of December 31, 2002, 2003, 2004, 2005 and 2006.

	As of December 31,									
	2002		2003		2004		2005		2006	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of constant pesos as of December 31, 2006, except percentages)									
Due within 1 year	Ps. 49,868	42.51%	Ps. 49,883	39.60%	Ps. 46,935	33.50%	Ps. 47,584	34.62%	Ps. 54,855	36.94%
Between 1 and 5 year	33,741	28.76%	41,947	33.30%	45,886	32.75%	41,407	30.13%	39,777	26.79%
Over 5 years	33,700	28.73%	34,130	27.10%	47,280	33.75%	48,451	35.25%	53,850	36.27%
Total	Ps.117,309	100.00%	Ps.125,960	100.00%	Ps.140,101	100.00%	Ps.137,442	100.00%	Ps.148,482	100.00%

At December 31, 2006, the total of our performing commercial and leasing loan portfolio was Ps.148,482 million. Of these loans, 36.9% were to mature within a year and were generally intended to cover the borrower's working capital requirements, the purchase of inventory or the financing of foreign commercial transactions.

Loans maturing after more than a year were generally intended for the renovation of manufacturing plants and purchase of equipment, as well as the construction of factories.

Interest rate sensitivity of outstanding loans

The majority of our peso-denominated loans have rates that are reset not less frequently than every 28 days. All rates are determined either by reference to a marginal variable rate or the higher of several reference rates. We began using the TIIE as a reference rate following its establishment in 1995.

The following table presents the interest rate sensitivity of our outstanding commercial and leasing loans (including non-performing loans, FOBAPROA and IPAB Notes) as of December 31, 2002, 2003, 2004, 2005 and 2006. We had no FOBAPROA or IPAB Notes as of December 31, 2006. See note 28 to our audited financial statements included elsewhere in this offering memorandum.

	As of December 31,				
	2002	**2003**	**2004**	**2005**	**2006**
	(millions of constant pesos as of December 31, 2006)				
Fixed-rate	Ps. 40,298	Ps. 43,154	Ps. 49,795	Ps. 52,586	Ps. 58,894
Variable rate(1)	82,283	84,218	90,714	85,627	89,922
Total	122,581	127,372	140,509	138,213	148,816
FOBAPROA and IPAB Notes	123,972	122,933	117,447	52,758	—
Total loans and FOBAPROA and IPAB Notes(2)	246,553	250,305	257,956	190,971	148,816
Total non-performing commercial loans	5,272	1,412	408	771	334
Allowances for loan losses	(7,200)	(4,875)	(3,673)	(3,016)	(2,391)

(1) Includes loans that mature or reprice in 30 days or less, which we consider to be effectively variable rate loans.
(2) Loan amounts do not include accrued interest (except in respect of the FOBAPROA and IPAB Notes).

Non-Performing Loan Portfolio

In assessing the performance of our loan portfolio, we review both the outstanding amount of our non-performing loan portfolio as well as the Loan Classification and Rating Rules.

The outstanding balance of past-due loans is recorded as non-performing as follows:

- Loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity.
- Loans with a single payment of principal at maturity and with scheduled interest payments are considered past due 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due.
- The loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 90 days after the first installment is due.
- In the case of revolving credit granted, loans are considered past due when payment has not been received for two normal billing periods.

- Customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

Interest is recognized in income when it is accrued. However, the accrual of interest is suspended when loans become non-performing.

Commissions for granting loans are recognized as income when collected.

Restructured non-performing loans are not considered as performing until the collection of three consecutive monthly payments without delay, or the collection of one installment when the amortization covers periods in excess of 60 days.

Renewed loans where the debtor does not pay accrued interest on time, or does not pay at least 25% of the original loan amount, are considered non-performing until proof of timely payment.

Interest accrued during the period in which the loan was considered non-performing is recognized as income at the time collected.

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

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

As of December 31, 2006, total non-performing loans were Ps.8,150 million, or 2.2% of total loans. Of this amount, Ps.390 million, or 4.8% of total non-performing amounts, represented past-due accrued interest. Total non-performing loans increased by Ps.3,023 million, or 59.0%, in 2006, as non-performing consumer credit card loans increased by 192.8% to Ps.2,668 million, principally due to an increase in issuance of credit cards.

As of December 31, 2005, total non-performing loans were Ps.5,127 million, or 1.8% of total loans. Of this amount, Ps.224 million, or 4.4% of total non-performing loans, represented non-performing accrued interest. Total non-performing loans increased by Ps.174 million or 3.5% during 2005.

As of December 31, 2004, total non-performing loans were Ps.4,953 million, or 2.2% of total loans. Of this amount, Ps.186 million, or 3.8% of total non-performing loans, represented non-performing interest. Total non-performing loans decreased by Ps.2,326 million or 32.0% during 2004.

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

	As of December 31,				
	2002	2003	2004	2005	2006
	(millions of constant pesos as of December 31, 2006)				
Non-performing loans:					
Commercial and corporate loans:					
Unsecured	Ps. 4,271	Ps. 775	Ps. 223	Ps. 631	Ps. 192
Secured	985	621	172	122	133
Consumer loans:					
Residential mortgage	5,560	4,129	3,188	2,236	2,602
Credit card	977	1,052	860	1,384	4,052
Other consumer credits	209	376	311	512	772
Leasing receivables	16	16	13	18	9
Past-due interest	847	310	186	224	390
Total non-performing loans	12,865	7,279	4,953	5,127	8,150
Allowance for loans losses	(14,509)	(10,675)	(13,194)	(13,311)	(15,854)
Total non-performing portfolio net of allowance for loan losses	Ps. (1,644)	Ps. (3,396)	Ps. (8,241)	Ps. (8,184)	Ps. (7,704)

Grading of Loan Portfolio

Commercial loans

In accordance with the Loan Classification and Rating Rules, for the classification of their loan portfolio, Mexican banks must individually classify their commercial loan portfolio for loans or group of loans made to the same borrower if the balance of any individual loan or loans equals or exceeds 900,000 UDIs at the classification date. The remainder of the commercial loan portfolio is classified parametrically based on the number of months elapsed as of the first default if any. Any portion of the portfolio representing debt owed by the federal government of Mexico, or that is covered by an express guarantee by the federal government of Mexico, is exempt from these requirements.

We classify the risk level of loans granted to states, municipalities and state-owned enterprises, based on the ratings assigned to such loans by the rating agencies (Fitch, Moody's and S&P) within the previous 24 months. Loans to municipalities that have an express guarantee from their state governments may be classified with the degree of risk applicable to the state providing the guarantee. The Loan Classification and Rating Rules also require the evaluation of a security interest on property in accordance with the same methodology applied to secured loans.

On December 1, 2004, the CNBV authorized us to apply our own methodology to the classification of risks and the creation of loan loss allowances for specific segments of our commercial loan portfolio for a period of two years from that date. On December 14, 2006, the CNBV authorized us to apply our own methodology until December 1, 2008. The regulations require us to report our loan classifications to the CNBV every quarter and to disclose our loan classification in our financial statements.

We use this internal classification methodology, which we refer to as the Bancomer Risk Classification (*Calificación de Riesgo Bancomer*), or CRB, to evaluate a borrower's creditworthiness based on the weighted average of grades assigned using five criteria. These criteria include payment history, existing debt ratios, projected payment ability and other conditions affecting the Mexican economy. This analysis takes into account the borrower's financial profile, our financial position and the general economic situation of the banking industry at the time. We then analyze the results against various quantitative and qualitative credit risk factors, weighted by a single algorithmic formula and compared to certain fixed parameters.

The CRB classifies outstanding loans according to loans with acceptable risk levels, loans under observation and loans with unacceptable risk levels or that are in default. The following table shows the risk levels used in the CRB model:

Risk Level

1. Exceptional
2. High
3. Good
4. Adequate
5. Potential weakness
6. Existing weakness
7. Critical weakness
8. Loss

The following table presents a comparison of the CRB risk levels and the standard levels used by the CNBV, based upon an analysis of the respective default probabilities between the two methodologies:

CRB Risk Levels	CNBV Risk Level Equivalents
1, 2	A1
3	A2
4(1)	B1
4(2)	B2
5(1)	B3
5(2)	C1
6(1)	C1
6(2)	C2
7	D
8	E

(1) Non-payment for less than 30 days.
(2) Non-payment for 30 days or more.

Once we determine a borrower's credit rating according to this procedure, we initially classify each loan based on the borrower's credit rating. We then consider the value of any applicable collateral to determine the portion of the loan balance that is covered by the discounted value of collateral securing the loan and the portion of the loan balance that is exposed. The rating we assign to the covered portion of the loan can be modified based on changes in the value of the collateral. In applying the regulations, the rating for the exposed portion of a loan remained unchanged for loans rated between A1 and C1. However, we were required to assign a risk level rating of E to the exposed portion of a loan that was initially rated C2, D or E. In addition, the regulations established various criteria for the determination of the cash value of collateral.

We classify each loan in our commercial loan portfolio based on the following default probability percentages:

Probability of Default	Risk Level
0% to 0.50%	A1
0.51% to 0.99%	A2
1.00% to 4.99%	B1
5.00% to 9.99%	B2
10.00% to 19.99%	B3
20.00% to 39.99%	C1
40.00% to 59.99%	C2
60.00% to 89.99%	D
90.00% to 100.00%	E

We record loan loss allowances for individual loans on a monthly basis, and apply the results of the classification quarterly to the balance of the loan recorded on the final day of each month.

Mortgage loans

We determine loan loss allowances for our mortgage portfolio by applying specific percentages to a borrower's unpaid balances, net of supports. Our mortgage loan portfolio is classified into levels based on the number of monthly installments that a loan is in default as of the classification date.

We determine the allowance for loan losses at each level by applying specific percentages based on the following criteria:

Probability of default: allowance percentages range from 1% to 90% for loans in default for up to four months, depending on the type of mortgage portfolio, and from 95% to 100% for loans in default for five months or more.

Severity of loss: an allowance percentage of 35% is applied for loans in default for up to six months, 70% for loans in default for seven to 47 months, and 100% for loans in default 48 months or more.

In addition to the allowance requirements under the Loan Classification and Rating Rules for mortgage loans, we contribute a supplementary allowance that reflects the application of our internal model for classification of mortgage loans, which consists of applying specific percentages (expected loss) to a debtor's unpaid balance. See note 12 to our audited financial statements included elsewhere in this offering memorandum.

Consumer loans

We determine the allowance for loan losses on our consumer loan portfolio by applying specific percentages to the number of billing periods with payments in default as of the classification date. These billing periods may be weekly, bi-weekly or monthly.

We determine our loan loss allowances for our consumer and mortgage loan portfolios based on the following percentages in accordance with the Loan Classification and Rating Rules:

Risk Level	Percentage of Allowance for Loan Losses
A	0 to 00.99%
B	1 to 19.99%
C	20 to 59.99%
D	60 to 89.99%
E	90 to 100.00%

Ordinary interest accrued but not collected on non-performing loans is considered non-performing. Accordingly, we record a loan loss allowance equivalent to the amount of any such interest.

The following table analyzes the grading of our loan portfolio as of the dates indicated. In accordance with the CNBV's rules, graded loans reported at the end of a quarter (or the reported quarter) are based on loans outstanding at the end of the preceding quarter after giving effect to charge-offs made during the reported quarter. Information in this table exclude loans to the federal government of Mexico and to Banco de Mexico, but include accrued interest, past-due interest and off-balance sheet commitments (such as guarantees and letters of credit).

	As of December 31,									
	2002		2003		2004		2005		2006	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(millions of constant pesos as of December 31, 2006, except percentages)									
Total graded loans:										
A	Ps. 138,066	78.28%	Ps. 161,148	85.83%	Ps.170,554	73.33%	Ps. 233,061	80.60%	Ps. 303,163	81.84%
B	21,301	12.08%	16,235	8.65%	45,670	19.64%	41,500	14.35%	50,284	13.57%
C	8,193	4.65%	4,268	2.27%	11,100	4.77%	9,493	3.28%	9,900	2.67%
D	5,442	3.09%	4,529	2.41%	3,211	1.38%	2,803	0.97%	4,355	1.18%
E	3,365	1.91%	1,572	0.84%	2,041	0.88%	2,283	0.79%	2,748	0.74%
Total	Ps. 176,367	100.00%	Ps. 187,752	100.00%	Ps.232,576	100.00%	Ps. 289,140	100.00%	Ps. 370,450	100.00%
Allowances grading of our loans	14,199		10,573		12,988		12,252		14,071	
Past-due interest	305		97		188		224		391	
Excess over minimum regulatory requirements	—		—		—		817		1,374	
BBVA Bancomer allowance	14,504		10,670		13,176		13,293		15,836	
Mercury Bank allowance	5		5		—		—		—	
Bancomer Financial Holding allowance	—		—		18		18		18	
Total allowance for loan losses	14,509		10,675		13,194		13,311		15,854	
Allowance as a percentage of:										
Graded loans		8.23%		5.69%		5.67%		4.60%		4.28%
Total loans plus interest(1)		7.28%		5.32%		5.73%		4.53%		4.27%
Total non-performing amount		112.78%		146.65%		266.38%		259.63%		194.53%
Total non-performing as a percentage of total loans plus interest(1)		6.46%		3.63%		2.15%		1.74%		2.19%
Total net non-performing loans (non-performing amounts less allowances) as a percentage of net total loans plus interest(1)		(0.89)%		(1.79)%		(3.80)%		(2.92)%		(2.17)%

(1) Interest includes past-due and outstanding interest.

As of December 31, 2006, the aggregate outstanding principal amount of our 25 largest loans (including loan exposures to a single corporate group or to an agency of the federal government of Mexico) represented 18.0% of our total loans. The largest single loan exposure as of December 31, 2006 (excluding the Mexican government) accounted for 50.9% of our stockholders' equity. As of December 31, 2006, of the 25 largest loans, 17 loans were rated "A1," two loans were rated "A2," two loans were rated "C1" and four were rated as "loans exempt." As of December 31, 2006, of the 10 largest loans, representing 11.9% of our total loans, seven were rated "A1," one was rated "C1" and two were rated as "loan exempt" as described elsewhere in this offering memorandum.

Allowance for Loan Losses

We provide for possible loan losses in accordance with the regulations of the CNBV and are in compliance with regulatory loan loss allowance requirements. The grading of loans determines the amount of the allowance for loan losses required to be set aside: between 0% and 0.99% for Grade "A" loans, between 1% and 19.99% for Grade "B" loans, between 20% and 59.99% for Grade "C" loans, between 60% and 89.99% for Grade "D" loans and between 90% and 100% for Grade "E" loans. Loans to the federal government of Mexico and Banco de Mexico are not subject to the grading system and are effectively deemed to be Grade "A" loans for loan loss allowance purposes. The amount so reserved is carried in a separate account on our balance sheet and all charge-offs of uncollectible loans are made against this reserve. Mexican banks are required to obtain authorization from their boards of directors in order to charge off loans. In addition, Mexican banks are required to inform the CNBV after such charge-offs have been recorded. For a discussion of our charge-off policy, see "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

As of December 31, 2006, we recorded provisions charged against earnings totaling Ps.6,890 million. Our allowance for loan losses amounted to 194.5% of total non-performing loans as of December 31, 2006, compared to 266.4% as of December 31, 2004 and 259.6% as of December 31, 2005.

Analysis of allowance for loan losses

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

	For the years ended December 31,				
	2002	2003	2004	2005	2006
	(millions of constant pesos as of December 31, 2006)				
Balance at beginning of period	Ps.17,592	Ps.14,509	Ps.10,675	Ps.13,194	Ps.13,311
Increase:					
Provision charged against earnings	4,038	5,194	3,391	4,900	6,890
Recoveries(1)	280	339	339	329	265
Provisions charged against equity	376	—	6,398	—	—
Exchange rate revaluation	300	253	—	—	—
Inflation revaluation of the UDI program(2)	733	420	702	377	610
Subtotal	5,727	6,206	10,830	5,606	7,765
Decrease:					
Exchange rate revaluation	—	—	4	93	21
Punto Final program for mortgage loans(2)	1,695	1,353	1,183	1,061	984
Punto Final program for commercial loans(2)	26	15	9	5	3
Other charge-off	5,365	5,340	5,406	2,367	3,523
Amount of loans sold	—	1,971	—	—	—
Amount of allowances attributable to FOBAPROA loss sharing	870	854	1,037	1,588	106
Monetary loss	854	507	672	375	585
Subtotal	8,810	10,040	8,311	5,489	5,222
Balance at the end of period	Ps.14,509	Ps.10,675	Ps.13,194	Ps.13,311	Ps.15,854

(1) We may continue our recovery efforts with respect to certain non-performing loans after the date on which such loans are formally written off. We do not generally maintain a threshold time limit in respect of non-performing loans, following the expiration of which such loans are automatically charged off.

(2) See "—Debtor Support Programs."

Allocation of allowance for loan losses by category

	As of December 31,									
	2002		2003		2004		2005		2006	
	Allowance	%	Allowance	%	Allowance	%	Allowance	%	Allowance	%
	(millions of constant pesos as of December 31, 2006, except percentages)									
Commercial, financial and agricultural	Ps. 7,136	49.18%	Ps. 4,819	45.14%	Ps. 3,634	27.54%	Ps. 2,976	22.36%	Ps. 2,371	14.96%
Residential mortgages	5,689	39.21%	4,053	37.97%	7,986	60.53%	7,086	53.23%	7,135	45.00%
Credit card	974	6.71%	1,058	9.91%	843	6.39%	1,385	10.40%	3,437	21.68%
Other consumer loans	341	2.35%	592	5.55%	504	3.82%	783	5.88%	1,126	7.10%
Leases	64	0.44%	56	0.52%	39	0.30%	40	0.30%	20	0.13%
Excess over minimum regulatory requirements	—	—	—	—	—	—	817	6.14%	1,374	8.67%
Past-due interest	305	2.10%	97	0.91%	188	1.42%	224	1.68%	391	2.47%
Total	Ps. 14,509	100.00%	Ps. 10,675	100.00%	Ps. 13,194	100.00%	Ps. 13,311	100.00%	Ps. 15,854	100.00%

Rules for the UDI Trusts require a minimum level of loan loss allowance based upon the CNBV's loan classification rules in the case of commercial loans and in the case of mortgage loans the greater of (1) the minimum required by the loan classification rules and (2) 8% of such loans. This loan loss allowance forms part of the loan loss allowance shown in the financial statements included elsewhere in this offering memorandum.

Foreclosed real estate and other assets

As of December 31, 2006, the book value of our foreclosed real estate and non-real estate assets, net of allowance, totaled Ps.705 million and Ps.12 million, an 18.5% and 76.5% decrease, respectively, compared to 2005. As of December 31, 2005, the book value of our foreclosed real estate and non-real estate assets, net of allowance, totaled Ps.865 million and Ps.51 million, respectively, a 26.7% and 43.3% decrease, respectively, from December 31, 2004.

The decrease in foreclosed real estate and other assets was due mainly to sales of foreclosed properties, as well as the increase in allowances derived from the implementation of a new methodology established by the CNBV in December 2004. This methodology requires the allowance for holding repossessed assets to be determined based on scheduled percentages. See note 4 to our audited financial statements included elsewhere in this offering memorandum.

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

We operate a specialized unit that administers foreclosed real estate and manages all activities related to the administration, marketing and sale of properties.

The following table sets forth, by type of property, the book value of foreclosed real estate and non-real estate assets at December 31, 2004, 2005 and 2006.

	As of December 31,		
	2004	2005	2006
	(millions of constant pesos as of December 31, 2006)		
Real estate:			
Rural land	Ps. 354	Ps. 168	Ps. 34
Urban land	321	223	104
Family houses	577	498	614
Condominiums	106	90	90
Industrial plants	313	309	208
Commercial building	264	182	124
Other	396	365	35
Subtotal real estate	2,331	1,835	1,209
Allowance for real estate	(1,151)	(970)	(504)
Total real estate, net	1,180	865	705
Non-real estate	1,083	122	103
Allowance for non-real estate	(993)	(71)	(91)
Total non-real estate	90	51	12
Property type	3,414	1,957	1,312
Allowance	(2,144)	(1,041)	(595)
Total	Ps. 1,270	Ps. 916	Ps. 717

Restructuring of Credits

The deteriorating economic situation in Mexico subsequent to the December 1994 devaluation and the increase in the portfolio of non-performing loans led Mexican banks to implement restructuring programs in most of their business divisions. In addition, the Mexican government adopted a number of debtor relief programs to facilitate this process.

Restructured loans remain classified as non-performing until at least three payments have been made. Restructured loans under Mexican government support programs were considered performing loans.

When we restructure credits, we reclassify current accrued interest, past-due principal and past-due interest as current principal. If the restructuring results in a sufficient improvement in the quality of a credit, we may also maintain a smaller allowance for loan loss with respect to such credit and use the excess allowance to reduce the amount of additional provisions on other credits.

Debtor Support Programs

The devaluation of the peso in late 1994 and the subsequent economic crisis in Mexico have led to the introduction by the Mexican government of debtor support programs that have had significant effects on us. Substantially all of the outstanding debtor support programs were merged at the beginning of 1999 into a single industry-wide program known as *Punto Final*, which was adopted by the Mexican government and the Mexican Banking Association in December 1998 and became effective on January 1, 1999. The following is a description of the principal debtor support programs:

UDI program

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

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

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

As of December 31, 2006, we had approximately Ps.22,160 million aggregate amount of principal and interest of UDI-restructured loans, representing approximately 5.9% of our total loans as of that date.

As of December 31, 2005, we had approximately Ps.25,003 million aggregate amount of principal and interest of UDI-restructured loans, representing approximately 8.5% of our total loans as of that date.

As of December 31, 2004, we had approximately Ps.29,134 million aggregate amount of principal and interest of UDI-restructured loans, representing approximately 12.7% of our total loans as of that date (excluding FOBAPROA or IPAB Notes).

In conformity with Mexican Banking GAAP, the UDI Trusts are consolidated for the purpose of presenting our financial information.

Mortgage Loan Program

On May 16, 1996, the Mexican government announced the Mortgage Loan Program (*Programa de Beneficios Adicionales a los Deudores de Créditos para la Vivienda*), which sought to mitigate the effects of the Mexican economic crisis on mortgage loan debtors and to increase such debtors' ability to repay their outstanding loans. Mortgage loan debtors who had UDI-denominated loans and were current on their mortgage loans were able to obtain discounts on their monthly payments for a 10-year period retroactive for all payments made on the loans from January 1, 1996. Debtors with peso-denominated mortgage loans who wished to participate in the Mortgage Loan Program converted their peso-denominated mortgage loans into

UDI-denominated mortgage loans in order to be eligible to receive such discounts from the time of conversion. A borrower who converted a loan to UDIs in order to participate in the Mortgage Loan Program could elect new loan maturities of 15, 20 or 25 years, which has resulted in a lengthening of the average maturity of our mortgage loan portfolio. The Mexican government bears the cost of the discounts and will pay such amounts to mortgage lenders either in cash or by issuing Mexican-government securities. A similar discount program applies to mortgage loans funded through FOVI, although the discount applies during a period of four or five years depending upon the credit history of the debtor.

Under the Mortgage Loan Program, which was available to mortgage loan debtors prior to December 31, 1997, mortgage lenders were required to provide relief to eligible borrowers by permitting the transfer of the mortgaged property to the mortgage lender in full satisfaction of the loan and thereafter permitting the debtor to rent the mortgaged property from the mortgage lender. The monthly rent was capped at 0.9% of the market value of the mortgaged property, but could not exceed 35% of the mortgage loan debtor's monthly income. After such rental period, the mortgage loan debtor has the right to repurchase the property at a repurchase price equal to the market value of the property at that time, subject to such debtor's ability to obtain financing at that time. On August 5, 2004, we received from the Mexican government a payment related to the Special Cetes in the amount of Ps.2,690 million.

FINAPE

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

FOPYME

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

Local government loan restructuring program

On April 25, 1997, the Mexican government and commercial banks agreed to modify the terms of loans made to states and municipalities. The modifications included extensions in maturity, which may be extended up to an additional 12 years, reductions in interest rates and prepayment options. As of December 31, 2006, approximately Ps.1,519 million of our portfolio was included under this program, representing 0.4% of our total loan portfolio at that date.

***Punto Final* program**

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

Mortgage borrowers

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

The cost of the discounts offered by the *Punto Final* program for mortgage loans is shared with the Mexican government, which bears approximately two-thirds of the cost. We have recognized this cost as part of our allowance for loan losses. See note 4 to our audited financial statements included elsewhere in this offering memorandum.

At December 31, 2006, the principal amount of our mortgage loans subject to this program totaled Ps.20,113 million, representing 5.4% of total loans at that date.

Agricultural borrowers

The benefits of the *Punto Final* program to agricultural borrowers were offered only to those borrowers with loans granted before June 30, 1996. This program offers borrowers a discount on all payments on such loans, including principal, ranging from a 60% discount on loans up to Ps.500,000 (in nominal terms) to 16% on loans up to Ps.4 million (in nominal terms). These discounts were offered for payments made within two years from the date the program became effective.

The cost of the program offered to agricultural borrowers is shared by the federal government of Mexico and the bank, with the bank absorbing a percentage ranging from 15% of the cost of the discounts for loans under Ps.500,000 (in nominal terms) to 10% on loans above Ps.2 million (in nominal terms).

As of December 31, 2006, the principal amount of our agricultural loans subject to this program totaled Ps.33 million.

Small and medium-sized borrowers

The benefits of the *Punto Final* program to small and medium-sized business borrowers were offered only to those borrowers with loans granted before July 31, 1996. This program offers such borrowers a 45% discount on all payments on such loans, including principal, for the first Ps.500,000 (in nominal terms) of a loan's outstanding balance. An additional 20% discount was offered on the remaining balance up to Ps.2 million (in nominal terms). The maximum amount that may be refinanced under this program was Ps.10 million (in nominal terms) of outstanding balances as of January 1, 1999. These discounts were offered for payments made within two years from the date the program went into effect.

The cost of the program offered to small and medium-sized business borrowers is shared by the government and the bank, with the bank absorbing 22.5% of the cost of the discounts for loans under Ps.500,000 (in nominal terms) and 8.5% on loans above this amount.

As of December 31, 2006, we had no loans to small and medium-sized business borrowers subject to this program.

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

Other Restructuring Programs

Corporate Banking

Grupo Constructor RAM, S.A. de C.V., or RAM, a Mexican construction company, became our 55% subsidiary in May 1998 when we capitalized a loan of Ps.94 million (in nominal terms) as part of our workout efforts with RAM. No disposition of this investment is currently contemplated by us.

We acquired 50% of Telepeajes Electrónicos in May 2005 for U.S.$45.5 million in connection with workout efforts, which we continue to own jointly through a joint venture with an affiliate of a Mexican bank.

Middle-Market, Government and Mortgage Banking

As of March 31, 2007, our Middle-Market and Government banking division had restructured loans under the UDI program representing an aggregate outstanding amount of principal and interest of Ps.1,503 million (constituting 2.1% of the loans made by this division and 0.4% of our total loan portfolio).

Workout and Credit Recovery

We operate a central workout unit in Mexico City, as well as four smaller credit recovery units operating throughout Mexico. These units handle debt recovery for borrowers with loans in excess of Ps.2 million in current and past-due principal. Recovery prospects are measured by reference to a scale of 1 through 8, with a loan ranked 1 deemed to have the best recovery prospect and a loan ranked 8 deemed to have the worst recovery prospect. The credit recovery units are automatically engaged in respect of non-performing loans ranked 6 or higher.

In the event that a credit recovery unit is unable to reach an agreement with a borrower in respect of non-performing loan amounts and the borrower fails to propose terms for an alternative satisfactory restructuring agreement, the unit submits the loan to our litigation department for the initiation of an action to recover the loan. Foreclosure procedures on collateral in Mexico can take a long period of time. These procedures require the filing of a written petition with a Mexican court, requesting the court's authorization to complete the foreclosure. This petition and its approval process are generally subject to significant delays. Accordingly, the value of the collateral may be impaired during the foreclosure process as a result of delays or other factors. As a result, there can be no assurance that the rate of non-performing loan recoveries will not decrease in the future. Loans with respect to which recovery has been unsuccessful despite the implementation of workout procedures and litigation, are charged off.

Short-Term Borrowing and Securities Sold Under Agreements to Repurchase

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

	As on December 31,					
	2004		2005		2006	
	Amount	Rate	Amount	Rate	Amount	Rate
	(millions of constant pesos as of December 31, 2006, except percentages)					
Short-term borrowings:						
At end of period	Ps. 50,169	3.41%	Ps. 39,894	4.79%	Ps. 12,025	15.76%
Daily average indebtedness during period	27,862	6.13%	22,316	8.55%	27,124	6.99%
Maximum month-end balance	50,169		39,894		39,081	
Securities sold under agreements to repurchase:						
At end of period	127,749	7.73%	138,899	8.88%	206,202	5.77%
Daily average indebtedness during period	145,617	6.78%	133,086	9.27%	165,784	7.17%
Maximum month-end balance	Ps.182,496		Ps.158,371		Ps.219,854	
Total:						
At end of period	177,918	6.51%	178,793	7.97%	218,227	6.32%
Daily average indebtedness during period	173,479	6.68%	155,402	9.17%	192,908	7.15%
Maximum month-end balance	Ps.232,665		Ps.198,265		Ps.258,935	

Deposits

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

	As of December 31,		
	2004	2005	2006
	(millions of constant pesos as of December 31, 2006)		
Interest-bearing demand deposits:			
Peso-denominated	Ps.137,413	Ps.151,452	Ps.164,624
Foreign currency-denominated	32,969	31,688	27,078
Subtotal	170,382	183,140	191,702
Non interest-bearing demand deposits:			
Peso-denominated	35,160	42,349	48,889
Foreign currency-denominated	5,706	6,561	7,314
Subtotal	40,866	48,910	56,203
Saving deposits:			
Peso-denominated	138	134	129
Foreign currency-denominated	172	134	238
Subtotal	310	268	367
Time deposits:			
Peso-denominated	203,217	156,133	148,003
Foreign currency-denominated	14,153	6,770	6,977
Subtotal	217,370	162,903	154,980
Total	Ps.428,928	Ps.395,221	Ps.403,252

THE BRANCH

General

On December 1, 1980, our Grand Cayman branch was granted its Category "B" banking license under The Banks and Trust Companies Law of the Cayman Islands, as amended, or the CI Banking Law. Through the Branch, we are duly registered as a foreign company under the Companies Law. The Branch's registered office is the Bank of America Building, Fort Street 67, Unit Three Ground Floor, George Town, Grand Cayman, Cayman Islands. HSBC Financial Services (Cayman) Limited is the current representative and administrator of the Branch in the Cayman Islands with its principal office in P.O. Box 1109 GT, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands. As its representative and administrator it is in charge, principally, of maintaining its records and accounts and to keep the branch informed of all matters necessary to maintain the branch in good standing under the Laws of the Cayman Islands.

A Category "B" banking license restricts the branch from taking deposits from persons resident in the Cayman Islands other than another licensee or an ordinary or non-resident company that is not carrying on business in the Cayman Islands, or from investing in any asset representing a claim on any person resident in the Cayman Islands, subject to certain exceptions. A Category "B" banking license also restricts the branch from carrying on business in the Cayman Islands other than those businesses for which the Category "B" license has been obtained unless written approval of the Cayman Islands Monetary Authority, or the Monetary Authority is obtained.

Activities

The branch is not an independent entity. The majority of its transactions are performed under our direction and involve treasury and investment activities, granting credits, and participating in transactions in the fixed income, futures and derivatives markets. The branch does not take deposits from corporate or individual customers.

Regulation of the Branch

Under Mexican law, the branch's obligations are our obligations. The branch is subject to regulations issued by the CNBV and Banco de Mexico, including liquidity requirements. See "Supervision and Regulation—Reserve Requirements and Liquidity Coefficients."

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

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

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

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

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

THE BANK

We are a leading multi-purpose bank with limited liability organized under Mexican law and provide a wide range of banking, securities and financial services to approximately 50,000 companies and over 14 million retail customers throughout Mexico. As of December 31, 2006, we had total assets of Ps.602,770 million and total deposits of Ps.403,993 million. In 2006, we had net income of Ps.17,927 million and stockholders' equity of Ps.70,588 million. As of December 31, 2006, based on total assets and deposits, we were the largest bank in Mexico.

We are the principal subsidiary of Grupo Financiero BBVA Bancomer, or GFBB, a Mexican financial services holding company. GFBB is controlled and substantially all of its capital stock is beneficially owned by Banco Bilbao Vizcaya Argentaria, S.A., or BBVA, a leading Spanish bank. As of December 31, 2006, GFBB accounted for approximately 14% of BBVA's total assets and contributed approximately 37% of BBVA's net income. As of December 31, 2006, we accounted for approximately 96% of GFBB's total assets and approximately 83% of GFBB's net income.

As of December 31, 2006, we provided a wide variety of banking products and services in Mexico through a nationwide network of 1,754 branches, 4,850 ATMs, 83,014 point of sale terminals and our website at *www.bancomer.com*, an interactive portal for customer information and transactions, which should not be considered a part of this offering memorandum. We are focused on offering our services in an efficient manner, and approximately 81% of our banking transactions are done electronically (primarily through ATMs and other remote channels).

Our loan portfolio and net income has shown growth in recent years due to significant branch and product expansion. Our net income grew 10.7% in 2003, 47.2% in 2005 and 102.1% in 2006, in each case as compared to the previous year. Net income decreased 14.1% in 2004 as a result of our agreement with the IPAB to reacquire loans held in trust under the FOBAPROA program that were identified as "related party loans." Our loan portfolio grew 0.8% in 2003, 14.7% in 2004, 27.7% in 2005 and 26.4% in 2006, in each case as compared to the previous year.

The table below sets forth our market share in the following sectors of the Mexican financial system as of December 31, 2006. The following information is presented on a consolidated basis.

	As of December 31, 2006(1)	
	Market Share	**Rank**
Total assets	23.3%	1
Total deposits	24.5%	1
Total peso-denominated bond issuances(2)	16.4%	1
Total loans	27.0%	1
Number of branches	20.8%	1

(1) Except as otherwise stated, the source of the information in this table is the CNBV. Excludes banks subject to government intervention by Mexican authorities.

(2) Source: Bloomberg L.P.

Our principal subsidiaries include:

- Administradora de Fondos para el Retiro Bancomer, S.A. de C.V., or AFORE Bancomer, a pension fund management company; and
- Bancomer Financial Holdings, a holding company that owns our operations in the United States, including Bancomer Transfer Services, Inc., or Bancomer Transfer Services, a money remittance service based in the United States, and BBVA Bancomer USA (formerly named Valley Bank), a commercial bank in California that we acquired in 2004.

Organizational Structure

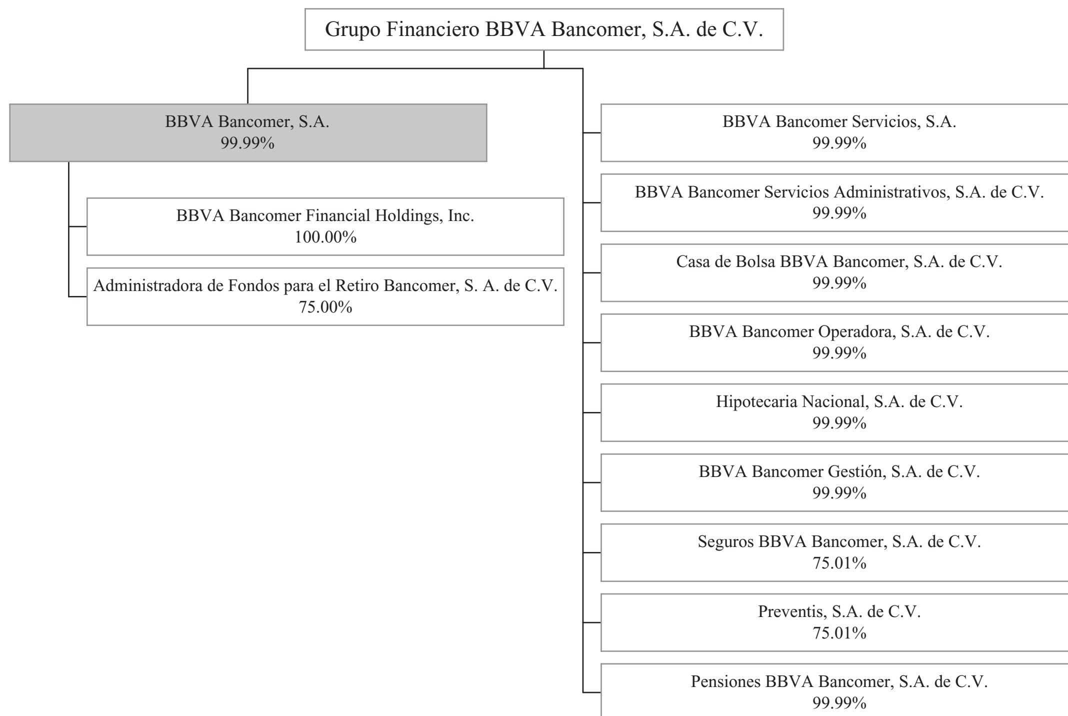
We are the principal subsidiary of GFBB, a Mexican financial services holding company.

In addition to our own products and services, we distribute and earn fee income from a wide range of financial and related products and services in Mexico for GFBB and other affiliates, including:

- bank assurance products on behalf of Seguros BBVA Bancomer, S.A. de C.V.;
- mutual funds on behalf of BBVA Bancomer Gestión, S.A. de C.V.;
- brokerage services on behalf of Casa de Bolsa BBVA Bancomer, S.A. de C.V.;
- pension fund management on behalf of Pensiones Bancomer, S.A. de C.V.; and
- trust and ATM services on behalf of BBVA Bancomer Servicios, S.A., Institución de Banca Múltiple.

We also purchase mortgage loans, at market prices, from Hipotecaria Nacional, S.A. de C.V., or Hipotecaria Nacional. As a result of the purchase of such loans, we pay Hipotecaria Nacional a service fee.

The following chart presents our current organizational structure and that of GFBB, including principal subsidiaries and affiliates, and respective ownership interests:



Our headquarters are located at Avenida Universidad No. 1200, Colonia Xoco, Mexico City, Mexico 03339. Our telephone number at that address is (5255) 5621-3434. See “The Bank—Properties.”

Our History

General

Our origins can be traced back to Banco de Comercio, S.A., which was founded in 1932 in Mexico City. In 1977, various institutions comprising the Banco de Comercio group were consolidated into a multiple purpose bank under the name of “Bancomer.” The merger enabled us to maintain our strong ties with local communities throughout Mexico and simultaneously offer the services of a national banking network.

Bancomer was nationalized by the Mexican government in 1982 along with nearly all other commercial banks in Mexico. As part of the subsequent privatization process, in 1991, a core group of Mexican investors led by Eugenio Garza Lagüera incorporated Grupo Financiero Bancomer, or GFB, to acquire 56% of Bancomer's outstanding capital stock directly from the Mexican government.

GFB subsequently increased its ownership of Bancomer through acquisitions and, in 1993, the Mexican government exchanged its remaining stake in Bancomer for shares of GFB's capital stock, which gave GFB control of nearly 100% of Bancomer's outstanding capital.

BBVA's investment in GFBB

In 2000, BBVA acquired operating control of Grupo Financiero Bancomer, S.A. de C.V., which was renamed Grupo Financiero BBVA Bancomer, S.A. de C.V. As a result of a merger of Grupo Financiero BBV-Probursa, S.A. de C.V., or BBV-Probursa, an indirect subsidiary of BBVA and the parent of Banco Bilbao Vizcaya Mexico, S.A., or BBV-Mexico, into GFB in July 2000, BBVA obtained an approximate 30% interest in the outstanding capital of GFB. As a result of a series of transactions effected between January 2002 and March 2004, BBVA acquired approximately 99.9% of the capital stock of GFBB.

Following BBVA's initial investment in GFBB in 2000, we grew as a result of our September 2000 merger with Promex, an insolvent bank that had been acquired by the Mexican government, and, to a lesser extent, the transfer of a substantial portion of the traditional banking business of BBV-Mexico to us in 2001. As part of such transfer, certain of our assets and activities, including our ATM network, were transferred to BBV-Mexico. In connection with such transfer, we were renamed BBVA Bancomer, S.A., Institución de Banca Múltiple and BBV-Mexico was renamed BBVA Bancomer Servicios, S.A., Institución de Banca Múltiple, or BBVA Bancomer Servicios.

Strategy

Our principal strategy is to leverage our leading position in Mexico and our relationship with BBVA to enhance our position as the leading Mexican bank. To achieve this goal, we intend to focus on the following objectives:

Continuously developing products and services

We seek to broaden the variety of products we offer to our individual, corporate and middle-market customers in order to differentiate ourselves as much as possible from our competition. To this end, in 2006, we continued our effort to identify the needs of our customers and tailoring products and services, including electronic solutions to address their needs, develop new business ideas, seek out new business opportunities and help expand our business activities.

Product offerings include the continued development of a credit-card-based customer loyalty program called "*Vida Bancomer,*" which allows our customers to easily access rewards through state of the art proprietary technology at participating merchants; on-site check debiting for corporate customers through a new treasury service package; financial products such as the first-ever capital-guaranteed mutual fund in Mexico; payroll-linked funds; advanced e-banking services for our middle-market customers, including self-service revolving credit lines; and new mortgage products such as "*Hipoteca Cambio de Casa,*" which is designed to help our customers buy a new home without needing to sell their current home and "*Your dream home in Mexico,*" a mortgage product that has been introduced jointly with Laredo National Bank (a subsidiary of BBVA) and that is aimed at assisting residents of Canada and the U.S. interested in purchasing a home in Mexico.

Other examples of new products are "*Bancomer Platinum*," which is a credit card designed for people with income higher than Ps.40,000 a month with specific benefits for this segment, and "*Tarjeta 40*" which is a pre-paid card for young people in alliance with a major radio station in Mexico.

Our goal is to continue to provide for the needs of our customers, and to increase our revenues through creative development of products and services.

Selectively increasing and diversifying our lending activities

While we presently serve a large percentage of the major Mexican corporate market, we intend to continue to monitor the needs of this sector and to seek new opportunities to increase and diversify the range of lending to this market. In addition, we estimate that we can provide diverse financial services to a significant portion of the Mexican population that is not currently served by the banking system, thus providing us with a considerable opportunity to increase our revenues through selective lending activities. We intend to focus on opportunities to increase lending to this under-served segment and broaden our offering of loans, including loans to middle-market customers, such as working capital and fixed-asset financing, and loans to consumers, such as payroll loans. We intend to undertake all such lending based on careful risk analysis, knowledge of our customers, fine-tuning our credit terms and, to the extent necessary, our customer monitoring and collection processes.

Improving operating efficiencies and strengthening our core earnings

Over the last few years, we have made a considerable effort to reduce expenses. We believe that our efforts have afforded us an advantage over our competitors. According to the CNBV, as of December 31, 2006, our efficiency ratio, which is defined as administrative expense divided by the sum of net interest income (before provisions), commissions and fees and trading income, was 41.9% compared to an aggregate ratio of 53.3% for our principal competitors. Our efforts at reducing expenses have focused on lowering our funding costs, generating synergies with Hipotecaria Nacional and improving our operating processes.

We believe that a principal part of our strategy going forward will be to continue to seek ways to improve our operating efficiency and increase our core earnings. We intend to continue to accomplish these goals by seeking to reduce our funding costs through selective market and bank offerings, maintaining a low-cost deposit base, concentrating our efforts on higher margin products and services, and increasing our fee-based service charges. We seek to maintain this advantage by focusing on core earnings and maintaining strict investment and expense policies. We intend to continue to improve efficiencies through specialized training of our personnel, increased use of automated data and related systems and the use of external suppliers for non-strategic activities when doing so is more cost-effective than using in-house services.

Our "core earnings," which we define as net interest income before monetary gain and net commissions and fees, minus non-interest expense, grew, 22.4%, 29.2% and 46.4%, in each of 2004, 2005 and 2006, respectively as compared to the prior year.

Enhancing customer loyalty

We view customer service as a top priority, as we consider it to be one of the differentiating elements that enables us to have a market advantage in a highly competitive financial services industry.

As part of our commitment to customer loyalty, we expect to continue to introduce new services as part of "*Proyecto Cliente,*" an initiative that has been in place since 2002. As part of "*Proyecto Cliente,*" we conduct frequent surveys on customer satisfaction, which we use to implement improvements to our back and front office operations to enhance customer service.

In 2004, we also established "*Garantías Bancomer*." In 2006, the program was expanded to include a maximum response time for customer inquiries, and complete reimbursement/no liability coverage for fraudulent credit and debit card purchases, including electronic notification if debit or credit cards are used to make purchases that are greater than Ps.1,000.

In March 2005, we launched "*Vida Bancomer,*" the first customer loyalty program utilizing a credit card with an embedded intelligent microchip running proprietary software developed to offer real-time rewards to customers and marketing and merchandising flexibility to merchants. Clients can redeem points, coupons and discounts on-site and merchants can control their advertising and promotional activity by tailoring triggers to reward customer loyalty based on age, gender or spending habits.

We believe that "*Vida Bancomer*" offers us a competitive advantage that cannot be easily replicated given that it requires software development, significant investment and installation of customized microchips in merchant point-of-sale terminals as well as the issuance of cards with microchips. In 2006, we added 11,517 merchant affiliates to the program. As of March 31, 2007, we had over 26,000 merchants affiliated with the program, and had issued approximately 3.5 million credit cards with microchip technology.

We intend to continue to pursue a customer-driven business model, which is based on specialized distribution networks, in order to build and enhance customer loyalty. We intend to enhance customer loyalty by continuing to utilize the specialized services and knowledge of our 36 private bankers who cater to high net worth individuals in our Personal and Private Banking unit, increasing the availability and services of our 53 dedicated personal banking offices for high deposit individuals and improving our network of offices that service our small business, middle-market and large corporate customers. In each of these activities, our goal is to provide our personnel with detailed credit and other information concerning our customers and their activities, as well as information concerning our products and services, which enables them to better identify our customers' needs and offer them more suitable products and services.

Business Divisions

We operate through a number of divisions, principally a retail banking division, a middle-market and government banking division, a mortgage banking division, a corporate banking division, an investment banking division and *Finanzia*, which is a consumer finance unit specializing in private label credit cards and auto loans to lower income individuals.

Retail Banking Division

Our Retail Banking division is our major operating division and focuses on providing banking services and originating retail loans through our network of 1,754 retail branches and 4,850 ATMs throughout Mexico, as well as through channels outside of these networks, including 83,014 point-of-sale terminals, and our interactive customer information and transactional website, www.bancomer.com, which should not be considered a part of this offering memorandum. Our Retail Banking division handles credit and debit cards, automobile loans, consumer loans, and loans to small businesses. In addition, the Retail Banking division is responsible for providing customized financial and investment services to small businesses, as well as high net worth individuals through our Personal and Private Banking unit.

As of December 31, 2006, our Retail Banking division catered to over 14 million customers, 95% of which are retail customers, 4% of which are Preferred, Personal and Private Banking customers and approximately 1% of which are small businesses, which we define as companies with annual sales or revenues under Ps.30 million, many of which are organized as sole proprietorships. As of December 31, 2006, our Retail Banking division accounted for approximately 30% of our total loan portfolio, and reported approximately 66% of our demand and time deposits and 65% of our net interest income and 73% of our fee income.

Deposits

We believe that our diversified and stable deposit base provides us with a low-cost source of funding. Our deposit base has traditionally been one of our strengths and represents an area of prime strategic importance.

The following table shows our market share on traditional deposits as of December 31, 2006:

Mexican Geographic Area	Market Share (%) as of December 31, 2006(1)
Center	34.4
Bajio	35.6
Mexico City	20.6
Northeast	24.8
Northwest	32.8
North	29.5
West	38.2
South	35.1
Southeast	27.9

Source: Mexican Banking Association.

(1) Traditional deposits are the sum of demand deposits (including checking accounts and savings deposits), time deposits and fixed-income mutual fund assets under management (peso-denominated debt securities issued by us that are held by affiliated mutual funds. It is customary for Mexican banks to include such debt securities as deposit liabilities, as the placement of such debt securities through mutual funds has traditionally been seen in Mexico as a measure of a bank's ability to attract peso-denominated deposits).

Our flagship savings account product is aimed at increasing our deposit base and maintaining competitive funding costs. *El Libretón* offers account holders a chance to win prizes. Promotional campaigns are typically held twice a year for two-week periods offering prizes such as electronics or other household goods to account holders who open or increase balances by at least Ps.3,000. In addition, these customers are entered into raffles for more expensive prizes such as automobiles. As of March 31, 2007, according to the Mexican Banking Association, *El Libretón* had a 59.9% market share in savings accounts.

Credit cards

We are a leading bank issuer of Visa, MasterCard and private label credit cards in Mexico. Revenues from credit card operations are derived primarily from annual fees charged per account, variable interest rates charged on monthly account balances and merchant fees. As of December 31, 2006, we had over 14 million credit cards (including Visa, MasterCard and private label credit cards) issued and outstanding and more than 11,834 million credit card accounts, representing an increase of over 4.3 million credit cards from December 31, 2005, primarily as a result of ongoing marketing efforts. Approximately 60% of our credit cards are private label credit cards. Outstanding credit card balances constituted the highest yielding segment of our loan portfolio for December 31, 2006. As of December 31, 2006, total credit card loans outstanding were Ps.68,948 million. Aggregate credit card billing for December 31, 2006, totaled Ps.138,973 million.

As part of our strategy to expand our reach into lower income segments of the population, we introduced the "*Tarjeta Congelada*" in 2004, which is aimed at consumers with Ps.4,000 to Ps.6,000 in monthly income. These consumers do not typically qualify for a traditional credit card. The *Tarjeta Congelada* offers a revolving line of credit with fixed monthly payments. We had approximately 560,000 *Tarjeta Congelada* customers as of December 31, 2006. In 2006, we launched "*Tarjeta Express Bancomer,*" which is an electronic pre-paid card for direct debiting of up to Ps.5,000 with no fees. *Tarjeta Express Bancomer* is specifically designed for our branch users, people who use our network to pay for services but do not have another banking relationship with us.

Other examples of new products are "*Bancomer Platinum*," which is a credit card designed for people with income higher than Ps.40,000 a month with specific benefits for this segment, and "*Tarjeta 40*" which is a pre-paid card for young people in alliance with a major radio station in Mexico.

In March 2005, we launched "*Vida Bancomer,*" the first customer loyalty program utilizing a credit card with an embedded intelligent microchip running proprietary software developed to offer real-time rewards to customers and marketing and merchandising flexibility to merchants. Clients can redeem points, coupons and discounts on-site and merchants can control their advertising and promotional activity by tailoring triggers to reward customer loyalty based on age, gender or spending habits.

We believe that "*Vida Bancomer*" offers us a competitive advantage that cannot be easily replicated given that it requires software development, significant investment and installation of customized microchips in merchant point-of-sale terminals as well as the issuance of cards with microchips. In 2006, we added 11,517 merchant affiliates to the program. As of March 31, 2007, we had over 26,000 merchants affiliated with the program, and had issued approximately 3.5 million credit cards with microchip technology.

Debit cards

We issue debit cards through a variety of different account products. As of December 31, 2006, we have a total of approximately 14.1 million debit cards. Aggregate debit card billing for December 31, 2006, totaled Ps.454,779 million, a 9% increase compared to 2005.

Consumer credit

Our consumer loan portfolio consists largely of unsecured personal loans, primarily for the purchase of consumer durables. We also offer automobile loans. Consumer credit, excluding credit cards, increased from Ps.26,324 million as of December 31, 2005, to Ps.37,978 million as of December 31, 2006, a 44% increase, primarily as a result of a 6% increase in personal loans and a 45% increase in automobile loans.

Through "*Creditón Nómina*," a credit program collected through payroll deductions, customers can borrow up to four months salary and repay the balance over the course of three years. In 2006, we issued more than 680,000 such loans, a 15% increase compared to 2005.

Loans to small businesses

Our Retail Banking division provides banking services and originates loans for small businesses. The maximum level of credit extended to such companies is generally limited approximately Ps.3.5 million, and such loans are generally secured.

In 2004, we developed revolving credit lines for our small business clients, which do not require collateral. We refer to these credit lines as "*Tarjeta Negocios.*" *Tarjeta Negocios* are limited to Ps.1,000,000, and are primarily used by our small business customers to finance their working capital needs. *Tarjeta Negocios* can also be used as a credit card, which allows a large number of our small business customers to access bank financing for the first time. Small business owners can use their line of credit electronically and write checks against their line of credit. *Tarjeta Negocios* has the support of a Ps.233 million guarantee fund established by the Ministry of Economy (*Secretaría de Economía*) as part of a credit expansion program. As of December 31, 2006, we had issued approximately 59,000 small business loans compared to 38,000 as of December 31, 2005, an increase of approximately 55%.

Personal and Private Banking

We provide customized financial and investment services to high-deposit and high net worth individuals (generally persons with funds exceeding Ps.2 million and Ps.10 million, respectively), through our Personal and

Private Banking unit. These customers are assigned a relationship officer who is familiar with the customer's individual needs, and who can recommend and provide access to specialized products and services.

The Personal and Private Banking unit has 53 offices and 239 executives located throughout Mexico who cater to approximately 20,000 customers. The Personal and Private Banking unit is the Retail Banking division's most recent initiative to provide our customers with tailored solutions to their financial planning needs. A network of 36 private bankers are located in our personal banking offices to cater to approximately 3,000 clients.

Together with Casa de Bolsa BBVA Bancomer, S.A. de C.V., GFBB's brokerage subsidiary, we offer securities trading for customers based on market prices.

Distribution channels

As of December 31, 2006, our branch network consisted of 1,754 branches, of which 424 were located in the greater Mexico City area, and the remainder were located elsewhere in Mexico. As of December 31, 2006, we had the largest national branch network, including 1,589 full-service branches, 41 supermarket branches, and 124 specialized branches (located in companies and customs offices near the U.S.-Mexican border to facilitate payment of customs duties). Each of our branches reports to one of 11 divisions located throughout Mexico. We also have branches in Houston, Texas, and in Grand Cayman, in the Cayman Islands. We expect to grow our branch network by approximately 100 branches in 2007.

As of December 31, 2006, our ATM network consisted of 4,850 ATMs owned by BBVA Bancomer Servicios, a wholly owned subsidiary of GFBB. We operate all of these ATMs pursuant to contractual agreements with BBVA Bancomer Servicios. Our ATM network is the third largest in Mexico. BBVA Bancomer Servicios intends to replace 617 ATMs and increase its network by 668 additional ATMs by the end of 2007. We believe that additional ATMs will help us to remain competitive with other Mexican banks. In 2006, ATMs were our most important transactional channel, processing more than 572 million transactions, or approximately 35% of our total retail banking transactions, whereas www.bancomer.com, which should not be considered a part of this offering memorandum, and "*Línea Bancomer*" processed 285 million and 81 million transactions, respectively.

Our Retail Banking division also operates a call center and telephone banking service, which we refer to as "*Línea Bancomer*," that allows our customers to call toll-free to conduct certain basic banking transactions, including obtaining account balances and transferring funds. Customers' calls are processed in our large-scale call center located in Mexico City. Our call center also allows us to perform telemarketing activities to offer credit cards and bank assurance products (provided by Seguros Bancomer, S.A. de C.V., an affiliated subsidiary of GFBB) to our customers, as well as services such as the payment of bills and automatic debits to checking accounts.

Our website, www.bancomer.com, which should not be considered a part of this offering memorandum, allows our customers to conduct a wide range of banking transactions, including account balance inquiries, requesting copies of statements and payments and transfers of funds to third parties. In 2006, www.bancomer.com processed over 285 million transactions. In 2006, other remote service channels such as telephone banking, PC- and e-banking, point-of-sale terminals and direct debiting handled 46% of our retail banking transactions, a 15% increase from 2005 in the number of transactions through these channels.

Specialty consumer finance

On January 1, 2007, our "*Finanzia*," private label credit card and auto loan business unit, which was formerly part of our Retail Banking division, was organized as a separate business unit reporting directly to our Chief Executive Officer. "*Finanzia*" targets lower income customers and seeks to do so through partnerships with more than 2,000 points of sale (such as supermarkets, retailers and car dealerships) to operate their lending

activity through specially "private label" credit cards and other loan products tailored to these retailers. Because these retailers' clients tend to belong to the lower-income segment of the Mexican population, "*Finanzia*" has developed significant market information relevant about lending to this segment. Approximately two-thirds of our credit cards are private label cards that are part of the *Finanzia* program, and a majority of our automobile loans are the result of strategies developed by our *Finanzia* business unit.

In 2004, we introduced "*Servicio de Venta de Automóviles*," or SEVA, our automobile financing program. Building upon "*Finanzia's*" experience, we provide financing for up to a maximum of 80% of the price of a new automobile purchased at any of the more than 500 affiliated auto dealerships throughout Mexico. Since the introduction of SEVA, the number of automobile loans has increased the monthly average from approximately 1,000 at the beginning of 2004 to a monthly average of 6,897 per month as of December 31, 2006. We issued 82,768 automobile loans as of December 31, 2006, approximately 25,618 more automobile loans than we issued in 2005 and 43,612 more automobile loans than in 2004.

As of December 31, 2006, "*Finanzia's*" loan portfolio totaled Ps.29,035 million. Although we believe that "*Finanzia's*" loans may have greater risk of non-payment for us, we expect that they will provide us with better margins.

Middle-Market, Government and Mortgage Banking division

As of December 31, 2006, our Middle-Market, Government and Mortgage Banking division offered financial products and services to middle market to medium-size companies, government entities and consumers of mortgage products through a network of 257 branch offices located throughout Mexico. Our services include the extension of traditional credit, direct deposit, leasing, trust and mortgage services.

Middle-Market and Government Banking unit

Our Middle-Market and Government Banking unit serves our medium-size private sector customers, which are companies with annual sales between Ps.30 million and Ps.1,000 million. In 2005, this unit experienced significant growth from the loans and other financing to construction, housing, services, hotel and commercial sectors.

The Middle-Market and Government Banking unit also serves large municipalities and state governments and their agencies throughout Mexico. The federal government of Mexico generally guarantees our loans to municipal and state governments. The unit also extends credit and provides various banking and other financial services to the federal government of Mexico, its agencies and government-owned entities.

As of December 31, 2006, the Middle-Market and Government Banking unit had approximately a 32,540 customers and accounted for approximately 20% of our performing loan portfolio, 20% of our demand and time deposits, 10% of our net interest income and 8% to our fee income.

Mortgage Banking unit

On January 1, 2007, the Mortgage Banking unit, which formerly was part of the Middle-Market, Government and Mortgage Banking division, was organized as a separate business unit reporting directly to our Chief Executive Officer.

We provide a variety of mortgage products to individuals and housing developers in Mexico, and to a lesser extent, to developers of commercial real estate. Since 2005, we have originated all mortgage loans through specialized personnel of Hipotecaria Nacional (which GFBB acquired in 2005) assigned to our Mortgage Banking unit. Substantially all mortgage loans that we originate are recorded on our books, excluding certain mortgage loans granted under government programs for low-income housing. Hipotecaria Nacional's outstanding

mortgage portfolio is expected to continue to decrease over time as the remaining mortgages on its books are assigned to us at market prices.

Our most popular mortgage loans are denominated in pesos, with maturities from 5 to 20 years at fixed interest rates that vary over time. In 2006, we launched "*Hipoteca Cambio de Casa,*" which is designed to help our customers buy a new home without needing to sell their current home. "*Hipoteca Cambio de Casa*" consists of a mortgage loan of 100% of the value of the new home, plus an 8% loan for statutory expenses. In 2006, we also launched "*Your dream home in Mexico*", a mortgage product that has been introduced jointly with Laredo National Bank (a subsidiary of BBVA) and that is aimed at assisting residents of Canada and the U.S. interested in purchasing a home in Mexico. Loans made under the program are underwritten and funded by Laredo National Bank, are denominated in U.S. dollars, and have maturity options that include 15, 20 and 25 years with three possible types of interest rates: fixed, fixed/floating, and floating.

In 2006, the Mortgage Banking unit granted approximately 63,000 personal mortgages, and approximately 88,000 mortgages for housing developers, an increase of 25% and 27%, respectively compared to the number of mortgages granted in 2005, and we consolidated our leadership in the mortgage business by reaching a 41.2% share in the market of new personal mortgages originated during 2006 (comparing only the six biggest banks in Mexico and Sofoles that specialize in mortgage lending).

As of December 31, 2006, the Mortgage Banking unit accounted for approximately 31% of our total loan portfolio amounting to Ps.119,109 million. As of December 31, 2007, the Mortgage Banking unit accounted for approximately 315,255 individual customers and 841 housing developers, contributing 9% to our net interest income and 2% to our fee income.

We expect that our mortgage business will increase as the expected demand for housing in Mexico increases and continues to develop.

Corporate and Investment Banking division

The Corporate and Investment Banking division provides comprehensive products and services in finance, securities and investment banking, cash management, project finance and export finance through a network of 9 branch offices located in Mexico's largest cities.

As of December 31, 2006, the Corporate and Investment Banking division had 496 customers, which consist of multinational companies that have a presence in Mexico and local companies that generally have annual sales or revenues over Ps.1,000 million. As of December 31, 2006, our Corporate and Investment Banking division accounted approximately 17% of our total performing loan portfolio, and 7% of our demand and time deposits, and contributed 3% of our net interest income and 6% of our fee income.

The Corporate and Investment Banking division is a leader in the origination, structuring and distribution of syndicated loans and peso-denominated debt securities (*certificados bursátiles*). It also provides financial advice and helps our clients find private equity or venture capital investment opportunities, equity offerings on the Mexican Stock Exchange and project financing. The Corporate and Investment Banking division uses its range of products and its knowledge of the local market to customize the financial solutions it offers to clients.

According to Bloomberg L.P., in 2006, the Corporate and Investment Banking division was the Mexican market leader in arranging peso-denominated syndicated loans as we acted as underwriter in peso-denominated debt offerings, totaling approximately U.S.$1.74 billion, compared to U.S.$1.79 billion in 2005.

Cash management

The cash management unit collects and disburses funds on behalf of companies and their suppliers, distributors, clients and employees to facilitate cash flow, reduce operating costs and improve information

management. This unit maintains an electronic payment service that enables corporate clients to make payments to employees, including direct deposits of salaries and wages. In addition, companies that subscribe to this service are able to make payments to other companies that maintain accounts with us or with other third-party banks. Direct deposits increased 49% between 2005 and 2006, from 10.7 million transactions in 2005 to 16.0 million transactions in 2006. Important projects in this area include the design of a payment system for Pemex for its gas-distribution customers and the creation of a pilot program with CEMEX, one of the world's largest cement companies, to permit its employees to make paperless deposits, an initiative that we later implemented for our offices, where all transactions can now be completed without paper deposit or transaction slips.

Business through subsidiaries and affiliates

AFORE Bancomer

AFORE Bancomer is a leading pension fund management company that had 4.3 million accounts as of December 31, 2006. As of that date, AFORE Bancomer had Ps.123,501 million in assets under management, and its market share in terms of assets under management was 17% according to the National Commission for Retirement Savings (*Comisión Nacional del Sistema de Ahorro para el Retiro*), or CONSAR, the Mexican pension fund regulator. In 2006, AFORE Bancomer recorded net income of Ps.700 million. We own 75% of AFORE Bancomer; the remaining 25% is beneficially owned by BBVA.

In February 2004, AFORE Bancomer was awarded ISO 9000:2000 certification for its asset management process. In addition, in July 2004, CONSAR granted AFORE Bancomer permission to trade in futures contracts on the Mexican Derivatives Market.

AFORE Bancomer currently manages three pension funds, *Siefore Básica 1* (*Bancomer Protege*) and *Siefore Básica 2* (*Bancomer Real*) for obligatory contributions, and *Siefore Adicional* (*Ahorro Individual Bancomer*) exclusively for voluntary contributions. As of December 31, 2006, these pension funds had market shares of 14.2%, 17.2%, and 36.7%, of their respective comparable markets.

Bancomer Financial Holdings

Bancomer Financial Holdings is a holding company through which we hold our operations in the United States, including Bancomer Transfer Services, a money remittance services company based in the United States, and BBVA Bancomer USA, a full-service bank based in California.

Bancomer Transfer Services

Bancomer Transfer Services offers money remittance services principally from the United States to Mexico. Customers may transfer funds to our branches in Mexico through any of the 32 BBVA Bancomer USA branches or through any other money remitter with which Bancomer Transfer Services has signed agreements, including Wells Fargo, MoneyGram International, Inc. and the U.S. Postal Service.

Bancomer Transfer Services handled 18,974 million transactions during 2006, totaling U.S.$7,773 billion, a 12% increase in the number of transactions and a 17% increase in the amount transferred during the same period in 2005. In addition, during 2006, Bancomer Transfer Services handled 3,465 million transactions for countries in Latin America (excluding Mexico), East Europe and Africa, totaling U.S.$ 1,407 billion, a 61% increase in the number of transactions outside Mexico and an 80% increase in the amount transferred compared to 2005. According to Banco de Mexico, Bancomer Transfer Services' business in 2006 represented over 36% of the electronic fund transfers from the United States to Mexico.

BBVA Bancomer USA

We acquired BBVA Bancomer USA (formerly named Valley Bank) in 2004. BBVA Bancomer USA has 32 branches and two lending offices in Los Angeles, California. Building on Bancomer Transfer Services' money transfer business, this acquisition is part of our efforts to better serve our customers in the United States. In addition to the services already offered by Bancomer Transfer Services, including money transfers, check cashing, sale of telephone calling cards and money orders, we expect that Bancomer Transfer Services will be able to offer traditional banking products and services by using BBVA Bancomer USA's banking license.

Other Activities

In 2006, we sold our 25.4% participation interest in Alestra. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Other Income (expense), net."

Competition

Overview

We face strong domestic competition in all aspects of our businesses from other Mexican financial groups, commercial banks, insurance companies and securities-brokerage houses as well as from non-Mexican banks and international financial intermediaries. In commercial banking, we compete with the other large Mexican banks, many of which, like us, have been incorporated into a financial group and seek to offer a broad array of products and services to their customers. In some areas of Mexico, we also compete with regional banks. We also compete with certain non-Mexican banks (principally based in the United States) for the business of the largest Mexican industrial groups, government entities and high net worth individuals, as well as in providing U.S. dollar-denominated financing. We also compete with certain retailers that recently obtained a banking license like Wal-Mart, Chedraui, and others. In investment banking, we face competition principally from other major Mexican securities-brokerage houses, as well as from international investment banks.

On January 19, 1999, the Mexican Congress removed the remaining restrictions on aggregate foreign ownership, but not individual limits on ownership, of Mexican banks and enacted legislation to change the composition of their boards of directors to further encourage investment by non-Mexican entities in Mexican financial institutions. In addition, NAFTA, the Free Trade Agreement between Mexico and the European Union, the Free Trading Agreement between Mexico and Japan, and relevant Mexican laws and regulations allow foreign financial entities incorporated in the United States, Canada, member states of the European Union and Japan to establish subsidiary financial groups, banks, broker-dealers and other financial entities in Mexico.

As of December 31, 2006, the Mexican banking system is comprised of 31 private-sector banks, of which 14 are principally Mexican-owned and 17 foreign-owned, and seven public-sector banks. Mexico's six largest private-sector banks, BBVA Bancomer, Banamex, Santander, Banorte, HSBC and Scotiabank accounted for approximately 85% of all outstanding loans by Mexican private sector banks as of December 31, 2006.

As a major commercial bank, offering a full range of services to all types of businesses and individual customers, we face a variety of competitors in different aspects of our business, ranging from large privately-owned commercial banks to more specialized entities like non-banking institutions and "niche" banks.

Commercial banks in Mexico compete in the retail market with limited-purpose financial institutions, or Sofoles, which offer mortgage, consumer and commercial loans mainly for low- and middle-income individuals. These institutions may engage in certain banking activities and are supervised by the same regulatory authorities as commercial banks, but are prohibited from engaging in foreign trade finance, offering checking accounts and engaging in foreign currency operations.

Until relatively recently, the commercial, mortgage and automobile credit market for middle- and low-income individual customers had been serviced almost exclusively by non-banking institutions. However, in

recent years banks have recovered market share from the non-banking institutions as they generally have cheaper funding sources available to them than do the non-banking institutions. In our case, we believe we have reinforced our position vis-à-vis non-banking institutions in the two markets in which they have become dominant, mortgage lending and automobile lending. We believe that we have accomplished this goal through the acquisition by GFBB of Hipotecaria Nacional, and through an initiative launched in 2004 to compete in automobile financing through a centralized toll-free number that offers highly competitive deals on purchases based on a network of alliances with automobile dealerships. See "—Business Divisions—Retail Banking division."

The table below sets forth our market share in the following sectors of the Mexican financial system as of December 31, 2006. The following information is presented on a consolidated basis.

	As of December 31, 2006(1)	
	Market Share	**Rank**
Total assets	23.3%	1
Total deposits	24.5%	1
Total peso-denominated bond issuances(2)	16.4%	1
Total loans(3)	27.0%	1
Number of branches(3)	20.8%	1

(1) Except as otherwise stated, the source of the information in this table is the CNBV. Excludes banks subject to government intervention by Mexican authorities.
(2) Source: Bloomberg L.P.
(3) Source: CNBV.

Commercial banks also face increasing competition from securities firms and other financial intermediaries that can provide corporate clients access to the domestic and international capital markets as an alternative to bank loans at very competitive prices.

The Mexican banking industry has experienced increased competition in recent years, which has led to, among other things, consolidation in the industry. Further consolidation may occur within the Mexican banking system, and Mexican regulatory authorities may be more open to allowing new market entrants. During 2006, Mexican financial authorities granted 13 new banking licenses, including several retail operations such as Wal-Mart, Bancoppel and Banco Ahorro Famsa.

We believe that we have several advantages over many foreign banks and smaller Mexican banks that allow us to compete effectively. However, increased competition in the future from both Mexican and foreign financial institutions may have an adverse effect on the interest rate that we can earn on our interest-earning assets or on the rate paid on our interest-bearing liabilities, adversely affecting our net interest margin, the rate of growth of our loan portfolio and our position in the Mexican financial services industry.

In the retail banking business, we compete with other private Mexican banks and with non-banking institutions. Among private Mexican banks, our strongest competitors in the retail market are Banamex, Santander, HSBC and Banorte, since those banks have also developed business strategies that focus on service coverage, branch network and strengthening of low cost distribution channels. We also consider these banks to be our most significant competitors in the small and medium-sized corporate segment.

The following table sets out certain statistics on the Mexican commercial banking system as of December 31, 2006:

	Assets		Loans		Deposits		Stockholders' Equity	
	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share
	(millions of constant pesos as of December 31, 2006, except percentages)							
Domestic private-sector bank	Ps. 482,641	14.6%	Ps. 316,548	16.7%	Ps. 338,792	17.4%	Ps. 67,206	15.5%
Foreign-owned banks	2,105,952	63.9%	1,059,949	55.9%	1,311,328	67.5%	281,784	65.1%
Private-sector total	2,588,593	78.5%	1,376,497	72.6%	1,650,120	84.9%	348,990	80.6%
Public-sector banks	466,450	14.1%	307,182	16.2%	292,783	15.1%	52,357	12.1%
Total banking system	3,055,042	92.6%	1,683,679	88.8%	1,942,904	100.0%	401,347	92.7%
Non-banking institutions	243,712	7.4%	213,467	11.2%	—	—	31,671	7.3%
Financial system total	Ps.3,298,754	100.0%	Ps.1,897,146	100.0%	Ps.1,942,904	100.0%	Ps.433,018	100.0%

Source: CNBV and the Mexican Association of Limited Purpose Financing Companies (*Asociación Mexicana de Sociedades Financieras de Objeto Limitado*).

Deposits

As of December 31, 2006, we had deposits of Ps.401,279 million. Our 24.5% share of the market for deposits, including borrowings from domestic financial institutions, ranks first among private-sector banks. The following table sets forth the market shares in terms of deposits for the six private-sector banks with the largest market shares as of December 31 in each of the last three years:

	Bank Deposits(1) As of December 31,		
	2004	2005	2006
BBVA Bancomer	28.3%	25.2%	24.5%
Banamex	21.0%	20.9%	19.8%
Santander	14.3%	15.8%	14.8%
HSBC	9.2%	9.3%	10.4%
Banorte	12.0%	13.0%	13.2%
Scotiabank Inverlat	5.6%	5.8%	5.6%
Total for six banks	90.4%	90.0%	88.3%

Source: CNBV.

(1) Includes demand deposits, savings deposits and time deposits.

Loans

As of December 31, 2006, we had the largest total loan portfolio among Mexican banks (Ps.371,619 million). Our total loan portfolio represented 27.0% of the market for loans in the Mexican banking system (comprising all commercial banks) as of such date. During 2006, our total loan portfolio increased by 26.4% compared to an increase of 19.6% in the average market loan portfolio. The following table sets forth the market shares in terms of loans for the six private-sector banks with the largest market shares as of December 31 in each of the last three years.

	Bank Loans As of December 31,		
	2004	2005	2006
BBVA Bancomer	24.1%	25.5%	27.0%
Banamex	20.1%	18.0%	16.3%
Santander	14.1%	13.0%	13.6%
Banorte	10.5%	10.1%	10.1%
HSBC	7.6%	11.4%	11.7%
Scotiabank Inverlat	8.0%	7.4%	6.3%
Total for six banks	84.4%	85.4%	85.0%

Source: CNBV.

Stockholders' equity

As of December 31, 2006, we ranked second among commercial banks in Mexico in terms of stockholders' equity.

The following table sets forth the level of stockholders' equity for the six largest private-sector banks in Mexico (measured by stockholders' equity) as of December 31 in each of the last three years.

	Stockholders' Equity As of December 31,		
	2004	2005	2006
	(millions of constant pesos, as of December 31, 2006)		
Banamex	Ps. 67,976	Ps. 74,334	Ps. 93,025
BBVA Bancomer	58,306	64,018	70,588
Santander	33,650	42,279	50,454
Banorte	15,642	19,982	24,265
HSBC	13,901	20,129	24,558
Scotiabank Inverlat	11,311	15,413	19,365
Total for six banks	Ps.200,785	Ps.236,155	Ps.282,255

Source: CNBV.

Properties

We are domiciled in Mexico and own our headquarters located at Avenida Universidad No. 1200, Colonia Xoco, Mexico City, Mexico 03339. As of December 31, 2006, we owned approximately 1,157 of the properties on which 1,754 of our full-service branches are located. We lease the remainder of our branches from unaffiliated third parties. We believe that our facilities are adequate for their intended purposes. We expect to

relocate our headquarters in the near future to a different area of Mexico City. As a result, five of our main buildings, including our headquarters located at Avenida Universidad, are currently for sale.

We also own an approximately 5,500 square-meter building in Monterrey, Mexico that houses our back-up computer facilities. The facility also provides computer services to BBVA's subsidiaries throughout Latin America. We receive a fee for these services on a cost basis.

Employees

The following table shows the breakdown of our full-time, permanent employees at the dates indicated:

	As of December 31,		
	2004	2005	2006
BBVA Bancomer	24,683	24,932	25,579
Overseas branches and representative offices	155	4	32
Subsidiaries	29	29	28
Total	24,867	24,961	25,607

As of December 31, 2006, we had 25,607 employees of which approximately 42%, were unionized. All management positions are held by non-unionized employees. We are party to a single collective bargaining agreement. The collective bargaining agreement was signed on January 30, 2007 and expires on January 31, 2008. We consider relations with our employees to be satisfactory.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial subjects, as well as participation in external seminars.

In conformity with Mexican labor laws, we are obliged to make severance payments to employees laid off under certain circumstances, as well as seniority premiums in cases of employees who have worked with us for at least 15 years. In addition, we offer pension funds to retired employees based on seniority, including life and disability insurance for all those who qualify for this benefit. The labor laws grant workers the right to a share of our profits, which must be distributed annually based on 10% of pretax earnings. The benefits that we grant our employees include benefits and incentive programs in addition to those established by labor laws.

Under the terms of our employment agreements, we are required to make certain post-retirement payments to our employees and their dependents. In accordance with Mexican Banking GAAP, since January 1, 2005, we are required to include these payments as an additional liability that must be reflected on our balance sheet. We are permitted to record the additional liability stemming from these payments as a one-time charge to our income statement, or we may amortize the effect of these payments on a straight-line basis over the expected remaining work-life of our workforce. We do not expect the application of this new Mexican Banking GAAP criterion to have an adverse effect on our financial condition or results of operations.

On December 6, 2006, we entered into an employer substitution agreement (*contrato de sustitución patronal*) with BBVA Bancomer Operadora, S.A. de C.V. (formerly GFB Servicios, S.A. de C.V.), or Operadora, a subsidiary of GFBB pursuant to which, as of January 1, 2007, all of our employees (except for our Chief Executive Officer) were transferred to Operadora's payroll. The transfer was made in order to give GFBB the flexibility to deploy personnel into its different business units without the need to change employers. All employees' salaries and benefits are paid by Operadora. We pay an amount equal to all employees' salaries and benefits plus a commission to Operadora as a service fee. All of our former employees continue to enjoy their former benefits and seniority. As a result of this transfer, all of our former employees are now part of a performance-based compensation program.

In order to effect this transfer, we funded Operadora to cover the transfer of our former employees' pension liabilities and, accordingly, we took a charge of Ps.2,607 million to our 2006 results, net of deferred income taxes. See note 21 to our audited financial statements included elsewhere in this offering memorandum.

Legal Proceedings

Deposit account cases

We have faced a number of lawsuits from depositors who held deposit accounts with one of our predecessor entities during 1979-1992, the period during which these entities were owned by the Mexican government. The plaintiff in each lawsuit has claimed that under the terms of the deposit agreement then in effect, we are required to pay the rate of interest (generally in excess of 95%) specified in such deposit agreement indefinitely, regardless of subsequent decreases in market interest rates.

In March 2005, a depositor claimed nonpayment of Ps.9,400 million in interest payments allegedly owed in respect of a deposit of Ps.2,500 (in nominal terms) made in 1987. Plaintiff claims that such deposit should accrue interest indefinitely at an annual rate of 96%. The initial judgment on this matter was favorable to us, but the depositor has filed an appeal. We believe that this appeal is without merit and we intend to vigorously defend it.

Standby letter of credit claim

After a corporate customer failed to reimburse us for amounts paid under a standby letter of credit agreement opened by it, we foreclosed on its deposit account and brought a lawsuit to collect all amounts owed under such standby letter of credit. In addition, we exercised our right to rescind our outstanding letter of credit agreement and refused to extend any further credit to the corporate customer.

In response, the corporate customer filed a countersuit in June 2003 claiming Ps.567 million (in nominal terms) in damages due to lost business opportunities with third parties allegedly caused by the termination of such letter of credit agreement. We believe that this claim is without merit and intend to vigorously defend it.

DTEX litigation

As a result of a loan made to Denimtex, S.A. de C.V., or Denimtex, we held a first priority lien on, among other things, equipment in a Denimtex factory. Although we held the first priority lien, a company known as DTEX LLC, or DTEX, acquired certain of Denimtex's equipment in July 2002 through an auction ordered by a Mexican labor court. We contended that DTEX wrongfully obtained this equipment in violation of our first priority lien. Beginning in 2003, we litigated this dispute with DTEX in Mexico. In 2006, DTEX was awarded a judgment against Bancomer in the amount of Ps.39,242,190, and Bancomer paid DTEX the full amount of the award.

While the legal proceedings in Mexico were pending, DTEX brought two lawsuits against us in the United States District Courts for the District of South Carolina and the Southern District of Texas, alleging that we wrongfully prevented DTEX from taking possession of the equipment. DTEX's South Carolina lawsuit was dismissed for lack of personal jurisdiction and failure to state a claim upon which relief could be granted, and this dismissal was affirmed by the United States Court of Appeals for the Fourth Circuit in January 2007. DTEX's Texas lawsuit was dismissed on April 9, 2007, based on the doctrine of *forum non conveniens*, and the deadline for DTEX to file an appeal in the United States Court of Appeals for the Fifth Circuit has not yet expired. We believe that DTEX's claims in the United States are without merit, and we are vigorously defending against them.

Other litigation

We are, and expect to continue to be, involved in various other legal proceedings, including tax and labor claims, arising in the ordinary course of business. Our management does not believe that the legal proceedings in which we are currently involved will, individually or in the aggregate, have a material adverse effect on our financial position or results of operations. See note 33 to our audited financial statements included elsewhere in this offering memorandum.

RISK MANAGEMENT

General

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

Mexican financial authorities have formulated rigorous risk management regulations for the banking sector. The CNBV has issued a set of requirements regarding risk management practices for all banking institutions in Mexico. The regulations require that banks have adequate policies and procedures in place to manage credit, liquidity, technological, market, operational and legal risk. This management process must include sound measurement and monitoring methods, as well as the establishment of risk limits. The regulations also require the establishment of a risk committee and a risk management unit. We are implementing a continuous program that management believes complies with the CNBV requirements.

Risk Management Organizational Structure

Our risk management has traditionally been delegated to a risk committee and a risk management unit. Our risk committee currently (1) decides on the strategies and policies related to mitigating financial risks, including the setting of risk limits; (2) evaluates the risk-return ratio; (3) analyzes catastrophic events scenarios and stress testing (4) defines and monitors the general strategy for the asset and liability ratio; (5) defines our general pricing processes and monitors its effects, and (6) analyzes the impact of new products on the asset and liability ratio. Our board of directors ratifies the strategies and limits set by our risk committee. The current members of our risk committee are Héctor Rangel Domene, Ignacio Deschamps González and Andrés Alejandro Aymes Blanchet, Luis Robles Miaja, Fernando Diaz Castañares, Alfredo Castillo, Oscar Cabrera and Gerardo Vargas. Our risk committee meets on a weekly basis or more frequently, if needed. The risk management unit identifies and measures the quantifiable risk of all our operations.

Credit Risk

Credit policies and procedures

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

Our board of directors determines the general credit policies for each of our different business areas. Various credit committees that have been specifically set up to centralize and implement our credit approval policies carry out these policies. Credit committees are responsible for credit approval decisions and define the appropriate approval level depending on the risk level.

Credit risk quantification

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

- Expected loss represents the 12-month average loss rate expected for a portfolio based on its current credit quality. Expected loss is determined by using a credit score, rating or behavior score depending on the client's profile to reflect the expected default frequency of a borrower and the expected loss given a default on any particular operation; this measure is accounted as a cost by us by creating a reserve
- Unexpected loss represents the uncertainty that actual losses will, in fact, differ from expected loss as it measures the impact of external events that may affect the likelihood of a client's payment and helps us to determine how much economic capital we need to maintain a satisfactory investment grade for our shareholders.

Credit analysis and pricing

Account officers are trained and responsible for assigning risk ratings based on an eight-step scale. These ratings are used as part of the loan application process. The ratings are assigned subjectively, depending on the overall credit exposure rather than the default risk of an individual loan, and are based on macro-economic conditions, current capacity to pay and projected payment capacity. Account officers are responsible for weighting the different factors to produce an overall score. The ratings are updated as the risk is perceived to change, and are reviewed every three months. An account officer's analysis of a loan application is accompanied by a summary of the major sources of risk. The pricing of the loan is tied to our risk and operating costs. The pricing formula is based on the following factors: cost of funds (as priced by our treasury unit) based on general local market conditions, our yield model and market competition; commissions; operating costs; expected losses; required margins; adjustment for risk rating, and capitalization requirements.

Retail lending analysis

We perform credit analyses of all our retail borrowers. In the case of individual borrowers, the credit approval process is based primarily on an evaluation of the borrower's repayment capacity. A credit officer who considers the following three factors evaluates the information presented by the prospective borrower: an automated scoring program (which considers the potential borrower's income, expenses and personal assets), the customer's credit history and our previous experience with the customer. We have improved our systems for tracking the repayment of loans and credit card balances. Decisions on the granting of loans are taken at various levels and with varying degrees of involvement by directors and officers, depending on the size of the loan under consideration and the aggregate amount outstanding to the borrower.

Our credit evaluation procedures with respect to credit cards are based on a computerized credit scoring system. The credit scoring process centralizes the decision making process in regards to both the issuance of credit cards and increases in credit limits. Centralization increases the level of control exercised in making such decisions. We have taken additional steps to improve the quality of our credit card assets, including raising the minimum gross monthly income requirement for credit card applicants and verifying the information contained in credit card applications more rigorously. Our data processing agreement with First Data Resources, Inc., a U.S.-based credit card information processing company, enhances our ability to assess the quality of our private label credit card portfolio. Under this agreement, we have access to on-line information about the credit history of our credit card clients that we use in our decision-making process regarding increases or decreases in the credit limit imposed on any particular client. In addition, we currently use the services of a Mexican credit bureau created jointly by us, other Mexican banks and a Mexican affiliate of TransUnion, a leading U.S. credit bureau.

Since 1996, we have reengineered our mortgage loan origination process by basing it on a computerized credit scoring system that centralizes the decision making process. The credit process starts at the pre-qualification phase that serves as a filter prior to the process of approving the loan and is where all required applicant information is reviewed to determine whether it meets the pre-qualification standards, including information about the applicant's credit history obtained through the credit bureau. Appraisal of the property is undertaken through a centralized appraisal unit. This division relies on independent, certified appraisers to perform property appraisals. The applicable credit committee reviews the applicant's file and the collateral file (including the appraisal) to determine the applicant's debt capacity and the authorized loan amount. Once the final decision is made, the credit contract is signed before a notary public, the deed is registered at the Public Registry, and the funds are disbursed to the applicant's checking account. Loan-to-value ratios are set according to the size of the loan with a maximum of 85%, which requires a minimum down payment of 15%. We only accept first mortgages on property.

Corporate and middle-market lending analysis

A potential corporate borrower's evaluation focuses primarily on the credit history and reputation of its owners and management, its production processes and facilities, its current and projected cash flows and the security offered for the loans. With respect to loans intended to finance a particular project, the evaluation focuses primarily on the experience of the borrower relating to such a type of project, the existence of a technological alliance, market conditions and the projected financial condition of the borrower. We assign a credit risk rating based on this analysis that helps identify the client's risk profile.

Account officers are responsible for preparing proposals regarding corporate loan applications. Each loan application is then classified according to its industry sector and is then reviewed by the credit manager responsible for that particular sector to determine whether it merits further consideration. The credit manager, in turn, presents the proposal to a credit committee for approval. A credit manager's authority to approve a loan is capped at a maximum of Ps.125 million (or its dollar equivalent). A central credit committee comprised of executives in the Risk Management division reviews loan applications above that level.

Loan applications above U.S.$30 million (or its peso equivalent) must be presented by the responsible credit manager to our technical committee of operations that is comprised of the Chairman of our board of directors, the Chief Executive Officer, the Executive Vice President of Risk Management, the Director of Credit Risk and the Executive Vice President of the applicable business unit.

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

In the middle-market lending, the credit business is divided into divisional sub-groups representing broad geographical sectors. The divisions are made up of regional offices. Each regional office has clusters of account officers. The regional directors and credit directors report to the divisional heads who, in turn, report to the business division director. Credit decisions are made in conjunction with credit consultants belonging to the credit administration group. Corporate lending is organized in four broad sectors: industrial and commercial, communications and services, finance, and manufacturing. The group has regional offices in Mexico City, Guadalajara and Monterrey.

Monitoring

We operate a compliance center to monitor our borrower's compliance with the term of loans. The compliance center monitors the dates and payments of the loans, the conditions and covenants of the loans and any authorized exceptions to standard procedures. The compliance center also operates an early warning default system. The monitoring process includes verification of the use of proceeds and contractual conditions, financial analysis of the borrower and guarantors, on-site visits to the borrower's place of business, confirmation of credit bureau information and analysis of the economic environment, among others.

Pursuant to the rules governing lending activities (*Disposiciones de Carácter Prudencial en Materia de Crédito Aplicable a las Instituciones de Crédito*) that became effective on January 1, 2006, Mexican banks must implement certain measures relating to lending controls including activities relating to loan promotion, evaluation, approval, documentation, management control and collection. We have implemented these measures with the approval of the CNBV.

Derivative financial instruments

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

Liquidity Risk

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

Our treasury unit is responsible for maintaining adequate short-term liquidity levels in pesos and U.S. dollars. Our Asset and Liability Committee, or ALCO, is responsible for maintaining adequate long-term liquidity levels in pesos and U.S. dollars. Our principal sources of peso funding are customer deposits, which are highly concentrated in checking accounts (non-interest and interest-bearing) and short-term Notes with interest due at maturity. Our principal sources of U.S. dollar funding are checking accounts (non-interest and interest-bearing), time deposits and derivatives.

Liquidity risk is analyzed by time horizon (short and long term), by concentration of funding and by uses of funding under normal and extreme conditions. Liquidity risk is monitored through a limit scheme for quantitative and qualitative indicators where, if necessary, a contingency plan is implemented for immediate corrective actions.

Operational Risk

Operational risk is risk that cannot be classified as credit risk, market risk or technical or biometric risk. We measure and endeavor to control operational risk through our operational risk management unit.

Our operational risk management unit reports to a risk executive officer who is responsible for establishing and implementing methodologies and procedures to identify, measure, valuate and mitigate operational risk throughout the bank. Because operational risk mitigation is a part of every process, the responsibility of its management is assigned to each process owner or manager in the bank who has designated a member of his staff as operational risk manager, each of these Managers works as delegate of the operational risk management unit.

We use EvRO, TransVaR, and SIRO tools to manage operational risk, each of which was developed in-house and is a proprietary trademark. EvRO is a quantitative management tool that identifies and evaluates

operational risk factors and helps us to establish and prioritize mitigating measures. TransVaR is a collection of a key risk indicators that are customized for each process and that provide information about the level and kind of operational risk exposure in it. SIRO is a database of historic losses suffered by us as a consequence of operational risk events that are classified by risk class and loss type, business unit, account, among other criteria.

Economic Capital for Operational Risk is currently being calculated under Basle II basic approach; preliminary calculations under the Basle II. AMA have been made and will be completely adjusted during 2007.

Market Risk

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

Trading position

Treasury and trading positions are evaluated on a daily basis for market risk using Value-at-Risk methodology. In addition, daily information regarding risk versus limits, scenario analysis and stress tests is produced.

Our risk management unit uses a historical simulation model to calculate Value-at-Risk. Equally weighted historical simulation is used as the central measure, against which limits are compared. Historical simulation with Exponentially Weighted Moving Average or EWMA is used as a complement to have more sensitivity of risk as this model respond faster to changes in volatility and correlation levels. The effect of portfolio diversification is measured within each model.

Historical data of market parameters such as interest rate curves, foreign exchange prices, volatilities and stock indexes for the last two years is available for Value-at-Risk calculations. “Unwind Period Value-at-Risk” looks to reflect liquidity risk, calculating the number of days it will take to unwind a position without affecting the market. In making these calculations, market outstanding amounts and trade volume information is compared against current exposures, updating the information periodically for internal use only.

The information presented below corresponds to our positions as of December 29, 2006. Daily Value-at-Risk is calculated with a 99% confidence level. Value-at-Risk is calculated to represent the maximum loss at the confidence level due to changes in market values of trading positions. The information below does not include securities that are no longer traded, recorded as for sale, or as held-to-maturity, or that are highly illiquid or in workout. During the last three months of 2006, daily Value-at-Risk did not exceed Ps.79 million. The daily consolidated Value-at-Risk limit is Ps.200 million. Limits are reviewed periodically.

The following table sets forth the average, maximum and minimum values of the daily Value-at Risk during the last three months of 2006, as well as the daily limits in effect as of December 29, 2006, as it was the last business day of the year.

	Three months ended December 29, 2006			Actual limit as of December 29, 2006
	Average	Maximum	Minimum	
	(Ps. millions)			
Equities	10	25	2	25
Interest rate	72	94	55	165
Foreign exchange	4	14	—	30
Vega	8	13	4	33
Total	79	112	57	200

Stress testing is used to complement the Value-at-Risk methodology. Stress testing involves the creation of scenarios based on infrequent or catastrophic events to evaluate contingencies, and is of particular importance in periods of highly volatile or illiquid markets. The sensitivity analysis we conduct shows the effect on positions caused by predetermined changes in market variables (a 1% increase in interest rates).

In addition, we have a stop-loss process that issues a warning if losses reach a certain level preset by our board of directors. If a stop-loss warning is issued, the ALCO is convened to establish an action plan.

Structural interest rate risk

ALCO monitors our Basis Point Value, or BPV and Net Interest Income, or NII exposures and positions. We seek to manage our assets and liabilities to reduce any potential adverse impact on our results of operations and net economic value that might result from changes in interest rates. Risk control of interest rates is conducted through systematic monitoring of limit exposure. Particularly, we have established sensitivity limits for BPV and expected NII for the following 12 months. At the same time, we also have a limit on economic value, which is the maximum expected loss in net economic value over a 3-month time horizon.

The primary methods used to estimate the interest rate risk of the balance sheet portfolio are as follows:

- scenario analysis, and
- interest rate simulation.

Non-maturity products are characterized according to their economic durations and to their market rate sensitivity.

Our non-peso lending activities are generally priced based on LIBOR, with repricing intervals of one, three or six months depending on our funding opportunities. Spreads over the LIBOR reference rate are managed in accordance with our marginal cost of funding in currencies other than pesos.

MANAGEMENT

Board of Directors

Pursuant to applicable Mexican legislation, the largest Mexican banks are limited to a maximum of 15 directors and their respective alternates, at least 25% of whom must be independent. See "Supervision and Regulation—Ownership Restrictions; Foreign Financial Affiliates." On April 10, 2007, our shareholders voted to elect the members of our board of directors. Our board of directors meets at least every three months and is chaired by Héctor Rangel Domene, who is also the Chairman of the board of directors of GFBB.

The following are our current directors and their alternates:

Name and Position	Principal Activity	Years on our Board of Directors	Age
Chairman			
Héctor Rangel Domene	Chairman of GFBB	2	59
First Vice Chairman			
Ignacio Deschamps González(1)	CEO of BBVA Bancomer	—	44
Vice Chairman			
Luis Robles Miaja(1)	Senior Officer of BBVA Bancomer	—	46
Secretary			
José Fernando Pío Díaz Castañares(2)	Legal Officer of BBVA Bancomer	—	44
Alternate Secretary			
Pablo Enrique Mendoza Martell(2)	Legal Officer of BBVA Bancomer	—	58
Directors			
Manuel Arango Arias*	Chairman of Grupo Concord	1	70
Gastón Azcárraga Andrade*	Chairman of Grupo Posadas	1	51
Alberto Bailleres González	Chairman of Industrias Peñoles and of El Palacio de Hierro	16	75
Alejandro Burillo Azcárraga*	Chairman of Grupo Pegaso	1	55
Pablo Escandón Cusi*	Chairman and CEO of Nadro	1	63
José Antonio Fernández Carvajal	CEO of Grupo Femsa	13	53
Bárbara Garza Lagüera Gonda	Board Member and Shareholder of Femsa Coca Cola	14	47
Francisco González Rodríguez	Chairman of BBVA	6	62
Ricardo Guajardo Touché	Chairman of Auditing Committee of GFBB	14	58
Alternate Directors			
Cuauhtémoc Pérez Román*	Chairman and CEO of Grupo Urbi	1	55
Jaime Serra Puche*(1)	Partner of SAI Consultores		56
Arturo Manuel Fernández Pérez	President of ITAM	2	53
José Fernando De Almansa y Moreno-Barreda*	Board Member of Telefónica	3	58
Tomas Christian Ehrenberg Aldford(1)	Senior Officer of BBVA Bancomer		50
Andrés Alejandro Aymes Blanchet*	Chairman of Serpaprosa	6	67
Carlos Salazar Lomelín	CEO of Femsa Coca Cola	1	55
José Sevilla Alvarez	Senior Officer of BBVA	1	42
José Ignacio Goirigolzarri Tellaeche	Vice Chairman of Telefónica	6	53
Vitalino Manuel Nafría Aznar(1)*	Senior Officer of BBVA (Retired)		57

* Independent Directors
(1) Appointed as a director on April 10, 2007.
(2) Non-directors.

Examiners

Our by-laws provide, wherever there are two series of shares, for two principal and two alternate examiners to be elected at the annual ordinary general shareholders' meeting, for an indefinite term or until replaced at a subsequent ordinary general shareholders' meeting. We considered that as substantially all of our shares are owned by BBVA, we are not required to appoint two principal and two alternate directors. The duties of our bank examiners include, among other things, the examination of our operations, books, records and any other documents and the presentation at the ordinary general shareholders' meeting of a report of such examination.

Our examiner is José Manuel Canal Hernando, and our alternate examiner is Ernesto González Dávila.

Certain of our directors, alternate directors, principal officers, regional board members conduct, or are directors or officers of companies that conduct, ordinary banking activities with us.

Board Practices

Our board of directors has created several committees that carry out certain tasks and supervisory functions.

Risk committee

Our risk committee is responsible for approving credit operations that involve more than U.S.$30 million, approving credit and market risk management policies and norms (excluding policies that must be approved by our board of directors) and overseeing the development of our loan portfolio. Our risk committee also considers certain special issues referred to it by our board of directors. The current members of our risk committee are Héctor Rangel Domene, Andrés Alejandro Aymes Blanchet and Ignacio Deschamps González.

Audit committee

Our audit committee performs the following functions:

- *Internal Controls.* Our audit committee reviews and submits internal control procedures and policies to our board of directors for approval, analyzes and approves operations manuals and evaluates our internal control system, reporting its findings and recommendations to our board of directors.
- *Code of Ethics*. Our audit committee analyzes amendments to our code of ethics and submits its recommendations to our board of directors for its approval.
- *Financial Information*. Our audit committee makes recommendations to our board of directors concerning the preparation of our financial information to ensure it is useful, adequate and reliable. The committee also reviews our financial statements, on a quarterly and annual basis, before they are presented to our board of directors and reviews the relevant changes in accounting principles to ensure our financial statements comply with them.
- *Compliance*. Our audit committee reviews and approves the annual program of our compliance unit before it is presented to our board of directors, and the committee verifies our compliance with the program.
- *Internal Auditing*. Our audit committee evaluates and makes recommendations to our board of directors concerning the appointment of the head of our internal audit unit, reviews and approves our yearly auditing plan, supervises and evaluates the independence, quality and effectiveness of our internal auditing department, facilitates communication between our board of directors and our auditors, oversees training of internal auditors and oversees the implementation of corrective measures taken based on the recommendations from the auditing committee.
- *External Auditing*. Our audit committee submits external auditing candidates to our board of directors for its approval, verifies that we rotate external auditors every five years, evaluates the independence of

the external auditor, ensures that the external auditing program is based on contractual agreements and reviews the external auditor's reports before they are presented to our board of directors.

- *External Supervision*. Our audit committee reviews the results of any inspections by external supervisory bodies and oversees our compliance with their recommendations.

The current members of our audit committee are Ricardo Guajardo Touché, Gastón Azcárraga Andrade, Pablo Escandón Cusi, and the alternate members are Andrés Alejandro Aymes Blanchet, José Sevilla Álvarez and Vitalino Manuel Nafría Aznar.

Executive committee

Our executive committee is responsible for resolving certain issues that would be considered by the entire board of directors in the absence of time limitations or other limiting factors. Our board of directors must ratify all resolutions passed by the executive committee. The executive committee is also responsible for calling meetings of our board of directors. The current members of the executive committee are Héctor Rangel Domene, Ignacio Deschamps González, Alberto Bailleres González and José Antonio Fernández Carbajal.

Executive Officers

All of our executive officers are appointed by our Chief Executive Officer and ratified by our board of directors. As of January 1, 2007, our executive officers, other than our Chief Executive Officer, are employed by Operadora. See "Employees."

The following are our executive officers:

Name	Position	Years with GFBB	Age
Ignacio Deschamps González	Vice-Chairman of the Board and Chief Executive Officer	13	43
Ramón Arroyo Ramos	General Director—Human Resources	28	48
Juan Pablo Ávila Palafox	General Director—Retail Banking	22	43
Oscar Cabrera Izquierdo	General Director—Finance	4	41
Alfredo Castillo Triguero	General Director—Risk Management and Workout	2	49
José Fernando Pío Díaz Castañares	General Director—Legal Counsel	13	44
Gerardo Flores Hinojosa	General Director—Middle-Market and Government Banking	16	43
Gustavo Garmendia Reyes	General Director—Auditing	13	43
Eduardo Osuna Osuna	General Director—Mortgage Banking	12	38
Héctor Paniagua Patiño	Director—Finanzia	9	39
David Powell Finneran	General Director—Corporate Banking	14	45
Luis Robles Miaja	General Director—Communication and Institutional Relationships	14	46
Gerardo Vargas Ateca	General Director—Global Markets and Distribution	2	48
Leandro Vela Sánchez	General Director—Systems and Operations	30	50

RELATED PARTY TRANSACTIONS

Loans to Related Parties

Pursuant to the Mexican Banking Law, no loans may be made to any bank officers or employees, except in connection with certain employment benefits. As permitted by the Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Article 73 of the Mexican Banking Law regulates and limits our loans to related parties, including loans to (1) holders of 2% or more of GFBB's or its subsidiaries shares, (2) principal and alternate board members of GFBB, any of its subsidiaries or us, (3) relatives of a board member or of a 2% or more shareholder of GFBB or us, (4) any person not an officer or employee of GFBB or us who, nevertheless, is empowered to bind contractually GFBB or us, (5) any corporation who has a director or officer in common with GFBB or us or (6) a corporation in which GFBB's external auditors, our employees, holders of 2% or more of GFBB's shares, 2% or more of or our shares, or we or any director or officer of GFBB or us holds 10% or more of the outstanding capital stock. The majority of our board of directors must approve such loans. Before approval, however, the loan must undergo our customary review procedures for loans, which will vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the highest loan review committee at the management level, and must be recommended by a special committee of directors responsible for reviewing our largest loans and all loans falling within the scope of Article 73 of the Mexican Banking Law. In addition, certain filings must be made with the CNBV with respect to such loans. Loans to individuals in amounts less than the greater of (1) two million UDIs or (2) 1% of a bank's tier 1 net capital (approximately Ps.655 million at December 31, 2006, in our case), are exempt from such provisions. Loans to related parties may not exceed 75% of a bank's Tier 1 capital. The CNBV may, upon request, grant exemptions from these provisions.

The Ministry of Finance and Public Credit has adopted rules which exclude from the category of loans to related parties loans granted to the Mexican government, loans to companies that provide ancillary services to us, provided that in each of these cases such entities do not make a loan to a related party, and loans to our directors or directors of GFBB if they fall within the minimum thresholds set forth above. These loans are not considered for purposes of determining the 75% of Tier 1 capital limit of our loan portfolio that may consist of loans to related parties, and do not require the prior approval of our board of directors.

As of December 31, 2006, our loans to related parties under Article 73 totaled approximately Ps.22,775 million, which comprised 6.0% of our total loan portfolio at such date. Of the Ps.22,775 million, approximately Ps.9,218 million were loans made to GFBB and its subsidiaries and approximately Ps.13,557 million were loans made to borrowers affiliated with members of our board of directors. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on December 31, 2006, approximately 83.9% were graded "A," 14.0% "B" and 2.1% "C" under the regulations of the CNBV. The majority of such credits are loans for either commercial or industrial activities.

Affiliated Transactions

From time to time we enter into agreements, including service agreements, with our affiliates. We have entered into service agreements with our affiliates, including with (1) Servicios Corporativos Bancomer, S.A. de C.V. for the sale of certain banking products, (2) Seguros BBVA Bancomer, S.A. de C.V. for the sale of insurance policies, (3) Casa de Bolsa BBVA Bancomer, S.A. de C.V. for brokerage services and (4) Hipotecaria Nacional for the servicing of mortgage loans.

Based on these service agreements, we receive fees on a cost basis from Bancomer Servicios and Seguros BBVA Bancomer, S.A. de C.V., and pay fees on a cost basis to Servicios Corporativos Bancomer, S.A. de C.V., Casa de Bolsa BBVA Bancomer, S.A. de C.V. and Hipotecaria Nacional. No assurance can be given that

transactions between us, on the one hand, and GFBB and our affiliates (including BBVA), on the other hand, have been or will in the future be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. Future conflicts of interest between us, on the one hand, and GFBB and our affiliates (including BBVA), on the other hand, are likely to develop, which conflicts are not required to be and may not be resolved in our favor.

Relationship with Initial Purchasers

BBVA, which holds a controlling interest in us and in GFBB, will, through an affiliate, act as an initial purchaser in the offering.

Employees

See "The Bank–Employees."

THE MEXICAN FINANCIAL INDUSTRY

General

Mexico's financial industry is currently comprised of commercial banks, national development banks, broker-dealers, development trust funds and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loans companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies and limited purpose financial institutions. In 1990, Mexico adopted the Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company. Most major Mexican financial institutions are members of financial groups.

The principal financial authorities that regulate financial institutions are the Ministry of Finance and Public Credit, Banco de Mexico, the CNBV, the National Commission for Retirement Savings (*Comisión Nacional del Sistema de Ahorro para el Retiro)*, or CONSAR, the National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas*), or the CNSF, the IPAB, and the National Commission for the Defense of Financial Service Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*), or CONDUSEF.

Trend toward multiple banking institutions

Prior to 1978, the Mexican banking system was comprised primarily of specialized institutions, which were authorized to conduct specified financial activities pursuant to concessions granted by the Mexican government. Institutions other than multiple banking institutions were not permitted to engage in more than two of the specified activities. During the period from 1978 to the nationalization of commercial banks in 1982, the structure of the Mexican banking system evolved towards the creation of multiple banking institutions, which were allowed to engage in the full range of banking activities.

Nationalization and subsequent privatization

In September 1982, Mexico's president decreed the nationalization of private Mexican commercial banks. Effective November 18, 1982, a constitutional amendment was adopted to implement the nationalization, which granted the Mexican government a monopoly on banking and credit service. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking. By 1988, the number had been further reduced to 18, of which six had national coverage, five were regional banks and seven were multi-regional banks. Only two banks, Banco Obrero, S.A. and Citibank N.A., were excluded from the nationalization and continued limited operations as privately-owned commercial banks.

Effective June 28, 1990, the Mexican Constitution was amended to permit Mexican individuals and financial services holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the Mexican government. Subsequently, a new Banking Law was enacted to regulate the ownership and operation of Mexican commercial banks, national development banks and foreign financial institutions. Pursuant to the Banking Law, Mexico began the process of privatizing commercial banks. By the third quarter of 1992, the Mexican government had privatized all 18 state-owned commercial banks. Since that time, new commercial banks, have been chartered and regulations regarding investment in the banking sector by foreign investors have been relaxed.

Financial groups

The enactment of the Financial Groups Law in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups

controlled by a financial services holding company, such as ourselves, and made up of a number of financial operating entities. The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial operating subsidiaries. Such subsidiaries may include Mexican banks, broker-dealers, insurance companies, bonding companies, mutual fund operators, mutual funds, auxiliary credit organizations (such as factoring, financial leasing and bond-warehousing companies), non-bank banks, foreign exchange service providers and retirement fund administrators. As a general rule, a financial services holding company must maintain a majority participation and effective control of at least two major financial intermediaries (banks, broker-dealers or insurance companies), or three financial intermediaries in general.

The Financial Groups Law permits entities controlled by the same financial services holding company:

- to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;
- use similar corporate names; and
- conduct their activities in the offices and branches of other entities as part of the same group. In addition, the Financial Groups Law requires that each financial services holding company, such as ourselves, enter into an agreement with each of its financial services subsidiaries pursuant to which the holding company is responsible secondarily and without limitation for the satisfaction of the obligations incurred by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the holding company's assets. For such purposes, a subsidiary is deemed to have losses if:
    - its stockholders' equity represents an amount that is less than the amount the subsidiary is required to have as minimum paid-in capital under applicable law;
    - capital and reserves are less than the subsidiary is required to have under applicable law; or
    - in the judgment of the regulatory commission supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations. No subsidiary of any such holding company is responsible for the losses of the holding company or any other subsidiary thereof. We have entered into such an agreement, as described under "Supervision and Regulation—Financial Groups Statutory Responsibility."

The Banking sector

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies. Prior to the early 1990s, lending by Mexican banks to the private sector had fallen to very low levels. It is estimated, however, that by the end of 1994 average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the Mexican peso in December 1994 initiated a crisis, and the resulting high interest rates and contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects, among others, caused an increase in the non-performing loan portfolio of Mexican financial institutions, particularly during 1995, which adversely affected the capitalization level of financial institutions. Also, increased domestic interest rates and the deteriorating value of the peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV had assumed, or intervened in, the operations of 13 banks and had adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- creating a temporary capitalization program to assist banks;
- establishing a foreign exchange credit facility with Banco de Mexico to help banks with dollar liquidity problems;
- increasing the level of required loan loss reserves;
- establishing a temporary program for the reduction of interest rates on certain loans;
- establishing various programs to absorb a portion of debt service cost for mortgage loan debtors (including debt restructuring and conversion support programs); and
- broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

Strengthening the financial system laws

On June 4, 2001, the Mexican Congress enacted a number of amendments to the Banking Law, the Financial Groups Law, the National Savings and Public Bank Services Law *(Ley Orgánica del Banco del Ahorro Nacional y Servicios Financieros*), the Securities Market Law, the National Banking and Securities Commission Law *(Ley de la Comisión Nacional Bancaria y de Valores)*, the Mutual Funds Law *(Ley de Sociedades de Inversion*) and the General Law on Ancillary Activities and Organizations of Credit (*Ley de Organizaciones y Actividades Auxiliares del Crédito*).

Most of these amendments eliminate legal hurdles and inconsistencies and grant more power to the CNBV. The main objectives of the amendments include the following:

- Establishing clearly that the primary responsibility for financial sector supervision lies with the Ministry of Finance and Public Credit. The Ministry of Finance and Public Credit bears the primary supervisory responsibility and is supported by three autonomous agencies functionally attached to it: the CNBV, the CNSF and CONSAR. Banco de Mexico, in addition to managing its normal central bank operations, also regulates lending and funding transactions, and the foreign exchange and derivatives markets. Two other decentralized public agencies involved with banking operations are the IPAB, which is in charge of concluding the recovery processes of assets and institutions after the 1994-95 banking crisis and managing a formal deposit insurance system, and the CONDUSEF, which was set up by grouping all the consumer protection functions in existing supervisory agencies (the CNBV, the CNSF and CONSAR).
- Enhancing the CNBV's supervisory practices. In particular, the amendments lifted bank secrecy provisions to allow cross-border supervision, increase financial supervisory responsibility over external auditors and allow the CNBV to establish regulations for financial conglomerates. The amendments also introduced a system of prompt corrective actions that will provide the authorities with adequate tools to deal transparently and efficiently with troubled banks.
- Increasing the number of banking operations and expanding the banking sector. The amendments included factoring and financial derivatives as banking operations and lifted the prohibition on back-to-back operations. The amendments also eased direct bill payments in an effort to expand banking services in the economy. In addition, FOVI was subsumed into a development bank, the Federal Mortgage Corporation (*Sociedad Hipotecaria Federal*) or SHF, which was created to promote the development of primary and secondary markets of housing loans. The National Savings Patronage (*Patronato del Ahorro Nacional*) was also transformed into a development bank, the National Savings and Financial Services Bank (*Banco del Ahorro Nacional y de Servicios Financieros*), which was created to promote savings, financing, and investment among savings and loan institutions for low-income savers.

- Restricting related-party lending. The amendments simplified laws concerning loans to related parties, established clear limitations for the calculation of loans, and defined who is eligible for such loans, as well as the maximum aggregate amount of such to a related party. Also, a board member's voting rights on related transactions will be suspended.
- Covering gaps in corporate governance, which constituted a major step in developing equity markets. The amendments changed the structure of boards of directors, providing for the presence of independent board members, creating audit committees, introducing provisions to avoid conflicts of interest between board members and senior management, preventing the abuse of minority shareholders and introducing more transparency in the agenda for shareholders' meetings.
- Providing an appropriate structure for the development of mutual funds. The amendments allowed a wide variety of collective investment vehicles with different risk profiles for different classes of investors.

On December 30, 2002, the Mexican Congress enacted the Law on Transparency and Development of Competition for Secured Credit (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*), as amended on June 13, 2003 and February 7, 2005, or the Secured Credit Law. In addition, certain general regulations relating to the Secured Credit Law were enacted on June 30, 2003. The Secured Credit Law provides a legal framework for financial activities and certain other services performed by private banks (as opposed to governmental entities) in connection with secured loans relating to real property in general, and housing in particular (i.e., purchase, construction, restoration or refinancing). In particular, the Secured Credit Law establishes specific rules requiring the following:

- the disclosure of certain information by banks to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates and aggregate costs and expenses payable;
- compliance by banks and borrowers with certain requirements in the application process;
- that offers made by banks granting secured loans shall have binding legal effect;
- the inclusion of mandatory provisions in loan agreements; and
- the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among banks by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different banks. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers in connection with refinancings.

Initiatives to improve creditors' rights and remedies

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a new bankruptcy law.

Collateral mechanisms

On May 23, 2000 and June 13, 2003, laws regarding the perfection and enforcement of security interests were changed significantly. These changes introduced a new device for pledging without transferring possession, as well as a common security device known in Mexico as the security trust. Provisions related to the enforcement and foreclosure of these security interests, as well as criminal provisions, were added to the existing law. The purpose of these changes is to provide an improved legal framework for secured lending and to encourage banks to increase their lending activities. It is now possible to pledge all personal property being used in a debtor's

main business activity by making only a generic description of such property. The provisions regulating the security trust are similar to those governing pledges of personal property, except they provide that title to the collateral must be held by the trustee. Also, the new provisions permit the transfer of title of the pledged assets if agreed by the parties in the case of pledges of listed securities. The amendments of June 13, 2003, eliminated a prior non-recourse provision applicable to non-possessory pledges and security trusts in order to allow creditors further recourse against debtors in the event that proceeds derived from the sale or foreclosure of collateral are insufficient to pay secured obligations.

Bankruptcy law

A new bankruptcy law was enacted on May 12, 2000. The previous bankruptcy law, which remains in full force and effect with respect to any insolvency proceedings filed prior to May 13, 2000, contemplated two types of procedures: suspension of payments and bankruptcy. The new law provides for a single insolvency proceedings encompassing two successive phases: a conciliatory phase of mediation between creditors and debtor; and bankruptcy.

Only IPAB or the CNBV may demand the declaration of insolvency of banking institutions, including us. In the case of banking institutions, such as us, with the declaration of bankruptcy (*concurso mercantil*) the judicial procedure is initiated in the bankruptcy phase and not, as in common procedures, in the conciliatory phase. Upon presentation of the declaration of insolvency, banking institutions must cease operations and suspend payment of all obligations.

The bankruptcy law establishes precise rules that determine when a debtor is in general default in its payment obligations. The principal indications are failure by a debtor to comply with its payment obligations in respect of two or more creditors, and the existence of the following two conditions: (i) 35.0% or more of a debtor's outstanding liabilities are 30 days past-due; and (ii) the debtor fails to have certain specifically defined liquid assets and receivables in order to support at least 80.0% of its obligations which are due and payable.

The law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the intervenor (*interventor*), conciliator (*conciliador*) and receiver (*síndico*). The IPAB acts as the receiver and the CONDUSEF may appoint up to three intervenors.

On the date the insolvency judgment is entered, all peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (i.e., mortgage, pledge or security trust) continue to accrue interest on their loans. The bankruptcy law mandates the netting of derivative transactions upon the declaration of insolvency.

The bankruptcy law provides for a general rule as to the period when transactions may be scrutinized by the judge in order to determine if they were entered into for fraudulent purposes which is 270 calendar days prior to the judgment declaring insolvency. This period is referred to as the retroactive period. Nevertheless, upon the reasoned request of the conciliator, the intervenors, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period.

A restructuring agreement must be subscribed to by the debtor, as well as recognized creditors representing more than 50.0% of the sum of the total recognized amount corresponding to common creditors and the total recognized amount corresponding to secured or privileged creditors subscribing the agreement. The proposed agreement, once approved by the creditors, must be presented to the IPAB for its approval. Any such agreement, when confirmed by the court, becomes binding on all creditors, and the insolvency proceeding is then considered to be concluded. If an agreement is not reached, the debtor is declared bankrupt.

Deregulation of lending entities and activities

In July 2006, the Mexican Congress enacted reforms to the *Ley General de Organizaciones y Actividades Auxiliares del Crédito* (General Law of Auxiliary Credit Organizations and Credit Activities), the Mexican Banking Law and the *Ley de Inversión Extranjera* (Foreign Investment Law), with the objective of creating a new type of financial entity called multiple purpose financial entities, or Sofom (the "Sofom Amendments"). The Sofom Amendments were published in the Official Gazette of Mexico on July 18, 2006.

The main purpose of the Sofom Amendments is to deregulate lending activities, including financial leasing and factoring activities. Sofomes are Mexican corporations (*sociedades anónimas*) that expressly include as their main corporate purpose in their by-laws, engaging in lending and/or financial leasing and/or factoring services. Pursuant to the Sofom Amendments, the Ministry of Finance and Public Credit has ceased to authorize the creation of new sofoles, and all existing Sofol authorizations will automatically terminate on July 19, 2013. On or prior to that date, existing sofoles must cease operating as a Sofol. Failure to comply with this requirement will result in dissolution or liquidation of the Sofol. Existing sofoles also have the option of converting to Sofomes or otherwise extending their corporate purposes to include activities carried out by Sofomes.

Among others, Sofomes that are affiliates of Mexican banks (i.e., private or public banks) or the holding companies of financial groups that hold a bank will be regulated and supervised by the CNBV, and will be required to comply with a number of provisions and requirements applicable to banks such as capital adequacy requirements, risk allocation requirements, related party transactions rules, write-offs and assignment provisions, as well as reporting obligations. Regulated Sofomes are required to include in their denomination the words "*Entidad Regulada*" (regulated entity) or the abbreviation thereof "E.R." All other entities whose main purpose is engaging in lending, financial leasing and factoring activities shall be non-regulated Sofomes and shall so indicate in their corporate denomination by including the words "*Entidad No Regulada*" (non-regulated entity) or the abbreviation thereof, "E.N.R." Non-regulated Sofomes shall not be subject to the supervision of the CNBV.

Sofomes (regulated or non-regulated) will be subject to the supervision of the CONDUSEF as is the case with any other financial entity.

The Sofom Amendments also eliminated the restrictions on foreign equity investment applicable to sofoles, financial leasing and factoring companies, which until the Sofom Amendments became effective, was limited to 49.0%. Accordingly, the Sofom Amendments may result in an increase in competition in the banking industry, from foreign financial institutions.

SUPERVISION AND REGULATION

Introduction

Our operations are primarily regulated by the Mexican Banking Law, and the rules issued thereunder by the Ministry of Finance and Public Credit and the CNBV, as well as rules issued by Banco de Mexico and the IPAB. The authorities that supervise our operations are the Ministry of Finance and Public Credit, Banco de Mexico and the CNBV.

The Ministry of Finance and Public Credit, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities. Reports to bank regulators are often supplemented by periodic meetings between senior management of the banks and senior officials of the Ministry of Finance and Public Credit. Banks must submit their unaudited monthly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

Additionally, banks must publish on their website, among other things:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto;
- a description of the bank's board of directors;
- the total sum of compensation and benefits granted to the members of the board of directors and senior officers during the past year;
- unaudited quarterly financial statements as of March, June and September of each year, respectively, as well as any comments thereto;
- any information requested by the CNBV in order to approve the accounting criteria and special registries;
- a detailed explanation regarding the main differences in the accounting used to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification and any modifications thereto;
- financial indicators;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's by-laws.

CNBV Intervention

The CNBV has authority to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations promulgated thereunder. In addition, Banco de Mexico has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of Banco de Mexico (*Ley del Banco de Mexico)* and regulations that it promulgates (primarily dealing with foreign exchange, derivatives and permissible liabilities). Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

The CNBV may declare *intervención* ("managerial intervention") of a banking institution pursuant to Articles 138 through 149 of the Mexican Banking Law and in such case the Governing Board of IPAB will appoint an *administrador cautelar* ("peremptory manager") (the "CNBV Intervention").

A CNBV Intervention pursuant to Articles 138 through 143 of the Mexican Banking Law, will only occur when (i) during a calendar month, the capitalization ratio of bank is reduced from a level equal to or above the minimum Capital Ratio required under the Mexican Capitalization Requirements, to 50% or less than such minimum Capital Ratio; or (ii) a bank does not comply with capitalization requirements and any corrective measure ordered by the CNBV pursuant to Article 134 Bis 1 of the Mexican Banking Law, does not comply with more than one additional special corrective measures ordered by the CNBV pursuant to such Article 134 Bis 1 or consistently does not comply with any such additional corrective measures ordered by the CNBV and, in the case of this clause (ii), it does not submit itself to the conditional management regime described under "—Improved Framework to Resolve/Support Commercial Banking Institutions—Financial Support—Conditional Management Regime." In addition, a CNBV Intervention may occur when the CNBV in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the interest of the public generally or the bank's creditors.

The peremptory manager appointed by IPAB will assume the authority of the Board of Directors. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law (including firing and hiring officers, incurring debt and making investments) and will not be subject to our Board of Directors or our shareholders. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile. The peremptory manager will be appointed by the IPAB if the IPAB has granted extraordinary financial support to a bank in accordance with the Mexican Banking Law.

Corrective Measures

Pursuant to the Mexican Capitalization Requirements, the CNBV classifies Mexican banks in several categories based on their Capital Ratio and orders corrective measures known as early warning alerts to prevent and correct problems that may affect the stability or solvency of banks if a bank fails to meet the minimum required Capital Ratio. See "Description of the Notes—Suspension Periods" for a discussion of such corrective measures.

IPAB

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, a bank savings protection agency. The IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits.

The banks have the obligation to provide the IPAB with the information it requires to assess their financial situation, as well as to notify the IPAB of any situation that may affect their financial stability. The Mexican Banking Law expressly exempts the provision of such information from the banking secrecy provisions.

The IPAB manages and sells the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, in order to maximize their recovery value. The IPAB must ensure that the sale of such assets is made public, and will promote objective and transparent. The president of Mexico is required to present annually to Congress a report prepared by the IPAB containing a detailed account of the transactions conducted by the IPAB in the prior year.

The IPAB has a governing board of seven members: (1) the Minister of Finance and Public Credit, (2) the Governor of Banco de Mexico, (3) the President of the CNBV and (4) four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The IPAB will act as liquidator or receiver in a bank's liquidation or bankruptcy, either directly or through designation of a representative. The deposit insurance to be provided by the IPAB to a bank's depositors will be paid once the IPAB has assumed the role as the bank's liquidator or receiver. The IPAB guarantees obligations of

banks to certain depositors and creditors only up to the amount of 400,000 UDI per person per bank. The IPAB does not guarantee (1) deposits and loans constituting negotiable instruments and bearer Notes, (2) liabilities in favor of financial institutions, or affiliates of the bank, (3) liabilities not in the ordinary course of business and related party transactions, or (4) liabilities created in bad faith or relating to money laundering or any other illegal activity or any other liability.

Banks have the obligation to pay the IPAB ordinary and extraordinary contributions as determined from time to time by the governing board of the IPAB. Under current guidelines, all banks must pay monthly to the IPAB an ordinary contribution equal to 1/12 of 0.4% of their deposits and certain other liabilities. The basis for calculating the ordinary contributions is the total account of each bank's liabilities, less: (1) term debt instruments issued by other commercial banks; (2) loans to other commercial banks; (3) loans from the IPAB; (4) mandatorily convertible debentures issued by commercial banks; and (5) certain future operations.

The IPAB may also impose extraordinary contributions on banks, which may not exceed in any one year 0.3% of the deposits of the banks. Both ordinary and extraordinary contributions, taken together, cannot exceed 0.8% annually of each bank's liabilities during any one year.

The Mexican Congress allocates funds to the IPAB on a yearly basis to manage and service the IPAB's liabilities, but these liabilities are not deemed public sector debt. In emergency situations, the IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

Licensing of Banks

Authorization of the Mexican government is required to conduct banking activities. The Ministry of Finance and Public Credit, after consultation with Banco de Mexico and the CNBV, has the power to authorize the establishment of new banks, subject to minimum capital contributed, among other things. A notice to the Ministry of Finance and Public Credit is required for the opening of branches of Mexican banks in Mexico. Approval of the Ministry of Finance and Public Credit is also required prior to the opening, closing or relocating offices, including branches, of any kind outside of Mexico or transfer of assets or liabilities of branches.

Resolution and Payment of Guaranteed Obligations

Revocation of banking license

In case that the Ministry of Finance and Public Credit revokes a license to organize and operate as a banking institution, IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be dissolved and liquidated in accordance with Articles 122 Bis 16 through 122 Bis 29 of the Mexican Banking Law. In such a case, IPAB's Governing Board may determine to carry out the liquidation through any or a combination of the following transactions: (1) transfer the liabilities and assets of the banking institution in liquidation to another banking institution directly or indirectly through a trust set up for such purposes; (2) constitute, organize and manage a new banking institution owned and operated directly by IPAB in accordance with Articles 27 Bis 1 through 27 Bis 6 of the Mexican Banking Law, with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or (3) any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that IPAB considers as the best and less expensive option to protect the interest of bank depositors.

Causes to revoke a banking license

The above mentioned amendments significantly expand the events upon which the Ministry of Finance and Public Credit may revoke a banking license. The following are among the most relevant events:

- If the banking institution is dissolved or enters into liquidation or bankruptcy procedures (*concurso mercantil*).

- If the banking institution (a) does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 134 Bis 1 of the Mexican Banking Law; (b) does not comply with more than one additional special corrective measure ordered by the CNBV pursuant to such Article 134 Bis 1; or (c) consistently does not comply with an additional special corrective measure ordered by the CNBV.
- If the banking institution does not comply with the minimum Capital Ratio required under the Mexican Banking Law and the Mexican Capital Requirements.
- If the banking institution is in default with respect to the following payment obligations: (a) in the case of obligations greater than 20,000,000 UDIs or its equivalent: (1) credits or loans granted by other banking institutions, foreign financial institutions or Banco de Mexico, or (2) payment of principal or interest on securities issued by it and that have been deposited in a centralized securities deposit institution; and (b) in the case of obligations greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in compensation chambers or central counterparts, or (2) it does not pay in two or more of its branches banking deposits by 100 or more of its clients.

Upon publication of the resolution of the Ministry of Finance and Public Credit revoking a banking license in the Official Gazette of Mexico and two newspapers of wide circulation in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and will enter into liquidation. Upon liquidation or the declaration of bankruptcy (*concurso mercantil*) of a commercial banking institution, IPAB shall proceed to make payment of all "guaranteed obligations" of the relevant banking institution in accordance with the terms and conditions set forth in the Mexican Banking Law and the IPAB Law, other than those "guaranteed obligations" that have been effectively transferred in accordance with Articles 122 Bis 25 through 122 Bis 29 of the Mexican Banking Law.

Obligations of a banking institution in liquidation that are not considered "guaranteed obligations" pursuant to the IPAB Law, and that are not effectively transferred pursuant to Articles 122 Bis 27 or 122 Bis 29 of the Mexican Banking Law, will be treated as follows:

- term obligations will become due (including interests) as of such date;
- unpaid principal amounts and financial accessories of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;
- unpaid principal amounts and financial accessories of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interests and will be converted into pesos at the prevailing exchange rate determined by Banco de Mexico;
- secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will only accrue ordinary interest up to the amount of principal and interest equivalent to the value of the assets securing such obligations;
- obligations subject to a condition precedent, such condition will be deemed not to have occurred; and
- obligations subject to a condition subsequent, such condition will be deemed to have occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted.

Upon revocation of a banking license, all derivative transaction will be terminated prior to their term and netted in accordance with the terms of the relevant master agreement.

Liabilities owed by the commercial banking institution in liquidation will be paid in the following order of preference: (1) liquid and enforceable labor liabilities; (2) secured loans; (3) tax liabilities; (4) the obligations that result in favor of IPAB as a result of the partial payment of obligations of the commercial banking institution supported by IPAB in accordance with the Mexican Banking Law; (5) bank deposits, loans and credits as

provided by Article 46 Sections I and II of the Mexican Banking, to the extent not transferred to another banking institution, as well as any other obligation in favor of IPAB different from those referred to clause (4) above; (6) any other liabilities other than those referred to in the following clauses; (7) preferred subordinated debentures; (8) non-preferred subordinated debentures (such as the Notes); and (9) the remaining amounts, if any, shall be distributed to stockholders.

Improved Framework to Resolve/Support Commercial Banking Institutions

In July 2006, certain amendments to the Mexican Banking Law, the Banking Deposit Insurance Law (*Ley de Protección al Ahorro Bancario*, or the IPAB Law) and the Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) were enacted by the Mexican Congress in order to provide an improved legal framework to resolve and grant financial support to commercial banking institutions undergoing financial difficulties.

Financial Support

Determination by the Financial Stability Committee

In case that the newly created Financial Stability Committee, or FSC, determines that if a commercial bank were to default on its payment obligations and such default may (i) generate severe negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system; or (ii) put the operation of the payments system at risk, then the FSC may determine on a single-case basis that a general percentage of all of the outstanding obligations of the troubled commercial bank that are not considered "guaranteed obligations" under the IPAB Law and "guaranteed obligations" in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity) be paid in order to avoid the occurrence of any of such situations. Notwithstanding the above, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the board of directors and certain top level officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures, such as the Notes, be covered or paid by IPAB or any other Mexican governmental agency.

Types of financial support

In case that the FSC makes the determination referred to in the prior paragraph, then IPAB's Governing Board will determine the manner according to which the troubled commercial bank will receive financial support, through either of the following options:

- If the FSC determines that the full amount of all of the outstanding liabilities of the respective troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (i) capital contributions granted by IPAB in accordance with Articles 122 Bis 2 through 122 Bis 6 of the Mexican Banking Law, or (ii) credit support granted by IPAB in accordance with Articles 122 Bis 7 through 122 Bis 15 of the Mexican Banking Law, in either case the Ministry of Finance and Public Credit shall refrain from revoking the banking license granted to such commercial bank.
- If the FSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of transferring the assets and liabilities of such commercial bank in accordance with Articles 122 Bis 27 or 122 Bis 29 of the Mexican Banking Law. The partial payment of the outstanding liabilities of such commercial bank will be made pursuant to and subject to the limitations set forth in Article 122 Bis 20 of the Mexican Banking Law.

The FSC is formed by representatives of the Ministry of Finance and Public Credit, Banco de Mexico, the CNBV and IPAB and it is regulated by Articles 29 Bis 6 through 29 Bis 12 of the Mexican Banking Law.

Conditional management regime

As an alternative to revoking the banking license, a new conditional management regime was created, that may apply to commercial banks with a Capital Ratio below the minimum required pursuant to the Mexican Capitalization Requirements. In order to adopt this regime, the relevant commercial bank must voluntarily request to the Ministry of Finance and Public Credit, with prior approval of its shareholders, the application of the conditional management regime. In order to qualify for such regime, the relevant commercial bank should (i) deliver to the CNBV a plan for the reconstitution of its capital, and (ii) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions with a Capital Ratio equal to or below 50% of the minimum Capital Ratio required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

Capitalization

The minimum equity capital requirement applicable to commercial banks (including newly chartered banks) in Mexico, is 0.12% of Mexican commercial banking institutions' aggregate capital as of December 31 of the year prior to the year of calculation. The minimum equity capital requirement for commercial banks in Mexico for the year ended December 31, 2006 was Ps.316,053,497, based on the Mexican commercial banking institutions' aggregate total net capital as of December 31, 2005. The minimum equity capital requirement for commercial banks in Mexico for the year ended 2007 is Ps.409,351,705.

Banks are required to maintain a net capital (*capital neto*) relative to market risk and relative to risk-weighted assets, which may not be less than the minimum capital required for both types of risk. The Mexican Capitalization Requirements set forth the methodology to determine the net capital relative to market risk and risk-weighted assets. Under the relevant regulations, the CNBV may impose additional capital requirements and Banco de Mexico may, with the CNBV's recommendation, grant temporary exemptions to such requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk-Based Capital."

The Mexican Capitalization Requirements provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee on Banking Supervision (although Mexico does not fully implement such requirements).

Under the Mexican Capitalization Requirements, Mexican banks are required to maintain a minimum Capital Ratio of 8.0% to avoid the imposition of the corrective measures described below that would require, among other things, the deferral or cancellation of interest payments or deferral of principal payments of their subordinated debt that qualifies as part of its total net capital (such as the Notes). Total net capital consists of Tier 1 capital and Tier 2 capital. At all times, Tier 1 capital must represent at least 50.0% of our total capital. The Mexican Capitalization Requirements subtract from Tier 1 capital, capital investments in certain financial entities and in non-financial, non-publicly traded companies, certain investments in the equity of venture-capital funds and investments in related companies.

The Mexican Capitalization Requirements and the Rules for Capitalization authorize banks to issue capitalization instruments, such as the Notes. The proceeds from these instruments may constitute Tier 1 or Tier 2 capital depending on their terms. However, such proceeds may only qualify as Tier 1 capital up to an amount not greater than 15.0% of total Tier 1 capital (without taking into account other convertible and non-convertible subordinated debentures, such as the Notes).

Failure to meet the capital requirements may result in the imposition of certain corrective measures described under "Description of the Notes—Treatment of Interest and Principal During a Suspension Period—Suspension Periods." We are in compliance with all applicable Mexican Capitalization Requirements.

Every Mexican bank must create legal reserves, included as part of Tier 1 capital, in addition to any regulatory reserves. Banks must allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital. The balance of net income, to the extent not distributed to shareholders, is added to the retained earnings account. Under Mexican law, dividends may not be paid out of the legal reserve. As of March 31, 2007, we had set aside Ps.6,013 million in legal reserves compared to paid-in capital of Ps.34,096 million.

Reserve and Compulsory Deposit Requirements

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of Banco de Mexico's monetary policy is to maintain the stability of the purchasing power of the Mexican peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of Banco de Mexico have been directed towards a restrictive monetary policy. Under this policy, Banco de Mexico has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where everyday, the market starts operations with a liquidity deficit which is then compensated by Banco de Mexico through daily operations in the money market to provide adequate liquidity and stability to these markets. Banco de Mexico's own experience has shown that its implementation of monetary policy is more effective if it starts from a deficit liquidity position at the beginning of each market day.

In order to manage its maturity exposures to the Mexican financial markets, Banco de Mexico has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (*Depósitos de Regulación Monetaria*), and into investment securities such as longer-term government bonds (Bondes) and compulsory monetary regulatory bonds (Brems). At the same time, Banco de Mexico has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

Banco de Mexico may impose on Mexican commercial banks reserve and compulsory deposits from time to time. The amount of the deposit that each bank has to make is determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated and registered as of certain date. Such compulsory deposits have an indefinite term. During the time these reserves are maintained on deposit with Banco de Mexico, each banking institution receives interest on such deposits every 28 days. Banco de Mexico provides advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

Classification of Loans and Allowance for Loan Losses

The Loan Classification and Rating Rules set forth under the General Rules for Banks, provide a methodology to classify consumer loans (*i.e.*, credit cards and loans to individuals) considering delinquency periods, probability of payment and potential losses (taking into account collateral received), mortgage loans (*i.e.*, residential) considering delinquency periods, probability of payment and potential losses (taking into account collateral and guarantees received), and commercial loans based on an evaluation of the borrower's ability to repay its loan (including country risk, financial risk, industry risk and payment history) and an evaluation of the related collateral and guarantees. Based on this methodology, the percentage of required reserves is determined. The Loan Classification and Rating Rules also permit banks, subject to prior approval by the CNBV, to develop and adopt specific internal procedures within certain parameters to grade the loans in their loan portfolio. See "Selected Statistical Information—Grading of Loan Portfolio" for a description of our internal procedures.

The Loan Classification and Rating Rules require that Mexican banks grade 100.0% of their commercial loan portfolio (except loans made to or guaranteed by the Mexican federal government) as of the end of each quarter. The classification of mortgage and consumer loans is required to be made monthly and reported to the CNBV.

The Loan Classification and Rating Rules establish the following categories corresponding to levels of risk and set forth procedures for the grading of commercial loans: Grade ”A” loans, representing minimal risk of non-payment; Grade ”B” loans, represent low risk loans; Grade ”C” loans, representing loans with moderate risk; Grade ”D” loans, represent high risk loans; and Grade ”E” loans, representing non-collectible loans.

The Loan Classification and Rating Rules provide for additional subcategories of grading on the basis of the collateral or guarantees that may apply to the individual credit subject to grading, as follows:

	Allowance for Loan Losses		
Risk Levels	**Low/Minus Rating**	**Medium/Average Rating**	**High/Plus Rating**
A-1		0.5%	
A-2		0.99%	
B-1	1.0%	3.0%	4.99%
B-2	5.0%	7.0%	9.99%
B-3	10.0%	15.0%	19.99%
C-1	20.0%	30.0%	39.99%
C-2	40.0%	50.0%	59.99%
D	60.0%	75.0%	89.99%
E		100.0%	

Non-performing consumer loans and credit card accounts are classified based on the amount of time such credit card accounts and consumer loans have been past-due. Consumer loans and credit card accounts with zero past-due payments are rated “A,” those past-due for one month are rated “B,” those past-due for two months are rated “C,” accounts past-due three to six months are rated “D” and past-due accounts of seven months or more are rated “E.”

Residential real estate mortgage loans are also classified on the basis of the amount of time such loans have been past-due. Real estate mortgage loans with zero past-due payments are rated “A,” those past-due for up to four months are rated “B,” those past-due for five to six months are rated “C,” loans past-due seven to forty-seven months are rated “D” and past-due loans of forty-eight months or more are rated “E.”

The grading of commercial loan portfolios is determined by an analysis of the financial risk, industry risk, country risk and the credit experience, which include the following risk factors: financial structure and payment capacity, sources of financing, administration and decision making, integrity of the financial information, market position and the specific collateral or guarantees that secure the loans and the liquidity of any collateral.

The loan loss reserves are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors to write-off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. Differences between the estimate of the loan loss reserve and the actual loss will be reflected in our financial statements at the time of charge-off.

Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of the collectibility of loans will be made in the short term.

See “Selected Statistical Information—Loan Portfolio” and “Allowance for Loan Losses—Analysis of Allowance for Loan Losses” for a classification of our loan portfolio and discussion of our allowance for loan losses.

Reserve Requirements and Liquidity Coefficients

Peso- and UDI-denominated liabilities

As of December 31, 2006, there are no reserves or liquidity requirements or coefficients imposed on Mexican banks in connection with their liabilities denominated in pesos or UDIs.

Foreign currency-denominated liabilities

Pursuant to the regulations of Banco de Mexico, the liabilities of Mexican banks denominated in foreign currencies (including dollars) are subject to a liquidity coefficient equal to the amount obtained by multiplying all foreign currency-denominated indebtedness which will be due in 60 days or less by a percentage factor dependent on the remaining maturity of the liability (netted against liquid foreign currency-denominated assets also weighted depending on their maturity), which amount must be invested in low-risk and highly liquid instruments and deposits, including, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible, and with no transfer restrictions, to U.S. dollars;
- deposits with Banco de Mexico;
- treasury bills, treasury bonds and treasury Notes issued by the United States government;
- one-day deposits or one to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's Investor Services Inc., or Moody's or A-2 by Standard & Poor's Rating Services, or S&P;
- investments in mutual funds or companies identified by Banco de Mexico upon the banks' request;
- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements; and
- foreign currency-denominated deposits made with foreign financial institutions rated P-2 by Moody's or A-2 by S&P that may be drawn against on demand or on two-day notice.

Such liquid assets may not be granted as collateral, lent or subject to repurchase operations or any other similar transactions that may limit their free transferability. In addition, the total amount of maturity-adjusted average net liabilities denominated or indexed in foreign currencies that Mexican banks, their subsidiaries or foreign agencies may have (calculated daily) are limited to 1.83 times the amount of their Tier 1 capital. We are in compliance with the applicable reserve requirement and liquidity coefficients in all material aspects.

Lending Limits

In accordance with the General Rules for Banks, restrictions relating to the diversification of a bank's financing transactions (*i.e.*, loans) are determined in accordance with the bank's compliance with Mexican Capitalization Requirements. For a bank with:

- 8.0% < capitalization ratio 9.0%, the maximum financing exposure to a person or a group of persons representing common risk (as defined by the General Rules for Banks) to the bank is limited to 12.0% of the bank's Tier 1 capital;
- 9.0% < capitalization ratio 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 capital;
- 10.0% < capitalization ratio 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 capital;
- 12.0% < capitalization ratio 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's Tier 1 capital; and
- capitalization ratio > 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 40.0% of the bank's Tier 1 capital.

The limits mentioned in the prior paragraphs are required to be measured on a quarterly basis during the months of March, June, September and December. The CNBV has discretion to reduce the aforementioned limits, if internal control or the risk management of the bank is inadequate.

Financings guaranteed by unconditional and irrevocable security interests or guarantees, that may be enforced immediately and without judicial action, granted by Mexican banks or foreign financial institutions with investment grade ratings and domiciled in a country member of the European Union or the Organization for Economic Cooperation and Development (which guarantees must be accompanied with a legal opinion as to their enforceability), securities issued by the Mexican government, and cash (transferred to the bank lender under a deposit that may be freely disposed of by the lender) are exempted from the aforementioned guidelines, but such financings may not exceed 100.0% of a bank's Tier 1 capital.

In addition, the aggregate amount of financings granted to the three largest borrowers of a bank, may not exceed 100.0% of the bank's Tier 1 capital. Banks are not obligated to comply with the aforementioned limits with respect to financings made to the Mexican government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), Banco de Mexico, the IPAB and development banks the obligations of which are guaranteed by the Mexican government. The aforementioned guidelines do not apply to financings made to Mexican banks. The aggregate financings to Mexican banks and to government-controlled companies and decentralized agencies may not exceed 100.0% of such bank's Tier 1 capital.

Banks are required to disclose, in the notes to their financial statements, (i) the number and amount of financings that exceed 100% of Tier 1 capital, and (ii) the aggregate amount of financings made to their three largest borrowers.

Funding Limits

In accordance with the General Rules for Banks, a bank is required to notify the CNBV in the event it receives funds from a person or a group of persons that represent, in one or more transactions, more than 100% of a bank's Tier 1 capital. The CNBV may order a reduction of the relevant liabilities in such case. As of December 31, 2006, none of our liabilities to a person or group of persons exceeded the 100% threshold.

Foreign Currency Transactions

Banco de Mexico regulations govern transactions by banks in foreign currencies. Mexican banks may currently engage in spot, forward and option transactions related to all currencies subject to the approval of Banco de Mexico. We have received approval from Banco de Mexico to engage in forwards, options and futures related to the peso and foreign currencies.

At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed the limits described under " — Reserve Requirements and Liquidity Coefficients—Foreign Currency-Denominated Liabilities."

Derivative Transactions

On December 26, 2006, Banco de Mexico issued new rules applicable to Mexican banks to enter into derivative transactions. The new rules, among other things, extend the types and classes of derivatives a Mexican bank can enter into and simplify the authorization regime. Subject to the requirements set forth in such rules, Mexican banks can enter into swap contracts, credit derivatives forward contracts, futures and options with respect to:

- specific shares, groups of shares or securities referenced to shares, that are listed in a securities exchange,

- stock exchange indexes,
- Mexican, foreign currencies and UDIs,
- inflation indexes,
- gold or silver,
- nominal or real interest rates with respect to any debt instrument,
- loans or credits, and
- forwards, options or swaps with respect to any of the foregoing.

Mexican banks require an express general approval in writing from Banco de Mexico to market and enter into derivative transactions with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval would require a specific approval from Banco de Mexico to enter into such transactions. Mexican banks may, however, enter into derivatives without the authorization of Banco de Mexico if the exclusive purpose of such derivatives is to hedge the bank's existing risks.

Mexican banks are required to periodically inform its board of directors with respect to the derivatives it enters and the limits thereof. In the case that the bank enters into a derivative without the authorization of Banco de Mexico with the exclusive purpose of hedging its credit risk, it would also be required to have an administrative and risk control unit or hire a specialist to value, measure and provide follow up in connection with such risks.

The counterparties of derivatives entered into by Mexican banks must be other Mexican banks, Mexican financial entities authorized to enter into such derivatives by Banco de Mexico or foreign financial institutions. Derivatives must be entered into pursuant to master agreements that must include international terms and guidelines, such as ISDA's master agreements. Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

Repurchase Operations and Securities Lending

Under a circular issued by Banco de Mexico, Mexican banks may enter into repurchase operations with Mexican and foreign counterparts. Repurchase operations may be entered into in respect of bank securities, Mexican government securities, debt securities registered with the CNBV and certain foreign securities. Repurchase operations must be entered into under master agreements, such as the master agreements of the International Securities Market Association and the Public Securities Association. Collateral may be provided in connection with repurchase operations.

Banco de Mexico has also authorized Mexican banks to participate in securities lending activities on terms similar to those applicable to repurchase operations.

Limitations on Investments in Other Entities

The Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines: (1) up to 5.0% of the capital of such companies at any time; (2) more than 5.0% and up to 15.0% of the capital of such companies for a period not to exceed three years, upon prior authorization of a majority of the members the bank's board of directors; and (3) for higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development-related activities, with prior authorization of the Ministry of Finance and Public Credit, subject to the opinion of Banco de Mexico. All such investments are subject to the guidelines established by the Ministry of Finance and Public Credit and must comply with general regulations regarding asset and risk diversification and

turnover rules in order to encourage support of a larger number of projects. The total of all such investments made by a bank may not exceed 5.0% of such bank's Mexican deposit base. In addition, under the Mexican Banking Law, the approval of the Ministry of Finance and Public Credit is required prior to the merger of a commercial bank with any other entity.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from (1) pledging their properties as collateral (except if Banco de Mexico or the CNBV so authorizes or as described above with respect to derivative transactions, repurchase and securities lending transactions) and (2) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers' acceptances.

Bank Secrecy Provisions; Credit Bureaus

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking operations (including loans) to any third parties (including any purchaser, underwriter, or broker or holder of any of the bank's securities) other than (i) the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact, (ii) judicial authorities in trial proceedings in which the accountholder is a party or defendant; (iii) the Mexican federal tax authorities for tax purposes; (iv) the Federal Electoral Agency; and (v) the federal attorney general's office (*Procuraduría General de la República*) for purposes of criminal proceedings, among others. In most cases, the information needs to be registered through the CNBV.

Amendments to the Mexican Banking Law published in the Federal Gazette on June 4, 2001, authorize the CNBV to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws; *provided, however*, that an agreement must be in place between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit-related information to duly authorized Mexican credit bureaus. We currently use the services of Buró de Crédito, S.A. de C.V., a Mexican credit bureau created jointly by us, other Mexican banks and a Mexican affiliate of TransUnion, a leading U.S. credit bureau.

Money Laundering Regulations

Mexico has in effect rules relating to money laundering; the most recent set of rules have been in effect since November 28, 2006, or the Money Laundering Rules.

Under the Money Laundering Rules, we are required to satisfy various requirements:

- the establishment and implementation of procedures and policies, including client identification and know-your-customer policies, to prevent and detect acts, omissions or transactions that might favor, assist or cooperate in any manner with terrorist or money laundering activities (as defined in the Mexican Federal Criminal Code (*Código Penal Federal*));
- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Ministry of Finance and Public Credit regulations);
- reporting of relevant and unusual transactions to the CNBV and the Ministry of Finance and Public Credit; and
- the establishment of a communication and control committee (which, in turn, must appoint a compliance officer) in charge of supervising compliance with anti-money laundering provisions.

If the transactions undertaken are deposits, savings or investment accounts, trusts, mandates, security-deposit box services or the granting of any kind of loans, we are required to organize and maintain a file for the identification of each client (each, an "Identification File"). An individual's Identification File shall include the following documentation or data (which must be maintained updated): (1) full name, (2) date of birth, (3) nationality, (4) tax identification number and the certificate evidencing the tax identification number issued by the Ministry of Finance and Public Credit or the population registry identification number and evidence thereof issued by the Ministry of Interior (*Secretaría de Gobernación*), as the case may be, (5) profession, main activity or line of business and (vi) domicile (including telephone number).

An entity's Identification File shall include the following documentation or data (which must be maintained updated): (1) corporate name, (2) domicile, (3) nationality, (4) name of the sole administrator, the members of the board of directors, the general manager or any relevant attorney-in-fact, (5) main activity or line of business, (6) tax identification number and the certificate evidencing the tax identification number issued by the Ministry of Finance and Public Credit, and (7) copy of the public deed containing its constitutive documents.

Pursuant to rules issued by the Ministry of Finance and Public Credit, we are required to maintain, for a minimum term of ten (10) years, the documents described above, which relate to the identification of clients and that are required to be delivered by the relevant client prior to the entering into any transaction.

Under the Money Laundering Rules, we must provide to the Ministry of Finance and Public Credit, through the CNBV, (1) quarterly (within 10 business days from the end of each quarter) reports in respect of cash transactions exceeding U.S.$10,000, (2) reports of unusual transactions, within 30 calendar days counted from the date of detection of the applicable transaction.

Rules on Interest Rates

Banco de Mexico regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For peso-denominated loans, banks may choose a fixed rate, TIIE, *Cetes*, MEXIBOR (Mexican Bank Overnight Rate), CCP, the rate determined by Banco de Mexico as applied to loans funded by or discounted with NAFIN or the rate agreed to with development banks in loans funded or discounted with them. For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose either a fixed rate, a rate that has a market reference and that is not unilaterally determined by the lenders, including LIBOR and EURIBOR or the rate agreed with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar-denominated loans, banks may choose in addition to such foreign currency rates.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. Similarly, a bank's spread has also been restricted to a single formula of either a fixed percentage or a number of basis points to be added to the selected reference rate.

In addition, on August 4, 2004, Banco de Mexico published new rules that regulate a bank's yield on credit card debt and provide that certain information regarding interest charges be included on the credit card statements sent to card users.

Fees

Banco de Mexico, in carrying out monetary and credit policies, has the authority to regulate banking operations, transactions in precious metals and foreign currency, and liquidity requirements.

Banco de Mexico, on its own initiative or as per request from the CONDUSEF, banks or sofoles, may assess whether reasonable competition conditions exist in connection with fees charged by banks or sofoles in

performing financial operations. Banco de Mexico must obtain the opinion of the Federal Competition Commission (*Comisión Federal de Competencia*) in carrying out this assessment. Banco de Mexico may take temporary measures to address these issues.

Law for the Protection and Defense of Financial Service Users

A new Law for the Protection and Defense of Financial Service Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) became effective in April 1999. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services. CONDUSEF acts as arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. As a banking institution, we must submit to CONDUSEF's jurisdiction in all conciliation proceedings and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. We may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. We may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. We may be subject to coercive measures or sanctions imposed by CONDUSEF.

Law for the Transparency and Ordering of Financial Services

The Transparency and Ordering of Financial Services Law (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*) was published in the Official Gazette of Mexico on January 26, 2004 and became effective 180 days after that date. The purpose of this law is to regulate (1) the fees charged to clients of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds; (2) the fees that financial institutions charge to each other for the use of any payment system; and (3) other aspects related to financial services, in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants Banco de Mexico the authority to regulate these fees and establish general guidelines and requirements relating to payment devices and credit card account statements. We must inform Banco de Mexico of any changes in these fees before they become effective.

Financial Groups Statutory Responsibility

The Financial Groups Law requires that each financial services holding company, enter into an agreement with each of its financial services subsidiaries, which includes us. Pursuant to such agreements, the financial services holding company is responsible secondarily and without limitation for performance of the obligations incurred by its subsidiaries as a result of the authorized activities of such subsidiaries, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the financial services holding company's assets. For such purposes, a subsidiary is deemed to have losses if (1) its stockholders' equity represents an amount that is less than the amount the subsidiary is required to have as minimum paid-in capital under applicable law, (2) capital and reserves are less than the subsidiary is required to have under applicable law, or (3) in the judgment of the regulatory commission supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations.

The financial services holding company has to inform the CNBV of the existence of any such obligation or loss. The financial services holding company would only have to respond with respect to the obligations of its financial services subsidiaries fifteen business days after the CNBV delivers notice of its approval of the enforceability of such obligations. The financial services holding company responds to the losses of its subsidiaries by making capital contributions to such subsidiaries. No subsidiary is responsible for the losses of the financial services holding company or of the Financial Services holding company's subsidiaries. GFBB has entered into such an agreement with us and its other financial services subsidiaries.

Ownership Restrictions; Foreign Financial Affiliates

Ownership of a financial services holding company's capital stock is no longer limited to specified persons and entities under the Financial Groups Law and the group's corporate charter. Recent amendments to the Financial Groups Law and the Foreign Investment Law (*Ley de Inversión Extranjera*) eliminated the restrictions on foreign ownership and control of Mexican banks and financial services holding companies. Series F shares may be purchased, directly or indirectly, by foreign financial institutions and must represent at all times at least 51% of the paid-in capital.

Notwithstanding the above, under the Financial Groups Law, foreign entities with governmental authority cannot purchase a financial services holding company's capital stock. Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are qualified investors as defined in the Financial Groups Law.

On January 19, 1999, the Mexican Congress removed from the Mexican Banking Law all restrictions on foreign ownership of Mexican commercial banks and enacted legislation to change the composition of their boards of directors. In accordance with such legislation, (1) the outstanding Series A and Series B shares of Mexican banks are required to be exchanged for voting Series O shares, which may be owned both by Mexican and non-Mexican investors or by Series F shares, which may be owned only by foreign financial institutions, (2) any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the Ministry of Finance and Public Credit, (3) the Ministry of Finance and Public Credit has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank and (4) the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of whom must qualify as independent. The exchange of Series A and Series B shares for voting Series O shares is made by operation of law, but the banks were required to effect the actual exchange of share certificates within a period of five years. We completed such exchange of shares on March 25, 1999. Substantially all of our Series O shares were exchanged for Series F shares when BBVA acquired control of GFBB. Minority shareholders own our Series B shares.

The change in foreign ownership rules continued the liberalization of the Mexican banking system commenced under NAFTA. Pursuant to NAFTA, the Free Trade Agreement between Mexico and the European Union, the Free Trade Agreement between Mexico and Japan and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, member states of the European Union, Japan and other countries with which Mexico has executed relevant international trade agreements, or financial services holding companies formed in Mexico by such foreign financial entities, will be treated identically to Mexican investors when investing in affiliate banks and other financial entities.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have none of the rights of a stockholder with respect to such shares and will be required to forfeit such shares in accordance with procedures set forth in the Mexican Banking Law and the Financial Groups Law.

Pension Fund Management

The Mexican Social Security Law (*Ley del Seguro Social*) established the AFORE pension system. Among other economic benefits and other services to be provided to participants in the social security system, the Social Security Law provides that each worker may establish an independent retirement account, which is to be managed by an approved AFORE. Pursuant to the AFORE Law (*Ley de los Sistemas de Ahorro para el Retiro*), the main functions of an AFORE include, among others, (1) administering pension funds in accordance with the Social Security Law, (2) creating and administering individual pension accounts for each worker, (3) creating, administering and operating specialized pension funds (*Sociedades de Inversion Especializadas en Fondos para*

el Retiro), or SIEFOREs, (4) distributing and purchasing SIEFOREs' shares, (5) contracting pension insurance and (6) distributing, in certain cases, the individual funds directly to the pensioned worker.

The AFOREs and SIEFOREs are subject to the supervision of CONSAR, which is charged with the coordination, regulation and supervision of the pension system. Under the Social Security Law, no AFORE may have more than 20% of the total market, which as of December 31, 2006, consisted of approximately 7.42 million workers.

Cayman Islands Banking Supervision and Regulation

In order to carry on banking business from the Cayman Islands, all banks must be licensed by the Cayman Islands Monetary Authority pursuant to the Cayman Islands Banks and Trust Companies Law (as amended), or CI Banking Law. We are the holder of a Category "B" banking license under the CI Banking Law. A Category "A" banking license permits the carrying on of local and overseas banking business. A Category "B" banking license permits the carrying on of banking business anywhere in the world but restricts activities in the Cayman Islands to banking activities only in furtherance of the licensee's offshore activities.

The Cayman Islands Monetary Authority was established in 1996 with responsibility for, among other things, supervising the banking industry in the Cayman Islands. The Cayman Islands Monetary Authority operates now under the auspices of the Monetary Authority Law (as amended).

As a licensee not incorporated in the Cayman Islands, we are required to provide a copy of the audited annual accounts of our head office to the Cayman Islands Monetary Authority within three months of the end of our financial year. The Cayman Islands Monetary Authority has a duty to maintain a general review of banking practice in the Cayman Islands, to carry out investigations to determine that each licensee is in a sound financial position, to investigate any offense against the laws of the Cayman Islands which it has reasonable grounds to believe has, or may have been, committed by a licensee or any of its directors or officers in their capacity as such, and to examine accounts and audited accounts forwarded to it and to provide reports thereon to the Governor of the Cayman Islands. Violations of certain provisions of the CI Banking Law are subject to administrative sanctions (including cancellation of licenses), fines and criminal penalties.

Confidentiality

We are subject to two confidentiality regimes applicable in the Cayman Islands: English common law, pursuant to which a bank is under a duty to keep its customers' affairs confidential, and statute, whereby the Confidential Relationships (Preservation) Law (1995 Revision), or the CI Confidentiality Law, makes it a criminal offense, inter alia, to divulge information defined by the CI Confidentiality Law as confidential. Unless an exemption under either the CI Confidentiality Law or the Reporting of Savings Income Information (European Union) Law, 2005 applies, any person in possession of confidential information who divulges it or attempts or threatens to divulge it is guilty of an offense and liable on conviction to a fine or a term of imprisonment.

Subject to certain exceptions, the CI Confidentiality Law is deemed to apply to all confidential information with respect to business of a professional nature that arises in, or is brought into, the Cayman Islands, and to all persons coming into possession of such information at any time thereafter, whether they be within the jurisdiction or outside it. "Confidential information" is very broadly defined as including information concerning any property that the recipient thereof is not, other than in the normal course of business, authorized by the principal to divulge. The CI Confidentiality Law purports to have extra-territorial effect.

The CI Confidentiality Law has no application to the seeking, divulging, or obtaining of confidential information in the following circumstances: (1) in compliance with the direction of the Grand Court of the Cayman Islands; (2) by or to (a) any professional person acting in the normal course of business or with the consent, express or implied, of the relevant principal; (b) a police officer of the rank of inspector or above investigating an offense committed or alleged to have been committed within the jurisdiction; (c) a police officer

of the rank of inspector or above specifically authorized by the Governor to act in that capacity, investigating an offense committed or alleged to have been committed outside the Cayman Islands which offense, if committed in the Cayman Islands, would be an offense against such laws; (d) the Financial Secretary of the Cayman Islands, the Inspector of Financial Services of the Cayman Islands or, in relation to particular information specified by the Governor, such other person as the Governor may authorize; (e) a bank in any proceedings, cause or matter when and to the extent it is reasonably necessary for the protection of the bank's interest either as against its customers or as against third parties in respect of transactions of the bank for, or with, its customer; or (f) the relevant professional person with the approval of the Financial Secretary of the Cayman Islands, when necessary for the protection of himself or any other person against crime; or (3) in accordance with the CI Confidentiality Law or the Reporting of Savings Income Information (European Union) Law, 2005 or any other law.

Normal course of business" is defined as being the ordinary and necessary routine involved in the efficient carrying out of the instructions of a principal, including compliance with such laws and legal process as arises out of and in connection therewith, and the routine exchange of information between licensees.

Under Section 13(3) of the CI Banking Law, the Cayman Islands Monetary Authority is entitled, in the performance of its functions under the CI Banking Law (which include a duty of general supervision of banking practice in the Cayman Islands and the assisting in the investigation of any offense against the laws of the Cayman Islands which it has reasonable grounds to believe has or may have been committed by a bank or by any of its directors or officers in such capacity), at all reasonable times (a) to have access to such books, records, vouchers, documents, cash and securities of any bank; and (b) to request any information, matter, or thing from any person whom it has reasonable grounds to believe is carrying on banking or trust business in the Cayman Islands without a license, as it may reasonably require. Pursuant to certain legislative developments, the Cayman Islands Monetary Authority has additional powers to compel disclosure of confidential information from licensees and persons reasonably believed to have information relevant to the inquiry by the Cayman Islands Monetary Authority in connection with the exercise of its own regulatory functions and powers to direct the provision of information, documentation or assistance in connection with inquiries by overseas regulators. A bank will still remain under a duty not to disclose information other than in accordance with the CI Confidentiality Law and the Reporting of Savings Income Information (European Union) Law 2005.

Prevention of money laundering

As part of our responsibility for the prevention of money laundering, we will require a detailed verification of the investor's identity and the source of payment. Depending on the circumstances of each application, a detailed verification might not be required where:

(a) the investor is a recognised financial institution which is regulated by a recognised regulatory authority *and* carries on business in a country listed in Schedule 3 of the Money Laundering Regulations (as amended) of the Cayman Islands (as amended), or a Schedule 3 Country; or

(b) the application is made through a recognised intermediary which is regulated by a recognised regulatory authority *and* carries on business in a Schedule 3 Country. In this situation we may rely on a written assurance from the intermediary that the requisite identification procedures on the investor for business have been carried out; or

(c) the subscription payment is remitted from an account (or joint account) held in the investor's name at a bank in the Cayman Islands or a bank regulated in a Schedule 3 Country. In this situation we may require evidence identifying the branch or office of the bank from which the monies have been transferred, verify that the account is in the name of the investor and retain a written record of such details.

We reserve the right to request such information as is necessary to verify the identity of an investor. In the event of delay or failure by the investor to produce any information required for verification purposes, we may refuse to accept the application and the subscription monies relating thereto.

If any person who is resident in the Cayman Islands has a suspicion that a payment to the Fund (by way of subscription or otherwise) contains the proceeds of criminal conduct that person is required to report such suspicion pursuant to The Proceeds of Criminal Conduct Law (as amended).

By subscribing, investors consent to the disclosure by us of any information about them to regulators and others upon request in connection with money laundering and similar matters both in the Cayman Islands and in other jurisdictions.

DESCRIPTION OF THE NOTES

We will issue a series of notes initially qualifying as Tier 1 capital, (the "Tier 1 Notes"), and a series of notes initially qualifying as Tier 2 capital, (the "Tier 2 Notes"), through our Grand Cayman branch, (the "Branch"), each series being issued under a separate indenture, between us and The Bank of New York, as trustee, which may be amended or supplemented from time to time. For convenience, the Tier 1 Notes and the Tier 2 Notes are referred to collectively as the "Notes," it being understood, however, that the Tier 1 Notes and the Tier 2 Notes are each a separate and independent series. This summary describes the general terms and provisions of the Notes. The description of certain provisions of the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the indentures and the Notes, including the definitions therein of certain terms. We urge you to read each of the indentures and the forms of Tier 1 Notes and Tier 2 Notes because they, and not this description, define your rights as a holder of Tier 1 Notes or Tier 2 Notes. In case of any conflict regarding the rights and obligations of the holders of the Notes under the respective indenture, the respective Note and this offering memorandum, the terms of the respective indenture will prevail. You may obtain a copy of the indentures and the forms of the Tier 1 Notes and Tier 2 Notes by contacting the trustee at the address indicated in this offering memorandum.

General

Tier 1 Notes

The Tier 1 Notes will initially be issued in the aggregate amount of U.S.$500,000,000 in registered form, in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. We will issue the Tier 1 Notes through the Branch, but the Tier 1 Notes will represent our general, unsecured and subordinated, non-cumulative, non-preferred obligations. The Tier 1 Notes constitute Subordinated Non-Preferred Indebtedness and will rank (i) junior to our Senior Indebtedness and Subordinated Preferred Indebtedness (including the Tier 2 Notes), (ii) *pari passu* without preference among themselves and with all our other Subordinated Non-Preferred Indebtedness and (iii) senior only to all classes of our capital stock, as described in this offering memorandum. See "—Subordination." We expect to incur additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness from time to time, and the indenture for the Tier 1 Notes does not prohibit or limit the incurrence of other indebtedness, including additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness.

Tier 2 Notes

The Tier 2 Notes will initially be issued in the aggregate amount of €600,000,000 in registered form, in minimum denominations of €50,000 and integral multiples of €1,000 in excess thereof. We will issue the Tier 2 Notes through the Branch, but the Tier 2 Notes will represent our general, unsecured and subordinated, cumulative, preferred obligations. The Tier 2 Notes constitute Subordinated Preferred Indebtedness and will rank (i) junior to our Senior Indebtedness, (ii) *pari passu* without preference among themselves and with all our other Subordinated Preferred Indebtedness and (iii) senior to our Subordinated Non-Preferred Indebtedness (including the Tier 1 Notes) and to all classes of our capital stock, as described in this offering memorandum. See "—Subordination." We expect to incur additional Senior Indebtedness and Subordinated Preferred Indebtedness from time to time, and the indenture for the Tier 2 Notes does not prohibit or limit the incurrence of other indebtedness, including additional Senior Indebtedness and Subordinated Preferred Indebtedness.

Tier 1 and Tier 2 Notes

The Notes will be unsecured and not guaranteed, or otherwise eligible for reimbursement, by the IPAB or any other Mexican governmental agency, or by any other entity that is part of Grupo Financiero BBVA Bancomer, and, by their terms, are not convertible into our shares or equity capital.

The Tier 1 Notes will mature and be payable in full on the Tier 1 Interest Payment Date falling on or nearest to May 17, 2022, (the "Tier 1 Maturity Date") unless earlier redeemed or payment of principal has been deferred as provided in this offering memorandum. The Tier 2 Notes will mature and be payable in full on the Tier 2 Interest Payment Date falling on or nearest to May 17, 2017 (the "Tier 2 Maturity Date"), unless earlier redeemed or payment of principal has been deferred as provided in this offering memorandum. We may redeem the Tier 1 Notes in whole or in part on any Tier 1 Interest Payment Date falling on or after May 17, 2017, and the Tier 2 Notes in whole or in part on any Tier 2 Interest Payment Date falling on or after May 17, 2012, in each case as described, and subject to the conditions set forth, below under "—Redemption—Optional Redemption," and may also redeem either series of the Notes in whole, but not in part, under the circumstances described below under "—Redemption—Withholding Tax Redemption" and "—Redemption—Special Event Redemption." Other than in accordance with an Optional Redemption, a Withholding Tax Redemption or a Special Event Redemption, the Tier 1 Notes will not be redeemable prior to the Tier 1 Maturity Date and the Tier 2 Notes will not be redeemable prior to the Tier 2 Maturity Date.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under "—Book-Entry System."

We will maintain an office or agency in the Borough of Manhattan, The City of New York, where the Tier 1 Notes may be presented for exchange or transfer, it being understood that any exchange will only be made on a per series basis and neither the Tier 1 Notes nor Tier 2 Notes may be exchanged for the other series of Notes. Such office or agency initially will be located at The Bank of New York, 101 Barclay Street, 4E, New York, New York, 10286, Attention: Global Finance Unit. The holders of the Tier 1 Notes will not have to pay a service charge to register the transfer or exchange of any Tier 1 Notes, but we may require that holders pay any applicable tax or other governmental charge.

We will maintain a transfer agent in Luxembourg, where the Tier 2 Notes may be presented for exchange or transfer, it being understood that any exchange will only be made on a per series basis and neither the Tier 1 Notes nor Tier 2 Notes may be exchanged for the other series of Notes. The transfer agent initially will be located at The Bank of New York (Luxembourg) SA, Aerogolf Centre IA, Hoehenhof, L-1736 Senningerberg, Grand Duchy of Luxembourg. The holders of the Tier 2 Notes will not have to pay a service charge to register the transfer or exchange of any Tier 2 Notes, but we may require that holders pay any applicable tax or other governmental charge.

The indentures and the Notes do not contain any provision that would protect the holders of the Notes against a sudden and dramatic decline in our credit quality resulting from a takeover, recapitalization or other restructuring or other event involving us that may adversely affect our credit quality.

Principal and Interest

Tier 1 Notes: Fixed Interest Periods

The Tier 1 Notes will bear interest from (and including) May 17, 2007, or the Tier 1 Issue Date, up to (but excluding) May 17, 2017, (the "Tier 1 First Call Date"), at a fixed rate per annum equal to 6.008%, payable semi-annually in arrears on May 17 and November 17 of each year (each a "Tier 1 Fixed Interest Payment Date"), commencing on November 17, 2007. The period beginning on (and including) the Tier 1 Issue Date and ending on (but excluding) the first Tier 1 Fixed Interest Payment Date and each successive period beginning on (and including) a Tier 1 Fixed Interest Payment Date and ending on (but excluding) the next succeeding Tier 1 Fixed Interest Payment Date up to (but excluding) the Tier 1 First Call Date is called a Tier 1 Fixed Interest Period. If any Tier 1 Fixed Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Tier 1 Fixed Interest Payment Date, and no further interest shall accrue as a result of the delay. Interest on the Tier 1 Notes in respect of a Tier 1 Fixed Interest Period will be calculated on the basis of a 360-day year of twelve 30-day months.

Tier 1 Notes: Floating Interest Periods

The Tier 1 Notes will bear interest in respect of each Tier 1 Floating Interest Period (as defined below) commencing on or after the Tier 1 First Call Date at a floating rate equal to the LIBOR Rate (as defined below) as of the second Business Day prior to the commencement of each Tier 1 Floating Interest Period (each a "Tier 1 Determination Date") plus 1.81% per annum with respect to the Tier 1 Notes, payable quarterly in arrears on February 17, May 17, August 17 and November 17 of each year (each a "Tier 1 Floating Interest Payment Date" and, together with each Tier 1 Fixed Interest Payment Date, the "Tier 1 Interest Payment Dates" or individually a "Tier 1 Interest Payment Date") commencing on August 17, 2017. The period beginning on (and including) the Tier 1 First Call Date and ending on (but excluding) the first Tier 1 Floating Interest Payment Date and each successive period beginning on (and including) a Tier 1 Floating Interest Payment Date and ending on (but excluding) the next succeeding Tier 1 Floating Interest Payment Date up to (but excluding) the Tier 1 Maturity Date is called a "Tier 1 Floating Interest Period." If any Tier 1 Floating Interest Payment Date would otherwise fall on a day that is not a Business Day, it shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month in which event such Tier 1 Floating Interest Payment Date shall be brought forward to the immediately preceding Business Day and the amount of interest payable shall be adjusted accordingly. Interest on the Tier 1 Notes in respect of a Tier 1 Floating Interest Period will be calculated on the basis of the actual number of days elapsed in such Tier 1 Floating Interest Period, divided by 360. For so long as the Tier 1 Notes are listed on the Official List of the Luxembourg Stock Exchange, we will provide notice to the LSE of any change to the floating rate payable by us for any Tier 1 Floating Interest Period in the manner set forth under "—Notices."

Tier 2 Notes: Fixed Interest Periods

The Tier 2 Notes will bear interest from (and including) May 17, 2007, (the "Tier 2 Issue Date," up to (but excluding) May 17, 2012, (the "Tier 2 First Call Date"), at a fixed rate per annum equal to 4.799%, payable annually in arrears on May 17 of each year (each a "Tier 2 Fixed Interest Payment Date"), commencing on May 17, 2008. The period beginning on (and including) the Tier 2 Issue Date and ending on (but excluding) the first Tier 2 Fixed Interest Payment Date and each successive period beginning on (and including) a Tier 2 Fixed Interest Payment Date and ending on (but excluding) the next succeeding Tier 2 Fixed Interest Payment Date up to (but excluding) the Tier 2 First Call Date is called a "Tier 2 Fixed Interest Period." If any Tier 2 Fixed Interest Payment Date would otherwise fall on a date that is not a TARGET Business Day (as defined below), the required payment of interest shall be made on the next succeeding TARGET Business Day, with the same force and effect as if made on such Tier 2 Fixed Interest Payment Date, and no further interest shall accrue as a result of the delay. Interest on the Tier 2 Notes in respect of a Tier 2 Fixed Interest Period will be calculated on the basis of the actual number of days elapsed in the period from (and including) the most recent Tier 2 Fixed Interest Payment Date (or, if none, the Tier 2 Issue Date) to (but excluding) the relevant payment date, divided by the actual number of days in the relevant Tier 2 Fixed Interest Period, or the "Actual/Actual Day Count Basis".

Tier 2 Notes: Floating Interest Periods

The Tier 2 Notes will bear interest in respect of each Tier 2 Floating Interest Period (as defined below) commencing on or after the Tier 2 First Call Date at a floating rate equal to the EURIBOR Rate (as defined below) as of the second TARGET Business Day (as defined below) prior to the commencement of each Tier 2 Floating Interest Period (each a "Tier 2 Determination Date") plus 1.45% per annum, payable quarterly in arrears on February 17, May 17, August 17 and November 17 of each year (each a "Tier 2 Floating Interest Payment Date" and, together with each Tier 2 Fixed Interest Payment Date, the "Tier 2 Interest Payment Dates" or individually a "Tier 2 Interest Payment Date") commencing on August 17, 2012. The period beginning on (and including) the Tier 2 First Call Date and ending on (but excluding) the first Tier 2 Floating Interest Payment Date and each successive period beginning on (and including) a Tier 2 Floating Interest Payment Date and ending on (but excluding) the next succeeding Tier 2 Floating Interest Payment Date up to (but excluding) the Tier 2 Maturity Date is called a "Tier 2 Floating Interest Period." If any Tier 2 Floating Interest Payment Date would otherwise fall on a day that is not a TARGET Business Day, it shall be postponed to the next day that is a TARGET Business Day unless it would thereby fall into the next calendar month in which event such Tier 2 Floating Interest Payment Date shall be brought

forward to the immediately preceding TARGET Business Day and the amount of interest payable shall be adjusted accordingly. Interest on the Tier 2 Notes in respect of a Tier 2 Floating Interest Period will be calculated on the basis of the actual number of days elapsed in such Tier 2 Floating Interest Period, divided by 360. For so long as the Tier 2 Notes are listed on the Official List of the Luxembourg Stock Exchange, we will provide notice to the LSE of any change to the floating rate payable by us for any Floating Interest Period in the manner set forth under "—Notices."

Definitions

For purposes of the foregoing:

(i) The term LIBOR Rate is defined in the indenture for the Tier 1 Notes as the rate (expressed as a percentage per annum) for deposits in United States dollars for a three-month period beginning on the first day of the relevant Tier 1 Floating Interest Period that appears on Telerate Page 3750 as of 11:00 a.m., London time, on the relevant Tier 1 Determination Date. If Telerate Page 3750 does not include such a rate or is unavailable on a Tier 1 Determination Date, the Calculation Agent (as defined below) will request the principal London office of each of four major banks in the London interbank market, as selected by us, to provide such bank's offered quotation (expressed as a percentage per annum), as of approximately 11:00 a.m., London time, on such Tier 1 Determination Date, to prime banks in the London interbank market for deposits in a Representative Amount in United States dollars for a three-month period beginning on the first day of the relevant Tier 1 Floating Interest Period. If at least two such offered quotations are so provided, the LIBOR Rate for the relevant Tier 1 Floating Interest Period will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, the Calculation Agent will request each of three major banks in New York City, as selected by us, to provide such bank's rate (expressed as a percentage per annum), as of approximately 11:00 a.m., New York City time, on such Tier 1 Determination Date, for loans in a Representative Amount in United States dollars to leading European banks for a three-month period beginning on the first day of the relevant Tier 1 Floating Interest Period. If at least two such rates are so provided, the LIBOR Rate for the relevant Tier 1 Floating Interest Period will be the arithmetic mean of such rates. If fewer than two such rates are so provided, then the LIBOR Rate for the relevant Tier 1 Floating Interest Period will be the LIBOR Rate in effect with respect to the immediately preceding Tier 1 Floating Interest Period, and, if there is no previous Tier 1 Floating Interest Period for which the LIBOR Rate has been determined, the rate of interest payable with respect to the Tier 1 Floating Interest Period will be 6.008% per annum. Defined terms in this definition of LIBOR Rate are as defined in the indenture for the Tier 1 Notes; and

(ii) The term EURIBOR Rate is defined in the indenture for the Tier 2 Notes as the rate (expressed as a percentage per annum) for deposits in Euros for a three-mouth period beginning on the first day of the relevant Tier 2 Floating Interest Period that appears on Reuters page EURIBOR01 as of 11:00 a.m., Central European time, on the relevant Tier 2 Determination Date. If Reuters page EURIBOR01 does not include such a rate or is unavailable on a Tier 2 Determination Date, the Calculation Agent will request four major banks in the Euro-zone interbank market, as selected by us, to provide such bank's offered quotation (expressed as a percentage per annum), as of approximately 11:00 a.m., Central European time, on such Tier 2 Determination Date, to prime banks in the Euro-zone interbank market for deposits in a Representative Amount in Euros for a three-month period beginning on the first day of the relevant Tier 2 Floating Interest Period. If at least two such offered quotations are so provided, the EURIBOR Rate for the relevant Tier 2 Floating Interest Period will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, the Calculation Agent will request each of three major banks in the Euro-zone, as selected by us, to provide such bank's rate (expressed as a percentage per annum), as of approximately 11:00 a.m., Central European time, on such Tier 2 Determination Date, for loans in a Representative Amount in Euros to leading banks in the Euro-zone for three-month period beginning on the first day of the relevant Tier 2 Floating Interest Period. If at least two such rates are so provided, the EURIBOR Rate for the relevant Tier 2 Floating Interest Period will be the arithmetic mean of such rates. If fewer than two such rates are so provided, then the EURIBOR Rate for the relevant Tier 2 Floating Interest Period will be the EURIBOR

Rate in effect with respect to the immediately preceding Tier 2 Floating Interest Period, and if there is no previous Tier 2 Floating Interest Period for which the EURIBOR Rate has been determined, the rate of interest payable with respect to the Tier 2 Floating Interest Period will be 4.799% per annum. Defined terms in this definition of EURIBOR Rate are as defined in the indenture for the Tier 2 Notes.

(iii) The term Business Day is defined in the indenture for the Tier 1 Notes as any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York or Mexico City are authorized or required by law or executive order to remain closed.

(iv) The term TARGET Business Day is defined in the indenture for the Tier 2 Notes as a day on which the Trans European Real-Time Gross Settlement Express Transfer (TARGET) System is operating and any day other than a Saturday or a Sunday, or a day on which banking institutions in Mexico City are authorized or required by law or executive order to remain closed.

The term Calculation Agent is defined in each of the indentures as The Bank of New York.

Additional Interest

Any amount of interest or principal in respect of the Notes not paid on a Tier 1 or Tier 2 Interest Payment Date or the Tier 1 or Tier 2 Maturity Date, in each case as applicable, shall bear interest, to the extent permitted by applicable law and other than during a Suspension Period (as defined in "—Treatment of Interest and Principal During a Suspension Period—Suspension Periods"), at the relevant interest rate plus 1.00%, from (and including) the date when such amount was due to (but excluding) the date of payment.

Unclaimed Money, Prescription

If money deposited with the trustee or any agent for the payment of principal of, premium, if any, or interest or Additional Amounts (as defined below), if any, on the Notes of either series remains unclaimed for two years, the trustee or such paying agent shall return the money to the Bank subject to applicable unclaimed property law. After that, holders of the Notes of either series entitled to the money must look to the Bank for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the indentures do not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

Further Issuances

The Tier 1 Notes and Tier 2 Notes will be issued in an initial aggregate principal amount of U.S.$500,000,000 and €600,000,000, respectively. Without notice to or consent of the holders of the Notes offered by this offering memorandum, additional Notes of a particular series may be issued under the respective indentures having the same ranking, interest rate, maturity date and other terms as the relevant series of Notes, other than the original issue date and interest accrual date. Any additional Tier 1 notes and Tier 2 notes, together with the Tier 1 Notes and Tier 2 Notes offered by this offering memorandum, will constitute a single series of Tier 1 Notes and Tier 2 Notes, respectively, under the applicable indenture.

Payment of Additional Amounts

All payments made by or on our behalf from the Branch or otherwise under or in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the Cayman Islands, or any other jurisdiction through which payments are made (each a "Relevant Jurisdiction") or any authority or agency therein or thereof having power to tax (collectively, "Relevant Tax") unless the withholding or deduction of such Relevant Tax is required by law. In that event, we will pay as further distributions of interest and principal such additional amounts ("Additional Amounts") as may be necessary so

that the net amounts received by the holders or beneficial owners of the Notes or their nominees (collectively, holders) after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder (or beneficial owner) to the extent that such Relevant Tax:

(1) is imposed only by virtue of such holder or beneficial owner having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of such Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes; or

(2) is imposed only by virtue of such holder or any other person having failed to comply with any certification, identification or other reporting requirement concerning the nationality, residence**,** identity or other lack of connection with the Relevant Jurisdiction or any similar claim for exemption or reduction in the rate of withholding, if such declaration is required under applicable law, provided that (x) we have or our agent has provided the holder of such Notes or its nominee with at least 60 days' prior written notice of an opportunity to make such a declaration or claim, and (y) the procedures for making such claim or declaration are commercially reasonable; or

(3) is imposed only by virtue of such holder or beneficial owner not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier; or

(4) is imposed pursuant to any European Council Directive regarding taxation of savings income (including European Council Directive 2003/48/EC) or pursuant to any law implementing or complying with, or introduced in order to conform to any such Directive; or

(5) is imposed on a Note presented for payment (where presentation is required) by a holder or beneficial owner that could have avoided such Relevant Tax by presenting such Note to another paying agent in a member state of the European Union; or

(6) in the event the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or

(7) is an estate, inheritance, gift, sale, transfer, personal property or similar tax or assessment; or

(8) is imposed as a result of any combination of (1) through (7) above.

We will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in the Relevant Jurisdiction in accordance with applicable law.

We will furnish to the trustee, within 30 Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, an officer's certificate and other documentation acceptable to the trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by us. Upon written request made by the holders to the trustee, copies of such officer's certificate or other documentation, as the case may be, will be made available to the holders.

To give effect to the foregoing, we will, upon the written request of any holder, indemnify and hold harmless and reimburse the holder for the amount of any Relevant Taxes (other than any Relevant Taxes for which the holder would not have been entitled to receive Additional Amounts pursuant to any of the conditions described in the first paragraph of this section titled "Payment of Additional Amounts") so imposed on, and paid by, such holder as a result of any payment of principal or interest on the Notes, so that the net amount received by such holder after such reimbursement will not be less than the net amount the holder would have received if such Relevant Tax had not been imposed or levied and so paid. Holders will be obligated to provide reasonable documentation in connection with the foregoing.

We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify the holders for any such taxes paid by holders.

All references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by us under the Notes or indentures. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the indentures.

If we shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the indentures, we will use our reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that we pay such Additional Amounts.

We undertake to comply with European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, or the Savings Directive, that may be brought into force and to use our best efforts to maintain a paying agent in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of such Notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder shall, by accepting such Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto. We will inform the trustee of the refund or credit within 30 Business Days of our determination that we are entitled to receive such refund or credit.

Treatment of Interest and Principal During a Suspension Period

Tier 1 Notes: Cancellation of Interest and Deferral of Principal Payments

We have the right to and will cancel accrual and payments of interest due on the Tier 1 Notes and defer the payment of principal thereof for the duration of any Suspension Period (see "—Suspension Periods"). In the event of a cancellation of the accrual and payment of interest on the Tier 1 Notes or deferral of payment of principal thereof, we will notify the holders of the Tier 1 Notes in accordance with the procedures described in their indenture. Payments of interest due on the Tier 1 Notes will be non-cumulative, so that in the event that payments of interest cease during a Suspension Period, holders of the Tier 1 Notes will have no right to receive any amount of unpaid interest (which would have accrued had there not been a Suspension Period) at the end of such Suspension Period, whether or not such payments are made at any future Tier 1 Interest Payment Date. Notwithstanding the foregoing, all interest accrued prior to a Suspension Period, but not paid as a result of such Suspension Period in effect on the relevant Tier 1 Interest Payment Date(s) on which such payments would have been payable, will be payable (without interest on such previously accrued payments) on the next succeeding Tier 1 Interest Payment Date on which no Suspension Period is in effect. If a Suspension Period exists on the Tier 1 Maturity Date, as applicable, payment of principal will be deferred without interest until the date that is five Business Days after the date on which no Suspension Period is in effect. Principal payments may be deferred but not cancelled. When a Suspension Period is no longer in effect, we will notify the holders of the Tier 1 Notes in accordance with the procedures described in their indenture.

Tier 2 Notes: Deferral of Interest and Deferral of Principal Payments

We have the right to and will defer the payment of interest due on the Tier 2 Notes (but do not have the right to and will not cancel the accrual of interest thereon) and defer the payment of principal thereof for the duration of any Suspension Period. In the event of a deferral of payment of interest on the Tier 2 Notes or deferral of

payment of principal thereof, we will notify the holders of the Tier 2 Notes in accordance with the procedures described in their indenture. Payments of interest due on the Tier 2 Notes will be cumulative, so that in the event that payments of interest cease during a Suspension Period, holders of the Tier 2 Notes will have the right to receive all interest accrued prior to or during a Suspension Period, but not paid as a result of such Suspension Period in effect on the relevant Tier 2 Interest Payment Date(s) on which such payments would have been payable, and these interest payments will be payable (without interest on such previously accrued payments) on the date that is five TARGET Business Days after the date on which no Suspension Period is in effect. If a Suspension Period exists on the Tier 2 Maturity Date, payment of principal will be deferred with interest until the date that is five TARGET Business Days after the date on which no Suspension Period is in effect. Principal payments may be deferred but not cancelled. When a Suspension Period is no longer in effect, we will notify the holders of the Tier 2 Notes in accordance with the procedures described in their indenture.

Suspension Periods

For purposes hereof, a Suspension Period will commence and we will (i) in the case of the Tier 1 Notes, cancel the accrual and payment of interest due thereon and defer the payment of principal thereof, and (ii) in the case of the Tier 2 Notes, defer, but not cancel, the payment of interest due thereon and defer the payment of principal thereof, upon the occurrence of the following:

(1)(x) our minimum Capital Ratio declines below the minimum percentage required from time to time by the Mexican Capitalization Requirements or (y) our board of directors reasonably determines that it is immediately imminent that our Capital Ratio will decline below the minimum percentage required from time to time by the Mexican Capitalization Requirements (in either case, a “Capital Ratio Event”); or

(2) the CNBV institutes a preventive or corrective measure against us pursuant to Article 134 Bis or Article 134 Bis 1 of the Mexican Banking Law (including the corresponding rules set forth under the General Rules for Banks), which requires (x), in the case of the Tier 1 Notes, deferring payments of principal and canceling payments of interest otherwise due on the Tier 1 Notes, or (y), in the case of the Tier 2 Notes, deferring payment of principal and deferring payments of interest otherwise due on the Tier 2 Notes (each a “Mexican Regulatory Event,” it being understood that a Mexican Regulatory Event will apply on a per series basis).

Article 134 Bis of the Mexican Banking Law provides that in the exercise of its supervisory duties the CNBV, through general regulations approved by its Board of Governance, will classify banking institutions based on their compliance with the provisions governing capitalization requirements issued by the Ministry of Finance and Public Credit, which may take into account Capital Ratios that reflect the degree of stability and solvency of a bank.

Article 134 Bis 1 of the Mexican Banking Law provides that if a bank does not comply with the minimum Capital Ratio required pursuant to the Mexican Capitalization Requirements (i.e. the minimum Capital Ratio for a bank not to be required to suspend payment of interest and defer payment of principal on outstanding subordinated debt), the bank must implement the corrective measures ordered by the CNBV, including:

(1) informing the board of directors of the bank’s classification, based on the Capital Ratio thereof, and submit a detailed report containing an evaluation of the bank’s overall financial status and its level of compliance with applicable regulation; the bank shall provide written notice to the general director and the chairman of the board of directors of the bank’s regulated holding company with respect to such events and the status thereof;

(2) within a period not to exceed fifteen (15) business days, filing with the CNBV, for its approval, a capital recovery plan to increase the bank’s Capital Ratio; the bank’s capital recovery plan shall be approved by such bank’s board of directors before it is submitted to the CNBV;

(3) suspending any payment of dividends to its shareholders, as well as any mechanism or act for the making of any distributions or the granting of any economic benefits to shareholders;

(4) suspending any share repurchase programs;

(5) deferring payment of interest and, if ordered by the CNBV, deferring payment of principal on outstanding subordinated debt or exchanging outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency; these corrective measures shall be applicable to subordinated debt considered part of the bank's Tier 1 or Tier 2 capital; in the event that the bank issues subordinated debt, the bank is obligated to include in the documentation evidencing the relevant debt, that such deferral of payment of principal and interest shall apply upon the occurrence of certain events, as provided in the general rules of Article 134 Bis of the Mexican Banking Law set forth under the General Rules for Banks, and that the implementation of such measures shall not be considered a default under the relevant debt documentation;

(6) suspending payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the general director or any officer within the next two levels, and suspending the granting of new benefits to the general director and the officers mentioned above until the bank complies with the minimum Capital Ratio set forth under the Mexican Capitalization Requirements;

(7) abstaining from increasing outstanding amounts of any loans granted to any individual who is a related party; and

(8) any other corrective measures that, in each case, are provided by the general rules of Article 134 Bis of the Mexican Banking Law set forth under the General Rules for Banks.

Article 134 Bis 1 of the Mexican Banking Law further provides that:

- If a bank complies with the minimum Capital Ratio required pursuant to the Mexican Capitalization Requirements (i.e., the minimum Capital Ratio for a bank not to be required to suspend payment of interest and defer payment of principal on outstanding subordinated debt but its Capital Ratio is not equal to or greater than the minimum Capital Ratio for a bank not to be subject to any corrective measures), the bank must implement certain corrective measures ordered by the CNBV, including, among others, (1) informing the board of directors of the bank's classification, based on the Capital Ratio thereof and submitting a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulation and providing written notice to the general director and the chairman of the board of directors of the bank's holding company with respect to such events and the status thereof; (2) abstaining from entering into any transaction that may decrease the bank's Capital Ratio below the Mexican Capitalization Requirements; and (3) any other corrective measures ordered by the CNBV.
- Regardless of the capitalization level, the CNBV may order the implementation of additional special corrective measures, including, among others: (1) requiring compliance with additional corrective measures that the bank will be required to carry out to avoid a decrease of its Capital Ratio; (2) special audits to be performed by special auditors in connection with specific matters; (3) abstaining from increasing the salaries and benefits of all officers and employees of the bank, except for any change in salary previously agreed and subject to the officers' and employees' labor rights; (4) removing officers, directors, statutory auditors or external auditors, appointing the persons that will hold the relevant positions; or (5) any other measures ordered by CNBV, based on its inspection and supervision authorities.
- Corrective measures will not be applicable to Mexican banks with a Capital Ratio equal to or greater than the minimum Capital Ratio required by the Mexican Capitalization Requirements plus 25% thereof.

The Capital Ratio currently required by the Mexican Capitalization Requirements for a bank not to be required to defer or cancel payment of interest and defers payment of principal on outstanding subordinated debt, as applicable, is 8%. Accordingly, under the Mexican Capitalization Requirements currently in effect a bank with a Capital Ratio of 10% or greater will not be subject to any corrective measures.

The general rules of Article 134 Bis 1 of the Mexican Banking Law, as set forth in the General Rules for Banks, classify Mexican banks in several categories based on their Capital Ratio. The relevant corrective measures are determined based on the following classifications:

Class	Capital ratio
Class I	Equal to or greater than 10%
Class II	Equal to or greater than 8% and less than 10%
Class III	Equal to or greater than 7% and less than 8%
Class IV	Equal to or greater than 4% and less than 7%
Class V	Less than 4%

The general rules of Article 134 Bis of the Mexican Banking Law further provide that corrective measures applicable to banks classified in Class III, IV and V include, among others, requiring a bank to suspend payment of interest and, if ordered by the CNBV, defer payment of any principal on outstanding subordinated debt or exchange outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency; in the event that the bank issues subordinated debt, a bank must include in the relevant debt documentation, that such suspension of payment of interest and deferral of payment of principal shall apply to subordinated debt in the event that a bank is classified in Class III, IV or V and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

We are currently classified as Class I and our Capital Ratio was 15.4 % as of March 30, 2007.

(i) The accrual and payment of interest due on the Tier 1 Notes and payment of principal thereof and (ii) the payment of interest due on the Tier 2 Notes and payment of principal thereof, will resume:

(1) if the Suspension Period was triggered by a Capital Ratio Event, when our Capital Ratio is no longer below, or our board of directors reasonably determines that there is no longer a risk that our Capital Ratio will decline below, the minimum percentage required by the Mexican Capitalization Requirements; or

(2) if such Suspension Period was triggered by a Mexican Regulatory Event, when the related Mexican Regulatory Event has terminated; or

(3) if dividends or other distributions are paid by us on or in respect of our capital stock, other than the Dividend Exceptions (as defined below).

Notwithstanding anything in this offering memorandum to the contrary, a Suspension Period shall not give rise to any Event of Default under the indentures or the Notes.

We must give the trustee notice of any Suspension Period affecting a particular series of Notes at least five Business Days prior to the earlier of (1) the date the interest due on such series of Notes or the principal thereof would have been payable except for such Suspension Period and (2) the date the trustee is required to give notice to any securities exchange or to holders of such series of Notes of the record date or the date such interest or principal, as applicable, is payable but in any event not less than five Business Days prior to such record date. We must also give the trustee notice of the termination of any Suspension Period not more than three Business Days after the Suspension Period is no longer in effect.

During any Suspension Period, we shall not:

(1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock (which includes common and preferred stock);

(2) make any payment of principal of or premium, if any, or interest on or repay, repurchase or redeem any of our debt securities that rank pari passu with or junior in right of payment and in liquidation to (a) the Tier 1 Notes or (b) the Tier 2 Notes, as applicable, it being understood that such determination will be made on a per series basis; or

(3) to the extent any such guarantee is permitted under applicable law, make any guarantee payments with respect to any guarantee by us of the debt securities of any of our subsidiaries if such guarantee ranks pari passu with or junior in right of payment and in liquidation to (a) the Tier 1 Notes or (b) the Tier 2 Notes, as applicable, it being understood that such determination will be made on a per series basis; provided, however, that (x) the foregoing shall not, to the extent permitted by the Mexican Capitalization Requirements or applicable law, prohibit payment of the Dividend Exceptions, and (y) the foregoing shall not apply to the extent that we obtain prior regulatory consent for any action that would otherwise be prohibited and resume full payment of interest due (including payment of any previously accrued interest due) on each series of the Notes and principal thereof for the period in which such action is taken. Subject to the foregoing, we shall pay interest due on the Notes and principal thereof so long as we are paying dividends or other distributions on or in respect of our capital stock.

For purposes hereof, "Dividend Exceptions" shall mean (1) dividends or distributions in shares of or options, warrants or rights to subscribe for or purchase shares of, our common stock, (2) any declaration of a stock dividend in connection with the implementation of a stockholders' rights plan, or the issuance of stock under any such plan in the future, (3) any reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock, (4) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (5) purchases of common stock related to the issuance of common stock or rights under any of our benefit plans for our directors, officers or employees and (6) other equivalent transactions not involving payments or distributions in cash.

Subordination

Tier 1 Notes

The indenture for the Tier 1 Notes provides that the Tier 1 Notes (i) constitute Subordinated Non-Preferred Indebtedness (*obligaciones subordinadas no preferentes*), (ii) will be subordinate and junior in right of payment and in liquidation to all Senior Indebtedness and Subordinated Preferred Indebtedness (*obligaciones subordinadas preferentes*) (including the Tier 2 Notes) and (iii) will be senior only to all classes of our capital stock. No payment of principal (including redemption payments), premium, if any, or interest on the Tier 1 Notes may be made at any time when (1) any Senior Indebtedness or Subordinated Preferred Indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (2) the maturity of any Senior Indebtedness or Subordinated Preferred Indebtedness has been accelerated because of a default.

In the event of the acceleration of the maturity of the Tier 1 Notes due to our insolvency or liquidation and upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings in connection with our insolvency or bankruptcy, (1) all principal, premium, if any, and interest due or to become due on all Senior Indebtedness must be paid in full before the holders of Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness (including the Tier 1 Notes) are entitled to receive or retain any payment in respect thereof, (2) all principal, premium, if any, and interest due or to become due on all Subordinated Preferred Indebtedness must be paid in full before the holders of Subordinated Non-Preferred Indebtedness (including the Tier 1 Notes) are entitled to receive or retain any payment in respect thereof and (3) the holders of Subordinated Non-Preferred Indebtedness (including the Tier 1 Notes) will be entitled to receive *pari passu* among themselves any payment in respect thereof. The Tier 1 Notes and all other Subordinated Non-Preferred Indebtedness will be senior to all classes of our capital stock.

Tier 2 Notes

The indenture for the Tier 2 Notes provides that the Tier 2 Notes (i) constitute Subordinated Preferred Indebtedness, (ii) will be subordinate and junior in right of payment and in liquidation to all Senior Indebtedness

and (iii) will be senior to Subordinated Non-Preferred Indebtedness (including the Tier 1 Notes) and all classes of our capital stock. No payment of principal (including redemption payments), premium, if any, or interest on the Tier 2 Notes may be made at any time when (1) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (2) the maturity of any Senior Indebtedness has been accelerated because of a default.

In the event of the acceleration of the maturity of the Tier 2 Notes due to our insolvency or liquidation and upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings in connection with our insolvency or bankruptcy, (1) all principal, premium, if any, and interest due or to become due on all Senior Indebtedness must be paid in full before the holders of Subordinated Preferred Indebtedness (including the Tier 2 Notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of Subordinated Preferred Indebtedness (including the Tier 2 Notes) will be entitled to receive *pari passu* among themselves any payment in respect thereof. The Tier 2 Notes and all other Subordinated Preferred Indebtedness will be senior to our Subordinated Non-Preferred Indebtedness (including the Tier 1 Notes) and all classes of our capital stock.

Definitions

For the purposes of the Notes:

(1) The term Senior Indebtedness is defined in the indentures to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the indentures or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness (including the Tier 2 Notes) or Subordinated Non-Preferred Indebtedness (including the Tier 1 Notes), and any deferrals, renewals or extensions of such Senior Indebtedness;

(2) The term Subordinated Preferred Indebtedness (which includes the Tier 2 Notes) is defined in the indentures to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the indentures or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness, but is senior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness (including the Tier 1 Notes, our 2015 Notes and our 2014 Debentures) and all classes of our capital stock, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;

(3) The term Subordinated Non-Preferred Indebtedness (which includes the Tier 1 Notes, our 2015 Notes and our 2014 Debentures) is defined in the indentures to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the indentures or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness and Subordinated Preferred Indebtedness (including the Tier 2 Notes), but is senior in right of payment and in liquidation to all classes of our capital stock, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness; and

(4) The term Indebtedness for Money Borrowed is defined in the indentures to mean any obligation of or any obligation guaranteed by us (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures or other written instruments, but shall not include (a) any trade accounts payable in the ordinary course of business, (b) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness, (c) indebtedness to any of our employees, (d) our indebtedness which, when incurred, was without recourse to us, and (e) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks pari passu with or junior in right of payment and in liquidation to any of the indebtedness described in clause (a) or (b) above.

No Limitation on Additional Indebtedness

The indentures place no limitation on the amount of additional Senior Indebtedness, Subordinated Preferred Indebtedness or Subordinated Non-Preferred Indebtedness that we may incur. We may incur from time to time additional indebtedness constituting Senior Indebtedness, Subordinated Preferred Indebtedness or Subordinated Non-Preferred Indebtedness.

Redemption

Optional Redemption

We have (i) the option under the indenture for the Tier 1 Notes to redeem the Tier 1 Notes on the Tier 1 First Call Date and thereafter on any Tier 1 Floating Interest Payment Date prior to the Tier 1 Maturity Date, and (ii) the option under the indenture for the Tier 2 Notes to redeem the Tier 2 Notes on the Tier 2 First Call Date and thereafter on any Tier 2 Floating Interest Payment Date prior to the Tier 2 Maturity Date, in each case in whole or in part for such series at par plus accrued and unpaid interest due on, or with respect to, such Notes, an Optional Redemption; *provided*, *however*, that in the event of such an Optional Redemption with respect to a particular series of Notes, we shall be in compliance with applicable Mexican regulations in effect on the applicable Redemption Date (as defined in the indentures). In the event of such an Optional Redemption of either series of Notes, we are required by Banco de Mexico to obtain its authorization prior to the applicable Redemption Date to redeem such Notes.

If we were to effect such an Optional Redemption with respect to the Tier 1 Notes, we would, to the extent required by Mexican law, have to comply with one of the following two requirements: (a) following such an Optional Redemption, we would have to maintain a Capital Ratio under the Mexican Capitalization Requirements above 10%, or (b) we would have to issue or have issued prior to the applicable Redemption Date securities or other instruments that are eligible to be computed as Tier 1 capital for the same principal amount pursuant to the Rules for Capitalization.

Our obligation to obtain Banco de Mexico’s authorization to redeem either series of Notes and the summary of Mexican regulations described in the preceding paragraph are included herein for information purposes only and shall not grant any rights to the trustee or the holders of such Notes.

Withholding Tax Redemption

We also have (i) the option under the indenture for the Tier 1 Notes to redeem the Tier 1 Notes at any time prior to the Tier 1 First Call Date and (ii) the option under the indenture for the Tier 2 Notes to redeem the Tier 2 Notes at any time prior to the Tier 2 First Call Date, in each case in whole but not in part for such series, at par plus accrued and unpaid interest due on, or with respect to, such Notes upon the occurrence of a Withholding Tax Event (as defined below) affecting the relevant series of Notes, in each case, a Withholding Tax Redemption; *provided*, *however*, in the event of such a Withholding Tax Redemption with respect to a particular series of Notes, we shall be in compliance with applicable Mexican regulations in effect on the applicable Redemption Date. In the event of such a Withholding Tax Redemption of either series of Notes, we are required by Banco de Mexico to obtain its authorization prior to the applicable Redemption Date to redeem such Notes.

If we were to effect such a Withholding Tax Redemption with respect to the Tier 1 Notes, we would, to the extent required by Mexican law, have to issue or have issued prior to the applicable Redemption Date securities or other instruments that are eligible to be computed as Tier 1 capital for the same principal amount pursuant to the Rules for Capitalization.

Our obligation to obtain Banco de Mexico’s authorization to redeem either series of Notes and the summary of Mexican regulations described in the preceding paragraph are included herein for information purposes only and shall not grant any rights to the trustee or the holders of such Notes.

For the purposes of the foregoing, the term Withholding Tax Event in respect of a particular series of Notes is defined in the indentures to mean (i) the receipt by us of an opinion of a nationally recognized law firm experienced in such matters to the effect that, as a result of (a) any amendment to or change (including any announced prospective change) in the laws or treaties (or any regulations thereunder) of any Relevant Jurisdiction affecting taxation, (b) any judicial decision, official administrative pronouncement or regulatory procedure, of any Relevant Jurisdiction, each an Administrative Action, or (c) any amendment to or change in the official position or the official interpretation of such Administrative Action that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction, irrespective of the manner in which such amendment or change is made known, which amendment or change is first effective or such pronouncement or decision is announced on or after the date of issuance of such series of Notes, collectively, a Change in Tax Law, there is more than an insubstantial risk that we are or will be within ninety (90) days of the receipt of the opinion liable for more than a de minimis payment of Additional Amounts in respect of such series of Notes in excess of the gross amount of Additional Amounts payable in respect of such series of Notes prior to such Change in Tax Law and (ii) the delivery to the trustee of a certificate signed by our chief financial officer stating that the requirement to make such withholding or deduction cannot be avoided by taking reasonable measures available to us (such measures not involving any material cost to us or the incurring by us of any other tax or penalty).

Special Event Redemption

We also have (i) the option under the indenture for the Tier 1 Notes to redeem the Tier 1 Notes at any time prior to the Tier 1 First Call Date and (ii) the option under the indenture for the Tier 2 Notes to redeem the Tier 2 Notes at any time prior to the Tier 2 First Call Date, in each case in whole but not in part for such series, at the Special Event Price (as defined below) upon the occurrence of a Special Event (as defined below) affecting the relevant series of Notes, in each case, a Special Event Redemption; *provided*, *however*, in the event of such a Special Event Redemption with respect to a particular series of Notes, we shall be in compliance with applicable Mexican regulations in effect on the applicable Redemption Date. In the event of such a Special Event Redemption of either series of Notes, we are required by Banco de Mexico to obtain its authorization prior to the Redemption Date to redeem such Notes.

If we were to effect such a Special Redemption with respect to the Tier 1 Notes, we would, to the extent required by Mexican law, have to issue or have issued prior to the applicable Redemption Date securities or other instruments that are eligible to be computed as Tier 1 capital for the same principal amount pursuant to the Rules for Capitalization.

Our obligation to obtain Banco de Mexico's authorization to redeem either series of Notes and the summary of Mexican regulations described in the preceding paragraph relating to the Tier 1 Notes are included herein for information purposes only and shall not grant any rights to the trustee or the holders of such Notes.

For the purposes of the foregoing:

(1) The term Special Event in respect of a particular series of Notes is defined in the indentures to mean a Capital Event in respect of such series or a Tax Event in respect of such series (both as defined below);

(2) The term Capital Event in respect of a particular series of Notes is defined in the indentures to mean the reasonable determination by us that, as a result of (a) the occurrence of any amendment to or change in, the laws or any regulations thereunder of Mexico or (b) any official administrative pronouncement or judicial decision interpreting or applying these laws or regulations, which amendment or change is effective or which pronouncement or decision is announced on or after the date of issuance of such series of Notes, there is more than an insubstantial risk that we will not (x) in the case of the Tier 1 Notes, be entitled to treat the Tier 1 Notes as Tier 1 capital, or the then equivalent of Tier 1 capital, or (y) in the case of the Tier 2

Notes, be entitled to treat the Tier 2 Notes as Tier 2 capital, or the then equivalent of Tier 2 capital, for purposes of the Rules for Capitalization and Mexican Capitalization Requirements, as then in effect and applicable to us, it being understood that such determination will be made on a per series basis and independent of the other series;

(3) The term Tax Event in respect of a particular series of Notes is defined in the indentures to mean the receipt by us of an opinion of a nationally recognized law firm experienced in such matters to the effect that, as a result of a Change in Tax Law, there is more than an insubstantial risk that (x) in the case of the Tier 1 Notes, interest payable by us on the Tier 1 Notes is not or will not be deductible by us in whole or in part for Mexican income tax purposes or (y) in the case of the Tier 2 Notes, interest payable by us on the Tier 2 Notes is not or will not be deductible by us in whole or in part for Mexican income tax purposes, it being understood that such determination will be made on a per series basis and independent of the other series;

(4) The term Special Event Price in respect of a particular series of Notes is defined in the indentures to mean an amount equal to (a) 100% of the principal amount of the such series of Notes to be prepaid plus any accrued and unpaid interest due to the date of prepayment plus (b) the Make-Whole Amount in respect of such series of Notes;

For purposes of the Tier 1 Notes:

(a) The term Make-Whole Amount in respect of the Tier 1 Notes is defined in the indenture for the Tier 1 Notes to mean an amount, determined by us, equal to the excess, if any, of (i) the present value of the remaining scheduled payments of principal and interest to the Tier 1 First Call Date, computed by discounting such payments on a semiannual basis on each Tier 1 Fixed Interest Payment Date (assuming a 360-day year of twelve 30-day months) using a discount rate equal to the Treasury Yield plus 0.50% over (ii) the outstanding principal amount of such Notes plus accrued interest thereon to (but excluding) the applicable date of prepayment. The date of determination of such Make-Whole Amount shall be the third Business Day prior to the applicable payment date;

(b) The term Treasury Yield is defined in the indentures to mean, as of any date of determination, an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the per annum rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Tier 1 First Call Date, and trading in the public securities markets either as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Tier 1 First Call Date, respectively, and (B) the other maturity as close as possible to, but later than the Tier 1 First Call Date, respectively, in each case as published in the most recent H.15 (519) or, if a weekly average yield to maturity for United States Treasury securities maturing on the Tier 1 First Call Date is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519); and

(c) The term H.15 (519) is defined in the indentures to mean the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System and most recent H.15 (519) means the H.15 (519) published prior to the close of business on the third Business Day prior to the applicable payment date.

For purposes of the Tier 2 Notes:

(a) The term Make-Whole Amount in respect of the Tier 2 Notes is defined in the indenture for the Tier 2 Notes to mean an amount determined by us equal to the excess, if any, of (i) the present value of the remaining scheduled payments of principal and interest to the Tier 2 First Call Date computed by discounting such payments on an annual basis on each Tier 2 Fixed Interest Payment Date, respectively (assuming an Actual/Actual Day Count Basis) using a discount rate equal to the Bond Yield plus 0.25%, over (ii) the outstanding principal amount of such Notes plus accrued interest thereon to (but excluding) the

applicable date of prepayment. The date of determination of such Make-Whole Amount shall be the third TARGET Business Day prior to the applicable payment date;

(b) The term Bond Yield is defined in the indenture for the Tier 2 Notes to mean, as of any date of determination, the rate per annum equal to the annual yield to maturity of such European government bond selected by us that would be used, at the time of selection and in accordance with customary financial practice in pricing new issues of corporate debt securities in Euro, with a maturity date as near as possible to the applicable Redemption Date (the "Comparable Bond"), assuming a price equal to the Comparable Bond Price for the relevant date of determination of the Make-Whole Amount; and

(c) The term Comparable Bond Price is defined in the indenture for the Tier 2 Notes to mean (a) the average, as determined by us of five written quotations of the bid and ask prices for the Comparable Bond (expressed as a percentage of its principal amount) provided to us by a credit institution or financial services institution that regularly deals in bonds and other debt securities at 11:00 am (Central European time) on the relevant date of determination of the Make-Whole Amount, after excluding the highest and lowest quotations (or, in the case of repeated highest and/or lowest quotations, only one of them) or (b) if fewer than five such quotations are obtained, the average of all such quotations.

Redemption Procedures

If we give a notice of an Optional Redemption or a Withholding Tax Redemption or Special Event Redemption in respect of a particular series of Notes as described in this offering memorandum, then, in respect of the Tier 1 Notes, by 12:00 noon, New York City time, on the applicable Redemption Date, to the extent funds are legally available, with respect to the Tier 1 Notes being redeemed and held by The Depositary Trust Company ("DTC") or its nominee, the trustee or the Paying Agent will pay the applicable redemption price to DTC and, in respect of the Tier 2 Notes, by 11:00 a.m. (Central European time) on the applicable Redemption Date, to the extent funds are legally available, with respect to the Tier 2 Notes being redeemed and held by The Bank of New York Depositary (Nominee) Limited, as common depositary (the "Common Depositary") for Euroclear Bank S.A./N.V., as the operator of the Euroclear System ("Euroclear") or Clearstream, Luxembourg Banking *société anonyme* ("Clearstream, Luxembourg") or its nominee, the trustee or the Paying Agent will pay the applicable redemption price to the Common Depositary (as defined below) for Euroclear and Clearstream, Luxembourg. See "—Book-Entry System." Such notice will also be made in accordance with the procedure set forth in "—Notices." With respect to the relevant series of Notes being redeemed and held in certificated form, the trustee, to the extent funds are legally available, will pay the applicable redemption price to the holders thereof upon surrender of their certificates evidencing such Notes. Interest payable on or prior to the Redemption Date shall be payable to the holders of such Notes on the relevant record dates. If notice of redemption shall have been given and funds deposited with the trustee to pay the applicable redemption price for the relevant series of Notes being redeemed, then upon the date of such deposit, all rights of the holders of such Notes will cease, except the right of the holders of such Notes to receive the applicable redemption price, but without interest on such redemption price, and such Notes will cease to be outstanding. In the event that any Redemption Date in respect of the Tier 1 Notes, is not a Business Day or, in respect of the Tier 2 Notes, is not a TARGET Business Day then the applicable redemption price payable on such date will be paid on the next succeeding day that is a Business Day or TARGET Business Day, as the case may be (in each case without any interest or other payment in respect of any such delay), in each case with the same force and effect as if made on such date. In the event that payment of the applicable redemption price is improperly withheld or refused and not paid by us (1) interest due on the relevant series of Notes being redeemed will continue to accrue at the then applicable rate, from the Redemption Date originally established by us to the date such applicable redemption price is actually paid, and (2) the actual payment date will be the Redemption Date for purposes of calculating the applicable redemption price.

In the event of a partial optional prepayment of a particular series of Notes, such series of Notes shall be redeemed from each holder thereof pro rata according to the aggregate principal amount of the relevant series of Notes held by the relevant holder in relation to the aggregate principal amount of all Notes of that series then

outstanding, it being understood that partial redemptions will be dealt with on a per series basis and Tier 1 Notes and Tier 2 Notes of the same holder will not be aggregated. In respect of Tier 1 Notes held by DTC or its nominee, the distribution of the proceeds from such redemption will be made to DTC or its nominee and disbursed by DTC or its nominee in accordance with the procedures applied by DTC or its nominee. In respect of the Tier 2 Notes held by the Common Depositary or its nominee, the distribution of the proceeds from such redemption will be made to the Common Depositary or its nominee and distributed in accordance with the procedures applied by Euroclear, or Clearstream, Luxembourg as applicable. In determining the proration of the relevant series of Notes to be redeemed, we may make such adjustments as may be appropriate in order that only the relevant series of Notes in authorized denominations shall be redeemed, subject to the minimum denominations set forth in this offering memorandum.

We shall deliver notice of any redemption to the trustee at least forty (40) days prior to the applicable Redemption Date. The trustee shall in turn mail notice of any such redemption to each holder of the Note at least 30 days but not more than 60 days prior to the Redemption Date to each holder of the relevant series of Notes in accordance with the procedures described in the indentures. Unless we default in payment of the applicable amounts due on, or in the repayment of, the relevant series of Notes, on and after the applicable Redemption Date, interest due will cease to accrue on the relevant Notes called for redemption.

Events of Default, Notice and Waiver

An Event of Default is defined in each of the respective indentures as:

- a default for 30 calendar days in the payment of interest due and payable on the Tier 1 Notes or Tier 2 Notes, as applicable under the corresponding indenture on a per series basis and independent of the other series, other than during a Suspension Period;
- a default in the payment of the principal due and payable of the Tier 1 Notes or Tier 2 Notes, as applicable under the corresponding indenture on a per series basis and independent of the other series, except during a Suspension Period; or
- certain events involving our bankruptcy (including *concurso mercantil* or *quiebra*), liquidation or dissolution.

The payment of the principal of a series of the Notes may be accelerated only upon the occurrence of an event of default described in the last bullet point above, referred to as a Bankruptcy Event of Default. There is no right of acceleration of the payment of principal of a series of the Notes upon the occurrence of any of the other Events of Default noted above, including a default in the payment of principal or interest. If payment of the principal of a series of the Notes is accelerated, we or the trustee shall promptly notify holders of our Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness of the acceleration. If an Event of Default occurs under a particular indenture and is continuing, the trustee may pursue any available remedy (excluding acceleration, except as provided above) under such indenture to collect the payment of due and unpaid principal of and interest on the relevant series of Notes to which such indenture relates, or to enforce the performance of any provision of such Notes or such indenture.

If a Bankruptcy Event of Default occurs and is continuing, each series of Notes will become immediately due and payable without any declaration or other act on the part of the trustee or any holder of such Notes. Each series of Notes will become immediately due and payable at their principal amount together with accrued interest up to (but excluding) the date of payment without further action by any person. For the avoidance of doubt, no Mexican Regulatory Event will constitute our bankruptcy (including *concurso mercantil* or *quiebra*), liquidation or dissolution, nor (i) during a Suspension Period in respect of the Tier 1 Notes, will a deferral in the payment of principal of the Tier 1 Notes or cancellation of the accrual and payment of interest on the Tier 1 Notes or (ii) during a Suspension Period in respect of the Tier 2 Notes, will a deferral of payment of interest on the Tier 2 Notes or payment of principal thereof, entitle the holders of the relevant series of Notes to accelerate the payment of principal of the such series of Notes. In the event of a *concurso mercantil*, holders of the relevant series of

Notes may not be able to collect the full amount payable under such series of Notes and other bankruptcy rules may affect the timing or amount paid to holders of such series of Notes. See “Risk Factors—If we do not satisfy our obligations under the Notes, your remedies will be limited.”

Holders may not enforce the indentures or the Notes except as provided in the corresponding indenture. The holder of any Note of a particular series, however, will have the right to receive payment of the principal of and interest on that Note on or after the due dates, Redemption Dates or Tier 1 or Tier 2 Maturity Date expressed in the respective indenture or such Note and, subject to the cancellation and deferral provisions set forth in the Tier 1 Notes and the Tier 2 Notes and their corresponding indenture and certain other limitations and conditions, to institute a lawsuit for the enforcement of any such payment on or after such respective dates. The trustee may refuse to enforce the indentures or the Notes unless it receives indemnity or security satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the outstanding Notes of a particular series may direct the trustee under the corresponding indenture in its exercise of any trust or power in respect thereof. The trustee may withhold from holders notice of any continuing Event of Default (except a default in payment of principal or interest) if the trustee in good faith determines that withholding notice is in their interest.

Under the indentures, we must furnish the trustee annually with a statement regarding any default in the performance of our obligations thereunder.

Modification of Indentures; Waiver of Covenants

We and the trustee may, without the consent of any holders of Notes of a particular series, amend, waive or supplement each of the indentures or the Notes of such series in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the indentures or the Notes of such series to any provision in this “Description of Notes” and to make any change that does not adversely affect the rights of any relevant holder in any material respect. In any event, the authorization of Banco de Mexico is required for any amendment to any provision of the Notes of a particular series or the corresponding indenture. In addition, we and the trustee may amend, waive or supplement the respective indentures or the Notes of a particular series with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Notes of such series, it being understood that such majority will be determined on a per series basis and Tier 1 Notes and Tier 2 Notes of the same holder will not be aggregated. However, without the consent of the holder of each Note of a particular series and the approval of 75% of the members of our board of directors, we may not, among other things:

- change the maturity date of the principal of or any interest payment date (or periods) on any Note of such series;
- reduce the principal amount of or interest on any Note of such series;
- change the currency of payment of principal or interest on any Note of such series;
- modify any other payment provision of any Note of such series;
- impair the right to sue for the enforcement of any payment on or with respect to any Note of such series;
- reduce the percentage in principal amount of outstanding Notes of such series that is required for the consent of the holders in order to modify or amend the respective indentures or to waive compliance with some provisions of the respective indentures or to waive some defaults; or
- modify the subordination provisions relating to the Notes of such series in any manner adverse to the holders of such Notes.

The holders of a majority in aggregate principal amount of the outstanding Notes of a particular series may waive any past default or Event of Default under the corresponding indenture, except a default under a provision that cannot be modified without the consent of each holder of a Note of that series that would be affected.

Consolidation, Merger, Sale or Transfer of Assets

We may not, without the consent of holders of at least 66 2/3% in aggregate principal amount of the outstanding (as defined in the indentures) Notes of a particular series, consolidate with or merge into, or convey or transfer, in one transaction or a series of transactions, all or substantially all of our properties and assets to any person, unless:

(1) the resulting entity, if other than us, is organized and existing under the law of Mexico and assumes all of our obligations to:

(x) pay the principal of, and interest on, the Notes; and

(y) perform and observe all of our other obligations under the indentures; and

(2) we are, or any successor entity is, as the case may be, not, immediately after any such transaction, in default under the indentures.

Restrictions Applicable to Mexican Financial Institutions

Unless otherwise permitted by applicable law, the indentures will provide that neither series of the Notes (a) may constitute collateral granted in favor of Mexican credit institutions (*instituciones de crédito*) including us nor (b) may be acquired by us for our own account or by any of the following entities:

(a) Mexican financial entities (*entidades financieras*) of any kind that acquire the Notes for its own account except for (1) investment companies that invest in debt and common instruments (*sociedades de inversion en instrumentos de deuda o comunes),* (2) securities brokers (*casas de bolsa*) that acquire the Notes for placement with investors, and (3) insurance companies (*instituciones y sociedades mutualistas de seguros*) and bonding companies (*instituciones de fianzas*) to the extent they acquire the Notes to invest their technical reserves; *provided*, *however*, that the exceptions referred to in (1) and (2) of this paragraph shall not apply to (x) investment companies in which we or any other entity that forms part of our financial group holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of our financial group;

(b) Mexican or non-Mexican entities with respect to which we (1) own voting stock representing at least 51 percent of their outstanding paid-in capital, (2) have control of the shareholders' meetings of such entity or (3) are in a position to appoint the majority of the members of such entity's board of directors;

(c) Mexican pension or retirement funds if managed by us or another entity that forms part of our financial group; and

(d) We or another entity that forms part of our financial group acting in its capacity of trustee, representative, agent or attorney-in-fact if, by acting in such capacity, it has discretionary investment authority; *provided*, *however*, that any Mexican financial entity or Mexican pension or retirement fund that is not otherwise prevented from investing in the Notes of either series may acquire, together with any other such entity that is an affiliate or that forms part of the same financial group on a collective basis, up to 10% of the principal amount of the relevant series of Notes.

Notices

For so long as the Notes are listed on the Euro MTF market of the Luxembourg Stock Exchange, the notices will be published in a leading newspaper having general circulation in Luxembourg (expected to be the *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange, www.bourse.lu.

Book-Entry System

Each series of Notes will be represented by one or more global notes.

Tier 1 Notes

The global notes representing the Tier 1 Notes will be issued in the form of one or more registered notes in global form, without interest coupons and will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Tier 1 Notes are being offered and sold in this initial offering in the United States solely to qualified institutional buyers under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Tier 1 Notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S; and
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under "Transfer Restrictions."

Tier 2 Notes

The global notes representing the Tier 2 Notes will be issued in the form of one or more registered notes in global form, without interest coupons and will be deposited with, or on behalf of the Common Depositary for the accounts of Euroclear or Clearsteam, Luxembourg and registered in the name of the Common Depositary or its nominee.

The Tier 2 Notes are being offered and sold in this initial offering in the United States solely to qualified institutional buyers under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Tier 2 Notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S; and
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under "Transfer Restrictions."

Rule 144A Global Notes

Notes offered and sold to qualified institutional buyers under Rule 144A are referred to collectively as the "Rule 144A Global Notes. Interests in the Rule 144A Global Notes will be available for purchase only by qualified institutional buyers.

Regulation S Global Notes

Notes offered and sold in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933 to persons which are non-U.S. persons are referred to collectively as the "Regulation S Global Notes" and, together with the Rule 144A Global Notes, the "Global Notes."

On or prior to the 40th day after the date of issuance of the Notes sold pursuant to Regulation S, any resale or transfer of beneficial interests in the Regulation S Global Notes to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Investors may hold their interest in a Global Note representing the Tier 1 Notes through organizations that are participants in DTC (including, Euroclear or Clearstream, Luxembourg) and in a Global Note representing the Tier 2 Notes through organizations that are participants in Euroclear or Clearstream, Luxembourg.

Exchanges Among the Global Notes

Transfers by an owner of a beneficial interest in a Regulation S Global Note representing Notes of a particular series to a transferee who takes delivery of that interest through a Rule 144A Global Note representing Notes of the same series will be made only in accordance with applicable procedures and upon receipt by the trustee of a written certification from the transferee of the beneficial interest in the form provided in the relevant indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing Notes of a particular series to a transferee who takes delivery of the interest through a Regulation S Global Note representing Notes of the same series will be made only upon receipt by the trustee of a certification from the transferor that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144A under the Securities Act.

Any beneficial interest in one of the Global Notes representing Notes of a particular series that is transferred to a person who takes delivery in the form of an interest in another Global Note representing Notes of the same series will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-Entry Procedures for the Global Notes

Ownership of beneficial interests in a Global Note representing the Tier 1 Notes will be limited to DTC and to persons that may hold interests through institutions that have accounts with DTC and in a Global Note representing the Tier 2 Notes will be limited to Euroclear and Clearstream, Luxembourg and to persons that may hold interests through institutions that have accounts with Euroclear or Clearstream, Luxembourg in each case referred to as the participants. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by DTC, Euroclear or Clearstream, Luxembourg, as applicable, and their respective participants for that Global Note. The conveyance of notices and other communications by DTC, Euroclear or Clearstream, Luxembourg to their respective participants and by their respective participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect.

DTC, Euroclear or Clearstream, Luxembourg hold the securities of their respective participants and facilitates the clearance and settlement of securities transactions among their respective participants through electronic book-entry changes in accounts.

Principal and interest payments on the Notes of a particular series represented by a Global Note will be made to DTC, the Common Depositary or their nominees, as the case may be, as the sole registered owner and the sole holder of the Notes of such series represented by the Global Note for all purposes under the corresponding indenture. Accordingly, we, the trustee and any paying agent will have no responsibility or liability for:

- any aspect of DTC, Euroclear or Clearstream, Luxembourg's records relating to, or payments made on account of, beneficial ownership interests in a Note represented by a Global Note;
- any other aspect of the relationship between DTC, Euroclear or Clearstream, Luxembourg and its participants or the relationship between those participants and the owners of beneficial interests in a Global Note held through those participants; or
- the maintenance, supervision or review of any of DTC, Euroclear or Clearstream, Luxembourg's records relating to those beneficial ownership interests.

DTC

DTC has advised us that upon receipt of any payment of principal of or interest on a Global Note representing the Tier 1 Notes, DTC will immediately credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Note as shown on DTC's records. The initial purchasers of the Tier 1 Notes will initially designate the accounts to be credited. Payments by participants to owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices, as is the case with securities held for customer accounts registered in "street names," and will be the sole responsibility of those participants.

Tier 1 Notes represented by a Global Note can be exchanged for definitive Tier 1 Notes of the same series in registered form only if:

- DTC notifies us that it is unwilling or unable to continue as depositary for that Global Note or at any time DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by us within 90 calendar days; we, in our sole discretion, determine that such Global Note will be exchangeable for definitive Tier 1 Notes in registered form and notify the trustee of our decision; or an Event of Default with respect to the Tier 1 Notes of such series represented by that Global Note has occurred and is continuing.
- A Global Note representing Tier 1 Notes that can be exchanged under the preceding sentence will be exchanged for definitive Tier 1 Notes that are issued in authorized denominations in registered form for the same aggregate amount. Those definitive Tier 1 Notes will be registered in the names of the owners of the beneficial interests in the relevant Global Note as directed by DTC and may bear the legend as set forth under "Transfer Restrictions."

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg have advised us that upon receipt of any payment in respect of any Global Note representing the Tier 2 Notes, including principal and interest, to credit the accounts of the relevant participants with the payment on the payment date, in amounts proportionate to their respective holdings in the principal amount of beneficial interest in the relevant Tier 2 Notes as shown on the records of the Common Depositary, unless the Common Depositary has reason to believe it will not receive payment on such payment date. Payments by the participants and the indirect participants to the beneficial owners of the relevant Global Notes will be governed by standing instructions and customary practices and will be the responsibility of the participants or the indirect participants, as the case may be, and will not be our responsibility nor the responsibility of the Common Depositary, Euroclear, or Clearstream, Luxembourg. Neither we nor the trustee will be liable for any delay by the Common Depositary, Euroclear and Clearstream, Luxembourg or any of their participants or indirect participants in identifying the beneficial owners of the relevant Global Notes, and we and the trustee may conclusively rely on and will be protected in relying on instructions from Euroclear, Clearstream, Luxembourg, the Common Depositary or its nominee for all purposes. Except as provided above, owners of beneficial interests in a Global Note will not be entitled to receive physical delivery of Notes of the same or any other series in definitive form and will not be considered the holders of the Global Notes of any series for any purpose under the indentures and no Notes of a particular series represented by a Global Note will be exchangeable.

Accordingly, each person owning a beneficial interest in a Global Note must rely on the procedures of DTC, Euroclear or Clearstream, Luxembourg as the case maybe (and if that person is not a participant, on the procedures of the participant through which that person owns it interest) to exercise any rights of a holder under the indentures or that Global Note. The laws of some jurisdictions require that some purchasers of securities take physical deliver of the securities in definitive form. Those laws may impair the ability to transfer beneficial interests in a Global Note.

Registrar, Transfer Agent and Paying Agents

The trustee will act as registrar for the Tier 1 Notes and through its Luxembourg office will act as registrar for the Tier 2 Notes. The trustee will also act as transfer agent and paying agent for the Tier 1 Notes and through its Luxembourg office as transfer and paying agent for the Tier 2 Notes. We have the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents in respect of each series of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as we may require) in respect of any tax or other governmental charges that may be imposed in relation to it. We will not be required to register or cause to be registered the transfer of Notes after such Notes have been called for redemption.

The Trustee

The Bank of New York will act as trustee under each of the indentures. Notices to the trustee should be directed to the trustee at its Corporate Trust Office, located at 101 Barclay Street, 4 East, New York, NY 10286, Attn: Global Finance Unit. The trustee also will initially act as registrar, paying agent and agent for service of demands and notices in connection with each series of the Notes and the indentures. The trustee may resign or be removed under circumstances described in the indentures and we may appoint a successor trustee to act in connection with each series of the Notes. Any action described in this offering memorandum to be taken by the trustee may then be taken by the successor trustee.

The trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with us or our affiliates with the same rights it would have if it were not trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

The indentures contains some limitations on the right of the trustee should it become a creditor of ours, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The trustee will be permitted to engage in transactions with us. The occurrence of a default under the indentures could create a conflicting interest for the trustee. In this case, if the default has not been cured or waived within 90 days after the trustee has or acquires a conflicting interest, the trustee generally is required to eliminate the conflicting interest or resign as trustee for the relevant series of Notes. In the event of the trustee's resignation, we will promptly appoint a successor trustee for the relevant series of Notes.

The trustee may be removed by the holders of a majority of the outstanding Notes of a particular series if an Event of Default under the corresponding indenture has occurred and is continuing. No resignation or removal of the trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the indentures.

Governing Law; Consent to Jurisdiction

The indentures and each series of the Notes will be governed by, and construed in accordance with, the law of the State of New York.

We will consent to the jurisdiction of the Supreme Court of the State of New York, County of New York or the United States District Court for the Southern District of New York and will agree that all disputes under the indentures may be submitted to the jurisdiction of such courts. We will irrevocably consent to and waive to the fullest extent permitted by law any objection that we may have to the laying of venue of any suit, action or proceeding against us or our properties, assets and revenues with respect to the indentures or any such suit, action or proceeding in any such court and any right to which we may be entitled on account of place of residence or domicile.

To the extent that we or any of our revenues, assets or properties shall be entitled to any immunity from suit, from the jurisdiction of any such court, from attachment prior to judgment, from attachment in aid of execution

of judgment, from execution of a judgment or from any other legal or judicial process remedy, we will irrevocably agree not to claim and will irrevocably waive such immunity to the fullest extent permitted by the laws of such jurisdiction.

We will agree that service of all writs, claims, process and summons in any suit, action or proceeding against us or our properties, assets or revenues with respect to the indentures or any suit, action or proceeding to enforce or execute any judgment brought against us in the State of New York may be made upon CT Corporation System, 111 Eighth Avenue, New York, New York 10011, and we will irrevocably appoint CT Corporation System as our agent to accept such service of any and all such writs, claims, process and summonses.

Currency Rate Indemnity

We have agreed that, if a judgment or order made by any court for the payment of any amount in respect of any Notes is expressed in a currency other than U.S. dollars, we will indemnify the relevant holder against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from our other obligations under the indentures, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the indentures or the Notes.

TRANSFER RESTRICTIONS

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes you will be deemed to have made the following acknowledgements, representations to and agreements with the initial purchasers and us:

1. You acknowledge that:

- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:

- you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the Notes to you in reliance on Rule 144A; or
- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.

3. You acknowledge that neither we nor the initial purchasers nor any person representing us or the initial purchasers has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from us.

4. You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:

(a) to us;

(b) under a registration statement that has been declared effective under the Securities Act;

(c) for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;

(d) through offers and sales that occur outside the United States within the meaning of Regulation S under the Securities Act; or

(e) under any other available exemption from the registration requirements of the Securities Act,

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control.

You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the date that is two years (in the case of Rule 144A Notes) or 40 days (in the case of Regulation S Notes) after the later of the closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes (the "Resale Restriction Period"), and will not apply after the applicable Resale Restriction Period ends;
- we and the trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clauses (d) and (e) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee; and
- each Note will contain a legend substantially to the following effect:

  THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

  UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF [IN THE CASE OF THE TIER 1 NOTES: THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK,] [IN THE CASE OF THE TIER 2 NOTES: EUROCLEAR BANK S.A./N.V., AS THE OPERATOR OF THE EUROCLEAR SYSTEM ("EUROCLEAR"), OR CLEARSTREAM BANKING SOCIETE ANONYME ("CLEARSTREAM")] TO THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF [IN THE CASE OF THE TIER 1 NOTES: CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC),] [IN THE CASE OF THE TIER 2 NOTES: A DEPOSITARY COMMON TO EUROCLEAR AND CLEARSTREAM, INITIALLY THE BANK OF NEW YORK DEPOSITARY (NOMINEE) LIMITED (THE "COMMON DEPOSITARY") OR ITS NOMINEE, OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR OR CLEARSTREAM (AND ANY PAYMENT IS MADE TO THE COMMON DEPOSITARY] ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, [IN THE CASE OF THE TIER 1 NOTES: CEDE & CO.,] [IN THE CASE OF THE TIER 2 NOTES: THE COMMON DEPOSITARY OR ITS NOMINEE] HAS AN INTEREST HEREIN.

  TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF [IN THE CASE OF THE TIER 1 NOTE: DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE] [IN THE CASE OF THE TIER 2 NOTE: THE COMMON DEPOSITARY FROM TIME TO TIME OR ITS NOMINEE] AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

  UNTIL [IN THE CASE OF THE 144A NOTES: TWO YEARS] [IN THE CASE OF THE REGULATION S NOTES: 40 DAYS] AFTER THE COMMENCEMENT OF THE OFFERING, AN OFFER OR SALE OF SECURITIES WITHIN THE UNITED STATES BY A DEALER (AS DEFINED IN THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE

“SECURITIES ACT”)) MAY VIOLATE THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IF SUCH OFFER OR SALE IS MADE OTHERWISE THAN IN ACCORDANCE WITH RULE 144A THEREUNDER.

THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (2) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON THE HOLDER’S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULES 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (5) PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT, ACCOMPANIED BY AN OPINION OF COUNSEL REGARDING THE AVAILABILITY OF SUCH EXEMPTION OR (6) TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN THIS LEGEND.

5. You represent that either (i) you are not, and you are not purchasing the Notes with the assets of, or for or on behalf of, (1) an employee benefit plan (as defined in Section 3(3) of ERISA), (2) any other plan or arrangement that is subject to ERISA or Section 4975 of the Code, or (3) any governmental, church or non-U.S. plan or other arrangement (a “Non-ERISA Arrangement”), that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (“Similar Laws”), (each of (1), (2), and (3), a “Plan”), or any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3 (42) of ERISA) or otherwise or (ii) your purchase, holding and disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, from any Similar Laws) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, the service provider exemption (as described in “Certain ERISA considerations) or another applicable statutory or administrative exemption (or, in the case of any governmental, church or non-U.S. plan, a substantially similar exemption under Similar Law).

6. You acknowledge that we, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the initial purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

Each purchaser that is acquiring Notes pursuant to Regulation S under the Securities Act represents that it is not acquiring the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person or in the United States.

TAXATION

Certain United States Federal Income Tax Consequences

The following summary describes certain United States federal income tax consequences pertaining to the purchase, ownership, and disposition of the Notes. Unless otherwise stated, this summary deals only with Notes held as capital assets by United States holders (as defined below) who purchased the securities upon original issuance at their original offering price. As used in this offering memorandum, a "United States holder" means a beneficial owner of the Notes that is (i) an individual citizen or resident of the United States; (ii) a corporation organized under the laws of the United States, any State thereof or the District of Columbia; (iii) or a person that is otherwise subject to United States federal income taxation on a net income basis in respect of the Notes. This summary does not deal with special classes of holders such as banks, thrifts, real estate investment trusts, regulated investment companies, insurance companies, dealers in securities or currencies, tax-exempt investors, or persons who hold the Notes as part of an integrated investment (including a "straddle") or as other than a capital asset. This summary does not address the tax consequences to persons that have a functional currency other than the U.S. dollar or the tax consequences to shareholders, partners, or beneficiaries of a holder of Notes. Further, this summary does not include any description of any alternative minimum tax consequences or any description of the tax laws of any state or local government or of any non-United States government that may be applicable to the Notes. This summary is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, and administrative and judicial interpretations thereof, as of the date hereof, all of which are subject to change, possibly on a retroactive basis.

We believe that the Notes should be treated as our debt instruments for United States federal income tax purposes and, in the absence of any change or clarification in the law, by regulation or otherwise, requiring a different characterization of the Notes, intend to so treat the Notes, including, where required, filing information returns with the Internal Revenue Service (the "IRS"), in accordance with this treatment. Prospective investors in the Notes should be aware, however, that the IRS is not bound by our characterization of the Notes as indebtedness, and the IRS could possibly take a different position as to the proper characterization of the Notes for United States federal income tax purposes which may affect the timing and character of income, gain or loss recognized in respect of a note. In addition, prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to the tax treatment of the Notes and no assurance can be given that the IRS will not take contrary positions to the tax consequences described herein. The following discussion of the principal United States federal income tax consequences of the purchase, ownership and disposition of the Notes is based upon the assumption that each note will be treated as our debt instrument for United States federal income tax purposes.

If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of the Notes, the United States federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and upon the activities of the partnership. A holder of the Notes that is a partnership and partners in such partnership should consult their own tax advisors as to the United States federal income tax consequences of acquiring, holding and disposing of the Notes.

THIS DISCUSSION HAS BEEN WRITTEN TO SUPPORT THE MARKETING OF THE NOTES. IT WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING UNITED STATES FEDERAL INCOME TAX PENALTIES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS AS TO THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, AS WELL AS THE EFFECT OF ANY STATE, LOCAL, OR NON-UNITED STATES TAX LAWS.

Interest income and original issue discount

As previously stated, we intend to treat the Notes as debt for United States federal income tax purposes, and the following discussion is based on the assumption that such treatment will apply for such federal income tax purposes.

Under the applicable Treasury regulations and based upon certain representations, facts and assumptions provided by the Issuer, the Notes will not be treated as issued with original issue discount, or OID, within the meaning of Section 1273(a) of the Code. Treasury regulations under Section 1273 of the Code provide that debt instruments like the Notes will not be considered issued with OID by reason of a suspension period (during which interest is canceled or deferred and payment of principal is deferred) if the likelihood of such a suspension period is "remote." We have concluded, and this discussion assumes, that, as of the date of this offering memorandum, the likelihood of the occurrence of a suspension period is "remote" within the meaning of the applicable regulations. In addition to the foregoing, for purposes of determining the yield and maturity of the Notes, the applicable Treasury regulations provide that when a debt instrument provides the issuer of the debt instrument with an unconditional option or options, the issuer is deemed to exercise or not exercise the option or options in a manner that minimizes the yield on the debt instrument. Pursuant to the applicable Treasury regulations, we believe, and currently intend to take the position, that we should be deemed to exercise our option to redeem the Tier 1 Notes on May 17, 2017, and the Tier 2 Notes on May 17, 2012. Based upon the foregoing, we believe, and currently intend to take the position, that the Notes should not be treated as having been issued with OID for United States federal income tax purposes. Accordingly, except as set forth below, stated interest on the Notes (including the amount of any withholding taxes and any additional amounts paid with respect thereto) generally will be taxable to a United States holder as ordinary interest income at the time it is paid or accrued in accordance with such holder's regular method of accounting for United States federal income tax purposes.

If, however, we suspend or defer payments of stated interest on the Notes, the Notes may become OID instruments at such time. If the Notes are treated as OID instruments, a determination will be made whether and to what extent income must be accrued with respect to the Notes. If it is determined at that time to be significantly more likely than not that there will be no further payments on the Notes before the Notes are redeemed or reach maturity, no income accrual will be necessary. A change in circumstances at a later date that is contrary to the assumptions underlying the initial determination may require a new determination at such time. Holders of the Notes should seek the advice of their tax advisors in the event that we suspend or defer payments on the Notes. Furthermore, (1) if the Tier 1 Notes are not, in fact, redeemed by us on May 17, 2017, the Tier 1 Notes will be deemed for United States federal income tax purposes to be redeemed and reissued on May 17, 2017, at the adjusted issue price of the Tier 1 Notes (as determined for United States federal income tax purposes) on that date and (2) if the Tier 2 Notes are not, in fact, redeemed by us on May 17, 2012, the Tier 2 Notes will be deemed for United States federal income tax purposes to be redeemed and reissued on May 17, 2012, at the adjusted issue price of the Tier 2 Notes (as determined for United States federal income tax purposes) on that date.

The Treasury regulations described above have not yet been addressed in any rulings or other interpretations by the IRS in situations similar to those of the Notes, and it is possible that the IRS could take a contrary position. If the IRS were to assert successfully that the stated interest on the Notes was OID regardless of whether we exercise our option to suspend payments of interest and on such Notes, all holders of the Notes would be required to include such stated interest in income on a daily economic accrual basis as described above.

For purposes of the United States foreign tax credit limitations, interest on the Notes generally will be foreign source income. Subject to complex limitations under the Code, a United States holder generally will be entitled to a foreign tax credit against its United States federal taxable income in respect of any Mexican withholding taxes. United States holders should consult their own tax advisors as to the consequences of Mexican withholding taxes and the availability of a foreign tax credit or deduction.

Redemption and sale of the Notes

Under certain circumstances described in this offering memorandum, the Notes may be redeemed for cash. See "Description of the Notes." Under current law, such a redemption would, for United States federal income tax purposes, constitute a taxable disposition of the redeemed Notes, and a United States holder would recognize gain or loss as if it had sold such redeemed Notes for cash as described below.

A United States holder that sells Notes (or holds the Notes until maturity) will recognize gain or loss equal to the difference between the amount realized on the sale or retirement of the Notes and the United States holder's adjusted tax basis in such Notes (less an amount equal to any accrued but unpaid interest, which will be treated as such). Such gain or loss will be a capital gain or loss and will be a long-term capital gain or loss if the Notes have been held for more than one year at the time of sale. Notwithstanding the foregoing, in the case of Tier 2 Notes, any gain or loss generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which a United States holder held the Tier 2 Notes.

Certain Non-United States holders

As used in this offering memorandum, the term "Non-United States holder" means a holder of the Notes so that is a nonresident alien individual or a foreign corporation for United States federal income tax purposes.

A Non-United States holder will not be subject to withholding of United States federal income tax on payments in respect of the Notes. In addition, a Non-United States holder will not be subject to United States federal income or withholding tax on gain realized on the sale or exchange of the Notes, unless (1) such gain is effectively connected with the conduct by the Non-United States holder of a trade or business in the United States (and, if required under an applicable income tax treaty, is attributable to a permanent establishment or, in the case of an individual Non-United States holder, a fixed base maintained in the United States by the Non-United States holder), or (2) in the case of gain realized by an individual Non-United States holder, the Non-United States holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Information reporting and backup withholding

A United States holder (other than an "exempt recipient," which includes corporations and certain other persons that, when required, demonstrate their exempt status) may be subject to backup withholding at the applicable statutory rate on, and to information reporting requirements with respect to, payments of principal or interest on, and to proceeds from the sale, exchange or other disposition, including a redemption, of the Notes. In general, if a non-corporate United States holder subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding may apply. The backup withholding tax is not an additional tax and may be credited against a United States holder's regular United States federal income tax liability or refunded provided the required information is timely furnished to the IRS.

Non-United States holders are generally exempt from information reporting and backup withholding provided, if necessary, they demonstrate their exemption. Backup withholding is not an additional tax. Any backup withholding tax generally will be allowed as a credit or refund against the Non-United States holder's United States federal income tax liability, *provided* that the required information is timely furnished to the IRS.

THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN UNITED STATES FEDERAL OR OTHER TAX LAWS.

Certain Mexican Income Tax Consequences

The following summary contains a description of the principal Mexican Federal tax consequences of the purchase, ownership and disposition of Notes by a Non-Mexican Holder (as defined below). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Notes. In addition, it does not describe any tax consequences: (1) arising under the laws of any taxing jurisdiction other than Mexico, (2) arising under the laws of any state or municipality within Mexico, or (3) that are applicable to a resident of Mexico for tax purposes.

A "Non-Mexican Holder" is a holder who is not a resident of Mexico for tax purposes, as defined by the Mexican Federal Fiscal Code (*Código Fiscal de la Federación*), or that does not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico. Under Mexico's tax laws, a natural person is a resident of Mexico for tax purposes if the individual has established his or her home in Mexico. In the event the individual also has a home in another country, the individual will be deemed a resident of Mexico for tax purposes when his or her "center of vital interests" is in Mexico. A "center of vital interests" is deemed to be in Mexico if, among other considerations: (1) more than 50% of an individual's total income in any calendar year qualifies as Mexican source income, or (2) when an individual's center of professional activities is located in Mexico. Mexican nationals who file a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico, in which his or her income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered Mexican residents for tax purposes during the year of filing of the notice of such residence change and during the following three years. Mexican nationals are deemed Mexican residents for tax purposes, unless such nationals can demonstrate otherwise. A legal entity is a resident of Mexico if it is organized under the laws of Mexico, or if the main administration of its business or its place of effective management is established in Mexico.

This summary is based upon Mexican Income Tax Law and Mexican Federal Fiscal Code in effect as of the date of this offering memorandum, which are subject to change. Prospective purchasers of the Notes should consult their own tax advisers as to the Mexican or other tax consequences of the purchase, ownership and disposition of Notes, including, in particular, the effect of any foreign state or municipal or local tax laws. The acquisition of the Notes of either or both series by an investor who is a resident of Mexico will be made under its own responsibility. Residents of Mexico who become holders of Notes of either series are urged to notify us upon their acquisition of the Notes.

Mexico has entered into, and is negotiating several, tax treaties with various countries, that may affect the Mexican withholding tax liability of Non-Mexican Holders. Prospective purchasers of the Notes should consult their own tax advisers as to the tax consequences, if any, of such treaties.

Under the Mexican Income Tax Law, and the regulations thereunder, principal and interest on the Notes (which includes any amounts paid in excess of the issue price for the Notes, which under Mexican law is deemed to be interest) paid by us, through our Grand Cayman Branch, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Capital gains realized from the sale or other disposition of the Notes by a Non-Mexican Holder will not be subject to any Mexican income or other taxes.

A Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership, or disposition of the Notes, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

Certain Cayman Islands Income Tax Consequences

There are currently no corporation, income, capital gains, or other taxes in the Cayman Islands which would apply to the Notes, nor are there any gift, estate or inheritance taxes in the Cayman Islands.

The holder of any Notes (or the legal representative of such holder) whose Notes are brought into as executed in the Cayman Islands would be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Notes. In addition, any instrument transferring title to a Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

CERTAIN ERISA CONSIDERATIONS

A fiduciary of a pension, profit-sharing or other employee benefit plan (as defined in Section 3(3) of ERISA) (a “Plan”) , should consider the fiduciary standards of ERISA in the context of the Plan’s particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit Plans, as well as any plan or arrangement subject to Section 4975 of the Code, including, without limitation, individual retirement accounts and Keogh plans (also “Plans”) and any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3 (42) of ERISA) or otherwise, from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code (“Parties in Interest”) with respect to the Plan. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain employee benefit plans and arrangements including those that are governmental plans (as defined in section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) (“Non-ERISA Arrangements”) are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, non-U.S. or other regulations, rules or laws (“Similar Laws”).

The acquisition of the Notes by a Plan or any entity whose underlying assets are deemed to be the assets of a Plan with respect to which we or certain of our affiliates is or becomes a Party in Interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired pursuant to and in accordance with an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions, or “PTCEs,” that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions are:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities and related lending transactions, provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more than “adequate consideration” in connection with the transaction (the “service provider exemption”).

Any purchaser or holder of Notes or any interest therein will be deemed to have represented by its purchase and holding of the Notes that it either (1) is not a Plan or a Non-ERISA Arrangement and is not purchasing those Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement or (2) the purchase, holding and disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, from any Similar Laws) pursuant to the PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, the service provider exemption or another applicable

statutory or administrative exemption (or, in the case of any governmental, church or non-U.S. plan, a substantially similar exemption under Similar Law).

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or any other applicable exemption, or the potential consequences of any purchase or holding under Similar Laws, as applicable. If you are an insurance company or the fiduciary of a Plan or a Non-ERISA Arrangement, and propose to invest in Notes, you should consult your legal counsel.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated May 11, 2007, we have agreed to sell to the initial purchasers, the following respective principal amount of Notes of each series. For purposes of the Purchase Agreement, due to certain timing matters relating to the offering of the Notes in various jurisdictions, the sale of the Tier 1 Notes occurred on May 10, 2007 and the sale of the Tier 2 Notes occurred on May 11, 2007. The settlement and delivery of the Tier 1 and Tier 2 Notes will be made against payment therefor on or about the date specified on the cover page of this offering memorandum, May 17, 2007, which is longer than the T+3 standard convention with respect to the settlement cycle for trades in the secondary market.

Initial Purchasers of Tier 1 Notes	Principal Amount
Banco Bilbao Vizcaya Argentaria, S.A.	U.S.$ 166,666,666.66
Credit Suisse Securities (USA) LLC	166,666,666.67
Deutsche Bank Securities Inc.	166,666,666.67
Total	U.S.$ 500,000,000.00

Initial Purchasers of Tier 2 Notes	Principal Amount
Banco Bilbao Vizcaya Argentaria, S.A.	€ 200,000,000.00
Credit Suisse Securities (USA) LLC	200,000,000.00
Deutsche Bank Securities Inc.	200,000,000.00
Total	€ 600,000,000.00

The purchase agreement provides that the initial purchasers are obligated to purchase all of the Notes of each series if any are purchased. The purchase agreement also provides that if an initial purchaser defaults, the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated.

The initial purchasers propose to offer the Notes of each series initially at the offering price on the cover page of this offering memorandum and may also offer the Notes of each series to selling group members at the offering price less a selling concession. After the initial offering, the offering price may be changed.

The Notes of each series have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons in offshore transactions in reliance on Regulation S under the Securities Act. Each of the initial purchasers has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the Notes of either series (1) as part of its distribution at any time, or (2) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells the Notes of either series in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of such Notes within the United States, or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the Notes of each series are restricted as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes of either series within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A. Banco Bilbao Vizcaya Argentaria, S.A. is not a U.S. registered broker-dealer and, therefore, to the extent that it intends to effect any sales of the securities in the United States, it will do so through one or more U.S. registered broker-dealers.

United Kingdom

Each of the initial purchasers severally represents and agrees that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes of either series in circumstances in which section 21(1) of the FSMA does not apply to us; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes of either series in, from or otherwise involving the United Kingdom.

France

The initial purchasers acknowledge that the Notes are being issued and sold outside the Republic of France and that, in connection with their initial distribution, it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in the Republic of France, and that it has not distributed and will not distribute or cause to be distributed to the public in the Republic of France this offering memorandum or any other offering material relating to the Notes, and that such offers, sales and distributions have been and will be made in the Republic of France only to qualified investors (*investisseurs qualifiés*) in accordance with Article L.411-2 of the Monetary and Financial Code and *decrét* no. 98-880 dated October 1, 1998.

Netherlands

The Notes may not be offered, sold, transferred or delivered in or from the Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, other than to individuals or legal entities situated in the Netherlands who or which trade or invest in securities in the conduct of a business or profession (which includes the bank, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institution, central governments, large international and supranational organizations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities; hereinafter, "Professional Investors"), provided that in the offer, offering memorandum and any other documents or advertisements in which a forthcoming offering of the Notes is publicly announced (whether electronically or otherwise) in the Netherlands it is stated that such offer is and will exclusively made to Professional Investors. Individual or legal entities that are not Professional Investors may not participate in the offering of the Notes, and this offering memorandum or any other offering material relating to the Notes may not be considered and offer or the prospect of an offer to sell or exchange the Notes.

Germany

The initial purchasers are aware that no German sales prospectus (*Verkaufsprospekt*) within the meaning of the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgezets*, or the Act) of the Federal Republic of Germany has been or will be published with respect to the Notes. In particular, each initial purchaser has represented that it has not engaged, and has agreed that it will not engage, in a public offering (*offentliches Angebot*), within the meaning of the Act, with respect to any of the Notes otherwise than in accordance with the Act and all other applicable legal and regulatory requirements.

Spain

The initial purchasers acknowledged that the Notes may not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law, but may be offered or sold in Spain in compliance with the requirements of Law 24/1998, of July 28 (as amended by Law 37/1988, of November 16, and Royal Decree Law 5/2005, of March 11), on the Spanish Securities Market and the Royal Decree 291/1992, of March 27 (as amended by the Royal Decree 2590/1998, of December 7), on issues and public offers for the sale of securities.

The Republic of Italy

The offering of the Notes has not been cleared by CONSOB (*Commissione Nazionale per le Società e la Borsa*, or the Italian Securities Exchange Commission) pursuant to Italian securities legislation and accordingly, no Notes may be offered, sold or delivered, nor may copies of this offering memorandum or of any other document relating to the Notes be distributed in the Republic of Italy, except (i) to qualified investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of July 1, 1998, as amended, provided that such professional investors will act in their capacity and not as depositaries or nominees for other shareholders; or (ii) in circumstances which are exempted from the rules governing solicitations to the public at large pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended (the "Italian Financial Services Act"), its implementing CONSOB regulations, including Article 33, first paragraph of CONSOB Regulation No. 11971 of May 14, 1999, as amended. Any offer, sale or delivery of the Notes or distribution of copies of this offering memorandum or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Italian Financial Services Act and Legislative Decree No. 385 of September 1, 1993, as amended, and the implementing guidelines of the Bank of Italy and (b) in accordance with any other applicable laws and regulations including any relevant limitations which may be imposed by CONSOB or the Bank of Italy. In any case, the Notes cannot be offered or sold to any individuals in the Republic of Italy either in the primary market or the secondary market.

General

Purchasers of Notes of either series sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering memorandum.

The initial purchasers or their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for us and our affiliates in the ordinary course of business.

We have agreed to indemnify the initial purchasers against liabilities or to contribute to payments which they may be required to make in that respect.

We have applied to have the Notes of each series admitted for listing on the Official List of the Luxembourg Stock Exchange and to trading on the EuroMTF market. The initial purchasers have advised us that they intend to make a market in the Notes of each series as permitted by applicable law. They are not obligated, however, to make a market in the Notes of either series and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Notes of either series.

The initial purchasers will make the Notes available for distribution on the Internet through a proprietary web site and/or a third-party system operated by MarketAxess Corporation, an Internet-based communications technology provider. MarketAxess Corporation is providing the system as a conduit for communications between the initial purchasers and their customers and is not a party to any transactions. MarketAxess Corporation, a registered broker-dealer, will receive compensation from the initial purchasers based on transactions conducted through the system. The initial purchasers will make the Notes of each series available to their customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels.

The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Covering transactions involve purchases of the Notes of either series in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the Notes of either series originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes of either series to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the Notes in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of the Notes are made. Any resale of the Notes in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the Notes.

Representations of Purchasers

By purchasing Notes in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the Notes without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent, and
- the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action—Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this Pricing Supplement during the period of distribution will have a statutory right of action for damages, or while still the owner of the Notes, for rescission against us in the event that this Pricing Supplement, together with the offering memorandum, contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the Notes. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the Notes. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the Notes were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the Notes as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of the Notes should consult their own legal and tax advisors with respect to the tax consequences of an investment in the Notes in their particular circumstances and about the eligibility of the Notes for investment by the purchaser under relevant Canadian legislation.

GENERAL INFORMATION

Clearing Systems

Application has been made to have each series of Notes accepted for clearance through Euroclear and Clearstream. In addition, application is expected to be made to have each series of Notes accepted for trading in book-entry form by DTC. For the Rule 144A Global Note with respect to the Tier 1 Notes, the ISIN number is US055295AB54 and the CUSIP number is 055295 AB5, and for the Rule 144A Global Note with respect to the Tier 2 Notes, the ISIN number is XS0301000427. For the Regulation S Global Note with respect to the Tier 1 Notes, the ISIN number is USG09077AB73 and the CUSIP number is G09077 AB7, and for the Regulation S Global Note with respect to the Tier 2 Notes, the ISIN number is XS0300999744.

Listing

Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the EuroMTF market. Copies of our bylaws, the indentures, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements and any published quarterly unaudited consolidated financial statements will be available at our principal executive offices, as well as at the offices of the Trustee, registrar, paying agent and transfer agent, and at the offices of the Luxembourg listing agent, paying agent and transfer agent, as such addresses are set forth in this offering memorandum. We believe the auditor's reports included herein have been accurately reproduced. We accept responsibility for the correct reproduction of the auditor's report. We will maintain a paying and transfer agent in Luxembourg for so long as any of the Notes of either series are listed on the Official List of the Luxembourg Stock Exchange.

The Notes have not been and will not be registered with the National Securities Registry maintained by the CNBV, and may not be offered or sold publicly, or otherwise be subject of brokerage activities in Mexico, except pursuant to a private placement exemption set forth under Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be delivered to the CNBV to comply with a legal requirement and for information purposes and the delivery and the acceptance by the CNBV of such notice, does not imply any certification as to the investment quality of the Notes or our solvency, liquidity or credit quality.

Authorization

Our shareholders authorized the issuance of the Notes of either series in a meeting on May 7, 2007. We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes of either series, except for the signature of each indenture by the CNBV that will be obtained on or prior to the date on which the Notes are issued.

No Material Adverse Change and Litigation

There has been no material adverse change in our business, financial condition, results of operations or prospects since December 31, 2006, the date of the last audited financial statements.

Other than as set forth in this offering memorandum, we are not involved in any litigation or arbitration proceeding that is material in the context of the issuance of the Notes of either series.

LEGAL MATTERS

The validity of the Notes will be passed upon for us by our General Counsel, Jose Fernando Pio Díaz Castañares, Cleary Gottlieb Steen & Hamilton LLP, New York, New York and Walkers, Attorneys at law, Grand Cayman, Cayman Islands. Certain legal matters will be passed upon for the initial purchasers by Shearman & Sterling LLP, New York, New York, and Ritch Mueller, S.C., Mexico City, Mexico. Cleary Gottlieb Steen & Hamilton LLP and Shearman & Sterling LLP will rely upon our General Counsel, Jose Fernando Pio Díaz Castañares, and Ritch Mueller, S.C., and, with respect to matters governed by Mexican law and upon Walkers, Attorneys at law, with respect to matters governed by Cayman Islands law.

INDEPENDENT AUDITORS

Our audited financial statements as of December 31, 2006 and 2005 and for each of the years in the three-year period ended December 31, 2006 included in this offering memorandum have been audited by Galaz, Yamazaki, Ruiz, Urquiza, S.C., a member of Deloitte Touche Tohmatsu, independent accountants, as stated in their report.

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Deloitte®

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Paseo de la Reforma 505
Piso 28
Colonia Cuauhtémoc
06500 México, D.F.
México

Tel: +52 (55) 5080 6000
Fax: +52 (55) 5080 6001
www.deloitte.com/mx

INDEPENDENT AUDITOR'S REPORT

To the Stockholders of
BBVA Bancomer, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer:

We have audited the accompanying consolidated balance sheets of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries and UDI Trusts (the "Bank") as of December 31, 2005 and 2006, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 2006, all expressed in thousands of Mexican pesos of purchasing power of December 31, 2006. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As mentioned in Note 4, the Bank is required to prepare and present its consolidated financial statements based on the accounting rules applicable to financial institutions, issued by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores (the "CNBV")), which differ from accounting principles generally accepted in Mexico as indicated in Note 5.

As discussed in Note 21, as part of the strategic reorganization plan of Grupo Financiero BBVA Bancomer, S.A. de C.V. (GFBB and, together with its subsidiaries, the "Financial Group"), on January 1, 2007 the Bank transferred all of its employees to a subsidiary of GFBB, BBVA Bancomer Operadora, S.A. de C.V. ("Operadora"). As a result of this reorganization, the Bank accelerated the amortization of items derived from the pension plan and seniority premiums (transition liability, prior employee services rendered, employee plan modifications, assumption variations and adjustments based on experience), as determined by independent actuaries, resulting in a charge to the results of 2006 of Ps.2,607,304 thousand, net of deferred taxes, the effect of which was recognized under the heading of "Discontinued operations, extraordinary items and changes in accounting policies, net". Also, as described in Note 21, in 2005 the Bank recognized in the income statement Ps.1,043,147 thousand as a consequence of the adoption of a revised standard for the recognition of severance indemnities for reasons other than restructuring, which up to 2004 were charged to results when determined to be payable, and Ps.1,268,713 thousand for the early amortization of the transition asset derived from postretirement medical benefits recognized in 2002. These amounts were also recognized under the heading "Discontinued operations, extraordinary items and changes in accounting policies, net".

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Bank as of December 31, 2005 and 2006, and the results of operations, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 2006 in conformity with the accounting rules prescribed by the CNBV.

Our audits also comprehended the translation of the Mexican peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. The translation of the financial statement amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of readers outside of Mexico.

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

/s/ CPC Carlos A. García Cardoso
Mexico City, Mexico
January 31, 2007

Member of
Deloitte Touche Tohmatsu

BBVA BANCOMER, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE,
GRUPO FINANCIERO, AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2006
(Thousands of constant pesos - Ps. - as of December 31, 2006)

	As of December 31,		
	2005	2006	2006
			(Thousand of U.S. dollars)
ASSETS			
Cash and due from banks	Ps. 128,664,243	Ps. 114,737,529	U.S.$ 10,612,447
Securities:			
Trading	30,171,523	31,376,986	2,902,159
For sale	1,384,148	1,129,352	104,457
Held to maturity	39,015,130	17,907,237	1,656,299
Total securities	70,570,801	50,413,575	4,662,915
Transactions with securities and derivatives:			
Debtor balances in repurchase agreement transactions	283,836	1,875,882	173,506
Derivatives	16,521,766	33,593,657	3,107,186
Total transactions with securities and derivatives	16,805,602	35,469,539	3,280,692
Performing loans:			
Commercial	84,698,662	98,712,147	9,130,207
Financial entities	11,085,794	7,990,973	739,111
Consumer	76,809,139	107,465,087	9,939,795
Mortgage	73,905,798	110,098,263	10,183,346
Government entities	42,360,243	39,202,517	3,625,968
FOBAPROA or IPAB Notes	30,111,708	—	—
Total performing loans	318,971,344	363,468,987	33,618,427
Non-performing loans:			
Commercial	793,485	344,379	31,853
Financial entities	5,909	53	5
Consumer	2,101,304	5,141,200	475,526
Mortgage	2,227,007	2,664,536	246,452
Total non-performing loans	5,127,705	8,150,168	753,836
Total loans	324,099,049	371,619,155	34,372,263
Less: Allowance for loan losses	(13,310,862)	(15,854,207)	(1,466,407)
Total loans, net	310,788,187	355,764,948	32,905,856
Receivables, sundry debtors and prepayments, net	10,367,148	15,704,165	1,452,529
Repossessed assets, net	915,577	716,947	66,313
Property, furniture and equipment, net	14,076,312	13,957,373	1,290,963
Equity investments	2,305,726	2,423,726	224,178
Deferred taxes, net	9,617,386	4,720,450	436,610
Other assets:			
Goodwill	1,761,220	1,771,478	163,850
Deferred charges and other intangible assets	2,223,089	7,090,686	655,841
Total other assets	3,984,309	8,862,164	819,691
TOTAL ASSETS	Ps. 568,095,291	Ps. 602,770,416	U.S.$ 55,752,194

The accompanying notes are an integral part of these consolidated statements.

**BBVA BANCOMER, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE,
GRUPO FINANCIERO, AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS — (CONTINUED)
AS OF DECEMBER 31, 2005 AND 2006
(Thousands of constant pesos - Ps. - as of December 31, 2006)**

	As of December 31,		
	2005	2006	2006
			(Thousand of U.S. dollars)
LIABILITIES			
Deposits:			
Demand deposits	Ps.232,484,324	Ps.248,412,536	U.S.$22,976,482
Time deposits	163,526,085	152,865,846	14,139,059
Bank bonds	—	2,714,943	251,114
Total deposits	396,010,409	403,993,325	37,366,655
Interbank loans and loans from other entities:			
Payable on demand	16,884,776	80,046	7,404
Short-term	26,207,052	15,615,044	1,444,286
Long-term	11,296,402	9,048,817	836,954
Total interbank loans and loans from other entities	54,388,230	24,743,907	2,288,644
Transactions with securities and derivatives:			
Creditor balances in repurchase agreement transactions	751,888	778,170	71,977
Deliverable securities in lending securities transactions	6,960,516	16,241,888	1,502,265
Derivatives	16,529,284	36,633,957	3,388,394
Total transactions with securities and derivatives	24,241,688	53,654,015	4,962,636
Income taxes and employee profit sharing	438,652	3,769,089	348,615
Accrued liabilities and other	20,359,563	37,927,852	3,508,070
Subordinated debt	8,573,424	8,040,060	743,651
Deferred credits	65,334	54,348	5,027
Total liabilities	504,077,300	532,182,596	49,223,298
STOCKHOLDERS' EQUITY			
Subscribed capital:			
Paid-in capital	15,882,617	18,251,192	1,688,112
Share premium	16,677,712	15,439,679	1,428,066
Total subscribed capital	32,560,329	33,690,871	3,116,178
Earned capital:			
Capital reserves	5,453,088	5,941,426	549,542
Result of prior years	11,185,677	12,450,940	1,151,628
Unrealized losses on for sale securities	48,491	6,226	576
Results from non-monetary assets	(245,897)	9,562	884
Net income	8,871,732	17,926,545	1,658,084
Total earned capital	25,313,091	36,334,699	3,360,714
Majority capital	57,873,420	70,025,570	6,476,892
Minority interest in consolidated subsidiaries	606,027	562,250	52,004
Minority interest in capital notes	5,538,544	—	—
Total stockholders' equity	64,017,991	70,587,820	6,528,896
TOTAL LIABILITIES AND STOCKHOLDERS´ EQUITY	Ps.568,095,291	Ps.602,770,416	U.S.$55,752,194

The accompanying notes are an integral part of these consolidated statements.

BBVA BANCOMER, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE,
GRUPO FINANCIERO, AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Thousands of constant pesos - Ps. - as of December 31, 2006)

	For the years ended December 31,			
	2004	2005	2006	2006
				(Thousand of U.S. dollars)
Interest income	Ps. 56,628,410	Ps. 68,958,913	Ps. 73,844,653	U.S.$ 6,830,131
Interest expense	(29,530,663)	(34,921,830)	(28,773,097)	(2,661,317)
Monetary gain (loss), net	50,096	(409,867)	(1,594,183)	(147,451)
Net interest income	27,147,843	33,627,216	43,477,373	4,021,363
Provisions for loan losses	(2,353,902)	(3,311,971)	(6,784,435)	(627,514)
Net interest income after provision for loan losses	24,793,941	30,315,245	36,692,938	3,393,849
Commission and fee income	16,976,897	18,925,886	21,464,829	1,985,352
Commission and fee expense	(2,981,359)	(3,650,810)	(4,298,612)	(397,593)
Trading (loss) income, net	(96,660)	1,072,045	2,895,039	267,772
Operating revenue	38,692,819	46,662,366	56,754,194	5,249,380
Non-interest expense	(22,247,599)	(24,966,557)	(26,600,819)	(2,460,396)
Operating income	16,445,220	21,695,809	30,153,375	2,788,984
Other income	1,063,940	1,738,422	2,467,382	228,216
Other expense	(1,895,298)	(2,253,598)	(2,171,868)	(200,883)
Monetary loss	(1,095,483)	(443,025)	(214,827)	(19,870)
Earnings before income taxes and employee profit sharing	14,518,379	20,737,608	30,234,062	2,796,447
Current income taxes and employee profit sharing	(542,420)	(504,729)	(3,868,441)	(357,805)
Deferred income taxes and employee profit sharing	(5,258,439)	(7,827,867)	(5,937,320)	(549,162)
Income before share in net (loss) income of unconsolidated subsidiaries and affiliates	8,717,520	12,405,012	20,428,301	1,889,480
Share in net (loss) income of unconsolidated subsidiaries and affiliates	(82,950)	179,238	280,574	25,951
Income from continuing operations	8,634,570	12,584,250	20,708,875	1,915,431
Discontinued operations, extraordinary items and changes in accounting policies, net	(2,367,351)	(3,461,318)	(2,607,304)	(241,158)
Net income before minority interest	6,267,219	9,122,932	18,101,571	1,674,273
Minority interest	(238,915)	(251,200)	(175,026)	(16,189)
Net income	Ps. 6,028,304	Ps. 8,871,732	Ps. 17,926,545	U.S.$ 1,658,084

The accompanying notes are an integral part of these consolidated statements.

BBVA BANCOMER, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE,
GRUPO FINANCIERO, AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Thousands of constant pesos - Ps. - as of December 31, 2006)

	Subscribed Capital		Earned Capital							
	Paid-in-Capital	Share Premium	Capital Reserves	Results of Prior Years	Unrealized Losses on Available for Sale Securities, net	Results from Holding Non-monetary Assets	Net Income	Minority Interest in Consolidated Subsidiaries	Minority Interest in Capital Notes	Total Stockholders' Equity
Balances at December 31, 2003	Ps.14,156,741	Ps.17,454,788	Ps.4,368,611	Ps.10,636,105	Ps.(605,357)	Ps. 179,817	Ps. 7,020,136	Ps. 577,653	Ps.6,351,014	Ps.60,139,508
Adjustment in prior year's results	—	—	—	(478,704)	—	—	—	—	—	(478,704)
Balances at January 1,2004	14,156,741	17,454,788	4,368,611	10,157,401	(605,357)	179,817	7,020,136	577,653	6,351,014	59,660,804
MOVEMENTS DUE TO STOCKHOLDERS' DECISIONS										
Capitalization of restatement	1,725,876	(777,076)	(207,270)	(604,118)	—	(137,412)	—	—	—	—
Transfer of 2003 net income	—	—	—	7,020,136	—	—	(7,020,136)	—	—	—
Increase in legal reserve	—	—	693,450	(693,450)	—	—	—	—	—	—
Dividends paid by Administradora de Fondos para el Retiro Bancomer, S.A. de C.V	—	—	—	—	—	—	—	(249,301)	—	(249,301)
Total	1,725,876	(777,076)	486,180	5,722,568	—	(137,412)	(7,020,136)	(249,301)	—	(249,301)
COMPREHENSIVE INCOME MOVEMENTS										
Net income for the year	—	—	—	—	—	—	6,028,304	238,913	—	6,267,219
Restatement of capital notes	—	—	—	—	—	—	—	—	(375,296)	(375,296)
Result from non-monetary assets	—	—	—	—	—	(77,084)	—	—	—	(77,084)
Unrealized gain on available for sale securities	—	—	—	—	583,835	—	—	—	—	583,835
Adjustment in subsidiaries' prior years' results	—	—	—	70	—	—	—	—	—	70
Adjustment in UDI Trusts' prior years' results	—	—	—	35	—	—	—	—	—	35

BBVA BANCOMER, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE,
GRUPO FINANCIERO, AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Thousands of constant pesos - Ps. - as of December 31, 2006)

	Subscribed Capital		Earned Capital							
	Paid-in-Capital	Share Premium	Capital Reserves	Results of Prior Years	Unrealized Losses on Available for Sale Securities, net	Results from Holding Non-monetary Assets	Net Income	Minority Interest in Consolidated Subsidiaries	Minority Interest in Capital Notes	Total Stockholders' Equity
Application of new regulation for portfolio and repossessed assets	—	—	—	(7,504,217)	—	—	—	—	—	(7,504,217)
Total	—	—	—	(7,504,112)	583,835	(77,084)	6,028,304	238,913	(375,296)	(1,105,440)
Balances at December 31, 2004, as previously reported	Ps.15,882,617	Ps.16,677,712	Ps.4,854,791	Ps. 8,375,857	Ps.(21,522)	Ps. (34,679)	Ps. 6,028,304	Ps. 567,265	Ps.5,975,718	Ps.58,306,063
MOVEMENTS DUE TO STOCKHOLDERS' DECISIONS										
Transfer of 2004 net income	—	—	—	6,028,304	—	—	(6,028,304)	—	—	—
Increase in legal reserve	—	—	598,297	(598,297)	—	—	—	—	—	—
Cash dividends paid	—	—	—	(2,620,939)	—	—	—	—	—	(2,620,939)
Dividends paid by Administradora de Fondos para el Retiro Bancomer, S.A. de C.V	—	—	—	—	—	—	—	(212,438)	—	(212,438)
Total	—	—	598,297	2,809,068	—	—	(6,028,304)	(212,438)	—	(2,833,377)
COMPREHENSIVE INCOME MOVEMENTS										
Net income for the year	—	—	—	—	—	—	8,871,732	251,200	—	9,122,932
Restatement of capital notes	—	—	—	—	—	—	—	—	(437,174)	(437,174)
Result from Holding non-monetary assets	—	—	—	—	—	(211,218)	—	—	—	(211,218)
Unrealized gain on available for sale securities	—	—	—	—	70,013	—	—	—	—	70,013
Adjustment in subsidiaries' prior years' results	—	—	—	848	—	—	—	—	—	848
Adjustment in UDI Trusts' prior years' results	—	—	—	(96)	—	—	—	—	—	(96)
Total	—	—	—	752	70,013	(211,218)	8,871,732	251,200	(437,174)	8,545,305

The accompanying notes are an integral part of these consolidated statements.

BBVA BANCOMER, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE,
GRUPO FINANCIERO, AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Thousands of constant pesos - Ps. - as of December 31, 2006)

	Subscribed Capital		Earned Capital							
	Paid-in Capital	Share Premium	Capital Reserves	Results of Prior Years	Unrealized Losses on Available for Sale Securities, net	Results from Holding Non-monetary Assets	Net Income	Minority Interest in Consolidated Subsidiaries	Minority Interest in Capital Notes	Total Stockholders' Equity
Balances at December 31, 2005	15,882,617	16,677,712	5,453,088	11,185,677	48,491	(245,897)	8,871,732	606,027	5,538,544	64,017,991
MOVEMENTS DUE TO STOCKHOLDERS' DECISIONS										
Capitalization of restatement	2,368,575	(1,238,033)	(385,372)	(989,378)	—	244,208	—	—	—	—
Transfer of 2005 net income	—	—	—	8,871,732	—	—	(8,871,732)	—	—	—
Advance settlement of capital notes	—	—	—	—	—	—	—	—	(5,258,500)	(5,258,500)
Increase in legal reserve	—	—	873,710	(873,710)	—	—	—	—	—	—
Cash dividends paid	—	—	—	(5,718,368)	—	—	—	—	—	(5,718,368)
Dividends paid by Administradora de Fondos para el Retiro Bancomer, S.A. de C.V	—	—	—	—	—	—	—	(218,803)	—	(218,803)
Total	2,368,575	(1,238,033)	488,338	1,290,276	—	244,208	(8,871,732)	(218,803)	(5,258,500)	(11,195,671)
COMPREHENSIVE INCOME MOVEMENTS										
Net income for the year	—	—	—	—	—	—	17,926,545	175,026	—	18,101,571
Restatement of capital notes	—	—	—	—	—	—	—	—	(280,044)	(280,044)
Result from Holding non-monetary assets	—	—	—	—	—	11,251	—	—	—	11,251
Unrealized gain on available for sale securities	—	—	—	—	(42,265)	—	—	—	—	(42,265)
Adjustment in affiliates valuation results	—	—	—	(25,013)	—	—	—	—	—	(25,013)
Total	—	—	—	(25,013)	(42,265)	11,251	17,926,545	175,026	(280,044)	17,765,500
Balances at December 31, 2006	Ps.18,251,192	Ps.15,439,679	Ps.5,941,426	Ps.12,450,940	Ps. 6,226	Ps. 9,562	Ps.17,926,545	Ps. 562,250	Ps. —	Ps. 70,587,820

The accompanying notes are an integral part of these consolidated statements.

BBVA BANCOMER, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE,
GRUPO FINANCIERO, AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Thousands of constant pesos - Ps. - as of December 31, 2006)

	For the years ended December 31,			
	2004	2005	2006	2006 (Thousand of U.S. dollars)
OPERATING ACTIVITIES:				
Income from continuing operations	Ps. 8,634,570	Ps. 12,584,250	Ps. 20,708,875	U.S.$ 1,915,431
Add (less)-Charges (credits) to income, not affecting cash:				
Fair value results	(818,284)	(613,485)	907,269	83,916
Provision for loan losses	2,353,902	3,311,971	6,784,435	627,514
Depreciation and amortization	1,963,589	1,728,533	1,712,079	158,356
Deferred taxes	5,258,439	7,827,867	5,937,320	549,162
Provision for accrued liabilities	1,000,789	938,164	1,542,214	142,644
Share in net (income) loss of unconsolidated subsidiaries and affiliates	82,950	(179,238)	(280,574)	(25,951)
	18,475,955	25,598,062	37,311,618	3,451,072
CHANGES IN OPERATING-RELATED ITEMS:				
Deposits	19,687,103	(33,758,956)	7,982,916	738,366
Loan portfolio	(33,838,334)	(11,131,366)	(51,761,196)	(4,787,561)
Treasury financial instruments	10,409,944	60,831,304	29,489,795	2,727,607
Trading derivatives	344,498	81,019	446,850	41,331
Interbank and other loans	10,593,035	(20,450,909)	(29,644,323)	(2,741,900)
RESOURCES PROVIDED (USED IN) BY OPERATING ACTIVITIES	25,672,201	21,169,154	(6,174,340)	(571,085)
FINANCING ACTIVITIES:				
Subordinated debt	(3,339,239)	5,885,602	(533,364)	(49,333)
Cash dividends paid by Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. (minority interest)	(249,301)	(212,438)	(218,803)	(20,238)
Cash dividends paid	—	(2,620,939)	(5,718,368)	(528,910)
Stockholders' equity	(126,830)	(33,082)	842	78
Minority interest in capital notes	—	—	(5,258,500)	(486,376)
Restatement of capital notes	(375,296)	(437,174)	(280,044)	(25,902)
RESOURCES (USED IN) PROVIDED BY FINANCING ACTIVITIES	(4,090,666)	2,581,969	(12,008,237)	(1,110,681)
INVESTING ACTIVITIES:				
Property, furniture and equipment, net of retirements	(1,388,722)	(1,378,013)	(1,398,601)	(129,361)
Equity investments	64,753	331,254	148,812	13,764
Repossessed assets, net	329,209	354,121	198,630	18,372
Other assets, other liabilities, deferred charges and credits, net	3,153,528	2,049,745	5,307,022	490,864
NET RESOURCES PROVIDED BY INVESTING ACTIVITIES	2,158,768	1,357,107	4,255,863	393,639
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	23,740,303	25,108,230	(13,926,714)	(1,288,127)
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	79,815,710	103,556,013	128,664,243	11,900,574
CASH AND DUE FROM BANKS AT END OF YEAR	Ps.103,556,013	Ps.128,664,243	Ps.114,737,529	U.S.$10,612,447

The accompanying notes are an integral part of these consolidated statements.

**BBVA BANCOMER, S.A.,
INSTITUCIÓN DE BANCA MÚLTIPLE,
GRUPO FINANCIERO, AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Thousands of constant pesos - Ps. - as of December 31, 2006, excluding shares,
exchange rates and as otherwise indicated)**

1. Explanation added for translation into English and convenience translation

The accompanying consolidated financial statements have been translated into English from the original statements prepared in Spanish for use outside of Mexico. The accounting rules of BBVA Bancomer, S.A., Institución de Banca Multiple, Grupo Financiero BBVA Bancomer (the "Bank") used in preparing the accompanying financial statements conform with the financial reporting requirements prescribed by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores (the "CNBV")), but do not conform with Mexican Financial Reporting Standards ("MFRS"), and may differ in certain significant respects from the financial reporting standards accepted in the country of use.

The financial statements are stated in thousands of Mexican pesos, the currency of the country in which the Bank is incorporated and operates. The translations of Mexican peso amounts into U.S. dollar amounts are included solely for the convenience of readers in the United States of America and have been made at the rate of Ps.10.8116 per one U.S. dollar, the rate published by Banco de México, the Mexican central bank, in the Official Gazette of Mexico on January 2, 2007. Such translation should not be construed as representations that the Mexican peso amounts have been, could have been, or could in the future, be converted into U.S. dollars at this or any other exchange rate.

2. Incorporation and corporate purpose

The Bank is a subsidiary of GFBB and is regulated, among others, by the Mexican Banking Law (Ley de Instituciones de Crédito) and general-purpose regulations issued by the CNBV and by Banco de México (the "Central Bank"). The Bank engages in full service banking activities, including accepting deposits, granting loans, trading securities and acting as trustee. Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. (the "Afore"), the Bank's principal subsidiary, is regulated by the National Commission for Retirement Savings (Comisión Nacional del Sistema de Ahorro para el Retiro (the "CONSAR")).

The CNBV, as regulator of financial institutions, is empowered to review the Bank's financial information and can request changes thereto.

The main regulatory provisions require banks to maintain a minimum capital ratio in relation to the credit and market risks of their operations, to comply with certain limits with respect to deposit acceptance and issuance of debentures and other kinds of funding, which may be denominated in foreign currency, and to maintain minimum limits for paid in capital and capital reserves, with which the Bank is in compliance.

3. Basis of preparation of the financial statements

a) Consolidation of financial statements

The accompanying consolidated financial statements include the financial statements of the Bank and UDI Trusts and those of its subsidiaries that operate in the financial sector. Equity investments in mutual funds are valued according to the equity method, in conformity with accounting criteria prescribed by the CNBV. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2006, the Bank had the following consolidated subsidiaries:

Company	Participation	Activity
Afore	75.00%	Pension fund management
Fideicomiso Centro Corporativo Regional	100.00%	Technological infrastructure support
Mercury Trust Limited	100.00%	Trust services
Opción Volcán, S.A de C.V.	99.99%	Real estate leasing
BBVA Bancomer Financial Holdings, Inc	100.00%	Holder of companies engaged in the sale of payment orders denominated in U.S. dollars and other foreign currencies, as well as bank operations
Desitel, Tecnología y Sistemas, S.A. de C.V.	99.99%	Provider of computer data transfer services

The results of foreign subsidiaries of the Bank translated into Mexican pesos using the exchange rate in effect at the date of the most recently presented balance sheet. Any exchange gain or loss resulting from such translation is recorded in the income statement.

b) Capital securities

Bancomer Capital Trust I was incorporated to issue the Tier I Capital Notes which; up to 2005, were presented as part of the Bank's minority interest according to the accounting treatments established by the CNBV. This trust was liquidated in February 2006 because the Bank decided to redeem these instruments early.

c) Comprehensive income

This item is comprised of the net income for the year plus any transactions that according to specific regulations are presented directly in stockholders' equity, such as the restatement of capital notes described above, the result from holding non-monetary assets, the unrealized gain or loss on for sale securities and, in 2004, the effect derived from applying the new regulations for portfolio classification, as explained in Note 4.

4. Significant accounting policies

The Bank's accounting policies, which are in conformity with the accounting rules prescribed by the CNBV, require that management make certain estimates and use certain assumptions to determine the valuation of some of the items included in the financial statements and make the required disclosures to be included therein. While the estimates and assumptions used may differ from their final effect, management believes that they were adequate under the circumstances.

As of June 1, 2004, the function of establishing and issuing MFRS was transferred to the Mexican Board for the Research and Development of Financial Reporting Standards ("CINIF"). CINIF decided to rename the Accounting Principles Generally Accepted in Mexico ("PCGA"), previously issued by the Mexican Institute of Public Accountants ("IMCP"), as MFRS. As of December 31, 2005, eight Series A standards had been issued (NIF A-1 to NIF A-8), representing the conceptual framework, intended to serve as the supporting rationale for the development of such standards and as a reference to resolve issues arising in the accounting practice. NIF B-1, *Accounting Changes and Corrections of Errors*, was also issued for other unregulated entities as of January 1, 2006. Similarly, as of 2007, the following NIF came into effect: NIF B-3, *Income Statement*, NIF B-13, *Events Occurring After the Financial Statement Date*, NIF C-13, *Related Parties* and NIF D-6, *Capitalization of the Comprehensive Financing Result*.

In the absence of a specific accounting criteria from the CNBV, initially MFRS must be applied, and in a supplementary manner first International Financial Reporting Standards ("IFRS") and then Accounting Principles Generally Accepted in the US ("US GAAP").

The Bank's principal accounting practices are as follows:

a) Recognition of the effects of the inflation in the financial statements

The accompanying financial statements have been restated to reflect the effects of inflation in accordance with the guidelines established by the CNBV. These guidelines require the restatement of all comparative financial statements to Mexican pesos of constant purchasing power as of the date of the latest balance sheet presented. Therefore, the accompanying consolidated financial statements are presented in Mexican pesos of constant purchasing power of December 31, 2006, using the change in value of the Unit of Investment ("UDI").

The effects of inflation recognized in the financial statements are the following:

- *Balance sheet:*

  Real estate was restated using an index derived from the UDI value.

  Furniture, equipment and installation cost were restated using an index derived from the UDI value, from the date of acquisition through year-end.

  Repossessed assets are considered monetary assets, and therefore, their carrying value is not restated for inflation, but rather, forms part of the basis for calculating monetary gain or loss.

  Equity investments are valued considering the equity method as a specific cost, and the difference between the restated balance at the beginning of the period, based on the restatement factor derived from the UDI value, and the increase or decrease according to the equity method is shown as a gain or loss from holding non-monetary assets.

  Subscribed capital, earned capital and other non-monetary items are restated using an index derived from the UDI value from the date of contribution or generation. Subscribed and earned capital amounts are restated utilizing January 1992 as the base for restatement.

- *Income statement:*

  Revenues and expenses associated with monetary assets and liabilities and those derived from current transactions (such as commissions and fees and administrative and promotion expenses) are restated from the month in which they arise through year-end, using the UDI-derived factor.

  Depreciation for the year is calculated on the restated values based on the remaining useful lives determined by management.

  Costs and expenses associated with other non-monetary items are restated through year-end based on the restatement of the non-monetary asset that is being consumed or sold.

  The gain or loss from monetary position represents the purchasing power loss or gain, in real terms, of the value of monetary assets and liabilities resulting from inflation.

- *Statement of changes in financial position:*

  The statement of changes in financial position presents the changes in constant Mexican pesos, according to the financial position at prior year-end, restated to Mexican pesos as of the latest year presented.

b) Cash and due from banks

Cash and due from banks are recorded at nominal value, except for silver and gold coins, which are stated at their fair value at each period-end. Available foreign funds are valued at the exchange rate published at year-end by the Central Bank.

c) Securities

- Trading securities are those securities in which the Bank invests to take advantage of short-term market fluctuations. These securities are stated at their fair value and the gains or losses resulting from their valuation are recognized in the consolidated income statement.
- Available for sale securities are those securities in which the Bank invests to obtain medium-term earnings. These securities are stated at their fair value and the gains or losses resulting from their valuation, net of deferred taxes and the monetary loss, are recognized in stockholders' equity.
- Held to maturity securities, which are those debt instruments in which the Bank invests with the intention of holding them until maturity, are recorded at amortized cost.

The fair value amounts are obtained from quotations on publicly traded securities or from dealer quotes in the case of non-marketable securities.

If there is sufficient evidence that a security presents a high credit risk and/or that the estimated value may be impaired, book value is adjusted to net realizable value, determined according to formal valuation techniques, through the results of the year.

Certain security reclassifications from one line item to another require CNBV approval.

d) Repurchase agreement transaction

Repurchase and reverse repurchase agreements are recorded as sales and purchases of securities, respectively. A net asset or liability is recorded at the fair value of the forward commitment to repurchase or resell the securities.

e) Derivative financial instruments

The Bank carries out two different types of transactions:

- Derivative financial instruments that are held for trading purposes are valued at their fair value. The unrealized gains and losses are accounted for in the income statement within the caption "trading (loss) income, net."
- Derivative financial instruments that qualify as hedges are valued using the same basis of valuation as the underlying item being hedged. The change in the value of the derivative is accounted for in the income statement.

f) Lending securities

Lending securities represent the transfer of securities from the lender to the borrower, for which the lender receives a premium, together with the right to receive such securities upon expiration of the respective contract. At the date of the securities loan contract, the Bank records the entry of securities at fair value, together with the monetary liability position representing the obligation to either return the securities or pay their value to the lender. Such securities are classified as trading securities.

The premium is recorded as a deferred charge, and the respective account payable or cash disbursement is recognized.

The guarantee agreed when securities loans are contracted, acting as borrower, is recorded as a restricted asset; when acting as lender, the guarantee received with or without transfer of title is recorded in liabilities and memorandum accounts, respectively.

g) Loss sharing with FOBAPROA

The Bank had established reserves equal to 100% of the loss sharing exposure with the Bank Fund for the Protection of Savings (Fondo Bancario de Protección al Ahorro ("FOBAPROA")) and only recognized 75% of the portion of the interest receivable on the FOBAPROA promissory notes. These reserves were presented under the caption "FOBAPROA and IPAB Notes".

FOBAPROA was the bank assistance agency established by the Mexican Federal Government and the predecessor to the Bank Savings Protection Institute (Instituto para la Protección al Ahorro Bancario ("IPAB")).

h) Loan portfolio and interest income

The balances in the loan portfolio represent the amounts disbursed to borrowers, less repayments made to date, plus accrued but unpaid interest. The allowance for loan losses is presented as a deduction from the total loan balance.

Loans are considered non-performing when payments are past due for the following number of days:

Commercial loans:	
Promissory notes	30 days
Contractual with scheduled payments	90 days
Mortgage loans	90 days
Consumer loans	60 days

Interest is recognized in income when it is accrued. However, the accrual of interest is suspended when loans become non-performing. Penalty interest is not recognized as income until received.

Interest received on non-performing loans is recognized when collected.

Commissions for granting loans are recognized as income when collected. Loan acquisition costs are expensed as incurred.

Restructured loans are considered non-performing from the date of restructuring until the collection of three consecutive monthly payments without delay, or the collection of one installment when the amortization covers periods in excess of 60 days.

Renewed loans where the debtor does not pay accrued interest on time, or does not pay at least 25% of the original loan amount, are considered non-performing until proof of timely payment.

i) Allowance for loan losses

CNBV rules stipulate that Mexican banks must establish a minimum allowance for loan losses, calculated as follows:

Commercial loans: Commercial loans must be classified quarterly in one of nine categories in accordance with prescribed definitions of risk classifications. Each risk class has a predetermined range of potential loss, which is applied to the applicable loans within the risk class.

Mortgage, consumer and credit card loans: The allowance for loan losses on mortgage loans, consumer and credit card loans is calculated on a monthly basis by applying prescribed allowance percentages against the risk rating of the loan. The risk rating is determined by the number of past due payments. The loss percentages applied to the mortgage portfolio also consider the probability of the debtors' noncompliance and the severity of loss.

Recoveries of the loan portfolio previously written off must be credited to the allowance for loan losses rather than to the income statement of the year.

A loan is charged off when it is deemed unrecoverable. Accounting rules prescribed by the CNBV permit the charge-off of a non-performing loan that has been fully reserved, even if such loan is not deemed unrecoverable.

Accrued interest receivable on non-performing loans is fully reserved for.

For a more detailed description of our allowance for loan losses accounting policy see "Selected Statistical Information—Grading of Loan Portfolio" section contained in this offering memorandum.

j) Sundry items

Balances of sundry debtors that are not settled within the 60 or 90 days following their initial recognition (the number of days depend on whether balances are identified or not) are written off against the income statement, regardless of the recovery possibilities.

The debit and credit balances of the transaction settling accounts represent currency and security purchases and sales recorded on the date of transaction, with a 48-hour term for settlement.

k) Repossessed assets or assets received as payment in kind

Repossessed assets or assets received as payment in kind are recorded at the lower of net realizable value or cost. Cost is the value approved by the court at the time of foreclosure. With respect to assets received as payment in kind, cost is represented by the price agreed upon between the parties.

When the book value of a loan is higher than the value of repossessed assets, the difference is recorded against the allowance for loan losses at the time of foreclosure. When the book value of the loan is lower than the value of the repossessed asset, the value of the latter is adjusted to the book value of the loan.

The carrying value is only adjusted when there is evidence that the net realizable value is less than the book value. The impairment adjustments are reflected in earnings for the period.

In accordance with the Regulations, the mechanism to follow in determining the allowance for holding repossessed assets or assets received as payment in kind, is as follow:

The carrying value is only adjusted when there is evidence that the net realizable value is less than the book value. The impairment adjustments are reflected in earnings for the period.

In accordance with the rules issued by the CNBV, the allowance for holding repossessed assets or assets received as payment in kind has to be determined based on the following scheduled percentages:

Allowance for personal property	Allowance percentage
Time elapsed as of the date of repossession or payment in kind	
Up to 6 months	0%
More than 6 months and up to 12 months	10%
More than 12 months and up to 18 months	20%
More than 18 months and up to 24 months	45%
More than 24 months and up to 30 months	60%
More than 30 months	100%

Allowance for real estate property	Allowance percentage
Time elapsed as of the date of repossession or payment in kind	
Up to 12 months	0%
More than 12 months and up to 24 months	10%
More than 24 months and up to 30 months	15%
More than 30 months and up to 36 months	25%
More than 36 months and up to 42 months	30%
More than 42 months and up to 48 months	35%
More than 48 months and up to 54 months	40%
More than 54 months and up to 60 months	50%
More than 60 months	100%

l) Property, furniture and equipment

Property, furniture and equipment are recorded at price-level restated acquisition cost, less accumulated depreciation.

Depreciation is charged using the straight-line method, utilizing the following annual rates:

	Rate
Real estate	2.5%
Computer equipment	25%
Furniture and equipment	10%
Vehicles	25%
Machinery and equipment	10%

m) Impairment of long-lived assets in use.

The Bank revises the book value of long-lived assets in use in the presence of any indicator of the existence of impairment whereby such value might not be recoverable in the event of its eventual disposal.

n) Equity investments

Equity investments represent investments in unconsolidated subsidiaries and affiliates. Investments in unconsolidated subsidiaries and affiliates are valued using the equity method based on the book value of their latest available financial statements.

o) Income tax, employee profit-sharing and asset tax

Provisions for income tax and employee profit sharing are recorded in the results of the year in which they are incurred, and the deferred effects on income tax of temporary differences between the book and tax values of assets and liabilities are recognized as deferred tax assets and/or liabilities. Deferred income taxes are also recognized for tax loss carryforwards, but are subject to a recoverability test. The effect of these items is presented net in the balance sheet under the caption “Deferred taxes.”

Recoverable asset tax paid is recorded as an advance payment of income tax and is presented in the balance sheet within the caption “Deferred charges and other intangible assets”.

p) Goodwill

Goodwill resulting from acquisitions made by the Bank reflects the excess of the cost over the restated net book value of the subsidiary acquired. Such goodwill was recognized in accordance with the provisions of

Bulletin C-15, *Impairment in the Value of Long-Lived Assets and Their Disposal*, and is subject to annual impairment tests. In 2005 and 2006 no impairment in the value of goodwill was recognized.

q) Labor liabilities

Under Mexican Labor Law, the Bank is liable for indemnity payments and seniority premiums to employees terminated under certain circumstances.

The Bank recognizes its liability for indemnity, seniority premiums, severance payments pensions, integral medical services and life insurance as they accrue, in accordance with the provisions of Bulletin D-3, *Employee Benefits*. Under Bulletin D-3, the liability is based on actuarial calculations utilizing the projected unit credit method and real interest rates.

Accordingly, the liability is being accrued, which at present value will cover the obligation from benefits projected to the estimated retirement date of the Bank employees.

Costs generated from reductions in personnel are considered in the corresponding liability for the year.

r) Foreign currency transactions

Foreign currency transactions are recorded at the exchange rate effective at the transaction date. Assets and liabilities denominated in foreign currency are adjusted at the period end exchange rate published by the Central Bank. Exchange fluctuations related to these assets and liabilities are charged to the income statement.

5. Principal differences compared to MFRS

The consolidated financial statements have been prepared in accordance with the accounting rules established by the CNBV which, in the following instances, differ from MFRS commonly applied in the preparation of financial statements for other types of unregulated entities:

- The consolidated financial statements include only subsidiaries that operate in the financial sector or those subsidiaries that provide auxiliary or complementary services. MFRS requires consolidation of all majority-owned or otherwise controlled subsidiaries.
- Repurchase and reverse repurchase agreements are recognized as purchase-sale transactions or the temporary transfer of underlying securities, and are valued based on the fair value of the underlying securities. Under MFRS, these transactions are considered as financing, and the premium earned must be accrued by the straight-line method.
- Commission income received by the Afore is recorded in the income statement when collected, not when earned.
- The minority interest in capital notes is shown as part of stockholders' equity. In conformity with MFRS, these instruments must be presented as a long-term liability.
- As of January 1, 2005, as a result of the enactment of the provisions of Bulletin C-10, *Derivative Financial Instruments and Hedging Operations*, the following differences exist between the accounting criteria of the CNBV and MFRS: a) In accordance with MFRS, derivative financial instruments are recorded based on fair value, whatever their purpose. Under the accounting criteria of the CNBV, derivative financial instruments acquired for hedging purposes are recorded based on the same treatment as for the primary position being hedged, b) the derivative financial instrument used as hedging should not be presented (offset) with the primary position being hedged, as established in the accounting criteria of the CNBV, but should be presented separately as a derivative financial hedging instrument in accordance with MFRS, c) MFRS establish specific rules for the identification of implicit

derivative contracts, in which the financial risks should be separated from the primary contract, such as contracts denominated in a functional currency different from that of the counterparts, which is not established in the accounting criteria of the CNBV.

6. Cash and due from banks

As of December 31, 2005 and 2006, cash and due from banks consisted of the following:

	As of December 31,	
	2005	2006
Cash	Ps. 15,129,620	Ps. 18,489,551
Due from banks	39,866,484	12,907,636
Other cash and cash equivalents	73,668,139	83,340,342
Total	Ps. 128,664,243	Ps. 114,737,529

Cash and due from banks includes deposits in domestic and foreign banks in Mexican pesos and U.S. dollars, translated at the exchange rate published by the Central Bank of Ps.10.6344 and Ps.10.8116 Mexican pesos per U.S. dollar for 2005 and 2006, respectively, and are as follows:

	Mexican pesos		U.S. Dollars (in Mexican pesos)		Total	
	As of December 31,		As of December 31,		As of December 31,	
	2005	2006	2005	2006	2005	2006
Deposits with foreign credit institutions	Ps. 15,131	Ps. —	Ps. 39,405,095	Ps. 9,234,331	Ps. 39,420,226	Ps. 9,234,331
Central Bank	118,053	60,611	106,491	79,920	224,544	140,531
Call money granted	—	3,532,662	221,594	—	221,594	3,532,662
Domestic banks	120	112	—	—	120	112
Total	Ps.133,304	Ps. 3,593,385	Ps. 39,733,180	Ps. 9,314,251	Ps. 39,866,484	Ps. 12,907,636

The Central Bank established, in Circular Telefax 30/2002, that credit institutions make a regulatory monetary deposit of Ps.280,000,000, for an indefinite period of time, which bears interest payable every 28 days based on the capitalized “Tasa de Fondeo Bancaria” (Overnight banking rate) published daily by the Central Bank. As of December 31, 2005 and 2006, the regulatory deposits of the Bank were Ps.67,932,844, and Ps.65,193,445, respectively, and were recorded under the caption “Other quick funds”, as restricted funds available.

7. Securities

As of December 31, 2005 and 2006, financial instruments were as follows:

a) Trading

	As of December 31,				
	2005	2006			
Instrument	Book value	Acquisition cost	Accrued interest	Increase (decrease) due to valuation	Book value
Government bonds	Ps. 8,366,771	Ps. 16,348,341	Ps. 6,408	Ps. 132	Ps. 16,354,881
Treasury Bills	—	9,226,645	5,139	(4,208)	9,227,576
Mutual funds	2,547,018	1,967,475	11,251	—	1,978,726
BONDES	530,065	1,426,850	1,720	23	1,428,593
Certificates of deposit	1,220,921	699,628	9,018	(2,831)	705,815
Share certificates	—	646,235	11,857	56,931	715,023
BPAS	7,395,541	399,152	2,349	8	401,509
Note with interest payable at maturity	1,320,294	393,958	150	4	394,112
Equity securities	1,655,471	272,447	—	(73,422)	199,025
CETES	6,881,653	195,881	1	207	196,089
Commercial paper	159,483	160,321	40	8	160,369
Sovereign debt Eurobonds	94,306	160,080	3,466	2,271	165,817
Eurobonds (development banks)	—	17,408	752	1,565	19,725
UDIBONOS	—	(558,177)	(12,097)	—	(570,274)
Total	Ps. 30,171,523	Ps. 31,356,244	Ps. 40,054	Ps. (19,312)	Ps. 31,376,986

During 2004, 2005 and 2006, the net increase and decrease in fair value recognized in the income statement was Ps. 9,601, Ps.40,981 and Ps.3,145, respectively.

As of December 31, 2006, the remaining scheduled maturities of these instruments are as follows:

Instrument	Within 1 month	Between 1 and 3 months	Over 3 months	No fixed term	Acquisition cost
Government bonds	Ps. —	Ps. —	Ps. 16,348,341	Ps. —	Ps. 16,348,341
Treasury Bills	10,791	—	9,215,854	—	9,226,645
Mutual funds	1,967,475	—	—	—	1,967,475
BONDES	1,424,472	—	2,378	—	1,426,850
Certificates of deposit	—	—	699,628	—	699,628
Share certificates	—	—	646,235	—	646,235
BPAS	389,191	9,961	—	—	399,152
Note with interest payable at maturity	393,958	—	—	—	393,958
Equity securities	—	—	—	272,447	272,447
CETES	194,817	1,064	—	—	195,881
Commercial paper	62,260	98,061	—	—	160,321
Sovereign debt Eurobonds	5,368	—	154,712	—	160,080
Eurobonds (development banks)	—	—	17,408	—	17,408
UDIBONOS	(558,177)	—	—	—	(558,177)
Total	Ps. 3,890,155	Ps. 109,086	Ps. 27,084,556	Ps. 272,447	Ps. 31,356,244

b) Available for sale

Instrument	2005 Book value	2006 Acquisition cost	2006 Accrued interest	2006 Increase (decrease) due to valuation	2006 Book value
Sovereign debt Eurobonds	Ps. —	Ps.1,070,468	Ps. 28,043	Ps. 12,206	Ps. 1,110,717
Equity securities	—	253,012	—	(253,012)	—
Debentures	23,544	19,364	86	(815)	18,635
Share certificates	1,360,604	—	—	—	—
Total	Ps.1,384,148	Ps.1,342,844	Ps. 28,129	Ps. (241,621)	Ps. 1,129,352

As of December 31, 2006, the remaining schedule maturities of the above instruments, were as follows:

Instrument	Over 3 months	No fixed term	Acquisition cost
Sovereign debt Eurobonds	Ps.1,070,468	Ps. —	Ps.1,070,468
Equity securities	—	253,012	253,012
Debentures	19,364	—	19,364
Total	Ps.1,089,832	Ps. 253,012	Ps.1,342,844

c) Held to maturity

The following securities have medium and long-term maturities:

Instrument	2005 Book value	2006 Acquisition cost	2006 Accrued interest	2006 Book value
Government bonds-Mortgage debtor support programs	Ps. 9,697,572	Ps. 9,905,243	Ps. —	Ps. 9,905,243
Sovereign debt Eurobonds	27,874,136	6,369,470	182,238	6,551,708
Government bonds-State and Municipalities debtor support program	1,152,487	1,166,242	—	1,166,242
Certificates of participation	168,397	162,174	2,489	164,663
U.S. Treasury securities	122,538	118,395	986	119,381
Total	Ps. 39,015,130	Ps.17,721,524	Ps.185,713	Ps.17,907,237

For the years ended December 31, 2004, 2005 and 2006, yields related to the overall held to maturity portfolio amounted to Ps. 5,291,210, Ps.5,209,298 and Ps.2,981,923, respectively, which amounts were recognized in earnings.

8. Repurchase agreement and reverse repurchase agreement transactions with securities and derivatives

a) Debit and credit balances under repurchase agreement transactions:

As of December 31, 2005 and 2006, repurchase and resale agreements with an obligation to repurchase are as follows:

	As of December 31,							
	2005				2006			
Instrument	Instrument receivable	Payables under resale agreements	Asset	Liability	Instrument receivable	Payables under resale agreements	Asset	Liability
Government securities:								
IPAB bonds	Ps. 50,864,348	Ps. 50,889,452	Ps. 735	Ps. 25,839	Ps. 74,076,571	Ps. 73,878,964	Ps. 336,910	Ps. 139,303
BONDES	25,395,006	25,399,914	957	5,865	48,639,109	47,423,273	1,215,902	66
Fixed rate bonds	24,047,770	24,734,508	13,518	700,256	41,568,830	42,157,438	4,467	593,075
Central Bank monetary regulation bonds	16,399,155	16,406,764	2,238	9,847	20,513,894	20,427,395	99,905	13,406
CETES	16,103,146	16,048,869	55,651	1,374	9,979,222	9,978,980	255	13
UDIBONOS	3,874,337	3,870,047	4,309	19	8,540,075	8,563,153	57	23,135
Share Certificates	1,163,611	1,166,907	—	3,296	2,405,954	2,414,935	8	8,989
Mexican government promissory notes (PIC's)	382,510	382,760	—	250	1,096,757	1,096,437	320	—
Guaranteed commercial paper	—	—	—	—	261,894	261,881	15	2
Total	Ps. 138,229,883	Ps. 138,899,221	Ps. 77,408	Ps. 746,746	Ps. 207,082,306	Ps. 206,202,456	Ps. 1,657,839	Ps. 777,989

As of December 31, 2005 and 2006, reverse repurchase and resale agreements with an obligation to resell are as follows:

	As of December 31,							
	2005				2006			
Instrument	Instrument deliverable	Receivables under repurchase agreements	Asset	Liability	Instrument deliverable	Receivables under repurchase agreements	Asset	Liability
Government securities:								
IPAB bonds	Ps. 13,093,248	Ps. 13,288,548	Ps. 196,158	Ps. 858	Ps. 329,257	Ps. 329,184	Ps. —	Ps. 73
BONDES	3,138,065	3,137,563	472	974	199,088	199,140	52	—
Central Bank monetary regulation bonds	5,264,661	5,272,449	9,798	2,010	—	—	—	—
CETES	1,713,659	1,712,633	—	1,026	500,304	500,196	—	108
Fixed rate bonds	208,611	208,337	—	274	5,374,735	5,592,726	217,991	—
Total	Ps. 23,418,244	Ps. 23,619,530	Ps. 206,428	Ps. 5,142	Ps. 6,403,384	Ps. 6,621,246	Ps. 218,043	Ps. 181

The repurchase and reverse repurchase agreements agreed to terms of between 3 and 180 days.

b) Derivatives:

The table below shows the derivative instrument transactions entered into by the Bank as of December 31, 2005 and 2006. The currency position generated by these derivative instruments must be added to the position in the balance sheet in order to obtain the final position amount analyzed in Note 26.

i) Trading:

	As of December 31, 2005			
	Nominal amount		Balance	
Transaction	**Asset**	**Liability**	**Debtor**	**Creditor**
Futures long position	Ps. 130,549,555	Ps. 130,549,555	Ps. —	Ps. —
Futures short position	38,224,859	38,224,859	—	—
Forward long position	78,574,144	78,413,625	112,953	1,423,175
Forward short position	47,646,969	46,885,256	2,262,599	30,145
Options purchased	112,131	—	112,131	—
Options sold	—	40,063	—	40,063
Swaps	300,068,343	301,070,161	14,034,083	15,035,901
Total	Ps. 595,176,001	Ps. 595,183,519	Ps. 16,521,766	Ps. 16,529,284

	As of December 31, 2006			
	Nominal amount		Balance	
	Asset	**Liability**	**Debtor**	**Creditor**
Futures long position	Ps. 358,858,120	Ps. 358,858,120	Ps. —	Ps. —
Futures short position	105,484,998	105,484,998	—	—
Forward long position	182,214,541	182,642,758	109,302	2,230,236
Forward short position	329,612,495	328,557,801	2,985,559	238,148
Options purchased	378,582	—	378,582	—
Options sold	—	464,774	—	464,774
Swaps	432,415,370	435,995,955	30,120,214	33,700,799
Total	Ps. 1,408,964,106	Ps. 1,412,004,406	Ps. 33,593,657	Ps. 36,633,957

ii) Hedging:

	As of December 31, 2005			
	Nominal amount		Balance	
	Asset	**Liability**	**Debtor**	**Creditor**
Swaps	Ps. 21,063,896	Ps. 21,499,672	Ps. —	Ps. 435,776

	As of December 31, 2006			
	Nominal amount		Balance	
	Asset	**Liability**	**Debtor**	**Creditor**
Swaps	Ps. 723,727	Ps. 782,670	Ps. —	Ps. 58,943

iii) Futures and forwards

As of December 31, 2006, the Bank had entered into U.S. dollar futures transactions and IPC on the Mexican Derivatives Market (“MexDer”) and recognized losses totaling Ps.239,256 and Ps. 493,511,

respectively, on TIIE and CETES futures and Mex-Der options recognized a gain for Ps. 196,162 and Ps. 143,363, respectively.

As of December 31, 2006, futures and forwards transactions were as follows:

Trading:

		Sales		Purchases		
Transaction	**Underlying**	**Receivable**	**Contract value**	**Contract value**	**Deliverable**	**Book balance**
Futures	TIIE	Ps. 98,432,847	Ps. 98,432,847	Ps. 345,750,336	Ps. 345,750,336	Ps. —
	IPC	—	—	512,831	512,831	—
	CETES	3,300,749	3,300,749	1,499,985	1,499,985	—
	U.S. dollars	1,843,145	1,843,145	11,094,968	11,094,968	—
	M10 bond	1,559,684	1,559,684	—	—	—
	Equity securities	348,573	348,573	—	—	—
	Total	Ps. 105,484,998	Ps.105,484,998	Ps. 358,858,120	Ps. 358,858,120	Ps. —
Forwards	Interest rates	Ps. 212,250,000	Ps.212,401,069	Ps. 76,823,929	Ps. 76,800,000	Ps.(127,140)
	U.S. dollars	116,603,464	115,363,242	104,404,106	104,907,359	736,969
	Index	453,901	488,468	512,331	467,817	9,947
	Bonds	305,130	305,022	409,298	410,139	(733)
	Equity securities	—	—	64,877	57,443	7,434
	Total	Ps. 329,612,495	Ps.328,557,801	Ps. 182,214,541	Ps. 182,642,758	Ps. 626,477

iv) Options

As of December 31, 2006, option transactions were as follows:

Trading:

Transaction	**Underlying**	**Reference amount**	**Premium collected/ paid**	**Fair value**
Purchases	Interest rates	Ps. 29,325,727	Ps. 216,955	Ps. 154,154
	U.S. dollars	17,147,536	266,099	211,496
	IPC	877,156	16,338	12,848
	Equity securities	6,487	141	84
	Total		Ps. 499,533	Ps. 378,582
Sales	Interest rates	Ps. 56,239,916	Ps. 192,123	Ps. 116,044
	U.S. dollars	21,247,316	317,451	274,469
	Swap	14,500,000	40,783	43,729
	IPC	936,888	20,918	17,786
	Equity securities	77,490	10,188	12,746
	Total		Ps. 581,463	Ps. 464,774

v) Swaps

As of December 31, 2006, swap transactions were as follows:

Trading:

Underlying	Denomination	Contract value receivable	Contract value deliverable	Receivable	Deliverable	Net Position
Currency	Mexican pesos . . .	Ps.64,749,916	Ps.52,968,919	Ps. 65,795,158	Ps. 54,838,188	Ps. 10,956,970
	U.S. dollars	57,891,779	67,005,624	60,544,483	72,889,334	(12,344,851)
	UDI	8,278,683	11,681,222	8,509,398	12,093,309	(3,583,911)
	Yen	534,418	534,418	540,959	398,965	141,994
	Euro	355,837	355,837	398,955	540,959	(142,004)
	Total			Ps. 135,788,953	Ps. 140,760,755	Ps. (4,971,802)

Underlying	Denomination	Contract value	Receivable	Deliverable	Net position
Interest rates	Mexican pesos . . .	Ps. 1,335,746,494	Ps.267,613,989	Ps.266,957,074	Ps. 656,915
	U.S. dollars	134,030,736	21,454,857	20,720,555	734,302
	Total		Ps.289,068,846	Ps.287,677,629	Ps. 1,391,217
Equity securities	Mexican pesos . . .	Ps. 6,486,961	Ps. 7,557,571	Ps. 7,557,571	Ps. —
	Total		Ps.432,415,370	Ps.435,995,955	Ps.(3,580,585)

The Bank entered into nominal interest rate swaps in Mexican pesos with various institutions, agreed to at rates ranging from 6.74% to 12.85% annually. As of December 31, 2006, the reference amount of swaps was Ps.1,335,746,494.

Hedging:

Underlying	Currency	Contract value receivable	Contract value deliverable	Receivable	Deliverable	Net position
Interest rates	Mexican pesos		Ps.72,856,948	Ps.220,132	Ps.278,041	Ps.(57,909)
	U.S. dollars		3,670,538	503,595	504,629	(1,034)
	Total			Ps.723,727	Ps.782,670	Ps.(58,943)

The Bank entered into nominal interest rate swaps in Mexican pesos with various institutions, agreed to at rates ranging from 7.32% to 11.26% annually. As of December 31, 2006, the reference amount of swaps was Ps.72,856,948.

9. Loan portfolio

a) Loans granted classified by type of loan as of December 31, 2005 and 2006, were as follows:

	As of December 31,					
	Performing portfolio		Non-performing portfolio		Total	
Type of loan	2005	2006	2005	2006	2005	2006
Commercial loans:						
Denominated in Mexican pesos:						
Commercial	Ps. 50,960,473	Ps. 68,227,317	Ps. 595,250	Ps. 131,366	Ps. 51,555,723	Ps. 68,358,683
Rediscounted portfolio	4,087,536	4,092,292	28,928	25,586	4,116,464	4,117,878
Lease portfolio	885,533	1,336,905	94	8,842	885,627	1,345,747
Denominated in U.S. dollars:						
Commercial	27,364,832	23,772,434	148,480	176,603	27,513,312	23,949,037
Rediscounted portfolio	1,179,475	1,106,698	—	1,982	1,179,475	1,108,680
Lease portfolio	220,813	176,501	20,733	—	241,546	176,501
Total commercial loans	84,698,662	98,712,147	793,485	344,379	85,492,147	99,056,526
Financial entities	11,085,794	7,990,973	5,909	53	11,091,703	7,991,026
Consumer:						
Credit card	49,393,073	69,039,219	1,565,690	4,334,169	50,958,763	73,373,388
Other consumer loans	27,416,066	38,425,868	535,614	807,031	27,951,680	39,232,899
Mortgage	73,905,798	110,098,263	2,227,007	2,664,536	76,132,805	112,762,799
Government entities	42,360,243	39,202,517	—	—	42,360,243	39,202,517
FOBAPROA or IPAB loans	30,111,708	—	—	—	30,111,708	—
	Ps.234,272,682	Ps.264,756,840	Ps.4,334,220	Ps.7,805,789	Ps.238,606,902	Ps.272,562,629
Total	Ps.318,971,344	363,468,987	5,127,705	8,150,168	324,099,049	371,619,155

During 2005 and 2006, the Bank made purchases of mortgage portfolio from Hipotecaria Nacional, S.A. de C.V., a subsidiary of the Financial Group, for a total amount of Ps.34,089,343 and Ps.40,337,423 (nominal value) respectively, which were acquired at market value, and for which the Bank recognized the necessary allowances in its books.

Interest income and commissions classified by type of loan were as follows:

Type of loan	As of December 31, 2005 Total	2006 Interest	2006 Commissions	2006 Total
Commercial loans:				
Denominated in Mexican pesos:				
Commercial	Ps. 5,824,384	Ps. 5,399,502	Ps. 262,805	Ps. 5,662,307
Rediscounted portfolio	464,368	372,372	—	372,372
Lease portfolio	121,679	116,939	2,152	119,091
Denominated in U.S. dollars:				
Commercial	1,428,928	1,882,284	7,413	1,889,697
Rediscounted portfolio	92,110	87,616	—	87,616
Total commercial loans	7,931,469	7,858,713	272,370	8,131,083
Financial entities	1,133,809	662,887	1,023	663,910
Consumer:				
Credit card	9,802,038	16,087,439	—	16,087,439
Other consumer loans	5,032,557	7,120,585	217,675	7,338,260
Mortgage	4,588,664	9,178,143	815,878	9,994,021
Government entities	4,467,614	3,760,884	6,237	3,767,121
FOBAPROA or IPAB loans	6,158,680	1,631,541	—	1,631,541
Total	Ps.39,114,831	Ps.46,300,192	Ps.1,313,183	Ps.47,613,375

Loans classified by economic sectors were as follows:

	As of December 31, 2005 Amount	2005 Concentration percentage	2006 Amount	2006 Concentration percentage
Foreign sector (non-Mexican entities)	Ps. 2,156,702	0.67%	Ps. 509,369	0.14%
Private sector (companies and individuals)	84,589,986	26.10%	98,834,162	26.60%
Financial sector	9,831,646	3.03%	7,700,695	2.07%
Consumer	78,910,443	24.35%	112,606,287	30.30%
Mortgage	76,132,805	23.49%	112,762,799	30.34%
Government entities	42,360,243	13.07%	39,202,517	10.55%
FOBAPROA or IPAB loans	30,111,708	9.29%	—	0.00%
Other past-due loans	5,516	0.00%	3,326	0.00%
Total	Ps. 324,099,049	100.00%	Ps .371,619,155	100.00%

b) Related-party loans

As of December 31, 2005 and 2006, loans granted to related parties amounted to Ps.20,626,470 and Ps.22,775,473, respectively. The amount of related party loans as of December 31, 2005 and 2006 includes Ps.1,124,131 and Ps.5,296,089 respectively, of letters of credit, which are recorded in memoranda accounts.

c) Credit support program

The Bank has participated in a number of credit support programs established by the Mexican Federal Government and the Mexican Banking Association (Asociación de Bancos de México, A.C.) including the following:

- States and Municipalities Credit Support Program
- Mortgage Debtors Credit Support Program
- Financial Support for Micro-, Small- and Medium-Size Firms (“FOPYME”)
- Financial Support Program for the Agriculture and Fishing Sector (“FINAPE”)
- Additional Benefits Program for Mortgage Debtors (“FOVI”)
- Additional Benefits Program for States and Municipalities

In December 1998, the Mexican Federal Government and the banking system launched a new final debtor support program known as the “Punto Final” program, which, beginning in 1999, replaced the method to calculate the benefits granted through the FOPYME, FINAPE and the Mortgage Debtors Credit Support programs. Pursuant to the “Punto Final” program, the Bank waived certain payments on its mortgage and commercial loans in return for the Mexican Federal Government assuming portion of the losses derived in connection with such loans.

The “Punto Final” program for mortgage borrowers defines the discounts on the outstanding balance of loans recorded at November 30, 1998, without considering interest in arrears. Regarding FOPYME and FINAPE credit programs, the discounts are applied on the payments and the discount percentage is determined according to the balance of the loan recorded at July 31, 1996.

The amount of discounts is recognized by the Mexican Federal Government and the Bank at different percentages, the part recognized by the Mexican Federal Government is recorded as an account receivable, which generates interest at the CETES 91-day rate carried to a 28-day curve, capitalized monthly, the percentage absorbed by the Bank is applied to the allowance for loan losses. As of December 31, 2006, the balance of the discounts payable by the Mexican Federal Government is Ps.1,428,733, which will be settled together with its respective capitalization of interest at the beginning of June 2007.

During 2005, the Mexican Federal Government confirmed compliance by the Bank with the regulations applicable to support programs. Consequently, in June 2006, the Bank received from the Mexican Federal Government payments related to the benefits due from “Housing”, “FOVI”, “FOPYME” and “FINAPE” programs in the amount of Ps.1,585,228.

10. UDI-denominated restructured loans

Under the UDI programs, the Bank transferred UDI-denominated loans into a number of trusts in exchange for notes from the Mexican Federal Government denominated in pesos and bearing a CETES rate of interest. The Bank retained the credit risk on loans. The trusts are consolidated with the results of the Bank and the transactions are accounted for as interest rate swaps with the Mexican Federal Government.

As of December 31, 2005 and 2006, the overall UDI-denominated restructured loan portfolio was comprised as follows:

Description	As of December 31,			
	2005		2006	
	Total	States and municipalities	Mortgages	Total
Performing loans	Ps. 23,933,865	Ps. 1,514,409	Ps. 19,798,141	Ps. 21,312,550
Accrued interest on performing loans	59,114	5,049	59,703	64,752
Non-performing loans	999,963	—	774,250	774,250
Accrued interest on non-performing loans	10,178	—	8,297	8,297
Total	Ps. 25,003,120	Ps. 1,519,458	Ps. 20,640,391	Ps. 22,159,849

11. Transactions with FOBAPROA—IPAB

As of December 31, 2006, the Bank did not record any loans with IPAB. As of December 31, 2005, loans with IPAB were as follows:

Description	As of December 31, 2005
Bancomer portfolio transactions:	
Tranches I and II	Ps. 18,329,533
Promex promissory note	30,471,083
Cash flows deliverable to IPAB	(272,099)
Allowance for decrease in value of promissory note	(18,732,835)
	29,795,682
BBV-México portfolio transactions:	
FOBAPROA II	Ps. 4,391,320
Arrendadora Atlas	116,188
Cash flows deliverable to IPAB	(277,818)
Allowance for decrease in value of promissory note	(3,913,664)
	316,026
Total	Ps. 30,111,708

Promissory notes issued by FOBAPROA executed during 1995 and 1996 have an effective term of 10 years, bearing interest at rates referenced to the CETES 91-day rate.

The Bank reserved 25% of the loss shared with FOBAPROA. Since that time to December 31, 2005, the Bank has only recorded the revenue from 75% of the value of the promissory notes, thus keeping covered 100% of the risk of the Bank and the incentives program.

As of December 31, 2005, the balances of the loan portfolio whose cash flows were transferred to FOBAPROA – IPAB and the respective allowance for loan losses were as follows:

Description	As of December 31, 2005
Loan portfolio	Ps. 856,356
Repossessed assets	1,168
Allowance for loan losses	(581,085)
Total	Ps. 276,439

Promissory notes derived from the financial strengthening program of PROMEX accrued interest at the 91-day TIIE rate until their settlement, as defined through an agreement signed with the IPAB in August 2006. These instruments were finally settled in October of that year.

During 2005, the IPAB paid off promissory notes and made prepayments, as mentioned in Note 28.

12. Allowance for loan losses

The following table presents the results of basic loan ratings made for the purpose of recording the loan loss allowance based on the requirements discussed in Note 4:

	As of December 31,			
	2005		2006	
Risk Category	Total loans	Allowance	Total loans	Allowance
A	Ps.232,215,079	Ps.1,266,041	Ps.303,162,636	Ps. 1,626,054
B	42,345,626	3,212,976	50,283,861	3,175,290
C	9,493,910	3,719,778	9,899,909	3,864,629
D	2,802,861	2,049,867	4,355,352	3,184,351
E	2,283,270	2,246,007	2,747,712	2,629,972
Subtotal	289,140,746	12,494,669	370,449,470	14,480,296
Loans exempt from classification	66,656,938	—	13,177,866	—
Supplementary	—	816,193	—	1,373,911
Allowance as of December 31	Ps. 355,797,684	Ps. 13,310,862	Ps. 383,627,336	Ps. 15,854,207

The total loan portfolio balance used for classification purposes includes amounts related to irrevocable lines of credit granted, letters of credit and guarantees given, which are recorded in memoranda accounts.

The allowance for loan losses as of December 31, 2006, was determined based on the balances at that date and includes 100% of past-due interest as of December 31, 2005 and 2006.

The supplementary allowance reflects the application of the internal model for classification of mortgage loans, which consists of applying specific percentages (expected loss) to the debtor's unpaid balance, net of "Punto Final" program.

Loans and allowances shown above include loans granted in foreign currency, converted into Mexican pesos using the exchange rate in effect at December 31, 2006.

In conformity with the regulations established, the Bank did not record any allowance for the loan portfolio of the UDI trusts for states and municipalities.

Based on agreements between the CNBV and Banks the distressed commercial portfolio has been defined as that which has a D and E risk classification. Based on such definition, the distressed commercial portfolio is Ps.1,038,807 and Ps.464,717 for 2005 and 2006, respectively.

As of December 31, 2005 and 2006, the allowance for loan losses represents 259.59% and 194.53%, respectively, of the total non-performing loan portfolio.

The following table shows period to period changes in the allowance for loan losses:

Allowance for loan losses	As of December 31, 2005	As of December 31, 2006
Balance at beginning of year	Ps. 13,194,260	Ps. 13,310,862
Provision charged to income statement	3,311,971	6,784,435
Applications and write-offs for the period	(3,058,086)	(4,158,727)
Exchange effect	(137,283)	(82,363)
Balance at end of year	Ps. 13,310,862	Ps. 15,854,207

13. Receivables, sundry debtors and prepayments, net

The balance of other accounts receivable as of December 31, 2005 and 2006 consists of the following:

Item	As of December 31, 2005	As of December 31, 2006
Debtors from transaction settlement	Ps. 4,478,494	Ps. 7,050,386
Loans to officers and employees	4,303,782	5,692,319
Sundry debtors	1,420,919	2,459,914
Other	391,515	677,960
	10,594,710	15,880,579
Less: Allowance	(227,562)	(176,414)
Total	Ps. 10,367,148	Ps. 15,704,165

14. Repossessed assets, net

Repossessed assets as of December 31, 2005 and 2006 were as follows:

Item	As of December 31, 2005	As of December 31, 2006
Construction	Ps. 1,443,742	Ps. 1,070,996
Land	390,738	138,059
Securities	104,393	98,410
Other	17,592	4,422
	1,956,465	1,311,887
Less: Allowance for impairment of repossessed assets	(1,040,888)	(594,940)
Total	Ps. 915,577	Ps. 716,947

15. Property, furniture and equipment, net

Property, furniture and equipment as of December 31, 2005 and 2006 were as follows:

Item	As of December 31, 2005	As of December 31, 2006
Furniture and equipment	Ps. 16,423,164	Ps. 16,735,291
Office space	11,650,048	11,230,665
Installation costs	5,182,571	6,007,651
	33,255,783	33,973,607
Less: Accumulated depreciation and amortization	(19,179,471)	(20,016,234)
Total	Ps. 14,076,312	Ps. 13,957,373

16. Equity investments

Investments in unconsolidated subsidiaries and affiliates that were valued using the equity method were as follows:

Ownership Percentage	Item	As of December 31, 2005	As of December 31, 2006
Various	Siefores (Real y Protege)	Ps. 1,194,862	Ps. 1,164,592
50.00%	Telepeaje Electrónico S.A. de C.V.	—	153,934
11.79%	Servicio Panamericano de Protección, S.A. de C.V.	143,516	149,663
46.14%	Servicios Electrónicos Globales, S.A. de C.V.	64,940	67,253
50.00%	Compañía Mexicana de Procesamiento, S.A. de C.V.	39,103	44,222
Various	Others	620,554	844,062
49.80%	Onexa, S.A. de C.V.	242,751	—
	Total	Ps. 2,305,726	Ps. 2,423,726

In July 2006, the Bank sold its shareholding in Onexa, S.A. de C.V., recognizing a net gain of Ps.323,553 (nominal value), which was recorded under "other income".

During 2006, the Bank recorded its investment in shares in the common stock of Telepeaje Electrónico, S.A. de C.V., which generated goodwill of Ps.11,853.

Investments in equity securities of associated companies as of December 31, 2005 and 2006 were determined in some cases, based on unaudited financial information. In event of differences, adjustments are made upon disposition thereof.

17. Deferred taxes

The Bank has recognized net deferred income taxes and employee profit sharing resulting from temporary differences between the book and tax bases of assets and liabilities and tax loss carryforwards as of December 31, 2005 and 2006, of Ps.9,617,386 and Ps.4,720,450 respectively, as follows:

	As of December 31,					
	2005			2006		
		Deferred			Deferred	
Item	Temporary difference	Income tax	Employee profit sharing	Temporary difference	Income tax	Employee profit sharing
Temporary differences – assets:						
Tax loss carry forwards	Ps. 25,100,152	Ps. 7,530,046	Ps. —	Ps. 11,800,211	Ps. 3,422,061	Ps. —
Allowance for loan losses	6,131,486	1,839,446	701,810	11,111,350	3,222,292	—
Pension allowance	3,166,338	949,901	—	1,153,407	334,488	—
Deducted repossessed assets	1,169,738	350,921	(1,601)	904,982	262,445	—
Other assets	1,080,992	325,389	15,511	3,560,097	1,036,121	—
Allowance for debtors and creditors	95,493	28,647	—	35,333	10,246	—
Personnel reserve	—	—	—	357,019	103,536	—
Fair value adjustment of investments	(618,584)	(185,575)	—	319,460	92,643	—
Total assets	36,125,615	10,838,775	715,720	29,241,859	8,483,832	—
Temporary differences – liabilities:						
Fixed assets	Ps. 2,116,895	Ps. 632,572	Ps. 345,067	Ps. 2,071,471	Ps. 600,727	—
Derivatives	—	—	—	4,768,718	1,382,928	—
Prepaid expenses	—	—	—	4,993,000	1,447,970	—
Other liabilities	573,350	172,005	4,197	574,200	166,518	—
Total liabilities	2,690,245	804,577	349,264	12,407,389	3,598,143	—
Tax rate reduction adjustment	—	(783,268)	—	—	(165,239)	—
Net deferred asset	Ps. 33,435,370	Ps. 9,250,930	Ps. 366,456	Ps. 16,834,470	Ps. 4,720,450	—

Based on the tax projections prepared by management, it is expected that the deferred tax asset arising from tax loss carryforwards and allowance for loan losses will be recovered before their expiration dates, potentially in 2008.

As explained in Note 24, the 2005 the income tax rate was 30%, 29% in 2006 and 28% as of 2007 and thereafter. Management, in accordance with Bulletin D-4, *Accounting Treatment of Income Tax, Asset Tax and Employee Statutory Profit Sharing*, and the projections for recovery of the deferred taxes, adjusted the balances of deferred taxes based on the expected rates that will be in effect at the time of their recovery.

18. Other assets

As of December 31, 2005 and 2006, goodwill was as follows:

Item	As of December 31, 2005	As of December 31, 2006
Deferred charges and other intangible assets	Ps. 2,223,089	Ps. 7,090,686
Goodwill	1,761,220	1,771,478
Total	Ps. 3,984,309	Ps. 8,862,164

The 2006 increase of other assets is primarily derived from the advance of Ps.5,175,000 (nominal value) given by the Bank to BBVA Bancomer Operadora, S.A. de C.V. as partial payment for services to be provided by the latter during the first quarter of 2007.

19. Deposits

Liquidity coefficient- The provisions of the "Treatment for admission of liabilities and investment for foreign currency transactions" issued by the Central Bank, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency for Banks. Based on these procedures, in 2005 and 2006, the Bank was subject to liquidity requirements of U.S.$913,449 thousand and U.S.$31,243 thousand, respectively, and maintained investments in liquid assets of U.S.$2,216,244 thousand and U.S.$926,073 thousand, reflecting liquidity excesses of U.S.$1,302,795 thousand and U.S.$894,830 thousand, respectively.

Deposits consisted of the following:

Item	As of December 31, 2005	As of December 31, 2006
Demand deposits:		
Demand deposits	Ps. 232,216,010	Ps. 248,045,416
Saving deposits	268,314	367,120
Time deposits:		
Notes with interest payable at maturity	149,555,412	130,398,278
Time deposits	13,970,673	22,467,568
Bank bonds	—	2,714,943
Total	Ps. 396,010,409	Ps. 403,993,325

20. Interbank loans and loans from other entities

As of December 31, 2005 and 2006 interbank loans consisted of the following:

	Mexican pesos		U.S. Dollars (expressed in Mexican pesos)		Total	
Item	2005	2006	2005	2006	2005	2006
Bank loans	Ps. 36,822,980	Ps. 9,822,230	Ps. 9,224,455	Ps. 6,853,062	Ps. 46,047,435	Ps. 16,675,292
Loans from other entities	7,467,428	6,703,174	873,367	1,365,441	8,340,795	8,068,615
Total	Ps. 44,290,408	Ps.16,525,404	Ps.10,097,822	Ps.8,218,503	Ps.54,388,230	Ps.24,743,907

Interbank loans and loans from other entities were contracted by the Bank with terms ranging from one day to 14 years and annual rates ranging between 1.50% and 8.01%. Such loans are contracted with 22 foreign financial institutions and 5 national financial institutions, with no significant concentration in any of them.

21. Labor liabilities

The Bank has liabilities from labor obligations related to the pension plan, which will cover the pension, seniority premiums due upon retirement and postretirement indemnity of the Bank's employees. The Bank also has a plan for integral medical services to pensioners and their economic dependents, as well as the payment of life insurance. The amount of such labor liabilities is determined based on calculations performed by independent actuaries using the projected unit credit method, and in conformity with the methodology established in Bulletin D-3. The management of plan assets is made through an irrevocable trust.

On December 6, 2006, the Bank entered into an employer substitution agreement with Operadora a subsidiary of GFBB. This agreement was executed based on the strategic and administrative restructuring plan implemented by the Financial Group.

Following the execution of the employer substitution contract, all the employees of the Bank (except the Chief Executive Officer) were transferred to the payroll of Operadora. Notwithstanding, these employees will retain all acquired benefits and seniority, and only those not formerly receiving these benefits will be incorporated into a variable compensation program.

Accordingly, the Bank accelerated the amortization of items derived from the pension plan and seniority premiums (transition liability, prior services, plan modifications, assumption variations and adjustments based on experience), according to the calculations performed by independent actuaries. This resulted in a charge to the results of 2006 of Ps.2,607,304, net of deferred taxes, the effect of which was recognized under the heading of "Discontinued operations, extraordinary items and changes in accounting policies, net".

The Bank made a contribution to the retirement plan fund in excess of that traditionally covered by the "Net Cost of the Period". This contribution is supported by an actuarial valuation.

In January 2007, the Bank transferred the amount of Ps.9,266,605 for retirement plan funds and the labor liability derived from transferred active employees. Consequently, at that date, the Bank only has a labor obligation for retired employees.

Pension plan and seniority premium -

As of December 31, 2005 and 2006, the Bank's labor liability was as follows:

Item	As of December 31, 2005	As of December 31, 2006
Accumulated benefit obligation	Ps. 6,508,081	Ps. 6,824,369
Plan assets	(6,072,013)	(7,580,549)
Current net liability (asset) derived from employee pensions	Ps. 436,068	Ps. (756,180)

For the years ended December 31, 2005 and 2006, the net cost was as follows:

Item	For the years ended December 31, 2005	For the years ended December 31, 2006
Service cost	Ps. 183,094	Ps. 185,814
Financial cost	401,079	405,494
Amortization of transition liability	(20)	—
Amortization of past services	124,690	122,294
Unrecognized experience and assumptions differences	1,386	3,276
Actual return on plan assets	(258,808)	(261,187)
Net cost for the period	Ps. 451,421	Ps. 455,691
Reduction and early settlement of obligations	Ps. 11	Ps. —

The real interest rates utilized in the actuarial calculations were:

Item	For the years ended December 31, 2005	2006
Actual return on plan assets	5.00%	5.25%
Interest rate	5.00%	5.25%
Salary increase rate	1.00%	1.00%
Rate of increase in medical services	2.00%	2.00%

Information on obligations from projected and vested benefits is presented below:

Item	As of December 31, 2005	2006
Projected benefit obligation	Ps. 7,363,889	Ps. 7,582,980
Plan assets	(6,072,013)	(7,580,549)
Unrecognized items:		
Unrecognized experience and assumption differences	(386,935)	(769)
Past services	(903,744)	(198)
Transition liability	323	—
Net pension liability	Ps. 1,520	Ps. 1,464
Obligations from vested benefits	Ps. 3,841,377	Ps. 4,052,677
Payments	Ps. 416,209	Ps. 418,539

Medical Services -

As of December 31, 2005 and 2006, the liability relative to medical services was as follows:

Item	As of December 31, 2005	2006
Accrued obligation for post retirement benefits	Ps. 5,744,198	Ps. 6,048,617
Plan assets	(1,112,972)	(5,269,803)
Unrecognized items:		
Past services	(1,164,137)	—
Unrecognized experience and assumptions differences	(504,798)	—
Net projected liability	Ps. 2,962,291	Ps. 778,814
Obligations from vested benefits	Ps. 2,236,077	Ps. 5,451,759
Payments	Ps. 171,196	Ps. 215,063

For the years ended December 31, 2005 and 2006, the net cost was as follows:

Item	For the years ended of December 31, 2005	2006
Service cost	Ps. 121,760	Ps. 150,953
Financial cost	257,637	281,932
Actual return on plan assets	(29,025)	(51,003)
Amortization of transition liability	223,509	76,685
Net cost of the period	Ps. 573,881	Ps. 458,567

Life insurance -

As of December 31, 2005 and 2006, the liability relative to the life insurance was as follows:

Item	As of December 31, 2005	2006
Accrued obligation for post retirement benefits	Ps. 272,464	Ps. 1,348,640
Plan asset	(62,402)	(1,348,640)
Unrecognized items	(223,670)	—
Unrecognized experience and assumption differences	13,608	—
Net projected liability	Ps. —	Ps. —
Obligations from vested benefits	Ps. 164,193	Ps. 616,551
Payments	Ps. 3,973	Ps. 4,312

For the years ended December 31, 2005 and 2006, the net cost of the period was as follows:

Item	For the years ended December 31, 2005	2006
Service cost	Ps. 26,529	Ps. 19,951
Financial cost	12,163	13,461
Actual return on plan assets	—	(2,850)
Amortization of transition liability	24,592	24,813
Net cost of the period	Ps. 63,284	Ps. 55,375

Severance indemnities -

As of December 31, 2005 and 2006, the liability relative to severance indemnities was as follows:

Item	As of December 31, 2005	2006
Accumulated benefit obligation	Ps. 234,777	Ps. 365,690

Information on obligations from projected and vested benefits is presented below:

Item	As of December 31, 2005	2006
Projected benefit obligation	Ps. 246,393	Ps. 396,173
Transition liability	—	(19,910)
Unrecognized experience and assumption differences	2,233	—
Net projected liability	Ps. 248,626	Ps. 376,263
Obligations from vested benefits	Ps. —	Ps. 53,389
Payments	Ps. 88,151	Ps. 71,721

For the years ended December 31, 2005 and 2006, the net cost of the period was as follows:

Item	For the years ended December 31, 2005	2006
Service cost	Ps. 83,370	Ps. 75,593
Financial cost	10,124	10,184
Net cost of the period	Ps. 93,494	Ps. 85,777

Pension plan "Fixed Contribution" -

In 2001, the Bank adopted a new pension plan denominated "Fixed Contribution", which grants benefits upon voluntary retirement, death or total or permanent disability, through fixed employer contributions to the employee's individual fund. The monthly retirement fixed benefit plan continues to exist. Currently 14,688 employees participate in the "Fixed Contribution" plan. As of December 31, 2005 and 2006, the assets of the "Fixed Contribution" plan and its obligations are Ps.873,357 and Ps.998,421, respectively, and the liabilities amounted to Ps.896,508 and Ps.1,021,572, respectively, which are not reflected in the balance sheet.

As of 2005, based on calculations by independent actuaries, the Bank adopted the revised provisions to Bulletin D-3, *Labor Obligations*, related to recognition of the liability for severance payments at the end of the work relationship for reasons other than restructuring and derived from medical benefits or severance payments that are recorded using the projected unit credit method. Bulletin D-3 grants the option to immediately recognize, in current earnings, the resulting transition asset or liability, or to amortize it over the average remaining labor life of employees. The Bank opted to immediately record this amount, recognizing that its benefits have already been accrued. It therefore recorded a charge of Ps.1,043,147 to the results of 2005 under the heading of "Discontinued operations, extraordinary items and changes in accounting policies, net", net of the deferred income tax effect.

Furthermore, the Bank decided to bring forward the amortization of the transition asset derived from the initial implementation of medical benefits following retirement, which represented a charge of Ps.1,268,713 to the results of 2005, net of the deferred income tax effect, which was recognized under the heading of "Discontinued operations, extraordinary items and changes in accounting policies, net", as required by Bulletin A-7, *Comparability*, which was in effect at that time. This change is consistent with the Bank's recognition of severance payments in results of the year.

Management considers that the initial adoption of benefits following retirement primarily reflects the non-accrual of these benefits in the years in which they arose. Consequently, recognizing the total cost of this liability is a practical measure that must be based on the financial possibility of absorbing this cost. Management therefore considers that the Bank must recognize this cost to avoid future contingencies.

22. Subordinated debt

As of December 31, 2005 and 2006, the Bank had issued subordinated debt as described below:

Item	2005	2006
Subordinated debentures:		
Bancomer 06 subordinated debt at the TIIE rate + 0.30%, payable every 28 days with maturity on September 18, 2014	Ps. —	Ps. 2,500,000
Bancomer 98 subordinated debt at the TIIE rate, payable every 28 days, which were settled following their maturity on September 28, 2006	2,604,070	—
Bancomer 05 subordinated debt for US$500,000,000, issued in July 2005, at an annual interest rate of 5.3795% up to July 22, 2010, payable semiannually, and LIBOR + 1.95% as of July 23, 2010, payable quarterly, maturing on July 22, 2015	5,538,544	5,405,800
Accrued interest payable	430,810	134,260
Total	Ps. 8,573,424	Ps. 8,040,060

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

The resources obtained from the issuance of Bancomer 05 Subordinated debt were used in February 2006 to prepay the capital notes issued in February 2001. Please see Note 25 for more information.

23. Transactions and balances with subsidiaries and affiliates

Balances and transactions with non-consolidated subsidiaries and associated and affiliated companies were not significant inherent to its own activity and were not material, except for the transactions with Hipotecaria Nacional, S.A. de C.V., the most important of which are as follows:

	2005	2006
Portfolio purchase nominal value	Ps. 34,089,343	Ps. 40,337,423
Loan granted	Ps. 5,623,690	Ps. 5,399,000
Commission payable for portfolio management	Ps. 93,578	Ps. 12,360

24. Tax environment

Income and asset tax regulations - The Bank is subject to income taxes and asset taxes. Income taxes are determined by taking into consideration certain taxable and deductible effects of inflation, such as depreciation calculated on restated asset values, which permits the deduction of current costs, and taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the inflationary component. The income tax rate was 30% in 2005, 29% in 2006 and will be 28% as of 2007 and thereafter. The tax law amendments that came into effect as of 2007 enable taxpayers that have their financial statements audited for tax purposes and fulfill certain requirements to obtain a tax benefit equal to 0.5% or 0.25% of their tax result.

Asset tax ("IMPAC") is incurred at the rate of 1.8% on the net average of assets not subject to brokerage (at restated values) and certain liabilities, and is only paid to the extent that it exceeds income tax of the year. Any payment made is recoverable to the extent by which income tax exceeds IMPAC during the subsequent ten fiscal years. In fiscal 2006, such amount was Ps.310,912 as shown under the "Receivables, sundry debtors and prepayments" heading. As of 2007, the IMPAC rate will be 1.25% of total assets of the year, without the possibility of deducting liabilities from the taxable basis.

Taxable income - The principal items affecting the determination of taxable income or loss of the Bank and its subsidiaries were the deduction of allowance for loan losses without exceeding 2.5% of the average loan portfolio, the deduction for pension plan and seniority premium contribution, together with losses generated by the sale of shares and other securities.

Tax loss carryforwards and recoverable IMPAC – As of December 31, 2006, the Bank had tax loss carryforwards that will be amortized in the future for income tax purposes and are indexed for inflation through the year they are utilized, as follows:

Year	Restated amount of tax loss carryforwards	Expiration date
2002	143,548	2012
2005	11,656,663	2015
	Ps. 11,800,211	

Furthermore, there is recoverable IMPAC of Ps.982,410 as of December 31, 2006, whose expiration date is between the years 2009 and 2016.

Employee profit sharing - The Bank determines the employee profit sharing based on the guidelines established in Mexico's Constitution.

25. Stockholders' equity

Capital stock - The capital stock of the Bank as of December 31, 2005 and 2006, was as follows:

	Number of shares at par value of Ps.0.28 each share					
	As of December 31,					
	2005			2006		
	Authorized	Unsubscribed	Paid-in	Authorized	Unsubscribed	Paid-in
Series "F"	9,107,142,859	(2,134,952,993)	6,972,189,866	9,107,142,859	(2,134,952,993)	6,972,189,866
Series "B"	8,749,999,999	(2,051,229,345)	6,698,770,654	8,749,999,999	(2,051,229,345)	6,698,770,654
Total	17,857,142,858	(4,186,182,338)	13,670,960,520	17,857,142,858	(4,186,182,338)	13,670,960,520

	Capital Stock					
	2005			2006		
	Authorized	Unsubscribed	Paid-in	Authorized	Unsubscribed	Paid-in
Series "F"	Ps. 2,550,000	Ps. (597,787)	Ps.1,952,213	Ps.2,550,000	Ps. (597,787)	Ps. 1,952,213
Series "B"	2,450,000	(574,344)	1,875,656	2,450,000	(574,344)	1,875,656
	Ps. 5,000,000	Ps. (1,172,131)	3,827,869	Ps.5,000,000	Ps.(1,172,131)	3,827,869
Capitalization of restatement ..			5,806,850			8,175,425
Restatement to Mexican pesos of December 31, 2006			6,247,898			6,247,898
Total			Ps.15,882,617			Ps.18,251,192

At the Stockholders' Ordinary General Meeting of April 26, 2006, the payment of cash dividends of Ps.5,567,175 (nominal value) was declared, derived from the profit and loss account of prior years based on the amount of Ps.0.407226 per share, which were paid to stockholders on May 5, 2006.

Issuance of capital notes - On February 9, 2001, the Institution issued capital notes through a global placement for the amount of US$500 million, which was settled in 2006.

Restrictions on income - Stockholder's equity, except for restated amounts of paid-in capital and tax retained earnings, will incur income tax on dividends payable by the Bank at the current rate, at the time of distribution. The tax paid on such distribution can be credited against income tax of the year and the respective provisional payments during the year in which tax is paid on dividends and the next two years.

The Bank's annual net income is subject to the legal requirement that 10% thereof be transferred to a legal reserve each year until such reserve equals the Bank's paid-in capital. This reserve may not be distributed to stockholders during the existence of the Bank, except in the form of a stock dividend.

Capitalization index - The Bank is required to maintain specific net capital levels, as a percentage of risk assets, for both market and credit purposes. However, in order to determine net capital, deferred taxes represent a maximum of 20% of Tier 1 capital to 2005, and 10% to 2006.

As of December 31, 2006, the Bank's capitalization index represented 15.19% of total risk (market and credit) and 21.05% of credit risk, which are 7.19 and 13.05 percentage points above the respective minimum requirements.

The net capital, divided into Tier 1 and Tier 2 capital, is detailed as follows (the amounts shown in this note may differ in presentation from the basic financial statements):

Basic capital:

Item	Amount
Stockholders' equity	Ps. 70,025,570
Capital notes	5,405,800
Deductions of investments in shares of financial entities	(4,743,887)
Deductions of investments in shares of non-financial entities	(236,162)
Deductions of deferred taxes	(1,053,970)
Organization expenses, other intangible assets	(207,664)
Total	Ps. 69,189,687

The main characteristics of debt and capital notes were as follows:

Item	Appraised amount	Maturity date	Calculation	Weighted amount
Non-convertible debt considered as basic capital:				
Eligible capital notes	Ps. 5,405,800	July 22, 2015	100%	Ps. 5,405,800

Complementary capital:

Item	Amount
Subordinated debt and capital notes	Ps. 2,500,000
Allowance for loan losses	2,999,965
Total	Ps. 5,499,965

The main characteristics of debt and capital notes were as follows:

Item	Appraised amount	Maturity date	Calculation	Weighted amount
Non-convertible debt considered as complementary capital:				
Bancomer-06	Ps. 2,500,000	September 18, 2014	100%	Ps. 2,500,000

Assets at risk are as follows:

Assets subject to market risk:

Item	Risk-Weighted positions	Capital requirements
Transactions in Mexican pesos with a nominal rate	Ps. 62,851,297	Ps. 5,028,104
Transactions in Mexican pesos with real rate or rate denominated in UDIs	27,083,176	2,166,654
Interest rate transactions in foreign currency with a nominal rate	10,231,290	818,503
Positions in UDIs and Mexican pesos with yield linked to National Consumer Price Index	171,898	13,752
Positions in currencies with yield indexed to exchange rates	239,344	19,147
Positions in shares or with yield indexed to the price of a share, group of shares, or stock exchange index	4,412,398	352,992
Rate of return based on the General Minimum Wage	21,183,986	1,694,719
Positions based on the General Minimum Wage	108,796	8,704
Transactions performed in Mexican pesos with a surtax and variable rate	10,638,199	851,056
Total market risk	Ps.136,920,384	Ps.10,953,631

Assets subject to credit risk:

Item	Risk-Weighted assets	Capital requirements
Group II (weighted at 20%)	Ps. 16,624,969	Ps. 1,329,997
Group III (weighted at 100%)	338,193,739	27,055,499
Total credit risk	Ps. 354,818,708	Ps. 28,385,496

26. Position in foreign currency

As of December 31, 2005 and 2006, the exchange rate determined by the Central Bank and used by the Bank to value its assets and liabilities in foreign currency (translated to U.S. dollars) was Ps.10.6344 and Ps.10.8116 per U.S. dollar, respectively.

	As of December 31,	
	2005	2006
Assets	U.S. $ 23,365,251	U.S. $ 25,739,314
Liabilities	(23,502,387)	(25,861,533)
Net liability position in U.S. dollars	U.S. $ (137,136)	U.S. $ (122,219)
Net liability position in Mexican pesos (nominal value)	Ps. (1,458,359)	Ps. (1,321,383)

As of January 31, 2007, the unaudited net liability position was similar to that at year-end, and the exchange rate at such date was Ps.11.0382 per U.S. dollar.

27. UDI position

As of December 31, 2005 and 2006, the Bank had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of Ps.3.637532 and Ps.3.788954 per UDI, respectively, as follows:

	As of December 31,	
	2005	2006
Assets	8,533,359	9,938,090
Liabilities	(2,584,653)	(3,304,229)
Net asset position in UDI	5,948,706	6,633,861
Net asset position in Mexican pesos (nominal value)	Ps. 21,638,608	Ps. 25,135,394

As of January 31, 2007, the unaudited UDI position was similar to that at year-end, and the conversion rate was equivalent to Ps.3.809457 per UDI.

28. Preventive and savings protection mechanism

During 2005 and 2006, contributions made by the Bank to IPAB were Ps. 1,850,322 and Ps. 1,779,196, respectively.

Pursuant to Temporary Article Five of the Law for the Protection of Bank Savings, on July 18, 1999 the IPAB issued the general rules for operation of the New Program of Capitalization and Loan Portfolio Purchase (PCCC), which were applied to the institutions that elected to terminate the contracts signed with the FOBAPROA in order to subsequently execute the contracts of the New Program with the IPAB.

Pursuant to that set forth in the New Program Contract, the Bank assumed the obligation to allow the IPAB to perform the audits related to the Performance, Existence, Legality and Identity of Subject Matter ("GEL Audits") regarding the credits generating positive resources for the IPAB.

The GEL audits concluded in May 2005, generating observations on certain credits, which in compliance with the provisions of the New Program Contract were substituted with cash.

The effects of the GEL audits were recognized with a charge to results in 2005 of Ps.126,110, net of the deferred income tax effect, under the heading of "Discontinued operations, extraordinary items and changes in accounting policies, net".

The enactment of the New Program and the completion of the GEL audits enable compliance with the terms of Temporary Article 5 of the Bank Savings Protection Law.

During 2005 IPAB settled the promissory notes issued in 1995, denominated "Tranche I", originated by Bancomer, and "FOBAPROA I", originating from BBV-México, for the amount of Ps.32,962,328 (nominal value). Also in 2005, after recognizing the effects of the GEL audits, IPAB made prepayments of the promissory notes denominated "Tranche II", originating from Bancomer and promissory notes of "FOBAPROA II" and Arrendadora Atlas originating from BBV-México, which matured in 2006, for Ps.23,669,123 (nominal value) , and fully settled the last two in January 2006, in the amount of Ps.593,348 (nominal value). The Bank also canceled that portion of the promissory notes not paid by IPAB, relative to the shared loss and the related reserves, the recognition in the income statement was Ps.461,957 (nominal value).

29. Discontinued operations, extraordinary items and changes in accounting policies, net

For the years ended on December 31, 2005 and 2006 the items affecting the heading of "Discontinued operations, extraordinary items and changes in accounting policies, net", consist of the following:

	For the years ended on December 31,	
	2005	2006
Advance amortization of items derived from the pension plan and seniority premiums	Ps. —	Ps. (2,607,304)
Early amortization of the transition asset derived from the first implementation of postretirement medical benefits	(1,268,713)	—
Recognition of the liability for severance indemnities for reasons other than restructuring	(1,043,147)	—
Recognition of real estate property at use value	(1,037,016)	—
Effect of "GEL audits"	(126,110)	—
Gain on sales of subsidiaries and affiliates	13,668	—
Total	Ps. (3,461,318)	Ps. (2,607,304)

30. Memoranda accounts

The balances of the memoranda accounts were as follows:

	As of December 31,	
	2005	2006
Guarantees given	Ps. 385	Ps. 769
Other contingent obligations	53,358	63,600
Irrevocable lines of credit granted	7,917,652	11,133,098
Assets in trust or under mandate	437,145,464	594,156,772
Assets in custody or under administration	602,283,247	905,980,440
Investment banking transactions on behalf of third parties, net	30,287,498	38,727,200
Amounts committed to FOBAPROA or IPAB transactions	1,875,238	38,775
	Ps. 1,079,562,842	Ps. 1,550,100,654
Instrument receivable from repurchase agreement transactions	Ps. 138,229,883	Ps. 207,082,306
Repurchase agreement creditors	(138,899,221)	(206,202,456)
	Ps. (669,338)	Ps. 879,850
Reverse repurchase agreement debtors	Ps. 23,619,530	Ps. 6,621,246
Instruments deliverable on reverse repurchase agreement transactions	(23,418,244)	(6,403,384)
	Ps. 201,286	Ps. 217,862
Historical paid-in capital	Ps. 3,827,869	Ps. 3,827,869

31. Segment information

GFBB, the Bank's parent company, and its subsidiaries participate in different activities in the financial system, including full service banking, stock market intermediation, foreign remittances transfers, financial services, management of mutual funds, management of pension funds, etc. Performance evaluation and risk measurement in the different activities are based on the information produced by the business units of the Financial Group, rather than in the legal entities in which the results generated are recorded.

Given that the total revenues of the Bank accounted for approximately 93% of the consolidated revenues of the Financial Group, the following table show the revenues obtained during the years 2005 and 2006 (in millions of Mexican pesos), with the different segments as indicated in the preceding paragraph:

	2004							
	Total revenue by segment from the Financial Group							
Item	Total	Commercial bank	Corporate and government banking	Treasury transactions	Brokerage house and investment funds	Retirement saving funds	Foreign remittances transfer	Others
Financial Group's total revenues:								
Interest income and expense, net	Ps. 27,531	Ps. 18,485	Ps. 5,430	Ps. 3,084	Ps. 13	Ps. 38	Ps. 19	Ps. 462
Monetary loss, net	(375)	—	—	—	—	(35)	—	(340)
Net interest income	27,156	18,485	5,430	3,084	13	3	19	122
Provision for loan losses	(2,354)	(1,138)	(143)	—	—	—	—	(1,073)
Net interest income (loss) after provisions for loan losses	24,802	17,347	5,287	3,084	13	3	19	(951)
Commissions and fees, net	15,876	9,189	2,284	(87)	638	2,684	873	295
Trading (loss) income, net	(21)	312	47	(424)	49	—	65	(70)
Financial Group's total revenues (expenses) from operation	Ps. 40,657	Ps. 26,848	Ps. 7,618	Ps. 2,573	Ps. 700	Ps. 2,687	Ps. 957	Ps. (726)
Total loss from the operation of other Financial Group companies	(1,964)							
BANK'S TOTAL REVENUES	38,693							
Non-interest expense	(22,248)							
Operating income	16,445							
Other income	1,064							
Other expense	(1,895)							
Monetary loss	(1,096)							
Earnings before income taxes and employee profit sharing	14,518							
Current income tax and employee profit sharing	(542)							
Deferred income tax and employee profit sharing	(5,259)							
Income before share in net loss of non-consolidated subsidiaries and affiliates	8,717							
Share in net loss of non-consolidated subsidiaries and affiliates	(83)							
Income from continuing operations	8,634							
Discontinued operations, extraordinary items and changes in accounting policies, net	(2,367)							
Net income before minority interest	6,267							
Minority interest	(239)							
Net income	Ps. 6,028							

Item	2005							
		Total revenue by segment from the Financial Group						
	Total	Commercial bank	Corporate and government banking	Treasury transactions	Brokerage house and investment funds	Retirement saving funds	Foreign remittances transfer	Others
Financial Group's total revenues:								
Interest income and expense, net	Ps. 36,406	Ps. 27,546	Ps. 7,632	Ps. 1,107	Ps. 102	Ps. 57	Ps. 73	Ps. (111)
Monetary loss, net	(537)	—	—	—	(34)	(26)	—	(477)
Net interest income	35,869	27,546	7,632	1,107	68	31	73	(588)
Provision for loan losses	(3,059)	(2,256)	(512)	95	—	—	—	(386)
Net interest income (loss) after provisions for loan losses	32,810	25,290	7,120	1,202	68	31	73	(974)
Commissions and fees, net	17,946	11,291	2,254	57	1,935	2,725	823	(1,139)
Trading (loss) income, net	1,070	336	106	(54)	(2)	—	70	614
Financial Group's total revenues (expenses) from operation	Ps. 51,826	Ps. 36,917	Ps. 9,480	Ps. 1,205	Ps. 2,001	Ps. 2,756	Ps. 966	Ps. (1,499)
Total loss from the operation of other Financial Group companies	(5,164)							
BANK'S TOTAL REVENUES	46,662							
Non-interest expense	(24,967)							
Operating income	21,695							
Other income	1,738							
Other expense	(2,253)							
Monetary loss	(443)							
Earnings before income taxes and employee profit sharing	20,737							
Current income tax and employee profit sharing	(505)							
Deferred income tax and employee profit sharing	(7,828)							
Income before share in net loss of non-consolidated subsidiaries and affiliates	12,404							
Share in net loss of non-consolidated subsidiaries and affiliates	179							
Income from continuing operations	12,583							
Discontinued operations, extraordinary items and changes in accounting policies, net	(3,461)							
Net income before minority interest	9,122							
Minority interest	(251)							
Net income	Ps. 8,871							

Item	2006							
	Total revenue by segment from the Financial Group							
	Total	Commercial bank	Corporate and government banking	Treasury transactions	Brokerage house and investment funds	Retirement saving funds	Foreign remittances transfer	Others
Total revenues from the Financial Group:								
Interest income and expense, net	Ps. 46,895	Ps.33,567	Ps. 5,846	Ps. 1,657	Ps. 86	Ps. 26	Ps. 77	Ps. 5,636
Monetary loss, net	(1,971)	(152)	—	—	(58)	(41)	—	(1,720)
Net interest income (loss)	44,924	33,415	5,846	1,657	28	(15)	77	3,916
Provision for loan losses	(6,360)	(7,475)	(62)	(2)	—	—	—	1,179
Net interest income (loss) after provisions for loan losses	38,564	25,940	5,784	1,655	28	(15)	77	5,095
Commissions and fees, net	19,771	12,953	2,510	84	2,300	2,299	729	(1,104)
Trading income (loss), net	2,916	440	136	271	21	—	85	1,963
Total revenues from the Financial Group's operation	Ps. 61,251	Ps.39,333	Ps. 8,430	Ps. 2,010	Ps. 2,349	Ps. 2,284	Ps. 891	Ps. 5,954
Total loss from the operation of other Financial Group companies	(4,497)							
TOTAL REVENUES FROM THE INSTITUTION'S OPERATION	56,754							
Non-interest expense	(26,601)							
Operating income	30,153							
Other income	2,467							
Other expense	(2,172)							
Monetary loss	(215)							
Earnings before income taxes and employee profit sharing	30,233							
Current income tax and employee profit sharing	(3,868)							
Deferred income tax and employee profit sharing	(5,937)							
Income before share in net income of unconsolidated subsidiaries and affiliates	20,428							
Share in net income of unconsolidated subsidiaries and affiliates	281							
Income from continuing operations	20,709							
Discontinued operations, extraordinary items and changes in accounting policies, net.	(2,607)							
Net income before minority interest	18,102							
Minority interest	(175)							
Net income	Ps. 17,927							

Other segments contain those related to management of the loan portfolio assigned to recovery, the mortgage portfolio of UDI Trusts, and to the management of the cash flow participation plan with FOBAPROA.

32. Risk management

Below is a summary of the main policies, procedures and methodologies adopted by management with regard to risk management in compliance with CNBV requirements.

- *Participation of the governing bodies:*

  The Board of Directors is responsible for establishing the objectives of risk exposure and fixing capital related limits, as well as authorizing the policies and procedures manuals related to risks.

  The Risk Committee is responsible for monitoring the position and compliance with the risk limits to which the Bank is exposed, and for ensuring adherence to Bank's board of directors' resolutions.

- *Policies and procedures:*

  Policies and procedures are documented in risk manuals that include standard strategies, operating, technological and methodological frameworks of risk management, as well as the corresponding regulatory processes. With respect to legal risk, the methodologies used are documented in a specific manual. Also, these manuals include the definition of third-party liability, as well as the required risk management training programs for the personnel.

- *Methodology:*

  The Bank's methodology framework evaluates market risk and credit risks. Market risk is measured daily using Value at Risk (VaR) statistical techniques, which determine the maximum potential loss in terms of the value of the operating and investment portfolios, through the definition of the sensitivity level with respect to changes in prices, interest and exchange rates and inflation indexes. Also, within the measurement of market risk the liquidity risk of the Bank's balance sheet is determined.

  The measurement of credit risk is based on "Expected Loss" and "Unexpected Loss". The "Expected Loss" is an indicator of current value for payment noncompliance related to the loan portfolio within the next twelve months, while "Unexpected Loss" is an indicator for the spreading of the expected loss.

Quantitative information -

- *Operation and investment portfolio:*

	VaR 1 day (Unaudited)	
Portfolio	**December 31, 2006**	**Average fourth quarter 2006**
Interest rate	Ps. 71,393	Ps. 71,673
Variable income	Ps. 7,044	Ps. 10,296
Foreign exchange	Ps. 4,204	Ps. 4,379
Weighted	Ps. 76,657	Ps. 79,193

33. Contingencies

As of December 31, 2006, the Bank is subject to various legal proceedings and claims. However, in the opinion of its legal counsel, the claims lack foundation, and even if the resolutions are unfavorable, they will not

have a material adverse effect on its financial position or results of operations. The Bank has established reserves totaling Ps. 286,073 in connection with such contingencies.

34. New accounting principles

On September 15, 2006, the Federal Official Gazette published the amendments to the general provisions applicable to Banks, which establish the modification of accounting treatments that will come into effect as of January 1, 2007. These provisions establish that the basic structure of the Bank's accounting systems will be adapted to conform to the NIF defined by CINIF, except when the CNBV determines that a specific standard or accounting treatment must be applied, while recognizing that Banks perform specialized transactions.

The main amendments include the following:

- Foreclosed assets must be considered as nonmonetary items and restated as of January 1, 2007, without recognizing accrued effects.
- Loan commissions collected as of January 1, 2007, must be recognized as deferred loans and applied according to the straight-line method for the duration of the loan.
- Bulletin C-10, *Derivative Financial Instruments and Hedging Activitie*s, must be applied to transactions involving derivative financial instruments, which, together with hedges, must be valued at their market value. Hedge requirements include the obligation to provide follow-up on their effectiveness.

The most significant effects resulting from the initial implementation of these treatments will be recognized in stockholders' equity in January 2007 and will represent a stockholders' equity increase of Ps.2,168,642 derived from the valuation of cash flow hedges and a charge to the results of prior years of Ps.23,217 based on the valuation of fair value hedges.

* * *   * * *

ANNEX A

SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking GAAP as prescribed by the CNBV. Mexican Banking GAAP encompasses General Rules for Banks issued by the CNBV and Mexican Financial Reporting Standards ("MFRS") prescribed by the Mexican Board for the Research and Development of Financial Information Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* ("CINIF")) to the extent that the aforementioned circulars do not address or supersede the accounting to be followed. Mexican Banking GAAP differs in certain significant respects from U.S. GAAP. Such differences might be material to the financial information contained in this offering memorandum. A summary of the significant differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of us, the terms of this offering and the financial information contained in this offering memorandum. Potential investors should consult their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information contained in this offering memorandum.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this offering memorandum a reconciliation of our Mexican Banking GAAP net income and stockholders' equity to U.S. GAAP or a statement of cash flows.

Set forth below is a description of the significant differences between Mexican Banking GAAP and U.S. GAAP.

Loan loss reserve

Under Mexican Banking GAAP, on December 1, 2004 the CNBV's circular "General provisions applicable to the methodology for rating the loan portfolio of banks" became effective. These provisions modify the general methodology for the rating and creation of allowances for loan losses for each type of loan, provide for the assigning to each borrower, whose balance exceeds 900,000 UDIS, of a rating depending on its risks (country, financial and industry), payment records and the value of its guarantees, the remainder is classified parametrically based on the number of months elapsed as of the first default. This rating is used, among other things, to estimate a potential loan loss provision. However, as in our case, the new provisions continue to allow the loan rating and creation of loan loss reserves based on internal methodologies previously authorized by the CNBV.

We assign an individual risk category to each commercial loan based on the borrower's financial and operating risk level, its credit experience and the nature and value of the loans' collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolio, the risk rating procedure and the establishment of loan reserves considers the accounting periods reporting past-due, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

The outstanding balance of past-due loans is recorded as non-performing as follows: (1) loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity; (2) loans with a single payment of principal at maturity and with scheduled interest payments are considered past due 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due; (3) loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 90 days after the first installment is past due; (4) in the case of revolving credit granted, loans are considered

past due when payment has not been received for two normal billing periods and (5) customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

The U.S. GAAP methodology for recognition of loan losses is provided by Statement of Financial Accounting Standard ("SFAS") No. 5, "Accounting for Contingencies" and SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," which establish that an estimated loss should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated.

For larger non-homogeneous loans, all individual loans should be assessed for impairment under SFAS No. 114 (except for large groups of smaller-balance homogeneous loans which are collectively evaluated for impairment). Specific provisions are calculated when it is determined that it is probable that a bank will not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms.

Under U.S. GAAP, estimated losses on impaired loans that are individually assessed are required to be measured at the present value of expected future cash flows discounted at the loan's effective rate, the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent.

To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical loss trends. These ratios are determined by loan type to obtain loss estimates for homogeneous groups of clients. Such historical loss ratios are updated to incorporate the most recent data reflective of current economic conditions, in conjunction with industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information. These updated ratios serve as the basis for estimating the allowance for loan losses for such smaller-balance impaired loans and non-impaired loans.

Under Mexican Banking GAAP, loans may be charged-off when collection efforts have been exhausted or when they have been fully provisioned. On the other hand for U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

Non-accrual loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when certain loans become past due based on the number of past due periods as established by the CNBV.

Under U.S. GAAP, the accrual of interest is generally discontinued when, in the opinion of management, it is expected that the borrower will not be able to fully pay its principal and interest. Generally this occurs when loans are 90 days or more past due. Any accrued but uncollected interest is reversed against interest income at that time.

Loan origination fees and costs

Under Mexican Banking GAAP, loan origination fees are recognized on a cash basis and loan origination costs are expensed as incurred.

Under U.S. GAAP, as required by SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases—an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17," loan origination fees net of direct origination costs are deferred and recognized over the life of the loan as an adjustment of yield (interest income). Loan origination fees and related direct loan origination costs for a given loan are offset and the net amount is deferred and amortized.

Direct loan origination costs of a completed loan include (1) incremental direct costs of loan origination incurred in transactions with independent third parties for that loan and (2) certain costs directly related to specified activities performed by the lender for that loan. Those activities include evaluating the prospective borrower's financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating loan terms; preparing and processing loan documents; and closing the transaction.

Under U.S. GAAP credit card fees and costs are recognized on a straight-line basis over the period the cardholder is entitled to use the card.

Foreclosed assets

Under Mexican Banking GAAP, there are two categories of foreclosed assets: (1) those received as payment in kind and (2) those that are judicially repossessed by order of the courts. For both categories, foreclosed assets are recorded at the lesser of cost or estimated net realizable value.

On date of foreclosure, if the book value (contractual value) of the loan to be foreclosed is higher than net realizable value of the foreclosed asset the difference will be charged to the loan loss allowance. If the book value (contractual value) of the loan to be foreclosed is lower than the net realizable value of the repossessed asset, the carrying amount of the foreclosed asset is the book value of the loan. Foreclosed assets are subsequently adjusted by standard provisions as issued by the CNBV. The provisions depend on the nature of the foreclosed asset and the number of months outstanding.

Under U.S. GAAP, as required by SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," foreclosed assets received in full satisfaction of a receivable are reported at the time of foreclosure or physical possession at their estimated fair value less estimated costs of sale. If the foreclosed asset qualifies as an asset held for a long lived asset to be disposed by sale in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," such asset is thereafter carried at the lower of its carrying amount and fair value less cost of sale. Those assets not eligible for being considered as assets to be disposed of by sale are considered assets to be held and used and are depreciated based on their useful life and are subject to impairment tests under FAS 144.

Investment valuation

Under Mexican Banking GAAP, investments are divided into the following categories:

- Trading securities are defined as those in which management invests to obtain gains from short-term price fluctuations. The unrealized gains or losses resulting from the mark-to-market of these investments are recognized in the statement of income for the period.
- For-sale securities are those in which management invests to obtain medium-term earnings. The unrealized gains or losses resulting from the mark-to-market of these investments, net of deferred taxes and inflation, is recognized in stockholders' equity.
- Held-to-maturity investments are those instruments in which management invests with the intention of holding them until maturity and are recorded at amortized cost.

Certain reclassifications of investments from one line item to another can be approved on a case by case basis by the CNBV.

Under Mexican Banking GAAP, the fair value amounts are determined by independent third party price vendors or in certain cases based on internal valuation methods. The fair value adjustment for available-for-sale securities is reflected in equity and includes the related deferred income tax effects and loss from monetary position. Loss from monetary position related to acquisition costs is charged to income. All amounts are reversed into earnings upon sale or maturity of the securities.

Under Mexican Banking GAAP, provisions must be made for permanent impairment of for-sale securities or held-to-maturity securities. If the conditions that led to the provision being established improve sufficiently, then the provision can be reversed.

Under Mexican Banking GAAP, interest income is recognized based on the straight line method.

Under U.S. GAAP SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities":

- Debt securities must be classified, according to management's intent and ability to hold the security, within one of the following categories: held-to-maturity, trading, or available-for-sale. Marketable equity securities must be classified as either trading securities or available-for-sale securities.
- Trading securities are those actively bought and sold. Such securities are recorded at fair value, with resulting unrealized gains and losses recognized in the statement of income.
- Securities which management has the intent and ability to hold to maturity are classified as held-to-maturity, a classification allowed only for debt securities, except for preferred stock with required redemption dates. Held-to-maturity securities are carried at amortized cost.
- All other debt securities and marketable equity securities that are not classified as debt securities or held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value with the resulting unrealized gains and losses recorded net of applicable deferred taxes as Other Comprehensive Income ("OCI"), a separate component of shareholders' equity until realized, at which time the gain or loss is recorded as income. Non-marketable equity securities are valued at cost, less a provision for other-than-temporary diminution in value.

U.S. GAAP has specific criteria limiting reclassifications of securities within the held-to-maturity classification. If any sales are made from the held-to-maturity portfolio other than in certain specific circumstances, then all held-to-maturity securities are deemed to be tainted and are consequently classified as available-for-sale.

U.S. GAAP does not contemplate the monetary position effect which is presently recognized under Mexican Banking GAAP. Nevertheless, under U.S. GAAP, if there is a decline in carrying amount of an available-for-sale or held-to-maturity security below its fair value, it is judged to be other-than-temporary, the cost basis of the individual security is written down to its fair value and the amount of the write-down is recorded as a charged to income. The new written down value of the security forms the new cost basis of the security. An impairment loss cannot be reversed if conditions improve.

For Mexican Banking GAAP purposes, any foreign currency effects on available-for-sale debt securities are reported in earnings. However, under U.S. GAAP and per EITF 96-15 "Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities," the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities should be reported in stockholders' equity. This fair value serves as the basis under which other-than-temporary impairment is considered.

Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements represent the temporary purchase or sale of certain financial instruments in exchange for a specified premium to be paid or received and with the obligation to resell or repurchase the underlying securities.

Under Mexican Banking GAAP, repurchase and reverse repurchase agreements are recorded as sales and purchases of securities, respectively. A net asset or liability is recorded at the fair value of the forward commitment to repurchase or resell the securities, respectively.

Under U.S. GAAP, repurchase and reverse repurchase agreements are transfer transactions subject to specific provisions and conditions that must be met in order for a transaction to qualify as a sale rather than a secured borrowing, In most cases, banks in the US enter into repurchase and reverse repurchase transactions that qualify as secured borrowings. Accordingly, our assets subject to a repurchase agreement would not be derecognized.

Derivatives

Under Mexican Banking GAAP derivative financial instruments are recorded in accordance with their intended use, either for hedging or for trading purposes. A financial institution should consider CNBV requirements in order to classify a derivative financial instrument as for hedging purposes.

In order for a derivative to qualify as a hedge, certain conditions must be met, such as:

- The hedged item must have a determinable market value. If no determinable market value exists, its fair value must be determinable in a reasonable manner, and should take into consideration market risk and the credit of the company.
- The derivative should reduce risk exposure and should be designated as a hedge.
- From the moment that the derivative contract takes effect, and during the entire life of the contract, there should exist a significant inverse relationship between changes in the fair value of the derivative instrument and the fair value of the hedged item. This relationship must be supported by sufficient statistical evidence.

Under Mexican Banking GAAP, forward contracts that qualify for hedge accounting are recorded as follows: acting as a purchaser, the asset position is recorded at the spot price of the underlying asset multiplied by the number of units specified in the contract, while the liability position is recorded at face value. The difference between both positions at the inception of the contract should be accounted for as a deferred charge, and amortized on a straight line basis over the term of the contract. Subsequent changes in the spot price of the underlying asset are recorded in the statements of income.

In addition, swap contracts that qualify for hedge accounting are recorded in the balance sheet, on the same basis of the hedged assets or liabilities, and changes in value are recorded in each period in the income statement.

Under Mexican Banking GAAP, forward, and swap contracts that do not qualify for hedge accounting are initially recorded at face value. Subsequently, acting as a purchaser, we recognize changes in the fair value of the asset position in the income statement, while the liability position does not change.

Under U.S. GAAP, SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” provides that:

- Derivative financial instruments, although considered to be an effective hedge from an economic perspective that have not been designated as a hedge for accounting purposes are recognized in the balance sheet at fair value with changes in the fair value recognized in earnings concurrently with the change in fair value of the underlying assets and liabilities.
- For all derivative instruments that qualify as fair value hedges for accounting purposes, of existing assets, liabilities or firm commitments, the change in fair value of the derivative should be accounted for in the statement of income, and be fully or partially offset in the statement of income by the change in fair value of the underlying hedged item.
- For all derivative contracts that qualify as hedges of cash flows for accounting purposes, the change in the fair value of the derivative should be initially recorded OCI in stockholders’ equity. Once the effects of the underlying hedged transaction are recognized in earnings, the corresponding amount in OCI is reclassified to the statement of income to offset the effect of the hedged transaction.

- All derivative instruments that qualify as hedges are subject to periodic effectiveness testing. Effectiveness is the derivative instrument's ability to generate offsetting changes in the fair value or cash flows of the underlying hedged item. The ineffective portion of the change in fair value for a hedged derivative is immediately recognized in earnings, regardless of whether the hedged derivative is designated as a cash flow or fair value hedge. Under Mexican Banking GAAP, the designation of a derivative instrument as a hedge of a net position ("macro hedging") is allowed. However, macro hedging is not permitted under U.S. GAAP.

In addition, we apply B-5 "Derivative Financial Instruments" which, under Mexican Banking GAAP, does not consider the existence of derivative instruments embedded in other contracts. However under U.S. GAAP, certain implicit or explicit terms included in host contracts that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument, must be separated from the host contract and accounted for at fair value.

Business combinations

Through December 31, 2004, under Mexican Banking GAAP the excess of the purchase price over the adjusted book value of net assets acquired was recorded as goodwill and amortized over 20 years (negative goodwill if book value exceeded the purchase price was recognized over a period not exceeding five years). Upon the adoption of Bulletin B-7, "Business Acquisitions," which is similar to the required accounting practices established by U.S. GAAP, requires the purchase price to be ascribed to the fair value of separately identifiable assets and liabilities acquired and that the difference between the purchase price and the fair value of identifiable assets and liabilities be allocated to goodwill or negative goodwill, as applicable.

Under U.S. GAAP, SFAS No. 141, "Business Combinations," requires the purchase price over the book value of assets and liabilities acquired to be allocated to the fair value of separately identifiable assets and liabilities acquired. Retail depositor relationships associated with an acquisition of a financial institution by a bank, termed the core deposit intangible, are identified and valued separately. The difference between the purchase price and the fair value of identifiable assets and liabilities results in goodwill or negative goodwill. Negative goodwill is first allocated to reduce the values of long-lived assets acquired and if any negative goodwill remains, then that amount is recognized as an extraordinary gain.

Employee retirement obligations

Under Mexican Banking GAAP, effective January 1, 2005 revised Bulletin D-3 requires the recognition of a severance indemnity liability calculated based on actuarial computations. Similar recognition criteria under U.S. GAAP are established in SFAS No. 112, "Employers' Accounting for Post-employment Benefits," which requires that a liability for certain termination benefits provided under an ongoing benefit arrangement such as these statutorily mandated severance indemnities, be recognized when the likelihood of future settlement is probable and the liability can be reasonably estimated. Mexican Banking GAAP allows amortization of the transition obligation related to the adoption of revised Bulletin D-3 over the expected service life of the employees. However, under U.S. GAAP, it does not exist, which results in a difference in the amount recorded under the two accounting principles.

Under Mexican Banking GAAP, pension and seniority premium obligations are determined in accordance with Bulletin D-3. Under U.S. GAAP, such costs are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions," whereby the liability is measured, similar to Mexican Banking GAAP, using the projected unit credit method at net discount rates. SFAS No. 87 became effective on January 1, 1989 whereas Bulletin D-3 became effective on January 1, 1993. Therefore, a difference between Mexican Banking GAAP and U.S. GAAP exists due to the accounting for the transition obligation at different implementation dates.

Post-retirement benefits are accounted for under U.S. GAAP in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which applies to all post-retirement benefits, such as life insurance provided outside a pension plan or other postretirement health care and welfare benefits expected to be provided by an employer to current and former employees. The cost of post-retirement benefits is recognized over the employees' service periods and actuarial assumptions are used to project the cost of health care benefits and the present value of those benefits. For Mexican Banking GAAP purposes, as required by Bulletin D-3, we account for such benefits in a manner similar to U.S. GAAP. SFAS No. 106 became effective on January 1, 2003 whereas Bulletin D-3 became effective on January 1, 1993. Therefore, a difference between Mexican Banking GAAP and U.S. GAAP exists due to the accounting for the transition obligation at different implementation dates.

Guarantees

For U.S. GAAP purposes, guarantees are accounted for under FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34," which requires that an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee. For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

Equity method investees

Under Mexican Banking GAAP, investments in associated companies in which we have more than a 10% ownership, are accounted for by the equity method.

For U.S. GAAP purposes, investments in associated companies in which we have a 20 to 50% ownership over which we can exert significant influence on the company, but do not have a controlling interest, are accounted for by the equity method. Investments in which we have less than a 20% ownership are generally accounted for under the cost method.

Retained earnings adjustments

Where specific approval is given by the CNBV, certain adjustments and provisions which are created during the year may be charged to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, when adjustments which relate to correction of errors in the prior year occur, the prior period financial statements are required to be restated. Under U.S. GAAP, loss provisions or other operating and non-operating expenses are recognized as a charge to income.

Deferred taxes

Under Mexican Banking GAAP as required by Bulletin D-4, "Accounting for Income Tax, Tax on Assets and Employee Statutory Profit Sharing," income tax and employee statutory profit sharing ("PTU") are charged to results as they are incurred and we recognize deferred income tax assets and liabilities for the future consequences of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases, measured using enacted rates. The effects of changes in the statutory rates are accounted for in the period that includes the enactment date. Deferred income tax assets are also recognized for the estimated future effects of tax loss carry-forwards and asset tax credit carry-forwards. Deferred tax assets are recognized only when it is highly probable that sufficient future taxable income will be generated to recover such deferred tax assets.

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

Under U.S. GAAP, as required by SFAS No. 109, "Accounting for Income Taxes," companies recognize deferred income tax and PTU assets and liabilities for the future consequences of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax or PTU bases, measured using enacted rates. The effects of changes in the statutory rates are accounted for in the period that includes the enactment date. Deferred income tax assets are also recognized for the estimated future effects of tax loss carry-forwards and asset tax credit carry-forwards. Deferred income tax assets are reduced by any benefits that, in the opinion of management, more likely than not will not be realized.

Minority interest

Under Mexican Banking GAAP, minority interest in consolidated subsidiaries is presented as a separate component within the stockholders' equity section of the consolidated balance sheet.

For U.S. GAAP purposes, minority interest is not included in stockholders' equity and is presented below total liabilities and above the stockholder' equity section of the balance sheet.

Consolidation

Under Mexican Banking GAAP, our consolidated financial statements include all of our subsidiaries within the financial sector, as well as those providing complementary services, and exclude those that are not contained in the financial sector.

Under U.S. GAAP, when a company has a controlling financial interest (either through a majority voting interest or through the existence of other control factors) in an entity, such entity's financial statements should be consolidated, irrespective of whether the activities of the subsidiary are nonhomogeneous with those of the parent.

In addition to the traditional concept of consolidation, on January 17, 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities- an Interpretation of ARB No. 51," replaced in December 2003, by Interpretation No. 46(R) "Consolidation of Variable Interest Entities- an interpretation of APB 51" ("FIN 46R"), which contained certain clarifications to address accounting for variable interest entities. The primary purpose of FIN46R is to provide guidance on the identification of, and financial reporting for, entities over which control is achieved through means other than voting rights; such entities are known as variable-interest entities ("VIEs"). Generally, VIEs are to be consolidated by the primary beneficiary which represents the enterprise that will absorb the majority of the VIE's expected losses if they occur, receive a majority of the VIE's residual returns if they occur, or both. Qualifying Special Purpose Entities ("QSPE") and certain other entities are exempt for the consolidation provisions of FIN 46R. As described in SFAS No. 140, par. 35, a QSPE is a trust or other legal vehicle that meets certain conditions. Under U.S. GAAP, a QSPE is not consolidated in the financial statements of a transferor or its affiliates.

Effects of inflation

Under Mexican Banking GAAP and in accordance with CNBV rules, which are substantially the same as those provisions set forth in Bulletin B-10, the effects of inflation have been recognized in the financial information. Fixed assets, stockholders' equity and other non-monetary assets are restated to constant purchasing power by applying the change in the UDI Index published as of the end of each reporting period. Depreciation is calculated using the straight-line method, based on the remaining useful lives of the assets.

The gain or loss from monetary position, which represents the erosion of the purchasing power of monetary items caused by inflation, is determined by applying at each month-end through the end of the year an inflation factor derived from the UDI Index to the monthly average variation in net monetary assets or liabilities. This effect is recorded on the statement of income.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items. Typically, however, no gain or loss on monetary position is recognized in the financial statements.

The recording of appraisals of fixed assets is prohibited, with the objective of maintaining historical cost in the balance sheet.

Although the effects of inflation are not recognized in the financial statements under U.S. GAAP, the SEC recognizes that presentation indicating the effects of inflation is more meaningful than historical cost-based financial reporting for Mexican entities because it represents a comprehensive measure of the effects of price level changes in the inflationary Mexican economy. For this reason, the effects of inflation accounting are generally not eliminated from the financial statements of Mexican companies making offerings in the United States securities markets in situations when Mexican MFRS or Mexican Banking GAAP are reconciled to U.S. GAAP.

In addition, under MFRS, Bulletin B-15, "Foreign Currency Transactions and Translation of Financial Statements of Foreign Operations" allows the restatement of information for prior periods in order to compare such information to information of the most current period presented, based on a weighted average restatement factor that reflects the relative inflation and currency exchange movements of the countries in which we operate. The restatement provisions of Bulletin B-15 do not meet the SEC's Regulation S-X requirement that the financial statements be stated in the same currency for all periods, because changes in foreign currency exchange rates are included in the restatement factor. Under U.S. GAAP, the primary financial statements should be presented in the same constant reporting currency for all periods.

Statement of cash flow

Under MFRS, Bulletin B-12, "Statement of Changes in Financial Position," addresses the presentation of statement of changes in financial position where the financial statements have been restated to constant pesos. The changes in financial position reflected in the statement of changes in financial position are based on the differences between the beginning and ending balances in the financial statement components, except for certain non-monetary assets which are adjusted by the applicable result from holding non-monetary assets recorded directly to stockholders' equity. As required by Bulletin B-12, the monetary effect and the effect of changes in the exchange rates are considered cash items in the determination of resources generated from operations due to the fact they affect the purchasing power of the entity.

Under U.S. GAAP, SFAS No. 95, "Statement of Cash Flows," establishes the standards for providing a statement of cash flows in general purpose financial statements. Under U.S. GAAP, presentation of a statement of cash flows describing the cash flow provided by or used in operating, investing and financing activities is required. SFAS No. 95 does not provide guidance with respect to financial statements adjusted for inflation. However the AICPA International Practices Task Force has issued guidance for Mexican companies for the preparation of price-level adjusted cash flow statements. Under such guidance, a fourth caption, in addition to operating, financing, and investing activities named "Effects of inflation on cash and cash equivalents" is presented, which is similar to the concept of the effects of exchange rate on cash and cash equivalents as prescribed by SFAS No. 95.

Recent Mexican Banking GAAP pronouncements

On September 15, 2006, the Official Gazette of Mexico published the amendments to the general provisions applicable to banks, which establish the modification of accounting treatments that will come into effect as of January 1, 2007. These provisions establish that the basic structure of institutions' accounting systems will be adapted to conform to the MFRS defined by CINIF, except when the CNBV determines that a specific standard or accounting treatment must be applied, while recognizing that banks perform specialized transactions.

The main amendments include the following:

- Foreclosed assets must be considered as non-monetary items and restated as of January 1, 2007, without recognizing accrued effects.
- Loan commissions collected as of January 1, 2007, must be recognized as deferred loans and applied according to the straight-line method for the duration of the loan.
- Bulletin C-10, "Derivative Financial Instruments and Hedging Activities," must be applied to transactions involving derivative financial instruments, which, together with hedges, must be valued at their market value. Hedge requirements include the obligation to provide follow-up on their effectiveness.

Recent U.S. GAAP pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140." This Statement improves financial reporting by eliminating the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. This statement also improves financial reporting by allowing a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement (new basis) event occurring after the beginning of the Company's first fiscal year that begins after September 15, 2006.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." SFAS No. 156 amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable and permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. An entity can elect subsequent fair value measurement of its servicing assets and servicing liabilities by class, thus simplifying its accounting and providing for income statement recognition of the potential offsetting changes in fair value of the servicing assets, servicing liabilities, and related derivative instruments. An entity that elects to subsequently measure servicing assets and servicing liabilities at fair value is expected to recognize declines in fair value of the servicing assets and servicing liabilities more consistently than by reporting other-than-temporary impairments. SFAS No. 156 is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006.

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the

benefit that is greater than 50% likely of being realized upon ultimate settlement. Any difference between the tax position taken in the tax return and the tax position recognized in the financial statements using the criteria above results in the recognition of a liability in the financial statements for the unrecognized benefit. Similarly, if a tax position fails to meet the more-likely-than-not recognition threshold, the benefit taken in tax return will also result in the recognition of a liability in the financial statements for the full amount of the unrecognized benefit. FIN 48 will be effective for fiscal years beginning after December 15, 2006 (including the first interim period for calendar year companies) and the provisions of FIN 48 will be applied to all tax positions under SFAS No. 109 upon initial adoption. The cumulative effect of applying the provisions of this interpretation will be reported as an adjustment to the opening balance of retained earnings for that fiscal year.

SP FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" (FSP 13-2) was issued on July 13, 2006. The principal provision of FSP 13-2 is the requirement that a lessor recalculate the recognition of lease income when there is a change in the estimated timing of the cash flows relating to income taxes generated by such leveraged lease. FSP 13-2 is effective as of January 1, 2007 and requires that the cumulative effect of adoption be reflected as an adjustment to the beginning balance of retained earnings in the period of adoption with a corresponding offset decreasing the net investment in leveraged leases.

On July 13, 2006, the FASB released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. FIN 48 became applicable on January 1, 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 clarifies the definition of exchange price as the price between market participants in an orderly transaction to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No.87, 88, 106, and 132(R)." SFAS No. 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position, to recognize changes in that funded status in the year in which the changes occur through comprehensive income as well as prescribing additional disclosure requirements. The provisions of this statement are effective for an employer with publicly traded equity securities, or controlled subsidiaries of such companies, in fiscal years ending after December 15, 2006. In addition, a company must now measure the fair value of its plan assets and benefit obligations as of the date of its year-end balance sheet. A company is no longer permitted to measure the funded status of its plan(s) by being able to choose a measurement date up to three months prior to year-end. This provision within the Standards is effective for all companies in fiscal years ending after December 15, 2008.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this statement permits all entities to choose to measure eligible items at fair

value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The provisions of this statement are effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007.

EITF Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," was issued on November 3, 2005. This FASB Staff Position ("FSP") addresses the determination as to when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting consideration subsequent to the recognition of other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," and APB Opinion No. 18, "The Equity method of accounting for Investments in Common Stock."

ISSUER

BBVA Bancomer S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer acting through its Cayman Island Branch

Principal Office
Av. Universidad 1200
Col. Xoco, C.P. 03339
Mexico D.F., Mexico

Grand Cayman branch
Bank of America Building
Fort Street 67, Unit Three Ground Floor,
George Town, Grand Cayman,
Cayman Islands

INITIAL PURCHASERS

Banco Bilbao Vizcaya Argentaria, S.A.
Vía de los Pobaldos, s/n
20033 – Madrid
Spain

Credit Suisse Securities (USA) LLC
Eleven Madison Avenue
New York, New York 10010-3629
United States of America

Deutsche Bank Securities Inc.
60 Wall Street
New York, New York 10005
United States of America

LEGAL ADVISORS

To the Issuer:

As to Mexican law:
José Fernando Pío Díaz Castañares
Av. Universidad 1200
Col. Xoco, C.P. 03339
Mexico D.F., Mexico

As to New York law:
Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, New York 10006
United States of America

As to Cayman Islands law:
Walkers
Walker House, 87 Mary Street
George Town, Grand Cayman,
KY1-9001 Cayman Islands

To the Initial Purchasers:

As to Mexican law:
Ritch Mueller S.C.
Torre del Bosque
Blvd. M. Avila Camacho No. 24, Piso 20
Col. Lomas de Chapultepec, C.P.11000
Mexico D.F., Mexico

As to New York law:
Shearman & Sterling LLP
599 Lexington Ave.
New York, New York 10022
United States of America

AUDITORS

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu
Paseo de la Reforma 505, Piso 28
Col. Cuauhtémoc, C.P. 06500
Mexico D.F., Mexico

TRUSTEE, PAYING AGENT, TRANSFER AGENT AND REGISTRAR

The Bank of New York
101 Barclay Street, 4E
New York, New York 10286
United States of America

LUXEMBOURG LISTING AGENT, TRANSFER AGENT AND PAYING AGENT

The Bank of New York (Luxembourg), S.A.
Aerogolf Centre, IA Hoehenhof
L-1736 Senningerberg
Grand Duchy of Luxembourg

BBVA
Bancomer