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

Consolidated Financial Statements

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

(Free Translation from Spanish Language Original)

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Independent Auditors' Report

(Free translation from Spanish language original)

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

We have examined the accompanying consolidated balance sheets of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries ("the Group") as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended, in conformity with the accounting criteria established by the Banking Commission for financial group holding companies in Mexico, as described in note 2 to the consolidated financial statements.

KPMG CARDENAS DOSAL, S. C.

Alejandro De Alba Mora

February 10, 2006

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

Consolidated Balance Sheets

December 31, 2005 and 2004

(Millions of constant Mexican pesos as of December 31, 2005)

Assets	2005	2004
Cash and cash equivalents (note 5)	$ 22,389	19,744
Investment securities (note 6):		
Trading	5,471	10,537
Available-for-sale	6,031	153
Held-to-maturity	1,910	3,604
	13,412	14,294
Securities and derivatives transactions:		
Debit balances of repurchase/resell agreements (note 7)	50	26
Securities lending (note 7)	24	8
Derivative financial instruments (note 8)	1	12
	75	46
Current loan portfolio (note 9):		
Commercial loans	22,880	20,412
Financial institutions	7,978	7,916
Consumer loans	13,897	12,275
Residential mortgages	16,287	13,311
Government entities	19,064	17,145
Total current loan portfolio	80,106	71,059
Past due loan portfolio (note 9):		
Commercial loans	637	745
Consumer loans	425	187
Residential mortgages	469	844
Other past-due debt	13	20
Total past due loan portfolio	1,544	1,796
Total loan portfolio	81,650	72,855
Less:		
Allowance for loan losses (note 9h)	3,018	3,394
Loan portfolio, net	78,632	69,461
Other accounts receivable, net	1,695	1,935
Foreclosed assets (note 10)	159	285
Premises, furniture and equipment, net (note 11)	2,131	2,136
Permanent investments in shares (note 12)	446	481
Deferred taxes (note 17)	183	43
Other assets, deferred charges and intangibles	790	357
Total assets	$ 119,912	108,782

Liabilities and Stockholders' Equity	2005	2004
Deposit funding (note 13):		
Demand deposits	$ 41,062	36,121
Time deposits	45,669	45,666
Bank bonds	2,217	–
	88,948	81,787
Bank and other loans (note 14):		
Due on demand	6,148	4,813
Short-term	929	962
Long-term	3,649	4,749
	10,726	10,524
Assigned securities pending settlement (note 6)	64	321
Securities and derivatives transactions:		
Credit balances of repurchase/resell agreements (note 7)	53	16
Securities lending (note 7)	34	1
Derivative financial instruments (note 8)	63	4
	150	21
Other accounts payable:		
Income tax and employee statutory profit sharing payable (note 17)	279	109
Sundry creditors and other accounts payable	3,697	3,670
	3,976	3,779
Deferred credits	284	345
Total liabilities	104,148	96,777
Stockholders' equity (note 18):		
Paid-in capital:		
Capital stock	4,168	4,168
Earned capital:		
Statutory reserves	353	232
Unappropriated retained earnings	6,724	4,410
Unrealized gain from valuation of available-for-sale securities	105	9
Gain from holding nonmonetary assets:		
From valuation of premises, furniture and equipment	2	2
From valuation of permanent investments in shares	751	749
Net income	3,661	2,435
	11,596	7,837
Total stockholders' equity	15,764	12,005
Commitments and contingencies (note 21)		
Total liabilities and stockholders' equity	$ 119,912	108,782

(Continued)

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

Consolidated Balance Sheets, continued

December 31, 2005 and 2004

(Millions of constant Mexican pesos as of December 31, 2005, except historical capital stock)

Memorandum accounts

Transactions on behalf of third parties	2005	2004
Customer current accounts-		
Customer banks	$ 4	8
Settlement of customer transactions	57	12
	61	20
Customer securities (note 19)-		
Customer securities in custody	128,468	113,139
Guarantee securities and documents	1,470	1,324
	129,938	114,463
Transactions on behalf of customers-		
Customer repurchase/resell agreements (note 19)	40,129	44,847
Customer securities loan transactions	20	13
Managed trusts	51	47
Investments on behalf of customers, net (note 19)	34,506	31,418
	74,706	76,325
Total for third parties	$ 204,705	190,808

Transactions for own account	2005	2004
Memorandum accounts-		
Guarantees issued (note 19)	$ 872	309
Irrevocable lines of credit (note 19)	1,243	1,157
Assets in trust or under mandate (note 19)	120,311	103,218
Assets in custody or under management (note 19)	132,774	124,440
Securities in custody	6,645	688
Government securities in custody	229	125
Pledged securities	793	538
Securities held overseas	29	11
Other contingent liabilities	1,110	1,030
	264,006	231,516
Repurchase/resell agreements (note 7):		
Securities receivable	81,798	83,466
Less - Creditors under repurchase agreements	81,825	83,449
	(27)	17
Debtors under resell agreements	32,708	38,755
Less - Securities deliverable	32,684	38,762
	24	(7)
Net repurchase/resell agreements	(3)	10
Total for own account	$ 264,003	231,526

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

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

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

Anatol von Hahn General Director	Jean-Luc Rich Deputy General Director Group Finance	Ken Pflugfelder Deputy Divisional Director Group Audit	Gordon Macrae Director of Group Accounting

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Income

Years ended December 31, 2005 and 2004

(Millions of constant Mexican pesos as of December 31, 2005)

	2005	2004
Interest income (note 20)	$ 19,118	13,634
Interest expense (note 20)	(12,486)	(8,081)
Monetary position loss, net	(245)	(405)
Financial margin	6,387	5,148
Provision for loan losses (note 9h)	(863)	(566)
Financial margin after provision for loan losses	5,524	4,582
Commissions and fee income	2,315	2,013
Commissions and fee expense	(358)	(411)
Financial intermediation income (note 20)	827	794
Total operating income	8,308	6,978
Administrative and promotional expenses	(6,328)	(6,020)
Net operating income	1,980	958
Other income (note 20)	2,233	1,568
Other expense (note 20)	(398)	(133)
Income before taxes and employee statutory profit sharing (ESPS) and equity in the results of operations of non- consolidated subsidiaries and associated companies	3,815	2,393
Current income tax (IT), asset tax and ESPS (note 17)	(332)	(169)
Deferred IT and ESPS (note 17)	208	256
Income before equity in the results of operations of non-consolidated subsidiaries and associated companies	3,691	2,480
Equity in the results of operations of non-consolidated subsidiaries and associated companies, net	(30)	(45)
Net income	$ 3,661	2,435

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

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

Anatol von Hahn
General Director

Jean-Luc Rich
Deputy General Director Group Finance

Ken Pflugfelder
Deputy Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2005 and 2004

(Millions of constant Mexican pesos as of December 31, 2005)

	Capital stock	Earned capital: Statutory reserves	Unappropriated retained earnings	Unrealized gain from valuation of available-for-sale securities	Gain from holding non-monetary assets: From valuation of premises, furniture and equipment	From valuation of permanent investments in shares	Net income	Total stockholders' equity
Balances at December 31, 2003	$ 4,168	133	2,628	2	1	763	1,975	9,670
Change resulting from stockholders' resolutions:								
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2004:								
Appropriation of net income for 2003	–	99	1,876	–	–	–	(1,975)	–
Changes related to the recognition of comprehensive income (note 18b):								
Effect from change in accounting policy – Initial recognition of application of the new provisions on reserves for foreclossed assets and assets received in lieu of payment (note 10)	–	–	(94)	–	–	–	–	(94)
Valuation effects	–	–	–	7	1	(14)	–	(6)
Net income	–	–	–	–	–	–	2,435	2,435
Total comprehensive income	–	–	(94)	7	1	(14)	2,435	2,335
Balances at December 31, 2004	4,168	232	4,410	9	2	749	2,435	12,005
Change resulting from stockholder's resolutions:								
Resolution passed at the Ordinary and Special General Stockholders' Meeting of April 22, 2005 – Appropriation of net income for 2004	–	121	2,314	–	–	–	(2,435)	–
Changes related to the recognition of comprehensive income (note 18b):								
Valuation effects, net of deferred taxes of $68 in the case of available-for-sale securities	–	–	–	96	–	2	–	98
Net income	–	–	–	–	–	–	3,661	3,661
Total comprehensive income	–	–	–	96	–	2	3,661	3,759
Balances at December 31, 2005	$ 4,168	353	6,724	105	2	751	3,661	15,764

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

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

Anatol von Hahn
General Director

Jean-Luc Rich
Deputy General Director Group Finance

Ken Pflugfelder
Deputy Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Financial Position

Years ended December 31, 2005 and 2004

(Millions of constant Mexican pesos as of December 31, 2005)

		2005	2004
Operating activities:			
Net income	$	3,661	2,435
Income statement items not requiring (providing) funds:			
Provision for loan losses		863	566
Equity in results of operations of non-consolidated subsidiaries and associated companies		30	45
Allowance for foreclosed asset impairments		12	46
Valuation of securities under repurchase/resell agreements, derivative transactions and investment securities		81	(5)
Deferred income tax and employee statutory profit sharing		(208)	(256)
Depreciation and amortization		145	136
Other income statement items not requiring funds		140	-
Funds provided by operations		4,724	2,967
Changes in items related to operations:			
(Decrease) increase in operating liabilities:			
Deposit funding		7,161	(2,137)
Bank and other loans		202	4,384
Other, net		297	(149)
(Increase) decrease in operating assets:			
Loan portfolio		(10,034)	(8,893)
Investment securities		970	5,140
Securities, derivatives transactions and assigned securities pending settlement		(162)	163
Funds provided by operating activities		3,158	1,475
Investing activities:			
Acquisition of premises, furniture and equipment, net		(140)	(106)
Decrease in foreclosed assets		114	113
Decrease (increase) in permanent investments in shares		7	(21)
Increase in other assets and deferred credits, net		(494)	(221)
Funds used in investing activities		(513)	(235)
Increase in cash and cash equivalents		2,645	1,240
Cash and cash equivalents:			
At beginning of year		19,744	18,504
At end of year	$	22,389	19,744

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

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

Anatol von Hahn
General Director

Jean-Luc Rich
Deputy General Director Group Finance

Ken Pflugfelder
Deputy Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(Millions of constant Mexican pesos as of December 31, 2005)

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

(1) Description of business and significant transactions-

Description of business-

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

At December 31, 2005 and 2004, the Holding Company and its subsidiaries (the Group) includes Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (the Bank), a multiple service banking institution that, among other activities, accepts deposits from the general public, grants and receives loans, engages in securities transactions and provides trust services; Scotia Inverlat Casa de Bolsa, S. A. de C. V. Grupo Financiero Scotiabank Inverlat (the Brokerage Firm), which acts as intermediary in securities and financial transactions; and Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat (the Mutual Fund Management Company), which acts as a mutual fund management company in conformity with applicable laws.

Significant transactions-

On June 30, 2005 the Bank announced a program for issuing revolving banking debt certificates for a total authorized amount of $5,000. The certificates may be issued as determined by the Bank for as long as the program is in force providing the value of the outstanding certificates does not exceed the program's total amount. The program will be effective for 48 months following the authorization date. As of December 31, 2005 certificates worth $2,200 had been placed (see note 13).

At the Stockholders' Meeting held on April 22, 2005 a resolution was passed to spin off $350 (nominal) assets of Brokerage Firm, these assets mainly include the stocks of twelve mutual funds, of Scotia Derivados, S. A. de C. V. and investment securities, and to constitute on that date Lepidus, S. A. de C. V., which was immediately merged with the Bank.

On March 23, 2004, BNS acquired from the Bank Savings Protection Institute a 7.3% equity of the Group, thus holding 97.3% of stock; the 2.7% remainder is still held by minority stockholders.

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

(2) Summary of significant accounting policies-

(a) Financial statement presentation and disclosure-

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

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

The consolidated financial statements also include the financial statements of the Bank's UDI Trusts (restructured loan portfolio), created for the purpose of managing restructured loans through Federal Government support programs (see note 9f), where the Bank acts as grantor and trustee and the Mexican Government is the trust beneficiary. The trusts have been valued and presented in conformity with the accounting rules prescribed by the Banking Commission.

In general, the accounting criteria established by the Banking Commission conform to accounting principles generally accepted in Mexico ("Mexican GAAP"), issued by the Mexican Institute of Public Accountants (IMCP, see note 23) and include particular rules relating to accounting, valuation, presentation and disclosure, which depart from such principles - see paragraphs (b), (d), (e) and (1) of this note, and paragraph (c) for 2004, which by virtue of the revision in 2005 of Bulletin C2 of Mexican GAAP include the valuation effects of available-for-sale securities under comprehensive income which were previously reported in results of operations.

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

(Continued)

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

December 31,	UDI	Annual inflation
2005	$ 3.6375	2.91%
2004	3.5347	5.45%
2003	3.3520	3.91%

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

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

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

The 2004 consolidated financial statements include certain reclassifications to conform to the classifications used in 2005.

(b) Cash and cash equivalents-

Cash and cash equivalents consist of cash on hand, precious metals (coins), deposits with banks, 24 and 48-hour foreign currency purchase and sale transactions, margin accounts related to standardized futures and options contract transactions made on the Mexican Derivatives Exchange, bank loans with original maturities of up to three days ("Call Money") and deposits with the Central Bank, which include the statutory monetary deposits that, in conformity with the Law, are maintained, in order to regulate the liquidity in the financial markets; such deposits have no maturity and bear interest at the average bank funding rate. In conformity with Bulletin C-10 of Mexican GAAP, beginning January 1, 2005, the aforementioned margin accounts would be reported in "Transactions with derivative financial instruments".

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

(c) ***Investment securities-***

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

Trading securities-

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

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

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

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

Available-for-sale securities-

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

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Held-to-maturity securities-

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

Transfers between categories-

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

(d) Securities under repurchase/resell agreements-

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

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

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

(e) Transactions with derivative financial instruments-

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

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

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

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

The abovementioned policies depart from Bulletin C-10 of Mexican GAAP, which provides that derivative financial instruments are to be recognized at fair value without taking in to consideration management's intentions. Changes in fair value of trading derivative financial instruments are recognized in the income statement in integral cost of financing, whereas those related to hedges are recognized in the same caption of the income statement in which the valuation result of the primary position is recognized or in comprehensive financial income.

(f) Clearing accounts-

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

(Continued)

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

(g) Past due loans and interest-

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

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

Commercial installment loans – 90 or more days after the first unpaid installment of principal and interest, or 30 or more days in the case of principal.

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

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

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

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

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

Past due loans are reclassified as current when the past due principal and interest has been fully paid by the debtor, except for restructured loans or renewals, which are transferred when three timely consecutive past-due payments have been made (sustained payment).

(h) Allowance for loan losses-

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

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

In compliance with the *General Provisions applicable to the Loan Portfolio Grading Methodology for Credit Institutions* ("the Provisions"), the Bank, based on the results from its internal grading model, references its gradings to those of the "Provisions" so as to validate the adequacy of the allowance. Loans granted to Federal and Municipal Entities, self-paying Investment Projects, trustees acting under Trusts and "structured" loan schemes which permit an evaluation of the related risk, are individually graded in conformity with the methodologies prescribed by said "Provisions" (see note 22).

Graded residential mortgage and consumer loans – These loans are parametrically evaluated in conformity with the "Provisions" that establish rules for establishing allowances to recognize potential loan losses based on past due installments probability of default, and expected loss given default.

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

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

General reserves – In conformity with the "Provisions", those allowances resulting from risk level "A".

Specific reserves – Those allowances resulting from risk levels "B", "C", "D" and "E".

Impaired loan portfolio – For financial statement disclosure purposes, commercial loans rated as having risk levels "C", "D" and "E" are regarded by the Bank as impaired loans, without giving consideration to improvements in risk levels resulting from the secured portion of the loan, as are loans that although current as a result of negotiations in which a forgiveness, reduction or settlement was authorized at the end of the agreed-upon term, and loans payable by individuals classified as undesirable customers.

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

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

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

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

(i) Other accounts receivable-

Amounts related to sundry debtors not recovered within 90 days following the initial recording (60 days for unidentified balances), are provided for and charged to results of operations, irrespective of the probability of recovery, except for those related to recoverable tax, creditable value-added tax and settlement account balances. Up until December 31, 2004, management evaluated the recoverability of over 30-day debit balances arising from non-credit transactions and, if necessary, such balances were provided for and charged to results of operations for the year. The effect of this change is immaterial.

(j) Foreclosed assets and assets received in lieu of payment-

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

(Continued)

(Millions of constant Mexican pesos as of December 31, 2005)

Foreclosed assets are written down to reflect any impairment in value through a charge to results of operations for the year. The Bank creates additional reserves on a quarterly basis to recognize potential impairment in asset value resulting from the passage of time, in conformity with the "Provisions" referred to in (h) of this note. The reserves are established based on the following table:

	Reserve percentage	
Months elapsed from the date of foreclosure or received in lieu of payment	**Premises**	**Chattels, receivables and investment securities**
Over: 6	0%	10%
12	10%	20%
18		45%
24	15%	60%
30	25%	100%
36	30%	
42	35%	
48	40%	
54	50%	
60	100%	

(k) ***Premises, furniture and equipment-***

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

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

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

(l) ***Permanent investments in shares-***

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

(Continued)

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

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

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

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

Deferred income tax as well as deferred ESPS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A deferred tax asset is not recognized for the Bank's tax loss carryforwards since utilization is contingent upon compliance with all conditions agreed upon with the IPAB (see note 17). The effect is recognized as realized.

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

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

(Continued)

(n) ***Deposit funding-***

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

(o) ***Bank and other loans-***

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

(p) ***Pensions, seniority premiums, post-retirement benefits, and obligations for payments upon termination of labor relationship -***

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

The net periodic cost and accrued liabilities for pensions and seniority premiums and post-retirement benefits are recorded in results of operations for the year, and determined by independent actuaries using the projected unit credit method and real interest rates in accordance with Bulletin D-3.

Beginning January 1, 2005, Bulletin D-3 issued by the Mexican Institute of Public Accountant establishes a new provision that includes a reserve for compensation to employees upon termination of the labor relationship (severance liability), for reasons other than restructuring. Up until December 31, 2004, all other compensation to which employees were entitled in case of employment termination or disability were charged to operations as incurred. The effect of this change on the results of operations for the year is immaterial.

(Continued)

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

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

(r) Gain or loss from holding non-monetary assets-

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

(s) Monetary position gain or loss-

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

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

(t) Revenue recognition-

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

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

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

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

(Continued)

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

(u) Customer securities-

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

(v) Foreign currency transactions-

The accounting records are maintained in both Mexican pesos and foreign currencies. For financial statement presentation purposes, currencies other than dollars are translated to dollars at the exchange rates as established by the Banking Commission, and the dollar equivalent, together with dollar balances, is then translated into Mexican pesos using the exchange rate determined by the Central Bank. Foreign exchange gains and losses are reflected in results of operations for the year.

(w) UDI Trusts-

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

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

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

According to the Law, IPAB guarantees depositors' accounts up to 400,000 UDIS (5 million UDIS in 2004).

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

(Continued)

(y) Contingencies-

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

(3) Accounting change-

Labor obligations

Beginning January 1, 2005, the Group adopted the Bulletin D-3, Labor Obligations, of Mexican GAAP issued by the Mexican Institute of Public Accountants, regarding the recognition of a liability for compensation to employees upon termination of the labor relationship before retirement age (severance liability), for reasons other than restructuring, as determined by independent actuarial computations, based on the projected unit credit method, using real interest rates. On adoption and in conformity with the option established, the Group recognized an unamortized asset and a liability of $277. Amortization is based on the estimated average service lives of the employees entitled to such compensation, and resulted in an expense for the year of $30.

(4) Foreign currency position-

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

The Bank has been authorized by the Central Bank to maintain a greater long position, which includes a capital hedge of up to 50 million dollars in 2005 and 2004. Accordingly, as of December 31, 2005 and 2004, the Bank's long position is within the authorized limits. At December 31, 2005 and 2004, the maximum long and short positions authorized by the Central Bank for the Brokerage Firm is $118 and $144 (nominal), respectively, that is equivalent to 15% of the Brokerage Firm's global capital which is $789 and $958 in each year.

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The consolidated foreign currency position at December 31, 2005 and 2004 stated in millions of dollars is analyzed as follows:

	2005	2004
Assets	1,031	963
Liabilities	(942)	(905)
Long position	89	58

At December 31, 2005, the long foreign currency position consists of 99% in US dollars (97% in 2004), 0.1% in euros (2% in 2004) and 0.9% in other foreign currencies (1% in 2004).

At December 31, 2005 and 2004, the exchange rate of the peso to the dollar was $10.63 and $11.15, respectively.

(5) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2005 and 2004, are analyzed as follows:

	2005	2004
Cash on hand	$ 1,454	1,477
Deposits with domestic and foreign banks	5,299	5,008
Deposits with Banco de México	13,039	12,382
Clearing house margin account	141	153
Three-day interbank call money	2,425	911
24 and 48-hour foreign currency sales	(1,175)	(914)
Other funds available	125	115
Restricted funds:		
24 and 48-hour foreign currency purchases	1,081	612
	$ 22,389	19,744

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According to Central Bank regulations, the Bank is required to maintain statutory monetary deposits with the Central Bank to regulate the liquidity in the financial system. Such deposits have no maturity and bear interest at the average bank funding rate. At December 31, 2005 and 2004, the statutory monetary deposits with the Banco de México amount to $12,452 and $10,357, respectively.

At December 31, 2005 and 2004, the Group had the following three-day interbank loans ("Call money"):

	2005			2004		
Institution	**Amount**	**Rate**	**Term**	**Amount**	**Rate**	**Term**
BBVA Bancomer, S. A.	$ 424	8.25%	3 days	669	8.70%	3 days
Banco Nacional de México, S. A.	2,001	8.25%	3 days	–	–	–
Banco Mercantil del Norte, S. A.	–	–	–	201	8.70%	3 days
HSBC México, S. A.	–	–	–	41	8.70%	3 days
	$ 2,425			911		

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

	Receivable		Deliverable	
	2005	**2004**	**2005**	**2004**
Dollar	$ 1,036	533	1,130	835
Other currencies	45	79	45	79
	$ 1,081	612	1,175	914

(Continued)

(Millions of constant Mexican pesos as of December 31, 2005)

(6) Investment securities-

(a) Composition-

At December 31, 2005 and 2004, the Group's investment securities are as follows:

		Fair value	
		2005	**2004**
Trading (short term):			
Debt securities:			
Government securities (see note 7)	$	3,520	9,192
Bank promissory notes		1,376	1,164
Treasury bills (CETES)		259	128
Value date transactions (CETES)		–	(99)
Mutual fund shares		204	75
Other		112	77
		5,471	10,537
Available-for-sale:			
Shares [1]		425	153
Debt securities:			
Government securities		5,606	–
		6,031	153
Held-to-maturity (long term):			
Special CETES of the UDI Trusts:			
Domestic productive plant		381	816
States and municipalities [2]		(21)	(21)
Residential mortgages		1,415	1,398
		1,775	2,193
M bonds [3]		–	1,116
MYRAS		109	257
Other		26	38
		1,910	3,604
Total investment securities	$	13,412	14,294

[1] [2] and [3] see next page.

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except value per share)

(1) Includes 23,308,845 shares of an entity engaged in air transportation with a net book of 82 cents per share, which is below the market value determined by the price vendor as of December 31, 2005 of $4.08 per share. The Bank's management decided to maintain those shares valued at a price below market price due to the uncertainty as to the realizability of such a gain, based on the current depressed condition of the airline industry worldwide, and the high volatility of the market value and low negotiability of those shares listed on the Mexican Stock Exchange.

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

(3) In 2005, Banco de México implemented a new Interbank Electronic Payment System (SPEI); and credit institutions ceased to used the Extended Use Electronic Payment System (SPEUA). Accordingly, Banco de México resolved to eliminate the SPEUA-related provision in force in 2004, which included the obligation to pledge in guarantee held-to-maturity securities in the amount of $756.

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

At December 31, 2005 and 2004, investments in non-government debt securities of the same issuer do not exceed 5% of the Bank's net capital.

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

At December 31, 2005 and 2004, investments in debt securities other than government securities, of the same issuer that exceeded 5% of the Brokerage Firm's global capital are as follows:

Issue	Certificates	Rate	Term (days)	Amount
December 31, 2005				
BANOBRA 06011	118,400,364	8.25%	3	$ 118
December 31, 2004				
INGBANK 05011	142,415,657	8.75%	3	$ 146
INAFIN 05015	415,156,810	8.80%	22	426

(Continued)

(Millions of constant Mexican pesos as of December 31, 2005)

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

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

Issue	Coupon rate	Amount	Unexpired term (days)
M 081224	8.00%	$ 417	1,454
M 101223	8.00%	389	2,183
M 131219	8.00%	310	3,275
		$ 1,116	

(e) Assigned securities pending settlement-

At December 31, 2005 and 2004, assigned securities pending settlement are analyzed as follows:

Issuer	Series	Number of certificates	Average rate	Term (days)	Asset (liability) amount
December 31, 2005					
Purchases:					
M Bonds	111222	100,000	8.10%	4	$ 11
M5 Bonds	070308	200,000	6.56%	4	21
Total purchases					32
Sales:					
LS Bond 182	061109	307,239	8.12%	315	(31)
M Bonds	141218	400,000	8.28%	3,276	(43)
M5 Bonds	070308	200,000	6.56%	433	(22)
Total sales					(96)
					$ (64)
December 31, 2004					
Sales:					
BI Cetes	050623	15,000,000	8.42%	171	$ (148)
BI Cetes	050331	10,000,000	8.76%	87	(101)
BI Cetes	051124	5,000,000	8.50%	325	(49)
M Bonds	231207	150,000	9.99%	6,911	(12)
M0 Bonds	110714	100,000	8.91%	2,383	(11)
					$ (321)

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(7) Securities under repurchase/resell agreements-

At December 31, 2005 and 2004, the Group's repurchase/resell agreements are analyzed as follows:

	2005			
	Receivables under resell agreements	Securities deliverable	Asset	Liability
Purchases:				
Net asset positions	$ 11,922	(11,930)	–	(8)
Net liability positions	20,786	(20,754)	32	–
	$ 32,708	(32,684)	32	(8)
	Securities receivable	Payables under repurchase agreements		
Sales:				
Net asset positions	$ 24,372	(24,417)	–	(45)
Net liability positions	57,426	(57,408)	18	–
	$ 81,798	(81,825)	18	(45)
			$ 50	(53)
			$	(3)

	2004			
	Receivables under resell agreements	Securities deliverable	Asset	Liability
Purchases:				
Net asset positions	$ 24,037	(24,032)	5	–
Net liability positions	14,718	(14,730)	–	(12)
	$ 38,755	(38,762)	5	(12)
	Securities receivable	Payables under repurchase agreements		
Sales:				
Net asset positions	$ 59,234	(59,213)	21	–
Net liability positions	24,232	(24,236)	–	(4)
	$ 83,466	(83,449)	21	(4)
			$ 26	(16)
			$	10

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At December 31, 2005 and 2004, the net positions by type of security are as follows:

	Debit balances		Credit balances	
Securities	**Weighted average term (days)**	**Net position**	**Weighted average term (days)**	**Net position**
December 31, 2005				
Government:				
Bond 182	35	$ 2	28	1
Bpas	23	7	31	4
Bpat	54	26	63	8
Brem	25	7	5	1
LS	43	3	55	4
Ipas	–	–	182	33
Bonds	23	2	47	1
		47		52
Private:				
Prlv	21	1	–	–
Debt certificates	9	2	24	1
		$ 50		53
December 31, 2004				
Government:				
CETES	122	$ 1	93	1
Itbonos	19	9	26	2
Ipabonos	25	9	15	8
LS Bondes	98	1	134	1
Bonds	7	6	6	4
		$ 26		16

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At December 31, 2005 and 2004, the Group has provided and received government securities as guarantee for over 3-day repurchase agreements, which is included and recorded under "trading securities" and "assets under custody and management", respectively, and are analyzed as follows:

Issuer	Issue	Number of certificates	Market value
December 31, 2005			
Guarantees provided:			
BI Cetes	060511	615,297	$ 5.9
BI Cetes	060412	1,166,250	11.4
Total guarantees provided			$ 17.3
Guarantees received:			
IT Bpat	070927	71,382	$ 7.1
LS Bond182	080103	114,654	12.0
LS Bond182	080731	179,299	18.6
BI Cetes	060622	647,800	6.2
BI Cetes	060316	611,680	6.0
BI Cetes	060105	647,115	6.5
BI Cetes	060330	1,504,311	14.8
IP Bpas	080904	42,629	4.2
IP Bpas	070222	43,247	4.3
IP Bpas	060406	4,516	0.5
Total guarantees received			$ 80.2
December 31, 2004			
Guarantees provided:			
BI Cetes	050203	246,943	$ 2.5
Guarantees received:			
BI Cetes	050804	22,339	$ 0.2

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Securities lending and borrowing:

At December 31, 2005 and 2004, the Group had entered into secured lending and borrowing transactions as follows:

Issue	Number of certificates	Market value
December 31, 2005		
Securities receivable:		
Amx L	500,000	$ 8
Cemex Cpo	75,000	4
Naftrac 02	295,000	5
Peñoles *	11,300	1
Walmex V	100,000	6
		$ 24
Securities deliverable:		
Amx L	500,000	$ (8)
Cemex Cpo	75,000	(4)
Naftrac 02	11,300	(1)
Telecom A1	537,000	(15)
Walmex V	100,000	(6)
		$ (34)
December 31, 2004		
Securities receivable:		
Naftrac 02	649,700	$ 8
Securities deliverable:		
Naftrac 02	50,000	$ (1)

At December 31, 2005 and 2004, the loans mature on January 2, 3, 5 and 6, 2006, and on January 4 and 5, 2005, respectively.

At December 31, 2005 and 2004, for the secured borrowing transactions, securities in the amount of $35 and $1, respectively, have been pledged.

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(8) Derivative instruments-

Trading:

At December 31, 2005 and 2004, derivative financial instruments for trading purposes are analyzed as follows:

		2005		2004	
		Assets	Liabilities	Assets	Liabilities
Futures and foreign currency and interest rate forward contracts	$	–	(51)	11	–
Interest rate swaps		–	(8)	–	(1)
Foreign currency options		1	–	–	(2)
Mexican stock exchange index (IPC) futures and options and interest rate futures		–	(4)	1	(1)
	$	1	(63)	12	(4)

At December 31, 2005, options are balanced since for each buy option there is a sell option; accordingly, the Group's operation is limited to negotiating the contract premiums, which are included in the consolidated statement of income under "Financial intermediation income, net".

At December 31, 2004, the Group has recorded the obligation related to a dollar exchange rate "call" for a two million dollar notional amount (short option, obligation to sell if the option is exercised) with a $1 premium as valued on the same date, with no hedge.

Hedge transactions:

Derivative transactions for hedging purposes are presented in the consolidated balance sheet together with the primary position they cover. At December 31, 2005 and 2004, derivative financial instruments for hedging purposes are analyzed as follows:

Derivative	Primary position		2005	2004
Interest rate swaps (sold):				
Valuation loss	Loan portfolio	$	2	5

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Notional amounts:
The following notional amounts of contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts of the derivative financial instruments at December 31, 2005 and 2004 are as follows:

Type of instrument		2005 Hedging purposes	Trading purposes	Total
Interest rate:				
Bought:				
Futures:				
TIIE	$	–	21,803	21,803
CETES		–	500	500
Swaps		–	9,352	9,352
	$	–	31,655	31,655
Sold:				
Swaps	$	6,011	9,820	15,831
Sold:				
Swaps (in millions of dollars)		114	–	114
IPC (Mexican stock exchange index):				
Bought:				
Futures	$	180	47	227
Options		–	1	1
		180	48	228
Sold:				
Futures	$	–	37	37
Options		–	762	762
		–	799	799

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Type of instrument	2005 Hedging purposes	2005 Trading purposes	2005 Total
Foreign exchange (in millions of dollars):			
Bought:			
Futures	–	11	11
Forwards	–	844	844
Options	–	2	2
	–	857	857
Sold:			
Futures	–	4	4
Forwards	–	853	853
Options	–	2	2
	–	859	859

Type of instrument	2004 Hedging purposes	2004 Trading purposes	2004 Total
Interest rate:			
Bought:			
Futures	$ –	18,075	18,075
Swaps	–	1,350	1,350
	$ –	19,425	19,425
Sold:			
Futures	$ –	100	100
Swaps	728	2,424	3,152
	728	2,524	3,252
Sold:			
Swaps (in millions of dollars)	36	–	36

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		2004		
Type of instrument		**Hedging purposes**	**Trading purposes**	**Total**
IPC (Mexican stock exchange index):				
Bought:				
Futures	$	188	41	229
Options		–	1	1
	$	188	42	230
Sold:				
Futures	$	22	7	29
Options		–	491	491
	$	22	498	520
Foreign exchange (in millions of dollars):				
Bought:				
Futures		–	16	16
Forwards		–	580	580
Options		–	1	1
		–	597	597
Sold:				
Futures		–	15	15
Forwards		–	568	568
Options		–	3	3
		–	586	586

The economic value and sensibility of the margin to interest rate changes are thoroughly analyzed and monitored by the Group. There are limits for both indicators and, depending on the market conditions and the Group's global strategy, appropriate strategic decisions are taken to reduce the risks. In order to maintain the market risk within the limits and as a market strategy, certain of the Group's long and short positions have been individually and globally hedged.

At December 31, 2005, derivative instruments are used for interest rate hedging purposes, the valuation effect of which is determined and recognized according to the valuation bases for the primary position hedged.

Purchases of IPC futures at December 31, 2005 and 2004 were made to hedge the Brokerage Firm's IPC options.

The contribution to the derivative instruments margin from the hedging position is estimated at $14 and $16 for the years ended December 31, 2005 and 2004, respectively (unaudited figures).

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(9) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2005 and 2004, the classification of loans into current and past-due by currency, which includes the restructured portfolio in UDI Trusts, is analyzed as follows:

	2005		2004	
	Current	**Past due**	**Current**	**Past due**
In assets				
Pesos:				
Commercial loans	$ 17,679	454	14,746	468
Financial institutions	7,911	–	7,911	–
Consumer loans	13,897	425	12,275	187
Residential mortgages	14,743	364	10,342	335
Government entities	18,860	–	16,924	–
Other past due debt	–	13	–	20
	73,090	1,256	62,198	1,010
Foreign currency:				
Commercial loans	5,201	183	5,666	277
Financial institutions	67	–	5	–
	5,268	183	5,671	277
Denominated in UDIS:				
Residential mortgages	1,544	105	2,969	509
Government entities	204	–	221	–
	1,748	105	3,190	509
	$ 80,106	1,544	71,059	1,796
	$ 81,650		72,855	
In memorandum accounts:				
Guarantees issued	872		309	
Irrevocable lines of credit	1,243		1,157	
	2,115		1,466	
	$ 83,765		74,321	

(Continued)

(Millions of constant Mexican pesos as of December 31, 2005)

(b) Classification of loan portfolio by economic sector-

At December 31, 2005 and 2004, credit risk (loans, guarantees and irrevocable lines of credit, see note 19) classified by economic sector and the percentage of concentration are analyzed as follows:

	2005		2004	
	Amount	%	Amount	%
Community, social and personal services, mainly government entities	$ 23,651	28	21,093	28
Construction and housing	18,453	22	15,239	20
Financial, insurance and real estate services	7,294	9	7,199	10
Manufacturing	11,957	14	11,655	16
Commerce and tourism	6,178	7	5,154	7
Consumer loans and credit cards	14,326	17	12,464	17
Agriculture, forestry and fishing	782	1	601	1
Transportation, warehousing and communication	1,115	2	717	1
Other	9	–	199	–
	$ 83,765	100	74,321	100

(c) Acquisition of consumer loans-

On September 1, 2003, the Bank acquired consumer loans (car loans) at an agreed-upon price of $3,978 (nominal) from a non-bank bank (SOFOL) which contract value was $3,879 (nominal). The purchase price was determined on the basis of discounted cash flows of the loans, which resulted in a difference of $99 (nominal) between the present value of the loan portfolio and the agreed-upon price; this difference was recorded as a deferred charge and credit of $172 and $73 (nominal), respectively, depending on whether the contractual value of each of the loans was lower or higher than the agreed-upon price. Deferred credits and charges are amortized over a term equal to the remaining life of the loans. At December 31, the amortized deferred charge and credit amounts are $30 and $9 in 2005, and $71 and $36 in 2004, respectively.

Settlement terms consist of a payment equal to 85.3% of the agreed-upon price on execution of the agreement, with the remainder payable from December 2004 through the loan maturity dates. During 2005 and 2004, the Bank made prepayments to the SOFOL of $192 and $260, respectively.

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

At December 31, 2005 and 2004, the outstanding balance of this portfolio amounts to $97 and $926, respectively.

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

On May 5, 2005, a $2,000 loan (nominal) was granted to the IPAB, maturing in 2012, with the right of prepayment. The loan bears interest at the 28-day TIIE (Interbank Equilibrium Interest Rate) plus 0.25%; principal and interest payable at maturity and monthly, respectively. During 2005 the IPAB paid interest amounting to $120 (nominal). The loan will be used for debt refinancing in conformity with Article 2 of the Federal Revenue Law for fiscal 2005 and, since it does not arise from capitalization or cash flow schemes or participation in the program referred to in the fifth transitory article of the Bank Savings Protection Law it is reported under "Loans to Government Entities" (see e. in this note).

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

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

At December 31, 2005 and 2004, loans granted to government entities are analyzed as follows:

		2005	2004
Highway construction loans	$	5,351	5,505
Loans to the Federal District government		7,817	7,993
Autonomous entity loan		1,001	1,030
Receivables under financial support programs		301	343
IPAB (see paragraph (d) of this note)		2,014	–
UDI restructured loans for supporting Mexican states and municipalities		204	221
Other		2,376	2,053
Total loans to government entities	$	19,064	17,145

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Highway construction loans:

This loan, granted for construction of highways, was rescued by the Mexican government in 1997 and restructured in bonds. The bonds are amortized on a quarterly basis, with a 10-year grace period, maturing on August 31, 2012. Interest is at the arithmetic average of the 91-day TIIE and CETES rates.

Loans to the Federal District government:

The balance of loans granted to the Federal District government relates to five lines of credit, two of which, beginning March and August 2005, by virtue of an amendment agreement bear fixed interest rates between 10% and 11% (variable interest rate between TIIE+ 0.20% and 0.40% prior to agreement). The remaining three lines of credit bear variable interest rates between TIIE + 0.20% and TIIE + 0.40%. The aforementioned balances are as follows:

Starting date	Maturity date		December 31, 2005	December 31, 2004
September 18, 2001	August 31, 2015	$	3,027	3,088
November 30, 2002	November 30, 2015		2,516	2,569
September 30, 2002	September 30, 2016		64	65
November 28, 2002	November 29, 2016		1,208	1,242
December 13, 2004	December 31, 2011		1,004	1,029
Valuation effect of hedging swap (see note 8)			(2)	–
		$	7,817	7,993

Mexican government support programs:

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

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

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

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Mexican government and the Bank, in accordance with the terms of each program. Certain discounts are conditional subject to the net cash flows contributed by the Bank to the specific economic sector. The amounts receivable from the Federal Government on discounts granted in connection with the BADCV and BADCVF programs, as of December 31, 2005 and 2004 amount to $301 and $343, respectively.

The Bank's cost associated with the various debtor support programs and agreements for the years ended December 31, 2005 and 2004, is shown as follows:

	2005	2004
FOVI	$ 34	39
Residential mortgages	17	22
	$ 51	61

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

The Bank participated in several loan-restructuring programs established between the Mexican government and the Mexican banks. The Bank underwrote restructuring programs that consisted mainly of changing peso-denominated loans to UDIS through trusts created with funding provided by the Central Bank. At December 31, 2005 and 2004, the outstanding balances of restructured loans under UDI Trusts are analyzed as follows:

	2005		
	Loan portfolio		**Average annual**
	Current	**Past due**	**interest rate**
States and municipalities	$ 204	–	6.48%
Residential mortgages	1,455	101	8.92%
Individual loans	89	4	9.13%
	$ 1,748	105	

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	2004		
	Loan portfolio		Average annual
	Current	Past due	interest rate
States and municipalities	$ 221	–	6.45%
Residential mortgages	2,860	506	9.04%
Individual loans	109	3	9.57%
	$ 3,190	509	

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

Annual weighted lending rates:

Annual weighted loan interest rates during 2005 and 2004 were as follows:

	2005	2004
Commercial loans	9.99%	7.56%
Personal loans	16.06%	14.73%
Credit card	27.44%	25.15%
Residential mortgages	11.66%	11.16%

Loans rediscounted with recourse:

The Mexican Government has established certain funds to promote the development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera, S.N.C., Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en Relación con la Agricultura (FIRA) by rediscounting loans with recourse. At December 31, 2005 and 2004, the amount of loans granted under these programs aggregated $4,718 and $5,696, respectively, and the related liability is included in "Bank and other loans" (see note 14).

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Restructured loans:

At December 31, 2005 and 2004, restructured and renewed loans are analyzed as follows:

		Current loans	Past due loans	Total
2005				
Commercial loans	$	5,892	79	5,971
Residential mortgages		1,091	99	1,190 *
Personal loans		11	-	11
	$	6,994	178	7,172
2004				
Commercial loans	$	6,407	44	6,451
Residential mortgages		40	13	53
	$	6,447	57	6,504

* Of the total restructured and renewed residential mortgage balance, $1,154 relates to transferred loans due to matured UDIS trusts. In restructuring, the Bank received additional guarantees that as of December 31, 2005 amount to $7,950.

For the years ended December 31, 2005 and 2004, no past due interest was capitalized.

During the year ended December 31, 2004, a commercial loan totaling $396 (nominal) was restructured by modifying the term and the interest rate, granting a debt reduction of $58 (nominal).

Risk concentration:

At December 31, 2005, balances due from two debtors individually exceed 10% of the Bank's basic capital (four in 2004). The balance of those loans as of December 31, 2005 and 2004 is $3,864 and $5,261, or 28% and 51% of the basic capital, respectively. The balance of the loans granted to the three largest debtors as of December 31, 2005 and 2004 amount to $4,917 and $4,271, respectively.

Past due loan portfolio:

The table shown on the next page analyzes past due loans at December 31, 2005 and 2004, from the date the loans went past due.

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December 31, 2005

	90 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
Commercial *	$ 40	3	114	480	637
Consumer	360	64	1	–	425
Residential mortgages	221	133	99	16	469
Other past due debt	8	2	1	2	13
	$ 629	202	215	498	1,544

December 31, 2004

	90 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
Commercial *	$ 137	3	427	178	745
Consumer	164	23	–	–	187
Residential mortgages	123	95	126	500	844
Other past due debt	12	3	2	3	20
	$ 436	124	555	681	1,796

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

The movement of the past due loan portfolio for the years ended December 31, 2005 and 2004 is summarized on the next page.

(Millions of constant Mexican pesos as of December 31, 2005)

	2005	2004
Balance at beginning of year	$ 1,796	3,095
Settlements	(10)	(121)
Write-offs and debt forgiveness	(1,070)	(676)
Transfers from (to) current portfolio	877	(401)
Foreign exchange loss	(49)	(101)
	$ 1,544	1,796

Nominal interest on the past due loan portfolio not recognized in results of operations for the year ended December 31, 2005 amounted to $145 ($168 in 2004).

Impaired loans:

The balance of impaired commercial loans as of December 31, 2005 and 2004 is $1,248 and $1,401, of which $604 and $649 are recorded in current loans, and $644 and $752 are past due loans, respectively.

(h) Allowance for loan losses-

Beginning December 1, 2004 a new portfolio grading methodology was established. The adoption of those provisions in fiscal 2004 required reserves of $274 and $46 ($266 and $45 nominal) due to the classification of the commercial and retail portfolio, respectively, which did not entail a charge to results of operations for that year as they were transferred from global to specific reserves.

As explained in notes 2(h) and 22(c), the loan portfolio is classified and an allowance is established to provide for credit risks associated with the collection of the Bank's loan portfolio.

At December 31, 2005 and 2004, the allowance for loan losses classified between general and specific reserves according to the criteria mentioned in note 2(h), is as follows:

	2005		2004	
Loan portfolio	**General**	**Specific**	**General**	**Specific**
Commercial	$ 197	1,356	175	957
Consumer	63	501	58	297
Residential mortgages	49	295	39	708
	$ 309	2,152	272	1,962
	$ 2,461		2,234	

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At December 31, 2005, the graded loan portfolio and their allowance for loan losses, is classified as follows:

Degree of risk	Commercial *	Consumer	Residential mortgages	Total
Graded loan portfolio				
A and A-1	$ 12,131	12,784	13,941	38,856
A-2	13,703	–	–	13,703
B and B-1	5,539	882	2,245	8,666
B-2	686	–	–	686
B-3	506	–	–	506
C and C-1	192	288	325	805
C-2	1	–	–	1
D	1	308	249	558
E	888	63	1	952
Total portfolio graded	$ 33,647	14,325	16,761	64,733
Allowance for loan losses				
A and A-1	$ 61	63	49	173
A-2	136	–	–	136
B and B-1	239	88	49	376
B-2	72	–	–	72
B-3	85	–	–	85
C and C-1	71	130	71	272
D	1	222	174	397
E	888	61	1	950
Partial allowance for loan losses	$ 1,553	564	344	2,461
Additional reserves (including, among other items, past due interest and reserve for yield on highway bonds of $232)				321
Global reserves				236
Total allowance for loan losses				$ 3,018

* Includes commercial, financial institutions and government entities.

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At December 31, 2004, the graded loan portfolio and their allowance for loan losses, is classified as follows:

Degree of risk	Commercial *	Consumer	Residential mortgages	Total
Graded loan portfolio				
A and A-1	$ 12,298	11,063	10,957	34,318
A-2	11,639	–	–	11,639
B and B-1	3,587	686	1,902	6,175
B-2	421	–	–	421
B-3	233	–	–	233
C and C-1	401	181	208	790
C-2	319	–	–	319
D	74	149	341	564
E	371	32	358	761
Total portfolio graded	$ 29,343	12,111	13,766	55,220
Allowance for loan losses				
A and A-1	$ 61	56	38	155
A-2	109	–	–	109
B and B-1	124	69	43	236
B-2	32	–	–	32
B-3	31	–	–	31
C and C-1	137	82	48	267
C-2	191	–	–	191
D	44	107	239	390
E	371	31	358	760
Partial allowance for loan losses	$ 1,100	345	726	2,171
Additional reserves (including, among other items, past due interest and reserve for yield on highway bonds of $232 nominal)				675
Global reserves (see note 21b)				452
				3,298
Restatement for inflation				96
Total allowance for loan losses				$ 3,394

* Includes commercial, financial institutions and government entities.

(Continued)

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The movement of the allowance for loan losses for the years ended December 31, 2005 and 2004 (nominal) is summarized below:

		2005	2004
Balance at beginning of year	$	3,298	3,582
Provisions charged to results of operations		863	550
Recoveries		620	218
Write-offs and debt forgiveness		(1,066)	(1,117)
Transfers of allowance from expired UDI trusts		(684)	–
Other		(13)	65
Subtotal		3,018	3,298
Restatement for inflation		–	96
Balance at year end	$	3,018	3,394

(10) Foreclosed assets-

Applicable provisions establish that beginning December 1, 2004 reserves must be established for recognizing potential impairment due to the passage of time of foreclosed assets or assets received in lieu of payment. The effect of adoption of those provisions in fiscal 2004 in the amount of $91 was charged to operations of prior years in conformity with the option established. At December 31, 2005 and 2004, foreclosed assets are analyzed as follows:

		2005	2004
Premises	$	278	379
Chattels		1	7
Securities		–	3
Assets under enforceable promise to sell		26	60
Income from foreclosed assets		(15)	(11)
		290	438
Allowance for impairment		(131)	(153)
	$	159	285

The movement of the allowance for impairment for the years ended December 31, 2005 and 2004 (nominal) is analyzed as follows:

		2005	2004
Balance at beginning of year	$	149	–
Transfer of provision recorded in liabilities		–	13
Additional provisions for the passage of time:			
Charged to unappropriated retained earnings		–	91
Charged to operations for the year		12	45
Charged against premises for loss of value		(30)	–
Subtotal		131	149
Restatement for inflation		–	4
Balance at year end	$	131	153

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(11) Premises, furniture and equipment-

Premises, furniture and equipment at December 31, 2005 and 2004 are analyzed as follows:

	2005	2004	Annual depreciation rate
Office premises	$ 1,990	1,990	Various
Office furniture and equipment	602	580	10%
Computer equipment	672	662	30%
Transportation equipment	26	23	25%
Telecommunications equipment	125	123	10%
Leasehold improvements	378	342	10%
Construction in progress	2	1	
	3,795	3,721	
Accumulated depreciation and amortization	(1,664)	(1,585)	
	$ 2,131	2,136	

Depreciation and amortization charged to results of operations in 2005 and 2004 amounted to $145 and $136, respectively.

(12) Permanent investments in shares-

At December 31, 2005 and 2004, permanent investments in shares, classified by activity, are analyzed as follows:

	2005	2004
Derivate market transactions *	$ 304	259
Security and protection **	1	86
Banking related services	71	65
Brokerage related services	40	46
Mutual funds	26	21
Other	4	4
	$ 446	481

* Includes the effect from a Banks' subsidiary accounted for under the equity method.

** For the years ended December 31, 2005 and 2004, the Bank recognized in results of operations the loss in value of the shares of a security armored car company of $83 (nominal) and $106 (nominal), respectively. As of December 31, 2005, the value of those shares net of the allowance is zero.

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(13) Deposit funding-

At December 31, 2005 and 2004, time deposits are composed of the following:

		2005	2004
General public	$	40,579	42,069
Money market		5,090	3,597
	$	45,669	45,666

The average weighted interest rates on deposit balances during the years ended December 31, 2005 and 2004 are as follows:

	2005 Rates		2004 Rates	
	Pesos	**Dollars**	**Pesos**	**Dollars**
Demand deposits	2.41%	0.89%	1.78%	0.61%
Savings deposits	0.55%	–	0.73%	–
Time deposits	7.69%	1.48%	5.25%	0.74%
Money market	9.41%	–	6.23%	–

At December 31, 2005, the Bank has placed certificates worth $2,200 under the banking debt certificates program of up to $5,000 authorized by the Banking Commission, which comprise the following: 5-year certificates bearing monthly interest at variable 28-day TIIE rates plus 0.11%, $1,500; 10-year certificates bearing semi-annual interest at a fixed interest rate of 9.89%, $400, and 13-year certificates at a fixed interest rate of 9.75%, $300.

At December 31, 2005 and 2004, the money market funding consists primarily of Mexican peso promissory notes with interest payable at maturity and terms ranging from 1 to 999 days and CEDES time deposits with maturities ranging from 60 to 999 days.

(14) Bank and other loans-

At December 31, 2005 and 2004, bank and other loans are analyzed as follows:

		2005	2004
Due on demand and short-term:			
Pesos:			
Banco de México [1]	$	4,000	4,631
Private domestic banks		2,000	–
Development banks [2]		404	422
Development agencies [2]		600	289
Accrued interest		26	7
Total pesos, due on demand and short-term, carried forward	$	7,030	5,349

[1] and [2] See explanation on the next page.

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	2005	2004
Total pesos, due on demand and short-term, brought forward	$ 7,030	5,349
Denominated in dollars:		
Foreign banks	14	102
Development agencies [(2)]	28	87
Development banks – interbank [(3)]	–	230
Accrued interest	5	7
	47	426
Total due on demand and short-term	7,077	5,775
Long-term:		
Pesos:		
Development banks [(2)]	513	641
Development agencies [(2)]	2,909	3,867
	3,422	4,508
Denominated in dollars:		
Foreign banks	5	–
Development banks – interbank [(3)]	213	230
Development agencies [(2)]	9	11
	227	241
Total long-term	3,649	4,749
Total bank and other loans	$ 10,726	10,524

[(1)] At December 31, 2005 and 2005, the loans from Banco de México have average maturities of 7 and 9 days, respectively.

[(2)] Development funds (see note 9g.).

[(3)] At December 31, 2005, the balance relates to a 20 million dollar loan (two loans of 20 million dollars each at December 31, 2004) made by Bancomext, maturing in August 2007, bearing 6-month interest at LIBOR, plus 1.5%, plus tax-exempt interest rate equal to IT, payable semi-annually in February and August. The loan which matured in July 2005 bore 6-month interest at LIBOR, plus 1.3%, plus tax-exempt interest rate equal to IT. Interest was payable semiannually in January and July. During 2005 and 2004, interest was paid of USD 1,646 (thousand) and USD 1,097 (thousand), respectively.

Due to the operating characteristics of the inter-bank loans made to the Bank, such as access to funds via auctions, loans regulated by Banco de Mexico with no pre-established limit, loans subject to availability of funds of the lenders' budget with no limit to the Bank, loans whose limit is daily agreed upon by the lender, at December 31, 2005, the Bank has no significant inter-bank lines of credit with authorized amounts that have not been drawn down.

(Continued)

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At December 31, 2005 and 2004, average annual interest rates are as follows:

	2005 Rates		2004 Rates	
	Pesos	**Foreign currency**	**Pesos**	**Foreign currency**
Banco de México	8.29%	–	8.65%	–
Development banks	11.50%	5.83%	11.12%	3.50%
Development agencies	7.49%	5.15%	8.16%	2.49%
Foreign banks	–	4.40%	–	2.40%

(15) Pensions, seniority premiums and post-retirement benefits and obligations for payments upon termination of labor relationship-

The components of the net periodic cost for the years ended December 31, 2005 and 2004 are as follows (nominal):

	2005		2004	
	Pensions and seniority premiums	**Medical benefits, food vouchers & life insurance for retirees**	**Pensions and seniority premiums**	**Medical benefits, food vouchers & life insurance for retirees**
Service cost	$ 59	40	55	32
Interest cost	87	62	82	51
Return on plan assets	(88)	(42)	(85)	(40)
Amortization of transition obligations	–	1	–	1
Amortization of variances in assumptions and experience	–	25	–	14
Prior services and plan modifications	1	–	1	–
Net periodic cost	$ 59	86	53	58

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At December 31, 2005 and 2004, benefit obligations are analyzed as follows (nominal):

	2005		2004	
	Pensions and seniority premiums	**Medical benefits, food vouchers & life insurance for retirees**	**Pensions and seniority premiums**	**Medical benefits, food vouchers & life insurance for retirees**
Projected benefit obligations (PBO)	$ 1,893	1,400	1,809	1,105
Plan assets at market value	(1,906)	(1,123)	(1,831)	(865)
PBO in excess of (less than) plan assets	(13)	277	(22)	240
Unamortized items:				
Prior services and plan modifications	(13)	–	(13)	–
Variances in assumptions and experience	(13)	(502)	35	(307)
Unamortized transition asset	–	70	–	67
Net projected (asset) liability	$ (39)	(155)	–	–
Present benefit obligations :				
Vested	$ 967	–	967	–
Unvested	825	–	605	–
Total present benefit obligations	1,792	–	1,572	–
Plan assets	(1,906)	–	(1,831)	–
Net (asset) liability	$ (114)	–	(259)	–
Additional liability	$ –	–	–	–

(Continued)

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At December 31, 2005, statutory severance liabilities are analyzed as follows:

PBO	$	275
Unamortized items:		
Transition asset		(257)
Net projected liability	$	18

Liability:		
Unfunded provision	$	30
Additional asset and liability		217
Total liability	$	247

A reconciliation of recognized statutory severance assets and liabilities as of December 31, 2005 follows:

PBO at January 1, 2005	$	277
Amortization of transition liability for the year		(30)
PBO net of amortized transition liability for the year		247
Net periodic cost		(60)
Severance payments made in the year		30
Additional asset and liability	$	217

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Below is an analysis of the entries of the plan assets to meet the labor obligations for the years ended December 31, 2005 and 2004 (nominal):

	2005	2004
Balance at beginning of year	$ 2,628	2,504
Contributions to the fund	260	114
Return on plan assets	298	163
Payments made	(157)	(153)
Subtotal	3,029	2,628
Restatement for inflation	–	76
Balance at year end	$ 3,029	2,704

Rates used in the actuarial projections are:

	2005	2004
Yield on plan assets	5.0%	5.0%
Discount rate	5.0%	5.0%
Rate of increase in compensation	0.5%	1.0%
Medical expense increase rate	3.0%	3.0%
Estimated inflation rate	4.5%	4.0%

The amortization periods (years) for unamortized items are as follows:

	Pensions	Seniority premiums	Medical benefits, food vouchers & life insurance for retirees	Severance liability
Bank	16.50	8.60	16.50	8.90
Brokerage Firm	21.85	12.18	18.26	11.20
Mutual Fund Management Company	22.87	12.47	21.22	10.96

(16) Related-party transactions-

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

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At December 31, 2005 and 2004, principal balances with related parties are for bank loans granted of $1,197 and $795, respectively, and bank loans received of $15 in 2005. Principal income and expense items arising from related-party transactions for the years ended December 31, 2005 and 2004 were the interest earned and payable on these loans.

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

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

On May 19, 2004, the Bank was awarded a favorable court ruling on a proceeding with respect to articles 16 and 17, last paragraph of the IT Law passed in 2002. Accordingly, the Bank may use the same taxable income for employee statutory profit sharing as that used for IT determination purposes.

Current IT, AT and ESPS expense:

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

	2005		2004	
	Taxes	**ESPS**	**Taxes**	**ESPS**
Bank and subsidiaries	$ 37	191	44	–
Brokerage Firm	60	20	84	25
Other subsidiaries	4	1	3	1
Excess in Bank's provision	–	17	–	–
Restatement for inflation	2	–	10	2
	$ 103	229	141	28
	$ 332		169	

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The AT Law establishes a 1.8% tax rate on restated assets, less certain liabilities. AT payable in excess of IT for the year may be recovered in the ten succeeding years, restated for inflation, provided that IT exceeds AT in any of such years. Due to uncertainty of its recovery, the AT for 2005 and 2004 of $15 and $16 (nominal), respectively, was charged to results of operations for those years.

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

		2005		2004	
		IT	**ESPS**	**IT**	**ESPS**
Income before taxes, ESPS and equity in the results of operations of non consolidated subsidiaries and associated companies (excluding ESPS for those entities with no employees and the Bank in 2004)	$	3,957	3,871	2,326	294
Accounting effects of inflation		282	271	383	32
Tax effects of inflation		(282)	(272)	(410)	(39)
Valuation of financial instruments		44	44	(116)	(18)
Depreciation and amortization		53	65	46	(8)
Non-deductible expenses		94	93	841	18
Deduction for prior years' provisions for loan losses		(1,548)	(1,548)	–	–
Recoveries and other		(401)	(399)	(623)	(15)
Taxable income before tax loss carryforwards		2,199	2,125	2,447	264
Utilization of prior years' tax loss carryforwards (see second paragraph of this note)		(1,913)	–	(2,098)	–
Taxable income	$	286	2,125	349	264
IT payable at 30% and 33%	$	86		115	
ESPS payable at 10%			$ 212		26

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Deferred IT and ESPS:

Deferred IT and ESPS credits (charges) to results of operations and stockholders' equity, respectively, for the years ended December 31, 2005 and 2004 are presented below:

		2005	2004
Valuation of financial instruments	$	(66)	15
Expense accruals		59	52
Premises, furniture and equipment		53	(10)
Unearned fees collected		25	(15)
Foreclosed assets		32	39
Other		(6)	38
		97	119
Decrease in valuation allowance		43	137
	$	140	256
Deferred tax:			
In results of operations	$	208	256
In stockholders' equity, in valuation of available-for-sale securities		(68)	–
	$	140	256

The deferred tax asset (liability) at December 31, 2005 and 2004 comprises the following:

		2005	2004
Valuation of financial instruments:			
Trading	$	(4)	(6)
Available-for-sale		(68)	–
Expense accruals and other		236	177
Premises, furniture and equipment		(149)	(202)
Unearned fees collected		100	75
Foreclosed assets		75	43
Prepayments		(7)	(1)
		183	86
Valuation allowance		–	(43)
	$	183	43

(Continued)

Other considerations:

According to the IT Law, tax losses, restated for inflation, may be carried forward to offset the taxable income of the ten succeeding years. At December 31, 2005, there are tax loss carryforwards which originated from 1995 through 2000; however, as a result of the agreement between the Bank of Nova Scotia ("BNS") and IPAB, the Group shall not benefit from tax losses sustained in fiscal years between June 30, 1996 and December 31, 1999 without the prior written consent of the IPAB. Should the Bank derive any economic benefit from the carryforwards of such tax losses, the IPAB will be paid an amount similar to the economic benefit received.

For the years ended December 31, 2005 and 2004, tax loss carryforwards of $1,913 and $2,098 (nominal), respectively, were utilized which resulted in tax benefits of $574 and $692 (nominal) respectively, reported in the statement of income as a reduction of current income tax expense. The Bank does not recognize the potential AT benefit that as of December 31, 2005 and 2004 amounts to $169 and $146, respectively, because its realization depends on first utilizing all of the tax loss carryforwards.

In conformity with the Income Tax Law in force for fiscal 2005, the IT rate is 30%, and will be reduced to 29% and 28% in 2006 and 2007, respectively.

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

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

(18) Stockholders' equity-

(a) Structure of capital stock-

At December 31, 2005 and 2004, the authorized capital stock is represented by 3,306,531,531 common, registered shares with no par value, divided into 1,818,592,342 Series "F" shares and 1,487,939,189 Series "B" shares.

(Continued)

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

(b) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the Group's activities during the year and includes the net income, plus the result of the valuation of available-for-sale securities and of non-monetary assets (premises, furniture and equipment and permanent investments in shares), and in 2004 the effect of the changes in accounting policy for foreclosed assets that was charged to unappropriated retained earnings as described in note 10.

(c) Restrictions on stockholders' equity-

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

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

At December 31, 2005, stockholder contributions restated as provided for by the tax law aggregate $5,547, and may be reimbursed to the stockholders tax-free, to the extent that the tax basis of such contributions equal or exceed stockholders' equity.

Distributions in excess of the tax basis retained earnings (CUFIN) account, which at December 31, 2005 amounts to $2,945, are subject to income tax, payable by the Holding Company on behalf of the stockholders.

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

(d) Capitalization-

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

Capital as of December 31:

	2005	2004
Stockholders' equity	$ 14,915.7	10,860.0
Investments in financial service entities and their holding companies	(322.9)	(263.3)
Investments in other companies	(19.1)	(51.7)
Intangible assets and deferred taxes	(893.2)	(324.9)
Basic capital (Tier 1)	13,680.5	10,220.1
General loan loss allowances – Supplementary capital (Tier 2)	308.5	245.3
Net capital (Tier 1 + Tier 2)	$ 13,989.0	10,465.4

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Assets at risk as of December 31, 2005:

	Risk weighted assets	Capital requirement
Market risk:		
Transactions in Mexican pesos at nominal interest rates	$ 23,479.1	1,878.3
Transactions in Mexican pesos at real interest rates or denominated in UDIS	970.3	77.6
Foreign currency transactions at nominal interest rates	902.5	72.2
Positions in UDIS or with returns linked to INPC	5.0	0.4
Foreign currency positions or with exchange rate indexed returns	1,425.2	114.0
Equity positions or with returns indexed to the price or a single share or group of shares	764.5	61.2
Total market risk	27,546.6	2,203.7
Credit risk:		
Group II (weighted at 20%)	2,712.5	217.0
Other (weighted at 50%)	14.0	1.1
Other (weighted at 10%)	277.6	22.2
Group III (weighted at 100%)	58,168.6	4,653.5
Other (weighted at 112%)	3,050.8	244.1
Other (weighted at 75%)	384.1	30.7
Permanent investments in shares	3,357.1	268.6
Total credit risk	67,964.7	5,437.2
Total market and credit risk	$ 95,511.3	7,640.9

Capitalization indices as of December 31:

	2005	2004
Capital to credit risk assets:		
Basic capital (Tier 1)	20.1%	18.0%
Supplementary capital (Tier 2)	0.5%	0.4%
Net capital (Tier 1 + Tier 2)	20.6%	18.4%

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	2005	2004
Capital to market and credit risk assets:		
Basic capital (Tier 1)	14.3%	13.7%
Supplementary capital (Tier 2)	0.3%	0.3%
Net capital (Tier 1 + Tier 2)	14.6%	14.0%

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

At December 31, 2005 and 2004, the structure of the Bank's net capital increased due to the results of operations for the year and, additionally in 2005, as a result of the effect of the merger of Lepidus (see note 1) and the valuation of available-for-sale securities.

(19) Memorandum accounts-

Transactions on behalf of third parties-

(a) Customer securities-

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

Funds under management at December 31, 2005 and 2004 are as follows:

		2005	2004
Mutual funds	$	14,612	13,763
Government securities		48,955	50,511
Equities and other		64,901	48,865
	$	128,468	113,139

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Securities received as collateral at December 31, 2005 and 2004 are analyzed as follows:

		2005	2004
Government securities	$	903	972
Fixed-income debt securities		203	180
Shares and certificates of holding companies		249	95
Mutual fund shares		61	77
Cash		54	–
	$	1,470	1,324

(b) Securities under repurchase/resell agreements-

At December 31, 2005 and 2004, securities under repurchase/resell agreements are as follows:

	2005			2004	
	Securities		Fair value	Securities	Fair value
Bban	–	$	–	4,804	1
Bpas	162,183,966		16,234	168,676,258	17,341
Bpat	58,084,050		5,814	38,560,827	3,960
Brem	93,506,922		9,365	114,589,803	11,758
Cete	89,940,034		879	323,986,087	3,285
Ipas	8,386,378		835	6,300,000	649
LS	133,047,887		1,382	23,669,079	2,482
Lt	–		–	5,225,699	548
Mbon	17,775,266		1,918	27,017,233	3,045
Prlv	2,846,469,547		2,817	1,728,173,238	1,770
Udibono	9,535		4	18,135	8
Cbur	8,548,981		881	–	–
		$	40,129		44,847

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(c) Investments on behalf of customers-

As of December 31, 2005 and 2004, funds managed by the Bank following customer instructions for investment in different instruments of the Mexican financial system are recorded in memorandum accounts and are analyzed as follows:

		2005	2004
Equities and other	$	1,822	768
Government securities		26,383	26,229
Mutual funds		5,821	4,323
Bank securities not issued by the Bank		480	98
	$	34,506	31,418

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

Transactions for own account-

(d) Irrevocable lines of credit and guarantees issued-

At December 31, 2005, the Bank had irrevocable commitments to grant loans for $1,243, and had issued guarantees for $872 ($1,157 and $309, respectively, in 2004).

Allowances created at December 31, 2005 and 2004 for letters of credit and guarantees amount to $22 and $8, respectively, and are included in the allowance for loan losses.

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

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2005 and 2004, is analyzed as follows:

		2005	2004
Trusts:			
Administrative	$	72,052	56,901
Guarantee		3,185	4,078
Investment		44,506	41,663
Other		86	87
		119,829	102,729
Mandates		482	489
	$	120,311	103,218

Trust revenue for the years ended December 31, 2005 and 2004 amounted to $107 and $85, respectively.

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

In this account, the Bank and the Mutual Fund Management Company record property and securities received in custody, guarantee or under management. As of December 31, 2005 and 2004, the assets in custody are analyzed as follows:

		2005	2004
Securities in custody:			
Securities	$	765	843
General		506	189
Investment		154	140
Other		943	972
		2,368	2,144
Securities in guarantee		42,282	39,924
Securities under management:			
Securities		85,357	79,474
Other		2,767	2,898
		88,124	82,372
	$	132,774	124,440

Income arising from securities in custody for the years ended December 31, 2005 and 2004 amounts to $2.

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(20) Additional information on operations and segments-

(a) Information on segments-

The Group's net income is classified in the following segments: credit and services (acceptance of deposits, granting of loans, trusts) and treasury (securities, derivatives and currency transactions). For the year ended December 31, 2005, income by segment is analyzed as shown as follows:

	Credit and services	Treasury	Brokerage firm and the mutual fund management Co	Total
Interest income, net	$ 5,154	1,314	164	6,632
Commissions and fee income, net, financial intermediation income and other income, net	3,248	810	561	4,619
Net income	8,402	2,124	725	11,251
Monetary position loss				(245)
Provision for loan losses				(863)
Administrative and promotional expenses				(6,328)
Income before taxes, ESPS, and equity in results of operations of non-consolidated subsidiaries and associated companies				3,815
Current and deferred taxes and ESPS, net				(124)
Equity in the results of operations of non-consolidated subsidiaries and associated companies, net				(30)
Net income				$ 3,661

(b) Financial margin-

For the years ended December 31, 2005 and 2004, the financial margin consists of the following elements:

Interest income:

Interest income (nominal) for the years ended December 31, 2005 and 2004 is analyzed on the next page.

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		2005	2004
Cash and cash equivalents	$	1,307	721
Investment securities		1,599	500
Interest and premiums collected on securities purchased under agreement to resell		7,322	5,638
Loan portfolio		8,540	5,897
Other, including restatement for inflation		350	878
	$	19,118	13,634

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2005 and 2004 (nominal):

		2005		2004	
		Current	Past due	Current	Past due
Commercial	$	3,076	16	2,036	5
Financial institutions		355	–	197	–
Consumer		2,282	47	1,796	15
Residential mortgages		1,550	80	1,269	7
Government entities		1,131	–	510	–
IPAB		–	–	61	–
Other past due debt		–	3	–	1
	$	8,394	146	5,869	28
		$ 8,540		5,897	

For the years ended December 31, 2005 and 2004, consumer loan interest income includes fees that represent a yield adjustment of $0.6 and $0.2, respectively.

For the years ended December 31, 2005 and 2004, total interest income includes interest denominated in foreign currency amounting to 10 and 28 million dollars, respectively.

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Interest expense:

Interest expense (nominal) for the years ended December 31, 2005 and 2004 is comprised of the following:

		2005	2004
Demand deposits	$	796	552
Time deposits		3,396	1,733
Bank and other loans		772	508
Interest and premiums paid on securities sold under agreements to repurchase		7,322	4,812
Other, including restatement for inflation		200	476
	$	12,486	8,081

For the years ended December 31, 2005 and 2004, total interest expense includes interest denominated in foreign currency amounting to 2 and 1 million dollars, respectively.

(b) Financial intermediation income-

For the years ended December 31, 2005 and 2004, financial intermediation income is analyzed as follows (nominal):

		2005	2004
Valuation result:			
Investment securities	$	(76)	(2)
Securities repurchase/resell agreements		19	7
Trading derivatives		(24)	(2)
Unassigned securities pending settlement		–	1
Foreign currencies and precious metals		10	93
Valuation result, carried forward	$	(71)	97

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		2005	2004
Valuation result, brought forward	$	(71)	97
Result from purchases and sales:			
Investment securities		563	358
Trading derivatives		–	6
Foreign currencies and precious metals		322	290
		885	654
Restatement for inflation		13	43
	$	827	794

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

For the years ended December 31, 2005 and 2004, other income is analyzed as follows (nominal):

		2005	2004
Recoveries:			
Own residential mortgage support programs	$	–	3
Taxes		121	–
Transfer of securities		104	111
Recovery of administrative expenses		42	–
Other		288	194
Income from sales of assets foreclosed or received in lieu of payment		101	117
Monetary position result arising from items not related to the financial margin		52	30
Income from loan insurance		304	270
FDMS transactions		33	122
Distribution of mutual fund shares		89	70
Loans to employees		37	36
Food vouchers		62	36
Income on expired UDI trusts		475	–
Other, including restatement for inflation		525	579
	$	2,233	1,568

(Continued)

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

(21) Commitments and contingencies-

(a) Litigation-

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

On February 24, 2005, Banco de México on the Banking Commission's instructions proceeded to make the adjustments related to the accounting imbalances of UDI trusts, and those associated with minor findings. Accordingly, the Bank made the relevant accounting entries to match those adjustments in both its own and the trusts' accounting records. As a result, the imbalances between the portfolio restructured in UDIs recorded in memorandum accounts and the portfolio recorded in those trusts balanced out. Therefore, on February 24, 2005, Banco de México cancelled the Bank's Special Cetes worth $839 and liability for UDI trusts converted into pesos amounting to $755; the result of the swap represented a loss of $84. Furthermore, on November 24, 2005, Banco de México cancelled the Bank's Special Cetes amounting to $6 by way of a contractual penalty. At December 31, 2004 corresponding provisions had been established in global portfolio reserves in the amount of $101 (nominal) and in provisions for miscellaneous obligations of $20 (nominal).

(Continued)

Contingent asset arising from Value-added Tax (VAT) litigation

In 2004, the Bank and the Brokerage Firm received a favorable final decision regarding the procedure used for determining the creditable VAT factor. The favorable ruling confirms entitlement of the aforementioned entities to full tax credit for the VAT paid in the period from January 1, 2003 through July 31, 2004. The VAT recoverable by the Bank and the Brokerage Firm as of December 31, 2005, amounting to approximately $480 and $26 respectively, (recorded in a memorandum accounts in the specific case of the Bank) and will be recognized by both entities as income upon collection.

(b) Responsibility agreement-

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

Contingency for joint and several obligation for tax claim litigation

In 2005, Servicio de Administración Tributaria (Mexican IRS) performed an administrative enforcement proceeding against Grupo Financiero, in its capacity as joint and several responsible for the tax claim of $138 (nominal) assessed to the Brokerage Firm for fiscal 1991. The Brokerage Firm received a favorable final ruling regarding the aforementioned tax claim and, accordingly, Grupo Financiero filed an appeal against the tax authorities' demand for payment of the tax claim, but nevertheless recognized in results of operations for the year a provision for this item.

(22) Risk management-

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

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

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

(Continued)

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

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

(a) Market risk-

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

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

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

(Continued)

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

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

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

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

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

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For purposes of marking the Group's positions to market, a price vendor has been contracted to determine prices using technical and statistical methods as well as valuation models authorized by the Banking Commission.

During 2005 the authorized limits and the average and maximum VaR levels are as follows (unaudited data):

	Position			VaR	
Market	**Average**	**Maximum**	**Limit**	**Average**	**Limit**
Pesos:					
Money market	$ 63,526.7	74,981.9	107,000.0	37.0	–
Interest rate derivatives (futures and swaps)	12,943.2	25,994.1	72,400.0	8.9	–
Total interest rate positions	$ 76,469.9	100,976.0	179,400.0	45.9	150.0
Total investment equity securities(1)	$ 117.2	189.4	200.0	9.7	23.0
Dollars:					
Forward and futures foreign exchange contracts (2)	1,560.8	1,912.3	3,170.0	10.1	–
Foreign exchange market(2)	1.1	12.2	60.0	0.6	–
Foreign currency options(2)	4.1	6.0	60.0	0.02	–
Total foreign exchange and foreign currency derivatives	1,566.0	1,930.5	3,290.0	10.72	19.5

(1) In 2005 the Brokerage Firm issued IPC warrants averaging $1,718 (notional) with a maximum of $2,278.

(2) The Forwards position is a gross position (long + short) and the Foreign Exchange position is net (long - short).

During 2005, the Group entered into US dollar, CPI and interest rate futures contracts on the Mexican Derivatives Exchange (MexDer). The number of contracts executed is as follows (unaudited figures):

Underlying asset	**Average**	**Maximum**	**Limit**
US Dollar futures	3,085	7,551	14,000
Interest rate futures	327,048	519,642	653,100
IPC futures	1,641	2,495	6,000
IPC options	491	1,310	2,000

(Continued)

The Group's average global VaR (unaudited) during 2005 was $36.9 and the global VaR as of December 31, 2005 (unaudited) was $23.77 ($65.10 and 41.59 in 2004, nominal).

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

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

(b) Liquidity risk-

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

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

(c) Credit risk-

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

(Continued)

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

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

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

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

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

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

(Continued)

Methodology used to determine allowances for loan losses- The Group uses a credit risk classification system derived from the BNS methodology in order to identify the level of risk of loans as well as to ensure that the yields from each loan are proportionate to the risk assumed. This also includes systems and strategies to grant loans and monitor the loan portfolio. These systems, processes and strategies are used in more than 40 countries. The Group also takes advantage of BNS experience in portfolio grading, estimating allowances and losses, adapted as appropriate to the laws and needs of the Mexican market.

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

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

The internal grading system (classified by "IG Codes") uses eight grades considered to be acceptable (IG 98 to IG 77), five grades to reflect a higher than normal risk (IG 75 to IG 60) and four considered to be unacceptable (IG 40 to IG 20). A correlation has been established between the internal grading model and the levels of risk contained in article 126 of the *General Provisions applicable to the Loan Portfolio Rating Methodology for Credit Institutions* published in the Federal Official Gazette on December 2, 2005 ("the Provisions").

Beginning in December 2004, loans are rated and provided for, respectively, in conformity with articles 125, 126 and 130 of the aforementioned Provisions.

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

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

Description of each risk level:

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

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

(Continued)

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

Satisfactory Risk: Borrowers with an adequate financial structure that can easily repay their loans in an effective manner. Although their earnings are consistent with the industry average, but they are more susceptible to adverse economic conditions than borrowers in higher ratings. Management is competent and has the support of stockholders. The industry where they operate may be subject to cyclical trends.

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

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

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

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

(Continued)

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

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

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

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

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

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

(Continued)

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

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

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

Exempt portafolio and methodology:

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

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

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

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

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

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

(Continued)

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

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

(d) Operational risk-

In conformity with the *General Provisions* applicable to credit institutions, published in the Federal Official Gazette on December 2, 2005, operational risk is a non-discretionary risk, which is defined as the potential loss resulting from internal control failures or deficiencies, errors in transaction processing or storage or in data transmission, as well as adverse administrative or legal resolutions, frauds or theft and includes, among other things, technological risk and legal risk.

For compliance with the rules on operational risk established by the aforementioned provisions, the Group has put in place policies and procedures enabling it to implement an appropriate operational risk management process, which are described below:

1. Policies for Operational Risk Management.- These policies primarily promote the risk management culture, particularly as to operational risk, so that the Group can measure, identify, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities.

2. Manual for Operational Risk Data Gathering and Classification.- These policies define the requirements for reporting the information that supports the measuring processes, including the scope, functions and responsibilities of the units providing the information, as well as its classification and specific characteristics.

(Continued)

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

- Classify the significant operational risks identified based on their importance.
- Rely on a systematic procedure so that Group is aware of the operational risks to which it is exposed.
- Establish plans to mitigate risks.
- Comply with the requirements as established by Article 86, sections I and III of the *Prudent Provisions for Comprehensive Risk Management.*

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

As a result of the Operational Risk management process, the Bank has identified operational risks associated with legal contingencies that if realized would have an adverse impact on the Bank's results of operations of $288, that is 2% of the Bank's Stockholders' Equity. Those legal contingencies have already been fully provided for.

At year-end 2005, the Bank has established a historic database of operational risk losses encompassing the 11-month period ended November 30, 2005 and the years ended December 31, 2004 and 2003, which is summarized in 14,169 loss events for a total amount of $315, classified in 16 risk factors as listed on the next page (unaudited information).

(Continued)

Database of Operational Risk Losses (amounts in thousands of pesos)

Risk Factor	2003	2004	2005	Grand total	Events Number	Events Average Amount
Regulatory (fines and penalties)	674	120	115,519	116,313	46	2,529
Lost lawsuits	22	14,589	77,579	92,190	58	1,589
Frauds (internal and external)	27,995	4,761	2,951	35,707	104	343
Bank card frauds	4,830	8,337	7,774	20,941	12,176	2
Phishing	-	-	13,518	13,518	38	356
Trading	-	-	12,215	12,215	2	6,108
Assaults	986	5,889	2,264	9,139	80	114
Labor lawsuits	4,456	-	1,279	5,735	17	337
Miscellaneous checks	1,894	1,946	390	4,230	212	20
Falto and false (cash supply)	325	396	438	1,159	655	2
Accounting differences	594	344	112	1,050	530	2
Documentary evidence (lost documentation)	467	160	58	685	94	7
Former employee indebtedness	520	89	-	609	14	44
Falto and false (Foreign currency.)	103	199	248	550	121	5
Irrecoverable amounts	244	194	29	467	13	36
Overdrafts	332	55	3	390	9	43
Total	43,442	37,079.	234,377	314,898	14,169	22

(23) Recently issued accounting standards-

Through May 2004, the Accounting Principles Commission (Comisión de Principios de Contabilidad or CPC) of the Mexican Institute of Public Accountants was in charge of issuing accounting standards in Mexico. Those standards are contained in the Bulletins of Generally Accepted Accounting Principles (Bulletins), which are deemed to be standards, and in the Circulars, that are regarded as opinions or interpretations.

(Continued)