SCOTIABANK INVERLAT, S. A.
Institución de Banca Múltiple
Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2006 and 2005

(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
Scotiabank Inverlat, S. A.
Institución de Banca Múltiple,
Grupo Financiero Scotiabank Inverlat:

We have examined the accompanying consolidated balance sheets of Scotiabank Inverlat, S. A. Institución de Banca Multiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries ("the Bank") as of December 31, 2006 and 2005 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Bank'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 credit institutions in Mexico. An audit includes 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 discussed in note 2 to the consolidated financial statements, the Bank 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 credit institutions in Mexico, which in general conform to Mexican Financial Reporting Standards issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF). These accounting criteria include particular rules, which in certain respects differ from such standards.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries as of December 31, 2006 and 2005, 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 credit institutions in Mexico, as described in note 2 to the consolidated financial statements.

KPMG CARDENAS DOSAL, S. C.

Alejandro De Alba Mora

February 16, 2007.

SCOTIABANK INVERLAT, S. A.
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2006 and 2005

(Millions of constant Mexican pesos as of December 31, 2006)

Assets	2006	2005
Cash and equivalents (note 5)	$ 19,582	23,257
Investment securities (note 6):		
Trading	9,127	5,030
Available-for-sale	4,570	6,282
Held-to-maturity	1,901	1,990
	15,598	13,302
Securities and derivative transactions:		
Debit balances of repurchase/resell agreements (note 7)	55	26
Derivative financial instruments (note 8)	9	1
	64	27
Current loan portfolio (note 9):		
Commercial loans	22,429	24,054
Financial institutions	3,612	8,088
Consumer loans	18,451	14,476
Residential mortgages	22,555	16,965
Government entities	17,989	19,858
Total current loan portfolio	85,036	83,441
Past due loan portfolio (note 9):		
Commercial loans	555	663
Consumer loans	639	443
Residential mortgages	702	488
Other past due debt	15	14
Total past due loan portfolio	1,911	1,608
Total loan portfolio	86,947	85,049
Less:		
Allowance for loan losses (note 9h)	2,771	3,144
Loan portfolio, net	84,176	81,905
Other accounts receivable, net	3,539	1,652
Foreclosed assets (note 10)	96	166
Premises, furniture and equipment, net (note 11)	2,241	2,044
Permanent investments in shares (note 12)	466	419
Deferred taxes (note 16)	174	241
Other assets, deferred charges and intangibles	812	726
Total assets	$ 126,748	123,739

Liabilities and Stockholders' Equity	2006	2005
Deposit funding (note 13):		
Demand deposits	$ 43,562	42,784
Time deposits:		
General public	42,679	42,396
Money market	5,558	5,309
Bank bonds	4,224	2,309
	96,023	92,798
Bank and other loans (note 14):		
Due on demand	2,047	6,404
Short-term	1,055	968
Long-term	3,003	3,801
	6,105	11,173
Assigned securities pending settlement (note 6)	323	67
Securities and derivatives transactions:		
Credit balances of repurchase/resell agreements (note 7)	8	49
Derivative financial instruments (note 8)	40	61
	48	110
Other accounts payable:		
Income tax and employee statutory profit sharing payable (note 16)	276	233
Sundry creditors and other accounts payable	4,219	3,527
	4,495	3,760
Deferred credits	366	296
Total liabilities	107,360	108,204
Stockholders' equity (note 17):		
Paid-in capital:		
Capital stock	4,039	4,039
Additional paid-in capital	455	455
	4,494	4,494
Earned capital:		
Statutory reserves	1,097	722
Unappropriated retained earnings	9,314	5,939
Unrealized gain from valuation of available-for-sale securities	153	109
Gain (loss) from holding non-monetary assets:		
From valuation of premises, furniture and equipment	3	3
From valuation of permanent investments in shares	527	518
Adjustement for labor obligations upon retirement	(23)	-
Net income	3,823	3,750
Adjustement for labor obligations upon retirement	14,894	11,041
Total stockholders' equity	19,388	15,535
Commitments and contingencies (note 21)		
Total liabilities and stockholders' equity	$ 126,748	123,739

(Continued)

SCOTIABANK INVERLAT, S. A.
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Balance Sheets, Continued

December 31, 2006 and 2005

(Millions of constant Mexican pesos as of December 31, 2006, except historical capital stock)

Memorandum accounts (notes 7 and 19)

		2006	2005
Guarantees issued	$	1,128	908
Irrevocable lines of credit		1,214	1,295
Assets in trust or under mandate		72,427	78,872
	$	74,769	81,075
Investments on behalf of customers, net	$	47,667	35,942
Assets in custody or under management		573,099	521,869
Securities receivable under repurchase agreements	$	30,066	40,018
Less – Creditors under securities repurchase agreements		30,062	40,054
		4	(36)
Debtors under securities resell agreements		11,219	13,027
Less – Securities deliverable under resell agreements		11,176	13,014
		43	13
Securities repurchase/resell agreements, net	$	47	(23)

"The historical capital stock amounts to $3,025,003,688.00 at December 31, 2006 and 2005."

See accompanying notes to consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, 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 Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking 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."

Anatol von Hahn
General Director

Jean-Luc Rich
Deputy General Director Group Finance

Ken Pflugfelder
Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2006 and 2005

(Millions of constant Mexican pesos as of December 31, 2006)

	2006	2005
Interest income (note 20)	$ 16,833	17,012
Interest expense (note 20)	(9,547)	(10,284)
Monetary position loss, net (note 20)	(450)	(193)
Financial margin	6,836	6,535
Provision for loan losses (note 9h)	(468)	(899)
Financial margin after provision for loan losses	6,368	5,636
Commission and fee income	2,099	1,827
Commission and fee expense	(304)	(347)
Financial intermediation income, net (note 20)	720	849
Total operating income	8,883	7,965
Administrative and promotional expenses	(6,530)	(6,046)
Net operating income	2,353	1,919
Other income (notes 6, 20 and 21)	2,094	2,313
Other expense (note 20)	(305)	(414)
Income before taxes, employee statutory profit sharing (ESPS), equity in the results of associated companies and extraordinary item	4,142	3,818
Current asset tax and ESPS (note 16)	(303)	(256)
Deferred income tax and ESPS (note 16)	(54)	231
Income before equity in the results of associated companies and extraordinary item	3,785	3,793
Equity in the results of operations of associated companies, net	60	(43)
Income from continued operations	3,845	3,750
Extraordinary loss on the early reduction of labor obligations (note 15)	(22)	–
Net income	$ 3,823	3,750

See accompanying notes to consolidated financial statements.

"These consolidated statements of income were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, 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 Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking 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

Ben Pflugfelder
Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2006 and 2005

(Millions of constant Mexican pesos as of December 31, 2006)

	Paid-in capital		Earned capital							
						Gain (loss) from holding non-monetary assets				
	Capital stock	Additional paid-in capital	Statutory reserves	Unappropriated retained earnings	Unrealized gain from valuation of available-for-sale securities	From valuation of premises, furniture and equipment	From valuation of permanent investments in shares	Adjustment for labor obligations upon retirement	Net income	Total stockholders' equity
Balances at December 31, 2004	$ 3,855	455	473	3,614	9	3	516	–	2,387	11,312
Changes resulting from stockholder resolutions:										
Resolution passed at the Ordinary General Stockholders' Meeting of April 22, 2005 – Appropriation of 2004 income	–	–	239	2,148	–	–	–	–	(2,387)	–
Resolution passed at the Extraordinary General Stockholders' Meeting held on April 22, 2005 – Increase of capital through merger (note 17a)	184	–	10	177	–	–	–	–	–	371
Total entries to recognize stockholders' decisions	184	–	249	2,325	–	–	–	–	(2,387)	371
Changes related to the recognition of comprehensive income (note 17b):										
Net income for the year	–	–	–	–	–	–	–	–	3,750	3,750
Valuation effects, net of deferred tax of $71 in the case of available-for-sale securities	–	–	–	–	100	–	2	–	–	102
Total comprehensive income	–	–	–	–	100	–	2	–	3,750	3,852
Balances at December 31, 2005	4,039	455	722	5,939	109	3	518	–	3,750	15,535
Changes resulting from stockholder resolutions:										
Resolution passed at the Ordinary General Stockholders' Meeting of April 28, 2006 – Appropriation of 2005 income	–	–	375	3,375	–	–	–	–	(3,750)	–
Changes related to the recognition of comprehensive income (note 17b):										
Net income for the year	–	–	–	–	–	–	–	–	3,823	3,823
Valuation effects, net of deferred tax of $26 in the case of available-for-sale securities	–	–	–	–	44	–	9	–	–	53
Recognition of additional pension liability in stockholders' equity net of deferred tax of $13 (note 15)	–	–	–	–	–	–	–	(23)	–	(23)
Total comprehensive income	–	–	–	–	44	–	9	(23)	3,823	3,853
Balances at December 31, 2006	$ 4,039	455	1,097	9,314	153	3	527	(23)	3,823	19,388

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, 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 Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking 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

[illegible] Pflugfelder
Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

Years ended December 31, 2006 and 2005

(Millions of constant Mexican pesos as of December 31, 2006)

	2006	2005
Operating activities:		
Net income	$ 3,823	3,750
Income statement items not requiring (providing) funds:		
Provision for loan losses	468	899
Equity in the results of operations of associated companies	(60)	43
Provision for foreclosed asset impairment	1	12
Valuation of securities under repurchase/resell agreements, derivative transactions and investment securities	(50)	85
Deferred income tax and employee statutory profit sharing	67	(160)
Depreciation and amortization	145	143
Extraordinary loss on the early reduction of labor obligations (note 15)	22	–
Funds provided by operations	4,416	4,772
Changes in items related to operations:		
Increase (decrease) in operating liabilities:		
Deposit funding	3,225	7,464
Bank and other loans	(5,068)	211
Other accounts receivable and payable, net	(1,223)	187
(Increase) decrease in operating assets:		
Loan portfolio	(2,739)	(10,452)
Investment securities and assigned securities pending settlement	(2,011)	714
Securities and derivative transactions	(8)	4
Funds (used in) provided by operating activities	(3,408)	2,900
Funds provided by financing activities, through capital increase as a result of merger (note 17a)	–	372
Investing activities:		
Acquisition of premises, furniture and equipment, net	(335)	(142)
Decrease in foreclosed assets	69	119
Decrease (increase) in permanent investments in shares	22	(30)
Increase in other assets and deferred charges and credits, net	(23)	(464)
Funds used in operating activities	(267)	(517)
(Decrease) increase in cash and cash equivalents	(3,675)	2,755
Cash and cash equivalents:		
At beginning of year	23,257	20,502
At end of year	$ 19,582	23,257

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in financial position were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, 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 Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements in 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

Kurt Pflugfelder
Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

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-

Scotiabank Inverlat, S. A. ("the Bank") is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Group") which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia ("BNS"), which owns 97.3% of its capital stock. In accordance with the Credit Institutions Law, the Bank is authorized to carry out multiple-service banking transactions such as accepting deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services, among others. The consolidated financial statements of Scotiabank Inverlat, S. A. and subsidiaries (Consolidated Bank) include those of the wholly-owned subsidiaries, Inmobiliaria Scotia Inverlat, S. A. de C. V. (Inmobiliaria), Servicios Complementarios y Resguardo, S. A. de C. V. (SECORESA) which provides maintenance and security services, Scotia Servicios de Apoyo, S. A. de C. V. (Scotia Servicios) which supports the management of the credit card acquisition business, and, beginning in 2006, of Scotia Inverlat Derivados, S. A. de C. V. (Scotia Derivados) which acts as trading member for futures and options contracts listed on the MexDer Mercado Mexicano de Derivados, S. A. de C. V. (MexDer).

Significant transactions-

On April 11, 2006, the Bank acquired consumer (automobile) loans from a Limited Purpose Financial Company (SOFOL) for an agreed-upon price made up of two portions: the first fixed portion of $3,076 (nominal) paid on the acquisition date and a second portion consisting of a determinable amount that may not exceed $360 (nominal) (see note 9c).

On June 30, 2005 the Bank announced a program for issuing revolving banking debt certificates for a total authorized amount of $5,000, which was increased to $10,000 on May 23, 2006. The program will be effective for 48 months following the authorization date. As of December 31, 2006 and 2005, certificates worth $4,200 and $2,292, respectively, had been placed (see note 13).

At the Stockholders' Meeting held on April 22, 2005 a resolution was passed to merge Lepidus, S. A. de C. V. (Lepidus, an entity incorporated on the aforementioned date, through the spin-off of assets of Scotia Inverlat Casa de Bolsa, S. A. de C. V., a related entity), with the Bank (surviving entity). As a result of the merger, the Bank's capital stock, prior years' results of operations and the statutory reserve increased by $184, $177 and $10, respectively (see note 17a).

(Continued)

(2) Summary of significant accounting policies-

(a) Financial statement presentation and disclosure-

On February 16, 2007 the indicated Bank officers authorized the accompanying consolidated financial statements.

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

The accompanying consolidated financial statements include the financial statements of the Bank and its wholly-owned subsidiaries and the financial statements of the Bank's UDI Trusts (restructured loan portfolio), created for the purpose of managing restructured loans through Mexican 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 Mexican Financial Reporting Standards (FRS), issued by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF, see note 23), and include particular rules relating to accounting, valuation, presentation and disclosure, which depart from such standards — see paragraphs *b*, *d*, *e* and *l* of this note.

For cases not contemplated therein, the accounting criteria include a process which provides for the supplementary use of other accounting principles and standards, in the following order: FRS; International Financial Reporting 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 for such purpose the Investment Unit (UDI) value. The UDI is a unit of measure whose value is determined by the Banco de México (the Central Bank) based on inflation. UDI values used at December 31, were as follows:

December 31,	UDI	Annual inflation
2006	$ 3.7889	4.16%
2005	3.6375	2.91%
2004	3.5347	5.45%

For purposes of disclosure in the notes to the consolidated financial statements, "pesos" or "$" refers to Mexican pesos, and when the 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 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 2005 memorandum accounts of the consolidated balance sheet and the consolidated statement of changes in financial position include certain reclassifications to conform to the classifications used in 2006.

(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 FRS, beginning January 1, 2005, the aforementioned margin accounts would be reported under "Transactions with derivative financial instruments".

(Continued)

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 transaction, the credit balance is shown as a liability under "Assigned securities pending settlement".

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 net of deferred taxes are reported in stockholders' equity under "Unrealized gain (loss) from valuation of available-for-sale securities", which upon 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.

Held-to-maturity securities-

Held-to-maturity securities are debt securities that the Bank 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.

(Continued)

Transfers between categories-

Transfers between categories, except transfers to the 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 the 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 Bank is the repurchasing and reselling party with the same entity cannot be offset. The repurchase/resell agreement presentation differs from FRS, 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", respectively, 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.

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.

(Continued)

(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 credit or debit, 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 FRS, which provides that derivative financial instruments are to be recognized at fair value without taking into 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 other comprehensive income.

(Continued)

(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.

The debit or 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 and credit cards– 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 from 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.

(Continued)

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 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 follows:

Graded commercial portfolio – Studies are conducted to classify the loan portfolio using the Bank's internal grading model applicable to its commercial portfolio. The Banking Commission's official document No. 142-1/531247/2006 dated November 28, 2006 authorized the use of the Bank's internal grading model for a two-year period, beginning December 1, 2006. 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 grading 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, which stipulate rules for establishing allowances to recognize potential loan losses based on the past due installments, probability of default, and the 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 loans – For financial statement disclosure purposes, commercial loans rated as having the risk levels "C", "D" and "E" are regarded as impaired loans, without consideration to improvements in risk levels resulting from the secured portion of the loan, as are loans that although current result from 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.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2006)

(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.

(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 an 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.

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 the 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:

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

(Continued)

(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 the 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 Bank 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 for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported in the financial statements at the lower of the carrying amount or realizable value.

(l) Permanent investments in shares-

Investments in affiliated companies are accounted for by the equity method. The Bank's equity in results of operations of affiliated companies 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 Bank's stockholders' equity under "Gain from holding non-monetary assets from valuation of permanent investments in shares".

Also, this caption includes permanent investments in shares of issuing companies where the Bank has no significant influence, which are valued at cost and adjusted for inflation by applying the National Consumer Price Index (INPC) issued by the 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 Bank must purchase and hold one share in the S. D. Indeval, S. A. de C. V. As required by the Banking Commission, this investment is valued using the equity method based on the most recent financial statements available; under FRS these investment would be accounted for at the lower of cost restated for inflation or realizable value, since the investing entity exerts no significant influence.

(Continued)

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

Deferred IT and 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. The Bank does not recognize a deferred tax asset for tax loss carryforwards, since utilization is contingent upon compliance with all conditions agreed upon with the IPAB (see note 16). 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.

(n) Deposit funding-

Deposit funding comprises demand and time deposits from the general public, as well as money market funding and issue of bank bonds. 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-

Effective April 1, 2006, the Bank established a defined pension and post-retirement contribution plan, comprising all employees who join the Bank after that date. The plan is optional for employees who joined the Bank on a date prior to the plan's coming into effect. The amounts contributed by the Bank are recognized directly as expenses in the consolidated statement of income (see note 15).

Furthermore, as required by the collective bargaining labor agreement, the Bank has a non-contributory defined benefit pension plan. Plan eligibility requirements are: reaching the age of 60 with five years of service, or age 55 with 35 years of service. In addition, there is a plan that covers seniority premiums and severance payments to which employees are entitled in accordance with the Federal Labor Law and obligations relating to post-retirement medical benefits, food coupons and life insurance of retirees.

The net periodic cost and the accrued benefits for pensions, seniority premiums, severance payments and post-retirement benefits of the defined benefit plans are recognized in results of operations each year based on computations prepared by independent actuaries of the present value of these obligations, using the projected unit credit method and real interest rates. Amortization of the net cost of prior unrecognized services is based on the average remaining service life of the employees eligible to plan benefits.

(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 Bank 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.

(Continued)

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.

Premiums earned on repurchase/resell agreements are calculated based on the present value of the price at maturity.

(u) Foreign currency transactions-

The accounting records are maintained in both Mexican pesos and foreign currencies. For consolidated 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.

(v) 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.

(w) Contributions to the Institute for Protection of Bank Savings (IPAB)-

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.

(x) 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 are recorded in memorandum accounts. Contingent revenues, earnings or assets are not recognized until their realization is virtually assured.

(Continued)

(3) Accounting change-

Labor obligations

Beginning January 1, 2005, the Bank adopted the Bulletin D-3, Labor Obligations, 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. On adoption and in conformity with the option established, the Bank recognized an unamortized asset and a liability of $269 ($258 nominal). 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 ($29 nominal).

(4) Foreign currency position-

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long foreign currency position permitted by the Central Bank is equal to a maximum of 15% of the basic capital. The Bank has been authorized by the Central Bank to maintain a larger long position, which includes a capital hedge, of up to 50 million dollars in 2006 and 2005. Accordingly, as of December 31, 2006 and 2005, the Bank's long position is within the authorized limits.

The consolidated foreign currency position at December 31, 2006 and 2005 stated in millions of dollars is analyzed as follows:

	2006	2005
Assets	1,029	1,028
Liabilities	(970)	(940)
Long position	59	88

At December 31, 2006, the long foreign currency position consists of 94% in US dollars (99% in 2005), 2% in euros (0.1% in 2005) and 4% in other foreign currencies (0.9% in 2005).

At December 31, 2006 and 2005, the exchange rate of the peso to the dollar was $10.81 and $10.63, respectively.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2006)

(5) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2006 and 2005 are analyzed as follows:

		2006	2005
Cash on hand	$	1,908	1,514
Deposits with domestic and foreign banks		5,216	5,520
Deposits with the Central Bank		12,466	13,582
Clearing house margin account		154	113
Three-day interbank call money		241	2,526
24 and 48-hour foreign currency sales		(1,105)	(1,224)
Other funds available		167	100
Restricted funds:			
24 and 48-hour foreign currency purchases		535	1,126
	$	19,582	23,257

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, 2006 and 2005 statutory monetary deposits with the Central Bank amount to $12,447 and $12,970, respectively.

At December 31, 2006 and 2005, the Bank had the following three-day interbank loans ("Call money"):

		2006			2005		
Institution		Amount	Rate	Term	Amount	Rate	Term
Banco J.P. Morgan, S. A.	$	162	7.00%	4 days	–		
Banco Nacional de México, S. A.		79	6.90%	4 days	2,084	8.25%	3 days
BBVA Bancomer, S. A.		–			442	8.25%	3 days
	$	241			2,526		

(Continued)

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	
	2006	2005	2006	2005
Dollar	$ 519	1,079	1,089	1,177
Other currencies	16	47	16	47
	$ 535	1,126	1,105	1,224

(6) Investment securities-

(a) *Composition-*

At December 31, 2006 and 2005, the Bank's investment securities are as follows:

	Fair value	
	2006	2005
Trading (short term):		
Debt securities:		
Government securities (see note 7)	$ 8,866	3,667
Bank promissory notes	251	1,280
Other	21	83
Foreign currency forward contracts (see note 8)	(11)	–
	9,127	5,030
Available-for-sale:		
Shares[(1)]	79	443
Debt securities:		
Government securities	4,491	5,839
	4,570	6,282
Trading and available-for-sale securities, carried forward	$ 13,697	11,312

[(1)] See explanation on the next page.

(Continued)

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(Millions of constant Mexican pesos as of December 31, 2006,
except value per share)

		Fair value	
		2006	2005
Trading and available-for-sale securities, brought forward	$	13,697	11,312
Held-to-maturity (long term):			
Special CETES of the UDI Trusts:			
Domestic productive plant		410	397
States and municipalities [2]		(27)	(22)
Residential mortgages		1,505	1,474
		1,888	1,849
MYRAS		–	114
Other		13	27
		1,901	1,990
Total investment securities	$	15,598	13,302

[1] At December 31, 2006 and 2005, includes 18,513,657 and 23,308,845 shares, respectively, 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, 2006 and 2005 of $2.65 and $4.08, per share, respectively. 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 any 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.

Also at December 31, 2006 includes 55,433 class B shares of an international entity engaged in the operation of credit cards, which market value at such date amounts to $59. The Bank received the shares in June 2006 as a result of an initial public offering made by the aforesaid entity and for which an additional payment was received for $27 (2.4 million dollars) corresponding to 79,770 redeemed shares, which was recognized in the consolidated statement of income caption of "Other income".

[2] The negative balance of Special CETES of states and municipalities is a result of the swap liability exceeding the assets.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2006)

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

As of December 31, 2006 and 2005, investments in non-government debt securities of the same issuer do not exceed 5% of the Bank's net capital.

(c) ***Assigned securities pending settlement-***

At December 31, 2006 and 2005, assigned securities pending settlement are analyzed as follow:

December 31, 2006

Issuer	Series	Number of certificates	Average rate	Term (days)	Asset (liability) amount
Purchases:					
Bpas	090416	2,000,000	7.02%	835	$ 199
LS Bond 182	090813	1,000,000	11.00%	953	103
M Bonds	131219	400,000	7.39%	2,542	41
M Bonds	151217	500,000	7.43%	3,270	52
M Bonds	241205	120,000	7.54%	6,546	15
M Bonds	081224	200,000	7.17%	722	20
Total purchases					430
Sales:					
BI Cetes	070412	25,000,000	7.18%	99	(245)
Bpas	090416	2,000,000	7.02%	835	(199)
M Bonds	141218	600,000	8.73%	2,907	(68)
M Bonds	081224	100,000	7.16%	721	(10)
M Bonds	131219	100,000	7.37%	2,542	(10)
M Bonds	151217	2,200,000	7.42%	3,271	(228)
M Bonds	241205	1,023,848	7.54%	6,547	(127)
M Bonds	131219	350,000	7.40%	2,543	(36)
M0 Bonds	110714	1,844,945	6.40%	1,654	(223)
Total sales					(1,146)
Net purchases and sales					(716)
Trading securities assigned for hedging the net liability position					393
Assigned securities pending settlement					$ (323)

(Continued)

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December 31, 2005

Issuer	Series	Number of certificates	Average rate	Term (days)	Asset (liability) amount
Purchases:					
M Bonds	111222	100,000	8.10%	4	$ 11
M5 Bonds	070308	200,000	6.56%	4	22
Total purchases					33
Sales:					
LS Bond 182	061109	307,239	8.12%	315	(32)
M Bonds	141218	400,000	8.28%	3,276	(45)
M5 Bonds	070308	200,000	6.56%	433	(23)
Total sales					(100)
					$ (67)

(7) Securities under repurchase/resell agreements-

At December 31, 2006 and 2005, the Bank's repurchase/resell agreements are analyzed as follows:

	2006			
	Receivables under resell agreements	Securities deliverable	Asset	Liability
Purchases:				
Net asset positions	$ 5,709	(5,662)	47	–
Net liability positions	5,510	(5,514)	–	(4)
	$ 11,219	(11,176)	47	(4)
	Securities receivable	Payables under repurchase agreements		
Sales:				
Net asset positions	$ 26,792	(26,784)	8	–
Net liability positions	3,274	(3,278)	–	(4)
	$ 30,066	(30,062)	8	(4)
			$ 55	(8)
			$ 47	

(Continued)

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	2005			
	Receivables under resell agreements	**Securities deliverable**	**Asset**	**Liability**
Purchases:				
Net asset positions	$ 4,953	(4,936)	17	–
Net liability positions	8,074	(8,078)	–	(4)
	$ 13,027	(13,014)	17	(4)
	Securities receivable	**Payables under repurchase agreements**		
Sales:				
Net asset positions	$ 19,645	(19,636)	9	–
Net liability positions	20,373	(20,418)	–	(45)
	$ 40,018	(40,054)	9	(45)
			$ 26	(49)
				$ (23)

At December 31, 2006 and 2005, 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, 2006				
Government:				
Bpas	31	$ 3	27	$ 1
Bpat	43	1	18	3
Bonds	30	44	–	–
Brem	4	1	–	–
Cetes	12	1	5	1
LS	36	1	30	1
Ls Bond182	33	1	–	–
		52		6
Bank securities:				
Promissory notes	105	3	5	2
		$ 55		$ 8

(Continued)

(Millions of constant Mexican pesos as of December 31, 2006)

Securities	Debit balances: Weighted average term (days)	Debit balances: Net position	Credit balances: Weighted average term (days)	Credit balances: Net position
December 31, 2005				
Government:				
Bpas	22	$ 2	23	$ 2
Bpat	63	14	72	7
Bonds	140	3	-	-
Brem	4	2	-	-
Ipas	-	-	182	35
LS	38	3	41	4
Ls Bond182	35	2	28	1
		$ 26		$ 49

At December 31, 2006 and 2005, the Bank 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:

December 31, 2006

Issuer	Issue	Number of certificates	Market value
Guarantees received:			
BI Cetes	070301	294,119	$ 2.9
BI Cetes	071122	2,621,012	24.6
BI Cetes	070104	300,963	3.0
Ls Bond182	090813	174,984	17.9
Ls Bond182	100114	69,007	7.1
Ls Bond182	070607	62,543	6.3
IP Bpas	070524	27,090	2.7
Total guarantees received			$ 64.5

(Continued)

(Millions of constant Mexican pesos as of December 31, 2006)

December 31, 2005

Issuer	Issue	Number of certificates	Market value
Guarantees grated:			
BI Cetes	060511	1,203,421	$ 12.2
BI Cetes	060412	1,878,253	19.0
Total guarantees grated			$ 31.2
Guarantees received:			
BI Cetes	060622	647,800	$ 6.5
IT Bpat	070927	71,382	7.4
Ls Bond182	080103	114,654	12.5
Ls Bond182	080731	89,644	9.7
Total guarantees received			$ 36.1

(8) Derivative instruments-

Trading:

At December 31, 2006 and 2005, derivative financial instruments for trading purposes are analyzed as follows:

	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Foreign currency forward contracts	$ 8	–	–	53
Foreign currency options	1	1	1	–
Interest rate swaps	–	39	–	8
	$ 9	40	1	61

At December 31, 2006 and 2005, options are balanced since for each buy option there is a sell option; accordingly, the Bank's operation is limited to negotiating the contract premiums, which are included in the consolidated statement of income under "Financial intermediation income, net".

Hedge transactions:

Derivative transactions for hedging purposes are presented in the consolidated balance sheet together with the primary position they cover. At December 31, 2006 and 2005, derivative financial instruments for hedging purposes are analyzed on the next page.

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Derivative	Primary position		2006	2005
Foreign currency forward contracts (see note 6)	Investment securities	$	(11)	–
Interest rate swaps	Fixed-rate loan portfolio *		(9)	(2)
Interest rate swaps	Fixed-rate deposit funding		(1)	–

* $6 correspond to the hedging of the loan granted to the Federal District Government (see note 9) and $3 for commercial loans.

Notional amounts:

The following notional amounts of contracts represent the derivative 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, 2006 and 2005 are as follows:

Type of instrument		Hedging purposes (2006)	Trading purposes (2006)	Total (2006)
Interest rate:				
Bought:				
Futures:				
TIIE	$	–	59,930	59,930
CETES		–	300	300
M-10		–	190	190
Swaps		310	21,332	21,642
	$	310	81,752	82,062
Sold:				
Futures:				
TIIE	$	–	1,200	1,200
CETES		–	400	400
Swaps		9,527	28,621	38,148
	$	9,527	30,221	39,748
Sold:				
Swaps (in millions of dollars)		64	–	64

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December 31, 2006

Type of instrument	Hedging purposes	Trading purposes	Total
Foreign exchange (in millions of dollars):			
Bought:			
Forward contracts	230	715	945
Options	–	4	4
	230	719	949
Sold:			
Forward contracts	–	698	698
Options	–	4	4
	–	702	702

December 31, 2005

Type of instrument	Hedging purposes	Trading purposes	Total
Interest rate:			
Bought:			
Futures:			
TIIE	$ –	21,800	21,800
CETES	–	500	500
Swaps	–	9,352	9,352
	$ –	31,652	31,652
Sold:			
Swaps	$ 6,011	9,820	15,831
Sold:			
Swaps (in millions of dollars)	114	–	114

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Type of instrument	Trading purposes
December 31, 2005	
Foreign exchange (in millions of dollars):	
Bought:	
Futures	11
Forward contracts	844
Options	2
	857
Sold:	
Futures	4
Forward contracts	853
Options	2
	859

The Bank may reduce or modify the market risk mainly through two activities: converting fixed to variable rate assets and floating-rate to fixed rate liabilities. Both transformations are achieved using interest rate swaps.

At December 31, 2006, of the total transactions there are nine designated as cash flow hedges that total $1,600 and are converting 28-day liabilities; the remaining $8,930 are designated as fair value hedges.

In general, reducing the market risk impacts the financial margin as the revenue gaps are closed (funding long-term fixed-rate loans with short-term liabilities) and, as a result, the benefits from the increase in the margin are reduced when short-term rates fall. At December 31, 2006, with an average TIIE rate of 7.57%, it is estimated that had these derivatives not existed, the financial impact would have been an additional positive margin of $133 (unaudited figure).

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(9) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2006 and 2005, the classification of loans into current and past due by currency, which includes the restructured portfolio in UDI Trusts, is analyzed as follows:

	2006		2005	
	Current	**Past due**	**Current**	**Past due**
In assets				
Pesos:				
Commercial loans	$ 19,048	461	18,637	473
Financial institutions	3,494	–	8,018	–
Consumer loans	18,451	639	14,476	443
Residential mortgages	21,130	587	15,357	379
Government entities	17,795	–	19,645	–
Other past due debt	–	15	–	14
	79,918	1,702	76,133	1,309
Foreign currency:				
Commercial	3,381	94	5,417	190
Financial institutions	118	–	70	–
	3,499	94	5,487	190
Denominated in UDIS:				
Commercial loans	1,425	115	1,608	109
Government institutions	194	–	213	–
	1,619	115	1,821	109
	$ 85,036	1,911	83,441	1,608
	$ 86,947		85,049	
In memorandum accounts:				
Guarantees issued	$ 1,128		908	
Irrevocable lines of credit	1,214		1,295	
	2,342		2,203	
	$ 89,289		87,252	

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(b) Classification of loan portfolio by economic sector-

At December 31, 2006 and 2005, credit risk (including loans, guarantees and irrevocable lines of credit, see note 19) classified by economic sector and the percentage of concentration are analyzed as follows:

	2006		2005	
	Amount	**%**	**Amount**	**%**
Community, social and personal services, mainly government entities	$ 19,861	22	24,636	28
Construction and housing	24,747	28	19,221	22
Financial, insurance and real estate services	6,227	7	7,598	9
Manufacturing	10,818	12	12,455	14
Commerce and tourism	5,722	6	6,435	7
Consumer loans and credit cards	19,093	22	14,922	17
Agriculture, forestry and fishing	1,204	1	815	1
Transportation, warehousing and communication	1,510	2	1,161	2
Other	107	–	9	–
	$ 89,289	100	87,252	100

(c) Acquisition of consumer loans-

On April 11, 2006, the Bank acquired consumer (automobile) loans from a Limited Purpose Financial Company (SOFOL) for an agreed-upon price made up of two portions: the first fixed portion of $3,076 (nominal) paid on the acquisition date and a second portion consisting of an amount determinable based on a comparison between monthly and projected collections but which may not exceed $360 (nominal), which was recorded as a liability. The difference between the contractual price and the agreed-upon price for both portions was recorded as a deferred charge of $217; the deferred charge is being amortized over a period equal to the remaining life of the loans and the resulting liability shall be payable upon termination thereof. At December 31, 2006, the amortized amount corresponding to deferred charges amounts to $60 and the balance of the liability totals $350.

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(Millions of constant Mexican pesos as of December 31, 2006)

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, 2006 the outstanding balance of this portfolio amounts to $2,207.

(d) Loan to the 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 are payable at maturity and monthly, respectively. During 2006 and 2005 the IPAB paid interest amounting to $161 and $125 (nominal). The loan is 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).

(e) Loans to government entities-

At December 31, 2006 and 2005, loans granted to government entities are analyzed as follows:

		2006	2005
Highway construction loans	$	5,343	5,574
Loans to the Federal District government		7,145	8,142
Autonomous entity loan		801	1,043
Receivables under financial support programs		278	314
IPAB (see paragraph (d) of this note)		2,011	2,098
UDI restructured loans for supporting Mexican states and municipalities		194	212
Other		2,217	2,475
Total loans to government entities	$	17,989	19,858

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Highway construction 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 and payable from 2007. Interest is at the arithmetic average of the 91-day CETES rate.

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 the 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, 2006	December 31, 2005
September 18, 2001	August 31, 2015	$ 2,724	3,153
November 30, 2002	November 30, 2015	2,261	2,621
September 30, 2002	September 30, 2016	65	66
November 28, 2002	November 29, 2016	1,098	1,258
December 13, 2004	December 31, 2011	1,003	1,046
Valuation effect of hedging swap (see note 8)		(6)	(2)
		$ 7,145	8,142

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, 2006 and 2005 amount to $278 and $314, respectively.

The Bank's cost associated with the various debtor support programs and agreements for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
FOVI	$ 31	35
Residential mortgages	15	18
	$ 46	53

(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, 2006 and 2005, the outstanding balances of restructured loans under UDI Trusts are analyzed as follows:

	2006		
	Loan portfolio		Average annual
	Current	Past due	interest rate
States and municipalities	$ 194	–	6.34%
Residential mortgages	1,355	106	8.93%
Individual loans	70	9	9.74%
	$ 1,619	115	

(Continued)

(Millions of constant Mexican pesos as of December 31, 2006)

	2005		
	Loan portfolio		
	Current	Past due	Average annual interest rate
States and municipalities	$ 212	–	6.48%
Residential mortgages	1,516	105	8.92%
Individual loans	93	4	9.13%
	$ 1,821	109	

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

Annual weighted lending rates:

	2006	2005
Commercial loans*	8.79%	9.99%
Personal loans	15.21%	16.06%
Credit cards	25.90%	27.44%
Residential mortgages	11.50%	11.66%

* Includes commercial, financial and government entities loans.

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, 2006 and 2005, the amount of loans granted under these programs aggregated $3,429 and $4,914, respectively, and the related liability is included in "Bank and other loans" (see note 14).

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(Millions of constant Mexican pesos as of December 31, 2006)

Restructured loans:

At December 31, 2006 and 2005, restructured and renewed loans are analyzed as follows:

	Current loans	Past due loans	Total
2006			
Commercial loans	$ 154[1]	102	256
Residential mortgages	1,335	10	1,345[2]
Personal loans	14	-	14
	$ 1,503	112	1,615
2005			
Commercial loans	$ 564[1]	82	646
Residential mortgages	1,136	103	1,239[2]
Personal loans	11	-	11
	$ 1,711	185	1,896

(1) At December 31, 2006 and 2005 this amount does not include the debt currently owed by the Federal Government for the highway rescue program of $5,343 and $5,573, respectively, forming part of the exempted portfolio.

(2) From the total balance of restructured and renewed residential mortgage loans as of December 31, 2006 and 2005, $1,063 and $1,202, respectively, correspond to loans transferred from UDI trusts that expired in 2005. In performing the restructures, the Bank obtained additional guarantees that at December 31, 2005 amount to $7,950.

During the years ended December 31, 2006 and 2005, no past due interest was capitalized.

Risk concentration:

At December 31, 2006, balances due from one debtor individually exceed 10% of the Bank's basic capital (two in 2005). The balance of those loans as of December 31, 2006 and 2005, is $1,863 and $4,025, respectively, or 10% and 28% of the basic capital, respectively. The balance of the loans granted to the three largest debtors as of December 31, 2006 and 2005, amount to $3,803 and $5,122, respectively.

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Past due loan portfolio:

An analysis of past due loans at December 31, 2006 and 2005, from the date the loans went past due is summarized below:

December 31, 2006

	90 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
Commercial*	$ 3	108	24	420	555
Consumer	539	74	15	11	639
Residential mortgages	331	172	135	64	702
Other past due debt	7	4	3	1	15
	$ 880	358	177	496	1,911

December 31, 2005

	90 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
Commercial*	$ 41	3	119	500	663
Consumer	375	67	1	–	443
Residential mortgages	230	138	103	17	488
Other past due debt	9	2	1	2	14
	$ 655	210	224	519	1,608

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

(Continued)

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The movement of the past due loan portfolio for the years ended December 31, 2006 and 2005 is summarized below:

		2006	2005
Balance at beginning of year	$	1,608	1,871
Settlements		(105)	(10)
Write-offs and debt forgiveness		(884)	(1,115)
Net transfers from current portfolio		1,303	913
Foreign exchange loss		(11)	(51)
	$	1,911	1,608

Nominal interest on the past due loan portfolio not recognized in results of operations for the year ended December 31, 2006 amounted to $185 ($151 in 2005).

Impaired loans:

The balance of impaired commercial loans as of December 31, 2006 and 2005 is $811 and $1,299, of which $250 and $629 are recorded in current loans, and $561 and $670 are past due loans, respectively.

(h) Allowance for loan losses-

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, 2006 and 2005, the allowance for loan losses classified between general reserves and specific reserves according to the criteria mentioned in note 2(h), is as follows:

		2006		2005	
Loan portfolio		General	Specific	General	Specific
Commercial*	$	180	996	206	1,412
Consumer		83	798	66	522
Residential mortgages		69	408	51	307
	$	332	2,202	323	2,241
		$ 2,534		2,564	

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

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At December 31, 2006, the graded loan portfolio and the allowance for loan losses, are classified as follows:

Degree of risk	Commercial*	Consumer	Residential mortgages	Total
Graded loan portfolio				
A and A-1	$ 12,513	16,596	19,777	48,886
A-2	12,661	–	–	12,661
B and B-1	4,393	1,471	2,704	8,568
B-2	1,129	–	–	1,129
B-3	415	–	–	415
C and C-1	556	419	412	1,387
C-2	97	–	–	97
D	6	494	370	870
E	388	112	–	500
Total portfolio graded	$ 32,158	19,092	23,263	74,513
Allowance for loan losses				
A and A-1	$ 62	83	69	214
A-2	118	–	–	118
B and B-1	196	147	55	398
B-2	92	–	–	92
B-3	118	–	–	118
C and C-1	157	189	94	440
C-2	39	–	–	39
D	6	356	259	621
E	388	106	–	494
Allowance for graded loans	$ 1,176	881	477	2,534
Additional reserves for past due interest				29
Global reserves				208
Total allowance for loan losses				$ 2,771

* Includes commercial, financial institutions and government entities loans.

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

Degree of risk	Commercial*	Consumer	Residential mortgages	Total
Graded loan portfolio				
A and A-1	$ 12,636	13,316	14,521	40,473
A-2	14,273	–	–	14,273
B and B-1	5,770	919	2,339	9,028
B-2	715	–	–	715
B-3	527	–	–	527
C and C-1	200	300	339	839
C-2	1	–	–	1
D	1	321	259	581
E	925	65	1	991
Total portfolio graded	$ 35,048	14,921	17,459	67,428
Allowance for loan losses				
A and A-1	$ 64	66	51	181
A-2	142	–	–	142
B and B-1	249	92	51	392
B-2	75	–	–	75
B-3	88	–	–	88
C and C-1	74	135	74	283
D	1	231	181	413
E	925	64	1	990
Allowance for graded loans	$ 1,618	588	358	2,564
Additional reserves (including among other items, past due interest and reserve for yield on highway bonds of $232 nominal)				334
Global reserves				246
Total allowance for loan losses				$ 3,144

* Includes commercial, financial institutions and government entities loans.

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The movement of the allowance for loan losses for the years ended December 31, 2006 and 2005 (nominal) is summarized below:

		2006	2005
Balance at beginning of year	$	3,018	3,298
Provisions charged to results of operations		468	863
Recoveries		361	620
Write-offs and debt forgiveness		(1,097)	(1,066)
Transfer of allowances from expired UDI trusts		–	(684)
Other		21	(13)
Subtotal		2,771	3,018
Adjustment for inflation		–	126
Balance at end of year	$	2,771	3,144

(10) Foreclosed assets-

At December 31, 2006 and 2005, foreclosed assets are analyzed as follows:

		2006	2005
Premises	$	139	290
Chattels		–	1
Assets under enforceable promise to sell		19	27
Income from foreclosed assets		(21)	(16)
		137	302
Allowance for impairment		(41)	(136)
	$	96	166

The movement of the allowance for impairment for the years ended December 31 2006 and 2005 (nominal) is analyzed as follows:

		2006	2005
Balance at beginning of year	$	131	149
Additional provisions arising from the passage of time charged to operations for the year		1	12
Write-offs		(91)	(30)
Subtotal		41	131
Restatement for inflation		–	5
Balance at end of year	$	41	136

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(11) Premises, furniture and equipment-

Premises, furniture and equipment at December 31, 2006 and 2005 are analyzed as follows:

	2006	2005	Annual depreciation rate
Office premises	$ 1,904	1,904	Various
Office furniture and equipment	627	562	10%
Computer equipment	756	694	30%
Transportation equipment	38	26	25%
Telecommunications equipment	136	130	10%
Leasehold improvements	548	383	5%
Construction in progress	–	1	
	4,009	3,700	
Accumulated depreciation and amortization	(1,768)	(1,656)	
	$ 2,241	2,044	

Depreciation and amortization charged to results of operations in 2006 and 2005 amounted to $145 and $143, respectively.

(12) Permanent investments in shares-

At December 31, 2006 and 2005, permanent investments in shares, classified by activity, are analyzed as follows:

	2006	2005
Derivate market transactions *	$ 349	317
Security and protection **	1	1
Banking related services	87	74
Mutual funds	29	27
	$ 466	419

* At December 31, 2005, includes the effect from a subsidiary accounted for under the equity method.

** For the year ended December 31 2005, the Bank recognized in results of operations the loss in value of the shares of an armored car company of $83 (nominal). As of December 31, 2006 and 2005, the value of those shares net of the allowance is zero.

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(13) Deposit funding-

The average weighted interest rates on deposit balances during the years ended December 31, 2006 and 2005 are as follows:

	2006 Rates		2005 Rates	
	Pesos	Dollars	Pesos	Dollars
Demand deposits	1.86%	1.31%	2.41%	0.89%
Savings deposits	0.55%	–	0.55%	–
Time deposits	6.16%	2.59%	7.69%	1.48%
Money market	7.34%	–	9.41%	–

Of the bank debt certificates authorized by the Banking Commission up to the amount of $10,000 ($5,000 in 2005), at December 31, 2006 and 2005, the Bank has placed $4,200 nominal and $2,292 ($2,200 nominal), respectively, of which $2,000 nominal, were placed at a 3-year term and pay interest each 28 days at variable 28-day TIIE rates plus 0.04%; $1,562 ($1,500 nominal) were placed at a 5-year term and pay interest each 28 days at variable 28-day TIIE rates plus 0.11%; $417 ($400 nominal) were placed at a 10-year term and pay interest every six months at the fixed rate of 9.89% and $313 ($300 nominal) were placed at a 13-year term and pay interest every six months at the fixed rate of 9.75%.

At December 31, 2006 and 2005, the money market funding consists primarily of Mexican peso promissory notes with interest payable at maturity and terms ranging from 1 to 360 days and CEDES time deposits with maturities of 56 days.

(14) Bank and other loans-

At December 31, 2006 and 2005, bank and other loans are analyzed as follows:

		2006	2005
Due on demand and short-term:			
Pesos:			
Banco de México [(1)]	$	750	4,167
Private domestic banks		810	2,083
Development banks [(2)]		477	421
Development agencies [(2)]		987	625
Accrued interest		6	27
Total pesos, due on demand and short-term, carried forward	$	3,030	7,323

(1) At December 31, 2006 and 2005, loans from Banco de México had average maturities of 25 and 7 days respectively.

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

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	2006	2005
Total pesos, due on demand and short-term, brought forward	$ 3,030	7,323
Denominated in dollars:		
Foreign banks	5	15
Development agencies (2)	61	29
Accrued interest	6	5
	72	49
Total due on demand and short-term	3,102	7,372
Long-term:		
Pesos:		
Development banks (2)	458	535
Development agencies (2)	2,323	3,030
	2,781	3,565
Denominated in dollars:		
Foreign banks	6	5
Development banks – interbank (3)	216	222
Development agencies (2)	–	9
	222	236
Total long-term	3,003	3,801
Total bank and other loans	$ 6,105	11,173

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

(3) At December 31, 2006 and 2005, the balance relates to a 20 million dollar loan from 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. In July 2005 one loan matured that 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 2006 and 2005, interest was paid of USD 1,276 (thousand) and USD 1,646 (thousand), respectively.

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Due to the operating characteristics of the interbank 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, 2006 and 2005, the Bank has no significant interbank lines of credit with authorized amounts that have not been drawn down.

At December 31, 2006 and 2005, bank and other loans average annual interest rates are as follows:

	2006 Rates		2005 Rates	
	Pesos	Foreign currency	Pesos	Foreign currency
Banco de México	7.17%	–	8.29%	–
Development banks	10.21%	7.32%	11.50%	5.83%
Development agencies	5.77%	5.66%	7.49%	5.15%
Foreign banks	–	5.98%	–	4.40%

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

Effective as of April 1, 2006, the Bank established a defined pension and post-retirement contribution plan, comprising all employees who join the Bank after that date. The plan is optional for employees who joined the Bank on a date prior to the plan's coming into effect. Such plan provides for pre-established contributions by the Bank and the employees, which the employee may fully withdraw upon reaching age 65 and 10 years of service.

The present benefit obligation amount transferred from the defined benefits plan to the defined contribution plan by the employees who chose to do so was $279 and the result from the extinction and reduction of the defined benefits obligation for $22 was recognized as an extraordinary loss in the consolidated statement of income.

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For the period of April 1 to December 31, 2006, the charge to income corresponding to Bank contributions in connection with the defined contribution plan amounted to $34.

The Bank continues with the defined benefit pension plan for the employees who opted not to change to the new defined contribution plan, which is based on years of service and the employee's compensation during the five years before retirement.

The cost, obligations and assets of the defined benefit plans: pension, seniority premiums, post-retirement medical benefits, life insurance and food coupons of retirees were determined based on calculations prepared by independent actuaries at December 31, 2006 and 2005 and are presented in nominal values as follows:

	2006		2005	
	Pensions and seniority premiums	**Post-retirement medical benefits, food vouchers & life insurance**	**Pensions and seniority premiums**	**Post-retirement medical benefits, food vouchers & life insurance**
Service cost	$ 42	41	57	40
Interest cost	69	57	86	62
Return on plan assets	(79)	(55)	(86)	(42)
Variances in assumptions and experience	–	20	–	25
Amortization of transition obligation	–	(6)	–	–
Prior service cost and plan modifications	1	(2)	1	–
Net periodic cost	$ 33	55	58	85

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At December 31, 2006 and 2005, benefit obligations are analyzed as follows (nominal):

	2006		2005	
	Pensions and seniority premiums	**Post-retirement medical benefits, food vouchers & life insurance**	**Pensions and seniority premiums**	**Post-retirement medical benefits, food vouchers & life insurance**
Projected benefit obligation (PBO)	$ 1,629	1,394	1,862	1,394
Plan assets at market value	(1,582)	(1,193)	(1,862)	(1,114)
PBO in excess of plan assets	47	201	–	280
Unrecognized items:				
Prior service cost and plan modifications	(5)	51	(13)	–
Variances in assumptions and experience	(65)	(444)	(25)	(510)
Unamortized transition asset	–	118	–	76
Net projected asset	$ (23)	(74)	(38)	(154)
Present benefit obligations:				
Vested	$ 1,058		965	
Unvested	542		796	
Total present benefit obligations	1,600		1,761	
Plan assets	(1,582)		(1,862)	
Net liability (asset)	$ 18		(101)	
Additional liability	$ 41		–	
Intangible asset	(5)		–	
Reduction in stockholders' equity	$ 36		–	

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At December 31, 2006 and 2005 statutory severance liabilities are analyzed as follows (nominal):

		2006	2005
PBO	$	278	256
Unamortized items:			
Variances in assumptions and experience		(12)	–
Transition liability		(217)	(239)
Net projected liability	$	49	17
Liability:			
Unfunded provision	$	68	29
Additional asset and liability		185	200
Total liability	$	253	229

A reconciliation of recognized statutory severance assets and liabilities as of December 31, 2006 and 2005 follows (nominal):

		2006	2005
PBO at January 1	$	256	258
Amortization of transition liability for the year		(30)	(29)
PBO net of amortized transition liability for the year		226	229
Net periodic cost		(60)	(57)
Severance payments made in the year		19	28
Additional asset and liability	$	185	200

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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, 2006 and 2005 (nominal):

	2006	2005
Balance at beginning of year	$ 2,976	2,583
Contributions to the fund	88	258
Return on plan assets	305	292
Transfer to the defined contribution plan	(279)	–
Payments made	(160)	(157)
Subtotal	2,930	2,976
Restatement for inflation	–	124
Balance at year end	$ 2,930	3,100

Rates used in the actuarial projections are:

	2006	2005
Yield on plan assets	5.0%	5.0%
Discount rate	4.5%	5.0%
Rate of increase in compensation	1.0%	0.5%
Medical expenses increase rate	3.0%	3.0%
Estimated inflation rate	3.5%	4.5%

For 2006, the amortization period of unrecognized items is 12.6 years for pensions (16.5 years in 2005), 16.26 years for medical benefits, food vouchers and life insurance for retirees (16.5 years in 2005), 8.46 years for seniority premiums (8.6 years in 2005), and 8.8 years for severance liabilities (8.9 years in 2005).

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(16) 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.

The AT Law provides for a 1.8% tax rate on 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. Given its uncertain recovery, the AT for 2006 and 2005, which amounted to $23 and $15 (nominal), respectively, was charged to results of operations of such years. At December 31, 2006, there is recoverable AT for $177 which expires in the years 2007 to 2016.

Current taxes and ESPS expense:

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

		2006		2005	
		Taxes	**ESPS**	**Taxes**	**ESPS**
Bank (AT)	$	23	252	15	191
Real Estate Company (IT)		17	–	21	–
Service entities (IT)		1	–	1	–
Excess in Bank's provision		–	–	–	17
Restatement for inflation and other		–	10	3	8
	$	41	262	40	216
		$ 303		256	

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

	2006		2005	
	IT	ESPS	IT	ESPS
Income before taxes, ESPS, equity in the results of operations of associated companies and extraordinary item	$ 4,142	4,142	3,665	3,665
Less real estate company and service entities	–	(92)	–	(86)
	4,142	4,050	3,665	3,579
Accounting effects of inflation	507	487	267	256
	4,649	4,537	3,932	3,835
Tax effects of inflation	(389)	(374)	(259)	(250)
Valuation of financial instruments	99	99	47	47
Depreciation and amortization	65	79	61	73
Non-deductible expenses	128	128	87	86
Prior years' deduction for provision for loan losses	(1,670)	(1,670)	(1,548)	(1,548)
Recoveries and other	(299)	(277)	(332)	(330)
Taxable income for ESPS purposes before amortization of losses and deduction of ESPS paid in the year	2,583	2,522	1,988	1,913
2005 ESPS paid in 2006	(187)		–	
Tax base for IT purposes	2,396		1,988	
Utilization of prior years' tax loss carryforwards (see "other considerations" in this note)	(2,335)		(1,913)	
Taxable income	$ 61		75	
IT payable at 29% and 30%	$ 18		22	
ESPS payable at 10%		$ 252		191

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Deferred IT and ESPS:

The deferred tax asset (liability) at December 31, 2006 and 2005 comprises the following:

		2006	2005
Valuation of financial instruments:			
Trading	$	14	(1)
Available-for-sale		(96)	(70)
Expense accruals and others		159	232
Premises, furniture and equipment		(68)	(102)
Unearned fees collected		130	104
Foreclosed assets		22	78
Recognition of additional liability for labor obligations		13	–
	$	174	241

Deferred IT and ESPS (charges) credits to results of operations and stockholders' equity, respectively, for the years ended December 31, 2006 and 2005 are presented below

		2006	2005
Valuation of financial instruments	$	(11)	(75)
Expense accruals and others		(73)	72
Premises, furniture and equipment		34	59
Unearned fees collected		26	26
Foreclosed assets		(56)	33
Recognition of additional liability from labor obligations		13	–
		(67)	115
Decrease in valuation allowance		–	45
	$	(67)	160
Deferred tax:			
In results of operations	$	(54)	231
In stockholders' equity:			
Result from valuation of available-for-sale securities		(26)	(71)
Recognition of additional liability for labor obligations		13	–
	$	(67)	160

(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, 2006, 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 Bank 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, 2006 and 2005, tax loss carryforwards of $2,335 and $1,913 (nominal), respectively, were utilized which resulted in tax benefits of $677 and $574 (nominal) respectively, reported in the consolidated 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, 2006 and 2005 amounts to $177 and $169 (nominal), 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 2006, the IT rate is 29% (30% in 2005), and will be 28% from 2007.

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

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

(Continued)

(17) Stockholders' equity -

(a) Structure of capital stock-

At the Extraordinary General Stockholders' Meeting held on April 22, 2005, a resolution was passed to merge Lepidus, S. A. de C. V. (see note 1), which increased the Bank's capital stock by $184 ($173 nominal), equal to 173,138,180 common shares with a nominal value of one peso each, of which 173,120,651 shares represent the Series "F" and 17,529 shares, the series "B". Furthermore, the prior years' results of operations increased by $177 ($167 nominal) and the statutory reserve by $10. After the merger took effect, the owner of Series "B" shares decided to sell to the Group the 17,529 shares; at the aforesaid Meeting, it was resolved to transfer such Series "B" shares to Series "F".

After the above activity, the authorized and paid capital stock at December 31, 2006 and 2005 is represented by 3,025,003,688 common, registered shares with a nominal value of one peso each, divided into 3,025,003,647 Series "F" shares and 41 Series "B" shares.

(b) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the total performance of the Bank 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 the adjustment for labor obligations upon retirement.

(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 Bank'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.

The Credit Institutions Law requires an appropriation of 10% of net income for the year to statutory reserves, until such reserves reach an amount equal to paid-in capital.

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The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax bases are subject to income tax. At December 31, 2006 the capital contribution account (CUCA) and the tax basis retained earning account (CUFIN) of the Bank amount to $5,594 and $5,248, respectively.

The undistributed retained earnings of subsidiaries may not be distributed to the Bank's stockholders until these are received by way of dividends from the subsidiaries. Also, unrealized gains from the valuation of investment 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 is shown as follows:

Capital as of December 31:

		2006	2005
Stockholders' equity	$	19,388.7	15,536.6
Investments in financial service entities and their holding companies		(377.8)	(336.3)
Investments in other companies		(15.1)	(19.8)
Intangible assets and deferred taxes		(974.3)	(930.5)
Basic capital (Tier 1)		18,021.5	14,250.0
General loan loss allowances – Supplementary capital (Tier 2)		332.2	321.3
Net capital (Tier 1 + Tier 2)	$	18,353.7	14,571.3

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Assets at risk as of December 31, 2006:

	Risk weighted assets	Capital requirement
Market risk:		
Transactions in Mexican pesos at nominal interest rates	$ 27,008.8	2,160.7
Transactions with debt securities in pesos with premium and adjustable rates	1,263.6	101.1
Transactions in Mexican pesos at real interest rates or denominated in UDIS	1,492.6	119.4
Foreign currency transactions at nominal interest rates	259.9	20.8
Positions in UDIS or with returns linked to the INPC	6.7	0.5
Foreign currency positions or with exchange rate indexed returns	1,248.9	99.9
Equity positions or with returns indexed to the price of a single share or group of shares	234.6	18.8
Total market risk	31,515.1	2,521.2
Credit risk:		
Group II (weighted at 20%)	2,767.9	221.4
Other (weighted at 10%)	44.4	3.6
Group III (weighted at 100%)	70,842.8	5,667.4
Other (weighted at 112%)	2,064.3	165.1
Other (weighted at 115%)	565.8	45.3
Total credit risk	76,285.2	6,102.8
Total market and credit risk	$ 107,800.3	8,624.0

Capitalization indices as of December 31:

	2006	2005
Capital to credit risk assets:		
Basic capital (Tier 1)	23.6%	20.1%
Supplementary capital (Tier 2)	0.4%	0.5%
Net capital (Tier 1 + Tier 2)	24.0%	20.6%

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	2006	2005
Capital to market and credit risk assets:		
Basic capital (Tier 1)	16.7%	14.3%
Supplementary capital (Tier 2)	0.3%	0.3%
Net capital (Tier 1 + Tier 2)	17.0%	14.6%

Capital adequacy is monitored by the Risk Area through capitalization index proyection 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, 2006 and 2005, the structure of net capital increased principally due to the results of operations for the year and the valuation of available-for-sale securities, additionally in 2005, as a result of the effect of the merger of Lepidus (see a. in this note).

(18) Related-party transactions-

During the normal course of business, the Bank carries out transactions with related parties. According to the Bank's policies, the 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.

The principal transactions carried out with related parties for the years ended December 31, 2006 and 2005, are analyzed as follows (nominal):

	2006	2005
Income:		
Premiums and interest collected on securities purchased under agreements to resell:		
Scotia Inverlat Casa de Bolsa, S. A. de C. V. (Casa de Bolsa)	$ 1,496	1,304
Other:		
Casa de Bolsa	25	25
Scotia Fondos, S. A. de C. V. (Operadora)	111	91
The Bank of Nova Scotia (BNS)	-	4
	136	120
	$ 1,632	1,424

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		2006	2005
Expenses for:			
Interest:			
Grupo	$	7	9
Casa de Bolsa		420	255
BNS		-	139
		427	403
Premiums paid on securities sold under agreements to repurchase:			
Casa de Bolsa		1,061	1,040
Other:			
Casa de Bolsa		38	44
	$	1,526	1,487

Balances receivable from and payable to related parties as of December 31, 2006 and 2005 are as follows:

		2006	2005
Receivable:			
Repurchase/resell agreements, net:			
Casa de Bolsa	$	–	2
Loans granted:			
Related-party	$	581	1,247
Value date transactions:			
Casa de Bolsa	$	18	12
Other:			
Casa de Bolsa	$	95	46
Operadora		9	9
	$	104	55

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	2006	2005
Payable:		
Demand deposits:		
Casa de Bolsa	$ 70	19
Related-party	137	–
	$ 207	19
Bank loans:		
BNS	$ 3	15
Other:		
Grupo	$ 43	128
Casa de Bolsa	251	37
	$ 294	165

(19) Memorandum accounts-

(a) Irrevocable lines of credit and guarantees issued-

At December 31, 2006, the Bank had irrevocable commitments to grant loans for $1,214 and had issued guarantees for $1,128 ($1,295 and $908, respectively, in 2005).

Allowances created at December 31, 2006 and 2005 for letters of credit and guarantees amount to $25 and $23, respectively, and are included in the allowance for loan losses.

(b) Assets in trust or under mandate-

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2006 and 2005, is analyzed as follows:

	2006	2005
Trust:		
Administrative	$ 63,707	75,052
Guarantee	4,862	3,318
Investment	3,289	–
	71,858	78,370
Mandates	569	502
	$ 72,427	78,872

Trust revenue for the years ended December 31, 2006 and 2005 amounted $137 and $111, respectively.

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

As of December 31, 2006 and 2005 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:

		2006	2005
Equities and others	$	1,000	500
Government securities		36,295	27,481
Mutual funds		9,946	7,314
Bank securities not issued by the Bank		426	647
	$	47,667	35,942

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

(d) ***Assets in custody-***

In this account, the Bank records property and securities received in custody, guarantee or under management. As of December 31, 2006 and 2005, the assets in custody are analyzed as follows:

		2006	2005
Securities in custody:			
Securities	$	15	797
General		628	527
Investment		441	161
Securities management		767	–
Other		947	982
		2,798	2,467
Securities in guarantee		42,777	44,042
Securities under management:			
Securities		42,571	42,611
Other		2,784	2,882
		45,355	45,493
Transactions with derivative financial instruments on behalf of third parties:			
Futures		482,167	429,867
Options		2	–
		482,169	429,867
	$	573,099	521,869

Income arising from securities in custody for the years ended December 31, 2006 and 2005 amounts to $5 and $2, respectively.

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(20) Additional information on operations and segments-

(a) Segment information-

The Bank's operations are 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, 2006 and 2005, income by segment is analyzed as follows:

	Credit and services	Treasury	Subsidiary companies	Total
December 31, 2006				
Interest income, net	$ 5,846	1,439	1	7,286
Commissions and fee income, net, financial intermediation income and other income, net	3,493	746	65	4,304
Net income	9,339	2,185	66	11,590
Monetary position loss				(450)
Provision for loan losses				(468)
Administrative and promotional expenses				(6,530)
Income before taxes, ESPS, equity in results of operations of associated companies, and extraordinary item				4,142
Current and deferred taxes and ESPS, net				(357)
Equity in the results of operations of associated companies, net				60
Extraordinary item from loss on the early reduction of labor obligations				(22)
Net income				$ 3,823

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	Credit and services	Treasury	Subsidiary companies	Total
December 31, 2005				
Interest income, net	$ 5,360	1,369	(1)	6,728
Commissions and fee income, net, financial intermediation income and other income, net	3,275	844	109	4,228
Net income	8,635	2,213	108	10,956
Monetary position loss				(193)
Provision for loan losses				(899)
Administrative and promotional expenses				(6,046)
Income before taxes, ESPS, and equity in results of operations of associated companies				3,818
Current and deferred taxes and ESPS, net				(25)
Equity in the results of operations of associated companies, net				(43)
Net income				$ 3,750

(b) ***Financial margin -***

For the years ended December 31, 2006 and 2005, the financial margin consists of the following elements:

Interest income:

Interest income (nominal) for the years ended December 31, 2006 and 2005 is comprised as follows:

	2006	2005
Cash and cash equivalents	$ 1,330	1,307
Investment securities	1,374	1,496
Interest and premiums collected on securities purchased under agreements to resell	4,487	4,642
Loan portfolio	9,260	8,540
Other, including restatement for inflation	382	1,027
	$ 16,833	17,012

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An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2006 and 2005 (nominal):

	2006		2005	
	Current	**Past due**	**Current**	**Past due**
Commercial	$ 2,255	24	3,076	16
Financial institutions	350	–	355	–
Consumer	3,004	28	2,282	47
Residential mortgages	2,035	108	1,550	80
Government entities	1,455	–	1,131	–
Other past due debt	–	1	–	3
	$ 9,099	161	8,394	146
	$ 9,260		8,540	

For the years ended December 31, 2006 and 2005, consumer loan interest income includes fees that represent a yield adjustment of $0.7 and $ 0.6, respectively.

For the years ended December 31, 2006 and 2005, total interest income includes interest denominated in foreign currency amounting to 123 and 10 million dollars, respectively.

Interest expense:

Interest expense (nominal) for the years ended December 31, 2006 and 2005 is comprised of the following:

	2006	**2005**
Demand deposits	$ 714	796
Time deposits	3,133	3,415
Bank bonds	320	22
Bank and other loans	549	772
Interest and premium paid on securities sold under agreements to repurchase	4,595	4,693
Other, including restatement for inflation	236	586
	$ 9,547	10,284

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For the years ended December 31, 2006 and 2005, total interest expense includes interest denominated in foreign currency amounting to 44 and 2 million dollars, respectively.

Monetary position loss:

For the years ended December 31, 2006 and 2005, the net monetary position loss arising from the accounts related to the financial margin was $450 and $193, respectively (which include $434 and $184 respectively, related to the Bank).

The average balance of the principal monetary assets and liabilities used to determine the Bank's monetary position loss was as follows (nominal):

		2006	2005
Assets:			
Cash and cash equivalents	$	18,351	15,972
Investment securities and securities repurchase/resell agreements		14,321	12,155
Loan portfolio		80,106	67,682
Other		–	128
Total assets		112,778	95,937
Liabilities:			
Deposit funding		95,120	81,558
Bank and other loans		7,675	8,784
Other		564	31
Total liabilities		103,359	90,373
	$	9,419	5,564

(c) ***Financial intermediation income-***

For the years ended December 31, 2006 and 2005, financial intermediation income is analyzed as follows (nominal):

		2006	2005
Unrealized:			
Investment securities	$	(41)	4
Securities repurchase/resell agreements		64	(17)
Trading derivatives		27	(69)
Foreign currencies and precious metals		47	10
Unrealized, carried forward	$	97	(72)

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		2006	2005
Unrealized, brought forward	$	97	(72)
Realized:			
Investment securities		308	461
Trading derivatives		(20)	91
Foreign currencies and precious metals		319	322
		607	874
Restatement for inflation		16	47
	$	720	849

(d) Other income-

For the years ended December 31, 2006 and 2005, other income is analyzed as follows (nominal):

		2006	2005
Recoveries:			
Taxes	$	709	121
Transfer of securities		88	104
Recovery of administrative expenses		12	42
Other		96	288
Income from sales of assets foreclosed or received in lieu of payment		119	101
Monetary position result arising from items not related to the financial margin		65	10
Income from loan insurance		323	304
FDMS transactions		19	33
Distribution of mutual fund shares		109	89
Loans to employees		48	37
Food vouchers		72	62
Income from expired UDI trusts		–	475
Other, including restatement for inflation		434	647
	$	2,094	2,313

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The average balance of the principal monetary assets and liabilities used to determine the gain or loss in the purchasing power of the monetary position arising from items not related to the financial margin is as follows (nominal):

	2006	2005
Assets:		
Cash and cash equivalents	$ 2,865	2,525
Investment securities	587	97
Other accounts receivable	6,693	5,533
Foreclosed assets	266	396
Other	909	509
Total assets	11,320	9,060
Liabilities:		
Other accounts payable	8,187	7,070
Deferred credits	341	325
Other	10	–
Total liabilities	8,538	7,395
	$ 2,782	1,665

(e) ***Other expense-***

For the years ended December 31, 2006 and 2005, other expense is composed of the following (nominal):

	2006	2005
Write-offs and miscellaneous losses	$ 87	231
Negative monetary position result arising from items not related to the financial margin	205	50
Other, including restatement for inflation	13	133
	$ 305	414

(Millions of constant Mexican pesos as of December 31, 2006)

(f) ***Financial ratios-***

Following are some principal quarterly financial rations as of and for the years ended December 31, 2006 and 2005:

	2006			
	Fourth	Third	Second	First
Past due loan portfolio / Total loan portfolio	2.2%	2.2%	2.0%	1.9%
Allowance for loan losses / Past due loan portfolio	145.0%	147.6%	174.4%	194.2%
Operating efficiency (*administrative and promotional expenses / average total assets*)	5.8%	5.3%	5.1%	4.6%
ROE (*annualized net income for the quarter / average stockholders' equity*)	13.9%	19.7%	35.1%	21.5%
ROA (*annualized net income for the quarter / total average assets*)	2.0%	2.7%	4.7%	2.8%
Net capital / Assets at credit risk	24.0%	22.7%	21.5%	20.7%
Net capital / Assets at credit and market risks	17.0%	16.6%	16.4%	15.5%
Liquidity (*liquid assets / liquid liabilities*)	71.3%	91.9%	80.2%	69.5%
Financial margin after allowance for loan losses / Average earning assets	4.8%	5.3%	6.0%	5.5%

	2005			
	Fourth	Third	Second	First
Past due loan portfolio / Total loan portfolio	1.9%	1.8%	2.3%	2.4%
Allowance for loan losses / Past due loan portfolio	195.4%	218.0%	194.5%	192.1%
Operating efficiency (*administrative and promotional expenses / average total assets*)	4.7%	5.9%	5.0%	5.1%
ROE (*annualized net income for the quarter / average stockholders' equity*)	37.3%	22.6%	28.2%	25.2%
ROA (*annualized net income for the quarter / average total assets*)	4.6%	2.6%	3.0%	2.6%
Net capital / Assets at credit risk	20.6%	21.6%	19.8%	18.3%
Net capital / Assets at credit and market risks	14.6%	15.1%	14.4%	13.5%
Liquidity (*liquid assets / liquid liabilities*)	68.9%	73.0%	83.6%	73.2%
Financial margin after allowance for loan losses / Average earning assets	5.7%	5.7%	5.2%	3.2%

(Continued)

(21) Commitments and contingencies-

(a) Leases-

The Bank is obligated under various leases for certain premises and operating equipment, which provide for periodic rental adjustments based on changes in economic conditions. Total rent expense was $374 in 2006 and $316 in 2005.

(b) Litigation-

The Bank 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 Bank'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 Bank's Special Cetes worth $874 ($839 nominal) and liability for UDI trusts converted into pesos amounting to $786 ($755 nominal); the result of the swap represented a loss of $87 ($84 nominal). Furthermore, on November 24, 2005, Banco de México cancelled the Bank's Special Cetes amounting to $6 by way of a contractual penalty.

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

In 2004, the Bank received a favorable final resolution regarding the procedure used for determining the creditable VAT factor. Such decision confirms the right to fully recover the VAT paid during the period from January 1, 2003 through July 31, 2004, which was refunded by the tax authorities during fiscal 2006 in the amount of $494. Additionally, the Bank had recorded a provision in connection with this litigation that corresponded to the difference of VAT fully recovered and the recoverable VAT determined using the recoverable VAT factor; the provision totaled $138 and was cancelled in 2006 as a result of the refund obtained. Therefore, the total amount recorded in income derived from such refund amounted to $632.

(Continued)

(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 Bank 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 Bank continues to implement a series of initiatives 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.

The Board of Directors is responsible for establishing the Bank's risk management policies as well as the overall risk level to which the Bank 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 of risks; such limits may be based on value-at-risk, volumetric or notional amounts and are established in relation to the Bank'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 compliance with the policies and procedures on 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 Bank maintains positions for its own account.

(Continued)

The CAPA performs weekly reviews of the various activities that represent market risks for the Bank, focusing on the management of asset 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 Bank and its customers. The Bank 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 Bank enters into interest rate swaps, forward and futures contracts. Forward foreign exchange contracts are also used to control exchange rate risks. The Bank trades derivative instruments on behalf of its customers and also maintains positions for its own account.

Market risk management in securities trading activities- The Bank's securities trading activities are directed primarily to providing service to its customers. Accordingly, to meet its customers' demand, the Bank 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 Bank carries out for its own account, they are essential to allow customers access to markets and financial instruments at competitive prices. In addition, the Bank has treasury positions invested in the money and capital markets so that surplus cash generates the maximum yields in the Bank'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 Bank 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 Bank 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, sensitivity, concentration, 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 Bank'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 Bank calculates VaR considering a 99% confidence level and a 1 and 10-day holding period.

(Continued)

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 stress limits.

Also, backtesting is performed monthly for comparing the losses and gains to the observed Value at Risk and thus calibrate the models being used. The model's efficiency level is based on the approach established by the Bank for International Settlements (BIS)

For the valuation and risk models, references are used on updated prices, interest rate curves and other risk factors provided by the price vendor "Valuación Operativa y Referencias de Mercado, S. A. de C. V." (Valmer). The criteria adopted by such price vendor are determined based on technical and statistical aspects and valuation models authorized by the Banking Commission.

For 2006, the authorized limits and the average and maximum positions of VaR, in millions of nominal pesos, except for foreign currency forwards and futures, which are presented in millions of dollars, are shown below (unaudited information):

	Position			VaR	
Market	**Average**	**Maximum**	**Limit**	**Average**	**Limit**
Pesos:					
Money market	$ 33,683.5	39,406.8	72,000.0	22.6	–
Interest rate derivatives (futures and swaps)	68,341.3	71,054.2	102,400.0	35.4	–
Total interest rate positions	$102,024.8	110,461.0	174,400.0	58.0	120.0
Total investment equity securities	$ 23.5	45.6	300.0	2.1	23.0
Dollars:					
Forwards and futures foreign exchange contracts[(1) (2)]	1,652.6	1,937.3	4,670.0	0.4	29.5
Foreign exchange market[(1) (2)]	1.5	6.0	60.0	0.8	–
Foreign currency options[(2)]	11.4	13.6	60.0	0.0	–
Total foreign exchange and foreign currency derivatives	1,665.5	1,956.9	4,790.0	1.2	29.5

(1) The Forwards position is a gross position (long + short) and Foreign Exchange position is net (long - short).
(2) Notional figures expressed in millions of US dollars.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2006)

During 2006, the Bank participated in the MexDer, Mexican Derivatives Exchange, operating US dollar and interest rate futures contracts. Contracts negotiated during the fourth quarter of 2006 are shown below (unaudited figures):

Underlying asset	Average	Maximum	Limit
28-day TIIE futures	576,232	748,299	875,000
91-day Cetes futures	9,351	16,000	40,000
M bond futures	1,359	1,900	4,100
Total interest rate futures	586,942	766,199	919,100
Total US dollar futures	–	–	14,000

The Bank's global average 10-day VaR (unaudited) in 2006 was $23.7 and the global value at December 31, 2006 (unaudited) was $22.19 ($26.1 and $25.65 in 2005, nominal).

Market risk management in available-for-sale securities - At December 31, 2006, the position of the Bank's available-for-sale securities amounts to $4,570. Available-for-sale securities are considered within the Bank's structural position and to measure their risk, repricing gaps, economic value sensitivity and margin sensitivity to interest rate are considered.

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. The principal measurements for interest rate risk management are listed below (unaudited information):

Description	2006	2005
a) Variance in economic Value (Impact on economic value of 100 bp. parallel changes in rates)	314	49
b) Variance in financial income - 12 months (Impact on margin of 100 bp. parallel changes in rates)	165	120

(Continued)

The following table shows the average risk exposure for the various accumulated repricing gaps by currency, which serve as a basis for measurement of the interest rate risk for lending and funding activities (unaudited information):

Accumulated repricing gaps – Mexican pesos + UDIS	Exposure 2006-Q4	Exposure 2005-Q4
3 months	16,231	16,371
6 months	18,389	18,947
12 months	21,003	21,910
2 years	4,563	5,995
3 years	(937)	(1,781)
5 years	3,196	2,147
10 years	10,399	7,183
15 years	14,633	10,393
20 years	15,087	11,273
30 years	15,171	11,470

Accumulated repricing gaps – Dollars	Exposure 2006-Q4 (Million Dollars)	Exposure 2005-Q4 (Million Dollars)
3 months	195	98
6 months	140	106
12 months	142	116
2 years	128	116
3 years	128	116
5 years	129	117
10 years	129	122
30 years	129	122

The simulation models enable the Bank to dynamically assess the interest rate risk. These models are applied primarily to the balance position and consider hypotheses as to growth, mix of new activities, interest rate fluctuations, maturities and other factors.

(b) Liquidity risk-

The Bank'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 Bank is able to obtain funds from alternate financing sources at an acceptable cost.

(Continued)

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.

The liquidity risk is monitored and controlled on the aggregate by currency through accumulated liquidity gaps and minimum liquid asset requirements. Below is the Bank's average exposure for 2-week accumulated gaps and average liquid assets for the last quarters of 2006 and 2005, (unaudited information):

Description	2006	2005
Two-week accumulated gap (Mexican pesos +UDIs)	(12,130)	(11,347)
Liquid assets	8,503	5,359

The two-week accumulated gap indicates the Bank's cash commitments in that period while liquid assets serve as funds for meeting such commitments in case of not having access to other sources of funding.

(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 consist 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.

The Bank 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 Bank'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 Bank 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.

(Continued)

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 rate is immediately revised. In this way, the Bank 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 Bank 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 unit, currency, term, sector, etc. The limits are submitted annually to the Board of Directors for approval and their behavior is monitored and reported to the Risk Committee on a monthly basis.

Methodology used to determine allowances for loan losses- The Bank 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. The Bank 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.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2006)

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").

Loans are rated and provided for, respectively, in conformity with articles 126 130 and 131 of the aforementioned Provisions.

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

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

(Continued)

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.

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 efficient and profitable 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 suggest 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.

(Continued)

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.

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 reasonable 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 limitations 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 require constant 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.

(Continued)

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 environments are frail. These customers definitely have unacceptable risks.

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

High impairment: Borrowers with clear financial problems that put at risk compliance with the service of their debt, are susceptible to 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 repayment 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 payments 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 portfolio 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 Bank 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.

Portfolios and segments to which the Credit Risk methodology applies are: a) Non-retail portfolio: Corporate, Commercial, Scotia Empresarial; Federal Government, States and Municipalities; b) Retail portfolio: Mortgage, Credit Card, Personal Loans; and c) Non-traditional portfolio: Money Market and Derivatives.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2006)

- The 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.
- Expected losses represent an average estimate of the impact of 12-month non-compliance.
- Unexpected loss is a dispersion measurement with respect to an expected loss.
- 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 retail portfolio (credit card, personal and residential mortgage loans).
- Furthermore, stress testing is performed regularly as to both expected and unexpected losses.

Below are the expected and unexpected losses in nominal amounts as of December and the average of the last quarters of 2006 and 2005 (unaudited):

	2006		**2005**	
	Closing	**Average**	**Closing**	**Average**
Exposure	201,966	205,475	161,306	161,147
Unexpected losses	7,380	7,518	5,052	5,017
Expected losses	1,978	1,965	1,357	1,357

Credit culture- To create and promote a credit culture, the Bank 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 Bank 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 being submitted for approval by the Board of Directors annually.

(Continued)

(d) Operational Risk-

In conformity with chapter IV of the *General Provisions* applicable to credit institutions regarding comprehensive risk management, 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 controls 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 Bank has put in place policies and procedures enabling it to implement an appropriate operational risk management process, which are described below:

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

- 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.

The Bank also has a structured methodology to identify and assess those operational risks to which it is exposed. The objectives of such methodology are as follows:

- Classify the significant operational risks identified based on their importance.

- Rely on a systematic procedure so that the Bank is aware of the operational risks to which it is exposed.

- Establish plans to mitigate risk

- Comply with the requirements established in sections I and III of Article 86 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 internal control systems in all businesses and support groups, new products and systems; and the reliability and integrity of data processing operations.

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Notes to Consolidated Financial Statements

(Millions of constant Mexican pesos as of December 31, 2006)

As a result of the Operational Risk management, the Bank has identified operational risks for legal contingencies, which if they materialize, would cause a negative impact on the Bank's financial position at December 31, 2006 and 2005 of $368 and $300 ($288 nominal), respectively, which account for 2% of the Bank's stockholders' equity and were fully reserved.

At the close of 2006, the Bank had built a historic database of operational risk losses which includes losses incurred during the period between January 2003 and December 2006, which aggregate 21,978 loss events with a total value of $349, classified under 17 risk factors, itemized below (unaudited information):

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

Risk Factor		2003	2004	2005	2006	Grand total, carried forward
Regulatory (fines and penalties)	$	674	120	102,956	504	104,254
Lost lawsuits		22	14,582	77,722	31,638	123,964
Frauds (internal and external)		27,995	4,761	2,951	1,348	37,055
Bank card frauds		4,830	8,337	8,622	15,790	37,579
Phishing		–	562	14,456	1,043	16,061
Assaults		986	5,889	2,296	949	10,120
Labor lawsuits		4,456	1,285	–	–	5,741
Miscellaneous checks		1,894	1,946	427	1,739	6,006
Falto and false (cash supply)		325	396	519	489	1,729
Accounting differences		594	344	112	192	1,242
Testimony (lost documentation)		467	160	58	–	685
Former employee indebtedness		520	89	–	12	621
Falto and false (Foreign currency)		103	199	278	552	1,132
Irrecoverable amounts		244	194	29	12	479
Overdrafts		332	55	3	29	419
Trading		–	–	1,575	395	1,970
Other		–	–	–	21	21
Total	$	43,442	38,919	212,004	54,713	349,078

(Continued)

(Millions of constant Mexican pesos as of December 31, 2006)

			Events	
Risk Factor		**Grand total, brought forward**	**Number**	**Average Amount**
Regulatory (fines and penalties)	$	104,254	79	1,320
Lost lawsuits		123,964	92	1,347
Frauds (internal and external)		37,055	131	283
Bank card frauds		37,579	19,193	2
Phishing		16,061	56	287
Assaults		10,120	98	103
Labor lawsuits		5,741	18	319
Miscellaneous checks		6,006	403	15
Falto and false (cash supply)		1,729	893	2
Accounting differences		1,242	547	2
Testimony (lost documentation)		685	94	7
Former employee indebtedness		621	15	41
Falto and false (Foreign currency)		1,132	293	4
Irrecoverable amounts		479	20	24
Overdrafts		419	39	11
Trading		1,970	3	657
Other		21	4	5
Total	$	349,078	21,978	16

(23) Recently issued accounting standards-

Beginning June 1, 2004, CINIF is responsible for issuing financial reporting standards in Mexico. To accomplish this task, the CINIF received from the Mexican Institute of Public Accountants the bulletins of Generally Accepted Accounting Principles and Circulars issued through that date, which have been renamed as Financial Reporting Standards (FRS), and will continue in force until modified, substituted or superseded by a new FRS. Through December 2006, CINIF had issued eight series A and one series B FRS, effective for fiscal years beginning after December 31, 2005. Therefore, all prior series A bulletins, as well as bulletins B-1 and B-2, have been superseded.

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On September 15, 2006 Modifications to the Accounting Criteria for Credit Institutions (the Modifications), issued by the Commission, were published in the Official Gazette. The Modifications are effective from 2007.

The modifications harmonize certain criteria issued by the Commission with FRS. In the first place, they establish that the Commission shall issue particular rules for specialized operations, but resort to the supplementary use of other accounting principles and standards set forth in FRS A-8, and only if the standards referred to by FRS A-8 do not provide a solution for the accounting recognition may a supplementary standard may be used, provided all the requirements noted in such FRS are met. The supplementary use of other accounting principles and standards should be applied in the following order: accounting principles generally accepted in the United States of America ("US GAAP") or any other formal and recognized accounting standard. Management believes that the implementation of the Modifications will not have a significant impact on the Bank's financial information.

The most relevant Modifications are the following:

- The following particular standards contained in bulletins issued by the CINIF are included: B-1 "Accounting changes and correction of errors", B-7 "Business acquisitions", C-10 "Financial instruments, derivatives and hedging transactions", "C-15 "Impairment of long-lived assets and their disposition" and D-5 "Leasing".

- *Consolidation-* All entities are required to be consolidated. Previously, only entities belonging to the financial sector were required to be consolidated.

- *Investment securities-* Only held-to-maturity securities may be transferred to the available-for-sale category.

- *Repurchase/resell agreements and securities loan transactions* – Recording, valuation and presentation rules are included for the offsetting of guarantees in repurchase/resell agreements and securities lending transactions.

- *Derivative financial instruments-* The application of Bulletin C-10 of FRS is mandatory.

- *Loan portfolio:*

    - The treatment for the purchased loan portfolios and the concept of collection rights are incorporated.

    - Released provisions and recoveries are credited to the current year's results of operations.

    - Commissions charged in loan origination are recognized over the life of the loan.

(Continued)

- *Sundry debtors-* The amounts not recovered within 90 days (60 days if unidentified) were fully reserved while from 2007 a recoverability analysis should be performed.

- *Foreclosed assets-* From 2007 and with no retroactive effect, foreclosed assets are deemed non-monetary assets for purposes of recognizing the effects of inflation on the financial information.