

BANCO COMPARTAMOS, S. A.,  
INSTITUCIÓN DE BANCA MÚLTIPLE

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

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INSTITUCIÓN DE BANCA MÚLTIPLE

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## REPORT OF INDEPENDENT AUDITORS

México City, February 21, 2008

To the Stockholders of  
Banco Compartamos, S. A.,  
Institución de Banca Múltiple

We have audited the balance sheets of Banco Compartamos, S. A., Institución de Banca Múltiple as of December 31, 2007 and 2006, and the related statements of income, of changes in stockholders' equity and of changes in financial position for the years then ended in those dates. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As mentioned in Note 1 to the financial statements, on May 17, 2006, the Bank received authorization from the Ministry of Finance to be established and operate as a multiple bank Institution. Therefore, as of June 1, 2006, that same authorization cancelled the permit for Financiera Compartamos S. A. in order for it to operate as a Sofol.

As mentioned in Note 2 to the financial statements. The Bank is required to prepare and present its financial statements on the basis of accounting prescribed by the Mexican National Banking and Securities Commission (Commission), applicable to credit institutions. These rules do not conform to Mexican Financial Reporting Standards.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Banco Compartamos, S. A., Institución de Banca Múltiple at December 31, 2007 and 2006, and the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the years then ended, in conformity with the accounting practices prescribed by the Commission.

PricewaterhouseCoopers, S. C.

C. P. C. Eduardo González Dávila Garay  
Audit Partner



Memorandum accounts	December 31	
	2007	2006
Other contingent obligations	\$ 1	\$ 1
Interest earned note collected arising from the loan portfolio	1	-
Amounts contracted in derivative instruments	<u>-</u>	<u>78</u>
Repurchase debtors (Note 7)	\$ 460	\$ 104
(Less) Securities to be delivered on repurchase operations (Note 7)	<u>(460)</u>	<u>(104)</u>
	<u>\$ 0</u>	<u>\$ 0</u>

The historical amount of capital stock at the date of these balance sheets is \$428.

Capitalization index: (total capital/net/assets at risk) = 48.74% and (capital/net/assets at credit risk) = 52.97 %.

The above balance sheets were formulated in conformity with the Accounting Criteria issued for Banks by the National Banking and Securities Commission as per the provisions of articles 99, 101 and 102 of the Banks Law, applied on a consistent basis, thus reflecting the operations conducted by the Bank up to the above-mentioned dates, which were realized and valued in adherence with sound banking practices and the applicable legal and administrative provisions.

These balance sheets were prepared under the responsibility of the undersigned officers and were approved by the Board of Directors.

The accompanying nineteen notes are an integral part of these financial statements.

Carlos Labarthe Costas  
General Director

Carlos Danel Cendoya  
Assistant General Director

Fernando Álvarez Toca  
Finance Director

Rubén Domínguez Sánchez  
General Internal Auditor

BANCO COMPARTAMOS, S. A., INSTITUCIÓN DE BANCA MÚLTIPLE

STATEMENTS OF INCOME

Millions of Mexican pesos with purchasing power as of December 31, 2007

	<u>Year ended</u> <u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Interest income	\$ 2,824	\$ 2,112
Interest expense	(177)	(182)
Monetary loss - Net	<u>(67)</u>	<u>(52)</u>
Financial margin	2,580	1,878
Provision for loan losses (Note 8)	<u>(70)</u>	<u>(48)</u>
Financial margin after provision for loan losses	2,510	1,830
Commissions and fees collected	32	20
Commissions and fees paid	(73)	(48)
Brokerage revenue	<u>(3)</u>	<u>1</u>
Net operating revenue	2,466	1,803
Administrative and promotion expenses	<u>(1,237)</u>	<u>(847)</u>
Result of operations	1,229	956
Other income	48	30
Other expenses	<u>(6)</u>	<u>(17)</u>
Total income before income tax and employees' statutory profit-sharing	<u>1,271</u>	<u>969</u>
<u>Income tax employees' statutory profit-sharing (Note 15):</u>		
Current	378	301
Deferred	<u>16</u>	<u>13</u>
	<u>394</u>	<u>314</u>
Net income	<u>\$ 877</u>	<u>\$ 655</u>

The above statements of income were formulated in conformity with the Accounting Criteria issued for Banks by the National Banking and Securities Commission as per the provisions of articles 99, 101 and 102 of the Banks Law, applied on a consistent basis, thus reflecting the operations conducted by the Bank up to the above-mentioned dates, which were realized and valued in adherence with sound banking practices and the applicable legal and administrative provisions.

These statements of income were prepared under the responsibility of the undersigned officers and were approved by the Board of Directors.

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BANCO COMPARTAMOS, S. A., INSTITUCIÓN DE BANCA MÚLTIPLE

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE  
YEARS ENDED DECEMBER 31, 2007 AND 2006  
(Note 16)

Millions of Mexican pesos with purchasing power as of December 31, 2007

	<u>Contributed Capital</u>		<u>Earned capital</u>		
	<u>Capital stock</u>	<u>Capital reserves</u>	<u>Retained earnings</u>	<u>Net income for the year</u>	<u>Total stockholders' equity</u>
Balances as of January 1, 2006	\$ 487	\$ 17	\$ 27	\$ 394	\$ 925
CHANGES RELATED TO STOCKHOLDERS' DECISIONS:					
Transfer of prior years income			394	(394)	-
Application to legal, reserve		19	(19)		
Dividend payment			(172)		(172)
Total	-	19	203	(394)	(172)
CHANGES RELATED TO RECOGNITION OF COMPREHENSIVE INCOME:					
Net income				655	655
Balances as of December 31, 2006	487	36	230	655	1,408
CHANGES RELATED TO STOCKHOLDERS' DECISIONS:					
Transfer of prior years income			655	(655)	-
Application to legal reserve		64	(64)		
Total	-	64	591	(655)	-
CHANGES RELATED TO RECOGNITION OF COMPREHENSIVE INCOME:					
Net income				877	877
Balances as of December 31, 2007	\$ 487	\$ 100	\$ 821	\$ 877	\$ 2,285

The above statements of changes in stockholders' equity were formulated in conformity with the Accounting Criteria issued for Banks by the National Banking and Securities Commission as per the provisions of articles 99, 101 and 102 of the Banks Law, applied on a consistent basis, thus reflecting the operations conducted by the Bank up to the above-mentioned dates, which were realized and valued in adherence with sound banking practices and the applicable legal and administrative provisions.

These statements of changes in stockholders' equity were prepared under the responsibility of the undersigned officers and were approved by the Board of Directors

The accompanying nineteen notes are an integral part of these financial statements.

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BANCO COMPARTAMOS, S. A., INSTITUCIÓN DE BANCA MÚLTIPLE

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Millions of Mexican pesos of purchasing power as of December 31, 2007

	<u>December 31</u>	
<u>Operating activities:</u>	<u>2007</u>	<u>2006</u>
Net income	\$ 877	\$ 655
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	70	48
Depreciation and amortization	36	34
Deferred income taxes	16	13
	999	750
Changes in operating assets and liabilities:		
(Increase) reduction in notes payable	2,087	(132)
Increase in loan portfolio	(1,124)	(1,000)
(Increase) decrease in trading securities	(356)	146
Decreased (increase) in securities and derivative transactions	(5)	5
Decreased (increase) in interbank and other entities loans	(1,298)	481
Increase (decrease) in other accounts receivable and other accounts payable and others - Net	100	28
Resources provided by operating activities	403	278
<u>Financing activities:</u>		
Dividend payment	-	(172)
Resource used in financing activities	-	(172)
<u>Investing activities:</u>		
Property, furniture and equipment - Net	(70)	(66)
Resources provided by investing activities	(70)	(66)
Increase (decrease) in cash and due from banks for the year	333	40
Cash and cash due from banks at the beginning of year	109	69
Cash and cash due from banks at the end of year	\$ 442	\$ 109

The above statements of changes in financial position were formulated in conformity with the Accounting Criteria issued for Banks by the National Banking and Securities Commission as per the provisions of articles 99, 101 and 102 of the Banks Law, applied on a consistent basis, thus reflecting the operations conducted by the Bank up to the above-mentioned dates, which were realized and valued in adherence with sound banking practices and the applicable legal and administrative provisions.

These statements of changes in financial position were prepared under the responsibility of the undersigned officers and were approved by the Board of Directors.

The accompanying nineteen notes are an integral part of these financial statements.

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General Director

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BANCO COMPARTAMOS, S. A.,  
INSTITUCIÓN DE BANCA MÚLTIPLE

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

(Figures stated in millions of Mexican pesos with purchasing power as of December 31, 2007, except exchange-rates, foreign currency, profit per share and the par value of shares)

NOTE 1 - ACTIVITIES:

Incorporation and authorization -

Up to May 31, 2006, Banco Compartamos, S. A., Institución de Banca Múltiple (Bank) was organized and operated as a Special Purpose Financial Entity (Sofol, by its initials in Spanish) under the name of Financiera Compartamos, S. A. de C. V.; however, on May 17, 2006, the ruling was issued by the Ministry of Finance authorizing the organization and operation of a multiple banking institution. The Bank was incorporated and operates under Mexican Law. It was incorporated for an indefinite period and is regulated by the Law of Credit Institutions (LCI) and by Banco de Mexico (Banxico) and by the provisions issued by the National Banking and Securities Commission (Commission) as the inspection and surveillance or in for these entities. See Note 3.

Business purpose -

The Bank is mainly engaged in rendering banking and loan services in the terms of the Law, and may therefore engage in bank services such as the acquisition, sale, holding, leasing and the general use and administration of the rights, goods and real property necessary to achieve its objectives.

At December 31, 2007, the Bank has resources arising from savings held in time savings accounts. Those deposits were first received in September 2007, as well as time deposits. Future strategy is to offer products such as on demand savings accounts, directed to the market segment which it currently attends.

### Operating guidelines -

The principal regulatory factors require the Bank to maintain a minimum capitalization index in relation to the market and credit risk of its operations, compliance with certain deposits, acceptance limits, obligations and other types of funding that can be denominated in foreign currency, and establish minimum limits for paid-in capital and capital reserves.

On September 29, 2006, the Commission issued the General Provisions for Credit Banks known as “Sole Circular for Credit Institutions”, published in the Official Gazette on December 2, 2006, the purpose of which is to compile and detail the current regulatory framework applicable to credit institutions, and supersedes the former regulations, with the exception of the provisions mentioned in that Sole Circular for Credit Institutions.

The activities carried out and the accounting criteria applied by the Bank as a Sofol up to May 31, 2006, are similar to those carried out and applied by a credit institution, and therefore no significant financial effect arose from the conversion to Bank.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES:

The accompanying financial statements were prepared in accordance to the accounting criteria established for credit institutions issued by the Commission, which criteria differ from Mexican Financial Reporting Standards (NIF, due to its initials in Spanish), mainly with respect to the presentation of certain items of the financial statements, including those mentioned in subparagraphs d. and g. below.

The Commission is empowered, as the banking regulators, to review the Bank’s financial information and request modifications to such information.

In the absence of a specific criterion of the Commission, the following must be applied (in that order): Mexican NIF issued by the Mexican Council for the Research and Development of Financial Reporting Standards (CINIF); International Accounting Standards issued by the International Accounting Standards Board (IASB) and Accounting Principles Generally Accepted in the US (USGAAP) issued by the Financial Accounting Standards Board. See Note 3.

The accompanying financial statements have been translated from Spanish to English only for the convenience of readers.

The accompanying financial statements and the notes thereto were authorised by the Board of Directors for issuance on February 21, 2008.

Below is a summary of the most important accounting criteria, including the items, methods and criteria pertaining to the recognition of the effects of inflation in financial information.

- a. Recognition of the effects of inflation in the financial information - The Bank restates its financial statements to Mexican pesos of purchasing power as of the date of the last balance sheet presented. The financial statements for the preceding years have been restated at the same purchasing power as of the date of the last balance sheet presented and therefore, amounts differ from those originally reported in the prior.

Consequently, the financial statement amounts are comparable with each other and with those of the preceding years, since all are presented in constant pesos.

The following procedures were applied in order to recognize the effects of inflation in terms of purchasing power as of the date of the last balance sheet presented:

- In the balance sheet:

Furniture and equipment are restated by applying a factor derived from the value of the Investment Unit (UDI) from the date of acquisition to the last balance sheet presented.

Stockholders' equity and other non monetary items are restated as per an UDI factor from the date on which contributions were made or profits were earned.

- In the statement of income:

Revenues and expenses affecting or arising from a monetary item (cash and due from banks, trading securities, accounts receivable and liabilities, among others), as well as those arising from current operations, are restated from the month in which they occur to the last balance sheet presented, using UDI factors.

Costs and expenses arising from nonmonetary items are restated in the month in which they occur to the last balance sheet presented, based on restatement of the non monetary asset being consumed or sold.

The result on monetary position, which represents the erosion of purchasing power of monetary items and the inflationary gain or loss, is calculated by applying the inflation factor derived from the value of the UDI to the average monthly balance of assets or liabilities.

- -In the other statements:

The statement of changes in stockholders' equity and the statement of changes in financial position present variations or changes in constant pesos, starting on the financial position at the last balance sheet presented of the previous period, restated to constant pesos at the last balance sheet presented.

- b. Cash and due from banks- Are recorded at nominal value. Foreign currency cash and due from banks, as well as the purchase and sale commitments, are valued at the exchange rate published by Banxico at the end of the year.

That caption also includes short-term interbank loans (call money) not exceeding three days.

- c. Investment in securities - These include investments in government securities, bank securities and fixed and floating rate investments. Investments are classified as either trading securities, available for sale securities or held to maturity, depending on management's intent at the time of the purchase.

These securities are initially recorded at acquisition cost plus the related yields determined by the imputed interest or straight-line methods, accordingly, and are subsequently valued as described in the following paragraphs, on the basis of their value calculated by experts authorized by the Commission whom are, denominated as "price vendors".

Interest is recognized in the income statement as incurred.

Trading securities represent debt owned by the Bank, from which it intends to obtain profits by participating in the market. They are valued at fair value, based on the market prices provided by the price vendor. The fair value is the amount at which a financial instrument can be traded between interested and willing parties, in an arms-length transaction. Valuation adjustments are recognized in the income statement in the period incurred.

- d. Repurchase agreements - These represent the temporary purchase or sale of certain financial instruments in exchange for an established premium with the obligation of resell or repurchase such securities in the future. Those agreement operations recognize the premium on the agreed price, which is recorded in the income statement as earned and is realized upon maturity. In order to recognize the result of valuation of asset and liability positions of repurchase operations, securities to be delivered or received are valued at fair value. The premium is recorded on the basis of the present value of the price upon maturity of the transaction, and affects the asset and liability portion, respectively, as well as income for the year. The present value of the price at maturity is arrived at by applying the interest rate to the price, determined considering the reasonable value of securities of

the same type as those involved in the repurchase agreement, whose term is equivalent to the remaining portion of the same operation.

The NIF recognizes repurchase and a resale agreement operation based on the substance of the transaction and requires recognition of the agreed-upon premium on a straight-line basis.

Debtor balances on repurchase operations and creditor balances on repurchase operations, offset against each other, represent market value of appreciation (or loss in value) of the securities involved in the repurchasing operation over the present value of the price at maturity when the Bank acts as the borrower or the lender, respectively. See Note 7.

- e. Swaps represent bilateral obligations to exchange a series of flows for a specific period on preestablished dates, which can be settled in kind or in cash, as agreed by the parties. Swaps are recorded as an asset or liability pertaining to the right to the obligation arising from the contract and are valued at fair value of expected future flows, projected on the basis of implicit future rates discounted at the interest rates in effect in the market on the date of valuation, reflecting the net value of the swap in the balance sheet. The effects of valuation corresponding to that instrument, classified for coverage purposes, are recorded in the statement of income under the same caption used to record the result of valuation of the primary position.

Futures contracts are used to reduce exposure of the Bank to exchange risks assumed as a result loans payable in foreign currency. The balance of these transactions entered into for trading purposes represent the difference between the fair value of the contract and the established “forward” price. Asset and liability positions are individually offset; a resulting debit balance is presented as an asset under the “Derivative financial instruments” heading, while a credit balance is presented as a liability under the same heading. Net valuation is recorded under other expenses and net valuation is recorded under results of intermediation. See Notes 13 and 14.

- f. Loan portfolio - This represents balance of amounts effectively granted to borrowers, plus uncollected accrued interest less prepaid interest received. The loan portfolio balance is presented net of the allowance for loan losses. Loans are granted based on an analysis of the financial position of the borrower, the economic feasibility of investment projects and other general characteristics established by the LCI and the Bank’s internal manuals and internal policies.

Loans are controlled by means of periodic visits to the client by Bank personnel, and by daily monitoring (through the system) of payments made, so that the personnel in question can follow-up on late payments.

Loans are a recovered weekly, every two weeks or monthly, when clients make loan payments in the form of deposits in accounts contracted by the Bank at other multiple banking institutions exclusively for that purpose.

Evaluation and follow-up on the credit risk of each client is handled on the basis of their credit history with the Bank, and of consultations of clients' credit ratings at credit bureaus.

The Banks policy for avoiding risk concentration is based principally on setting maximum limits on loans.

The loan portfolio is considered to be overdue in the amount of overall unpaid loan balances when the debts consist of loans to be paid in installments of principal and interest and are 90 or more calendar days overdue.

Interest is recorded as income when earned. However, this is no longer done when loans are transferred to the overdue portfolio, rather interest earned is controlled in memorandum accounts and is recorded as income when collected.

As concerns regular interest earned but not collected on loans transferred to the overdue portfolio, an estimation is created for an amount equivalent to overall interest on the date of the transfer.

Commissions on late payment of loans are recorded as income when the delay occurs.

At December 31, 2007 and 2006, the Bank has only a short-term loan portfolio.

- g. Allowance for loan losses - The general provisions issued by the Commission applicable to the methodology for classification of the loan portfolio of credit institutions rate each borrower on the basis of its risks (country, financial and industry risk), payment background and value of guarantees, in order to estimate probable losses and determine the percentage of loan loss reserves required. However, those provisions allow the rating and creation of loan loss reserves on the basis of internal methodologies previously authorized by the Commission. Adoption of these provisions did not require recording of preventive reserves in addition to those already recorded, in view of the fact that the Commission recognized the internal methodology of the Bank to be applied from 2006 to 2008, which is described in the following page and in the Note 8.

According to the policies of the Bank, the loan loss reserve must not be less than the greater of 4% of the gross portfolio and the rating as per the Commission rules.

According to the NIF, the estimation for doubtful accounts must be based on an analysis and evaluation of actual recovery possibilities.

- h. Other accounts receivable represent amounts owed to the Bank but not included in the loan portfolio.
- i. Property, plant and equipment - These are recorded at acquisition cost, which is restated as per the restatement criteria mentioned in point a. of this note.

Depreciation is calculated using the straight-line method, based on depreciation and amortization rates, on both acquisition cost and restatement increases. In the period ended December 31, 2007, the charge to income for depreciation was \$36 (\$34 in 2006).

- j. Income tax is recorded by the comprehensive asset-and-liability method, which consists of recognizing deferred tax on all temporary differences between the book and tax values of assets and liabilities.

The net effect of all the items involved is shown in the balance sheet under deferred tax.

- k. Other assets - These are recorded in the balance sheet, they are identifiable, and generate future economic benefits that are controlled by the Bank. In applicable cases, and amortization is calculated by the straight-line method the basis of the respective amortization rates.
- l. Liabilities arising from notes payable include resources pertaining to promissory notes issued which are recorded at placement cost, plus interest earned, determined by the straight-line method for days elapsed at the close of each month, which is charged to income for the period as earned.
- m. Interbank and other entities loans - Refer to credit lines and other loans obtained from banks. They are recorded at the contractual value of the liability. Interests are recognized in earnings as incurred, determined by the straight-line method for days elapsed at the close of each month, which is charged to income for the period as earned.
- n. Estimations - The accounting policies followed by the Bank are in line with the accounting criteria established by the Commission, which require management to make certain estimations and use certain assumptions to determine the value of some of the items included in the financial statements. They also require management to make certain disclosures. However, when they differ from the actual effect, management considers those estimations and assumptions to be adequate in the circumstances
- o. Labor obligations - Seniority premiums to which employees are entitled upon termination of employment after 15 years of service, as well as existing obligations for remuneration upon termination of employment for reasons other than restructuring, to which the employees do not contribute, are recorded as cost for the years in which the respective services are rendered, based on actuarial studies using the projected unit credit method.

At December 31, 2007 and 2006, the net projected liability corresponding to seniority premiums was \$2.30 and \$1.55, and the figures for remuneration upon termination of employment for reasons other than restructuring were \$6.43 and \$4.20, respectively. The net cost for the period for seniority premiums during the years ended on December 31, 2007 and 2006 was \$1.10 and \$0.61, and the figures for remuneration upon termination of employment for reasons other than restructuring were \$3.80 and \$2.68, respectively, which were recorded in income for the year.

- p. Interest income - This caption includes interest earned on investments in securities, premiums earned on repurchase operations and the loan portfolio, among others.
- q. Interest expense - This caption includes interest earned on financing received to fund the operations of the Bank and interest earned on unsecured notes issued.
- r. Comprehensive income - This represents changes in stockholders' equity during the year, for concepts other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the statements of income, in accordance with the accounting practices followed by the Bank. Other comprehensive income item consists of the result of nonmonetary assets. It is restated on the basis UDI factors. At December 31, 2007 and 2006, the net profit is the same as comprehensive income.
- s. Earnings per share - This represents the result of dividing the profit for the period by the weighted average number of current shares. For the periods ended on December 31, 2007 and 2006, the profit per share is \$2.05 and \$1.053, respectively.

The profit per share for the year ended on December 31, 2006, determined on the basis of the number of current shares at that date, was \$18.39. However, the share split agreed in 2007 was considered in order to show a comparison of the the profit per share in 2007 and 2006. See Note 16.

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

### NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS:

On February 1<sup>st</sup> 2008, certain amendments to the General Securities and Credit Operations Law were published. Based on the analysis of those amendments, management does not consider that significant effects will arise on the Company's operations and consequently, on its financial position.

During the last quarter of 2007, the Mexican Financial Reporting Standards Board issued a series of financial reporting standards and Interpretations thereof (INIF, from Spanish), in effect as from January 1, 2008. It is estimated that these NIF and INIF will not have a significant effect on the Bank financial information.

**NIF B-2 Cash flows statement:** this NIF provides the provisions for the presentation, structure and preparation of the cash flows statements to be in accordance with the provisions of the NIF B-10. The NIF B-2 supersedes the Statement B-12 Statement of changes in the financial position, and also requires to show gross amount of collections and payments; in very specific cases, it is allowed to show net cash flows movements. It is also required to show how the cash balance is obtained.

**NIF B-10 Effects of Inflation:** this NIF sets forth the rules for recognition of the effects of inflation according to the country's inflationary environment; when inflation equals or exceeds an accumulated 26% for the three years prior. This NIF also incorporates, among others, the following changes: i) the option to use either the National Consumer Price Index (NCPI) or the value of investments units ; ii) eliminates the use of the method for valuation for foreign origin assets, and iii) reclassification of the gain or loss from holding non-monetary assets and the initial gain or loss on monetary position to retained earnings or maintained in stockholders' equity, only as concerns those items from which they originated and which have not yet been recycled to the income statement.

**NIF B-15 Translation of foreign currency:** this NIF supersedes current Statement B-15 and establishes, among other, the elimination of the classification of foreign integrated operation and foreign entity. It also establishes the procedures to translate financial information from a foreign operation as: i) from the posted currency to the functional currency, and ii) from the functional currency to the posted currency. It also allows an entity to express its financial statements in a currency different from its functional currency.

**NIF D-3 "Employee benefits":** this NIF supersedes current Standard D-3. The most important changes are the reduction to a maximum of five years to amortize unamortized items, incorporation of the effects of salary growth in the calculation of definite benefit obligations (formerly known as projected benefit obligations) and the elimination of the accounting treatment of additional liabilities and their corresponding balancing entries as an intangible asset and, if applicable, separate stockholders' equity component. This standard incorporates employees' statutory profit sharing, both current and deferred, as per the method of assets and liabilities proposed by NIF D-4.

NIF D-4 “Income tax”. This NIF requires to recognize assets tax as a tax credit and therefore, as a deferred income tax asset. The term of permanent difference is eliminated and it also requires to reclassify to the retained earnings the initial effects of the deferred income tax recorded in the equity, unless the timing difference which gave rise to them have not been realized.

INIF 6 “Option to chose the form of hedges”: this INIF indicates that a derivative financial instrument may be considered as such since the date of its acquisition or in a subsequent date, only if it fulfills with the new requirements established in the paragraph 51 a) from the Statement C-10.

INIF 7 “Accounting treatment of the comprehensive income or loss derived from a cash flows hedge over a projected transaction of purchasing a non financial asset”: this INIF amends the following paragraphs of the Statement C-10:

Paragraph 105, to clarify that the effects of a hedge recorded in the comprehensive gain or loss derived from transactions of purchasing a non financial asset can be capitalized in the cost of the non financial asset, whose price is fixed by the hedge.

Paragraph 106, to indicate that in the case of all cash flows hedges, the amounts recorded in the equity as a part of the comprehensive gain or loss of the year, must be reclassified to the income statement in the same period or periods in which the hedge contract is signed or the projected transaction is affected, except for the cases indicated in paragraph 105.

Paragraph 110, to indicate that in the case of the cash flows hedges effects, their accumulated gain or loss, which had been recognized in the equity as a part of the comprehensive income or loss, must be recognized as indicated in the paragraph 105, since they are non financial assets.

NOTE 4 - FOREIGN CURRENCY POSITION:

Banxico regulations establish the following standards and ceilings for operations in foreign currencies carried out by Banks:

1. The (short or long) position in US dollars (Dlls) must not exceed a maximum of 15% of the Bank's net capital.
2. Liabilities in foreign currency must not exceed 1.83 times the Bank's basic capital.
3. The foreign currency operations investment regulations make it necessary to hold a minimum amount of liquid assets, in accordance with a calculation mechanism established by Banxico, based on the maturity of operations in foreign currency.

As of December 31 2007 and 2006, there are assets and liabilities in dollars valued at the rate of exchange issued by Banxico amounting to \$10.9157 and \$10.8116 pesos per dollar, respectively, as follows:

	<u>US dollars</u>	
	<u>2007</u>	<u>2006</u>
Assets	Dlls.17,894	Dlls. 761,707
Liabilities	<u>-</u>	<u>(8,588,300)</u>
Short position in dollars	<u>Dlls.17,894</u>	<u>(Dlls.7,826,593)</u>

As of December 31, 2006 The Bank has signed foreign currency futures agreements to offset the exchange fluctuation risk. See Note 14.

At February 21, 2008, date of issuance of the audited financial statements, the rate of exchange was \$10.7939 per dollar.

NOTE 5 - CASH AND DUE FROM BANKS:

This item is composed as follows:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Cash	\$ -	\$ -
Banxico	-	-
Mexican banks	141	\$ 101
Foreing banks *	-	7
Other cash equivalents:		
Restricted availabilities	1	1
Interbank loans	<u>300</u>	<u>-</u>
	<u>\$ 442</u>	<u>\$ 109</u>

\* Foreign banks are comprised of restricted deposits, which consist of liquid resources put up as collateral for futures operations.

Call money interbank loans at December 31, 2007, are documented and are broken down as follows:

<u>Counterparty</u>	<u>Beginning date</u>	<u>Expiration date</u>	<u>Rate</u>	<u>Amount</u>
Santander	31-Dic-07	2-Ene-08	7.48%	<u>\$300</u>

At December 31, 2006, the Bank had no call money interbank loan operations.

At December 31, 2007 and 2006, the Bank has no precious metals, coins or position in bills and coins. Therefore, the cash and cash equivalents caption included in the statement of changes in financial position consists only of cash equivalents.

NOTE 6 - SECURITIES:

Cash surpluses resulting from Bank operations are invested in debt instruments for a maximum term of four days, and the best available rate is always arranged with the counterparties involved.

Trading securities

As of December 31, 2007 and 2006, the average rates of investments were 7.07%. Additionally, for the year is ended on December 31, 2007 and 2006, interest income on investments in securities to be negotiated amounted to \$3, and the terms for which financial instruments were invested are shown below:

	<u>Less than a month</u>	<u>From one to three months</u>	<u>More than three months</u>	<u>Total</u>
December 31, 2007				
Treasury certificates (Cetes)*	<u>\$ 460</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 460</u>
December 31, 2006				
LD Bondes D.	<u>\$ 104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104</u>

\*Treasury certificates, correspond to investments held at Banco HSBC, S. A.

Investments in securities are subject to a number of risks directly related to the market in which they are operated, such as the interest rate associated to the term, the exchange rates and the risks inherent in credit and market liquidity.

NOTE 7 - DEBTOR AND CREDITOR BALANCES UNDER REPURCHASE AGREEMENTS:

As of December 31, 2007 these are comprised as follows:

	<u>Number of securities</u>	<u>Asset part</u>	<u>Liability part</u>	<u>Compensation of operations</u>	<u>Net figure</u>
Purchases:					
CETES	46,670,894	<u>\$460</u>	<u>\$460</u>	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2006 these are comprised as follows:

	<u>Number of securities</u>	<u>Asset part</u>	<u>Liability part</u>	<u>Compensation of operations</u>	<u>Net figure</u>
Purchases:					
LD Bondes D	1,003,255	<u>\$104</u>	<u>\$104</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2007, the average term for a reurchase operations is one day; repurchase premiums are \$16 and amounted to \$14 at December 31, 2006.

	<u>Liability part</u>	<u>Asset part</u>	
	<u>Value of Securities to be delivered</u>	<u>Repurchase debtors</u>	<u>Difference</u>
December 31, 2007:			
CETES	<u>\$460</u>	<u>\$ 460</u>	<u>\$ -</u>
December 31, 2006:			
LD Bondes	<u>\$104</u>	<u>\$ 104</u>	<u>\$ -</u>

NOTE 8 - LOAN PORTFOLIO:

The loan portfolio is composed principally of fixed rate loans for a term of four months with a fixed rate and joint guarantee. Capital and interest is paid weekly.

As of December 31, 2007 and 2006, performing loans and non performing loans are composed as follows:

	<u>2007</u>		
	<u>Principal</u>	<u>Accrued interest</u>	<u>Total</u>
<u>Performing loans:</u>			
Consumer	\$4,066	\$ 63	\$4,129
<u>Non-performing loans:</u>			
Consumer	<u>55</u>	<u>2</u>	<u>57</u>
Total loan portfolio	<u>\$4,121</u>	<u>\$ 65</u>	<u>\$4,186</u>

	<u>2006</u>		
	<u>Capital</u>	<u>Accrued interest</u>	<u>Total portfolio</u>
<u>Performing loans:</u>			
Consumer	\$3,022	\$ 47	\$3,069
<u>Non-performing loans:</u>			
Consumer	<u>18</u>	<u>1</u>	<u>19</u>
Total loan portfolio	<u>\$3,040</u>	<u>\$ 48</u>	<u>\$3,088</u>

Income from interest and commissions segmented by type of loan are composed as follows:

<u>Interest income</u>	<u>2007</u>	<u>2006</u>
Consumer loans	<u>\$ 2,747</u>	<u>\$ 2,095</u>
<u>Commission income</u>		
Consumer loans	<u>\$ 31</u>	<u>\$ 20</u>

The distribution of the loan portfolio by geographical region is as follows:

<u>State:</u>	<u>December 31,</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Current</u>	<u>Overdue</u>	<u>Current</u>	<u>Overdue</u>
Aguascalientes	\$ 11	\$ 1	\$ 4	\$ -
Campeche	42	1	24	-
Chiapas	439	4	367	1
Chihuahua	11	-	4	-
Coahuila	139	3	119	1
Colima	1	-	-	-
Distrito Federal	80	6	45	3
Durango	60	-	38	-
Estado de México	352	10	269	5
Guanajuato	22	1	6	-
Guerrero	218	1	172	1
Hidalgo	60	2	29	-
Jalisco	30	-	4	-
Michoacán	162	1	129	-
Morelos	99	1	79	-
Nayarit	7	-	1	-
Nuevo León	185	3	131	2
Oaxaca	278	2	237	1
Puebla	387	3	318	1
Querétaro	26	1	16	-
Quintana Roo	91	1	71	-
San Luis Potosí	64	1	33	-
Sinaloa	19	-	5	-
Sonora	33	-	7	-
Tabasco	197	4	142	1
Tamaulipas	106	1	48	-
Tlaxcala	146	1	130	-
Veracruz	673	6	481	2
Yucatán	117	1	108	-
Zacatecas	<u>11</u>	<u>-</u>	<u>5</u>	<u>-</u>
Total capital stock	4,066	55	3,022	18
Interest earned	<u>63</u>	<u>2</u>	<u>47</u>	<u>1</u>
Overall portfolio	<u>\$ 4,129</u>	<u>\$ 57</u>	<u>\$ 3,069</u>	<u>\$ 19</u>

As of December 31, 2007 and 2006 loans made, segmented by economic sector, are as follows:

<u>Economic activity</u>	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Commerce	\$ 3,874	92	\$ 2,656	86
Construction	1	-	1	-
Professional services	33	1	48	2
Agriculture	11	-	16	-
Cattle raising	22	1	30	1
Manufacturing	4	-	6	-
Other	<u>241</u>	<u>6</u>	<u>331</u>	<u>11</u>
Total	<u>\$ 4,186</u>	<u>100</u>	<u>\$ 3,088</u>	<u>100</u>

As of December 31, 2007 and 2006, no loans have been granted to related parties.

As of December 31, 2007 and 2006, ageing of the overall loan portfolio is as follows:

<u>Type of portfolio</u>	<u>December 31, 2007</u> (days old)			<u>Total</u>
	<u>1 - 90</u>	<u>91 - 180</u>	<u>and up</u>	
Consumer	<u>\$4,129</u>	<u>\$ 37</u>	<u>\$ 20</u>	<u>\$4,186</u>
<u>Type of portfolio</u>	<u>December 31, 2006</u> (days old)			<u>Total</u>
	<u>1 - 90</u>	<u>91 - 180</u>	<u>and up</u>	
Consumer	<u>\$3,069</u>	<u>\$ 12</u>	<u>\$ 7</u>	<u>\$3,088</u>

The granting, control and recovery of loans is regulated in the Bank's Loan Manual, which is authorized by the Board of Directors. That manual establishes the framework for the steps to be followed by officers involved in the loan process and is based on the provisions of the Law of Banks, the estimated loan loss reserve established by the Commission and bank testing practices.

The authorization of loans as the responsibility of the Board of Directors is centralized around committees and officers empowered to authorize loans.

As concerns loan management, the general process is defined from the promotion to recovery of the loan, and the policies, procedures and responsibilities of the officers involved and the tools to be used in each stage of the process are specified by business unit.

The loan process is based on an in-depth analysis of loan applications in order to determine the overall risk of the borrower.

Allowance for loan loss reserve

At December 31, 2007 and 2006 the rating of the overall portfolio and the provisions created are as follows:

<u>December 31, 2007</u>					
	<u>Rated loan portfolio</u>			<u>Required provision</u>	
	<u>Risk</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>
	[A]	91	\$ 3,820	18	\$ 19
	[B]	6	258	10	11
	[C]	1	44	17	17
	[D]	1	26	18	19
	[E]	<u>1</u>	<u>38</u>	<u>37</u>	<u>39</u>
		100	4,186	<u>100</u>	105
Excepted		<u>-</u>	<u>-</u>		
Loan portfolio		<u>100</u>	<u>\$ 4,186</u>		
Additional allowance reserve for own methodology					<u>62</u>
Allowance for loan reserves recorded					<u>\$167</u>

December 31, 2006

	<u>Rated loan portfolio</u>			<u>Required provision</u>	
	<u>Risk</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>
	[A]	91	\$ 2,812	31	\$ 15
	[B]	8	239	17	8
	[C]	1	16	11	5
	[D]	-	8	13	6
	[E]	-	<u>13</u>	<u>28</u>	<u>14</u>
		100	3,088	<u>100</u>	<u>48</u>
Excepted		<u>-</u>	<u>-</u>		
Loan portfolio		<u>100</u>	<u>\$ 3,088</u>		
Additional allowance reserve for own methodology					<u>76</u>
Allowance for loan loss reserve recorded					<u>\$124</u>

Changes in the allowance for the coverage of credit risks in the 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Balance at the beginning of the period	\$ 124	\$ 95
Less:		
Effect of restatement at the beginning of the period	<u>5</u>	<u>4</u>
Nominal balance at the beginning of the period	119	91
Plus:		
Increase in the preventive reserve for credit risks	70	48
Less:		
Effect of restating income	2	-
Estimation of commissions	2	-
Application of reserves	<u>18</u>	<u>15</u>
Preventive reserve for credit risks	<u>\$ 167</u>	<u>\$ 124</u>

Overdue portfolio movements in the 2007 and 2006 annual periods are shown as follows:

	<u>2007</u>	<u>2006</u>
Balance at the beginning of the period	\$ 19	\$ 9
Less:		
Effect of restatement at the beginning of the period	<u>1</u>	<u>-</u>
Nominal balance at the beginning of the period	18	9
Plus:		
Portfolio transfers	93	38
Plus:		
Write off portfolio applications	13	8
Collections	<u>41</u>	<u>20</u>
Overdue portfolio at the end of the period	<u>\$ 57</u>	<u>\$ 19</u>

NOTE 9 - OTHER ACCOUNTS RECEIVABLE:

At December 31, 2007 and 2006, this caption includes \$4 and \$1, respectively, of estimation for doubtful accounts for items other than the loan portfolio.

NOTE 10 - PROPERTY AND EQUIPMENT:

As of December 31, 2007 and 2006, this caption is comprised as follows:

	<u>2007</u>		<u>2006</u>		
	<u>Acquisition</u> <u>cost</u>	<u>Restatement</u>	<u>Total</u>	<u>Total</u>	<u>Depreciation</u> <u>rate</u>
<u>Destined for the Bank's own use</u>					
Computer equipment	\$108	\$ 7	\$115	\$76	30
Office furniture and equipment	47	5	52	38	10
Transportation equipment	28	1	29	21	25
Leasehold improvements	<u>45</u>	<u>6</u>	<u>51</u>	<u>47</u>	*
	228	19	247	182	
Less - Accumulated depreciation	<u>(90)</u>	<u>(12)</u>	<u>(102)</u>	<u>(71)</u>	
	<u>\$138</u>	<u>\$ 7</u>	<u>\$145</u>	<u>\$111</u>	

\* The amortization rate for installation expenses is based on the term of the lease agreement for each building.

NOTA 11 – OTHER ASSETS, DEFERRED CHARGES AND INTAGIBLES:

As of December 31, 2007 and 2006, this caption is comprised as follows:

	<u>2007</u>	<u>2006</u>
Guarantee deposits (1)	\$12	\$ 7
Insurance (2)	4	3
Issuance of debt certificates (3)	-	14
Other intangibles	<u>1</u>	<u>1</u>
	17	25
Accumulated amortization	<u>(2)</u>	<u>(7)</u>
	<u>\$15</u>	<u>\$18</u>

- (1) Not amortizable, subject to recovery upon expiration of each leasing agreement for the respective service office.
- (2) Insurance is amortized at the rate of 8.33% a month. The amount charged to income in the 2007 and 2006 periods was \$7 and \$6, respectively.
- (3) Certificate-issuance expenses are amortized on the basis of the lifetime of the principal. Based on prepayment of certificates, the unamortized balance was recorded in income, At December 31, 2007 and 2006, \$11 and \$5, respectively, were recorded in income.

NOTE 12 - DEBENTURE LIABILITIES AND TRADITIONAL FUND ENTRIES:

Traditional fund entries include time deposits and financing arising from debt instruments. At December 31, 2007, the interest rate on time deposits was 3% and the rate for certificates of deposit (CEDES) was determined as the Interbank compensation rate (TIIE) plus an average of 1%.

### Time deposits

At December 31, 2007, the Bank had fund entries from time deposits made by the general public and the money market as shown below:

General public	\$ 1 (1)
Money market (CEDES)	<u>2,607 (2)</u>
Total	<u>\$2,608</u>

(1) Maturing in August 2008.

(2) Of that amount, \$530 matures over the long-term, of which \$200 matures in February 2009 and \$330 in November 2010. The remainder matures in 2008.

At December 31, 2006, the following debt certificates had been issued:

<u>Amount of issue</u>	<u>Maturing</u>	<u>Interest rate</u>	<u>Amount</u>
* 190	July 2009	TIE 28 days + 1.5 pts.	\$197
* 310	September 2010	TIE 28 days + 1.17 pts.	<u>322</u>
			519
Interest payable			<u>1</u>
Total debenture liabilities			<u>\$520</u>

Debt instruments issued were covered by a partial payment International Finance Corporation (IFC) guarantee. The guarantee for payment of the principal and interest is up to the equivalent of the lesser of: i) 34% of the unpaid principal of the issue, and ii) 34% of the principal amount of the issue less total amounts disbursed by the IFC and converted to pesos under the guarantee or the line of credit for which the guarantee was granted, and with respect to which the common representative has received no notification of a demand for payment of amounts disbursed by the IFC. The cost of that guarantee is 2.5% of the amount covered.

At holders meetings held on September 10, 2007 attended by holders of debt certificates with code numbers COMPART04 and COMPART05 (announced in a public summons), the holders authorized the Bank to make a full prepayment of both issues on September 21, 2007. The advance cancellation of those debt certificates amounted to \$493 and the charge to income for that operation was \$13.

## NOTE 13 - INTERBANK LOANS AND LOANS FROM OTHER ORGANISMS

At December 31, 2007, the Bank had no loans payable, because all bank liabilities were prepaid during the period. The additional cost of prepayment of those liabilities was \$2, and is included under Interest expense in the statement of income. In 2006, the Bank contracted the following loans:

<u>Institution</u>	<u>Expiration</u>	<u>Ampunt</u>
<u>Local Currency</u>		
HSBC México	Jan-07	\$ 311
BBVA Bancomer	Oct-07	156
Interacciones	Jan-07	<u>52</u>
Subtotal local currency short-term		519
Interest payable		<u>9</u>
Short-term		<u>528</u>
<u>Local currency</u>		
CII	Jul-09	\$ 228
Banamex	Aug-08	204
Dexia Micro-Credit Fund	Oct-08	156
Kfw, Frankfurt am Main	Dec-08	66
Credit Suisse Microfinance Fund Management	Oct-08	17
Banco Interamericano de Desarrollo	Mar-18	<u>2</u>
Subtotal local currency long - term		<u>673</u>
<u>Dollars</u>		
ICO	Jun-15	54
Corporación Andina de Fomento	Apr-09	<u>42</u>
Subtotal dollars long-term		<u>96</u>
Long-term		<u>769</u>
Total liabilities		<u>\$1,297</u>

The average rates on loans at December 31, 2006 were 8.97% for local currency and 6.11% for US dollars.

At December 31, 2007 and 2006, the Bank has an unused line of credit from the shareholder IFC for \$109, which was contracted on September 7, 2006.

As a result of the corporate Compartamos restructuring carried out in order to become a multiple banking institution rather than a special purpose financial entity as from due June 1, 2007, the following is prohibited in the terms of Article 106, points I, II and III of the Law:

- I. Pledging property;
- II. Pledging cash, credit rights, or portfolio instruments, unless involving operations with Banxico, with development bank institutions, with the Bank Savings Protection Institute or public trusts set up by the Federal government for economic promotion, and
- III. Pledging securities and other documents underwritten by the Bank, accepted or held in treasury.

At December 31, 2007, the Bank had no trust or pledge agreements for granting liquid guaranteed.

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS:

At December 31, 2007, the Bank has operations with derivative products intended to cover CEDES in effect at that date (see Note 12) through swaps for the exchange of variable interest rates for fixed interest rates, which are composed as follows:

<u>Notional amount</u>	<u>Expiration date</u>	<u>Variable rate</u>	<u>Fixed rate</u>	<u>Asset portion</u>	<u>Liability portion</u>	<u>Effect of valuation</u>
\$100.0	August 1, 2008	TIE 28 days	9.40%	\$5	\$6	\$1
33.5	January 15, 2008	TIE 28 days	9.30%	-	-	-
33.5	March 14, 2008	TIE 28 days	9.33%	<u>1</u>	<u>1</u>	<u>-</u>
Total				<u>\$6</u>	<u>\$7</u>	<u>\$1</u>

At December 31, 2007, the effect of swaps contracted has been unfavourable, because rates payable exceeded variable rates, which means that the effect has not compensated movements in interest rates for the covered positions. The results of contracting derivative instruments for the purpose of mitigating the Bank's risks for the years ended on December 31, 2007 and 2006 were expenses of \$3 and \$5, respectively.

At December 31, 2006, the Bank had US dollar liabilities. Its policy is to mitigate the exchange rate risk by means of contracts for derivative instruments. Therefore the risk inherent in the operation of those instruments was compensated by foreign currency liabilities.

At December 31, 2007, the Bank has no current futures contracts. At December 31, 2006, the Bank had signed contracts with Man Financial Inc. and Refco Inc., for the sale of futures in Mexican pesos, which make it possible to reduce the exchange risk pertaining to the US dollar loans specified in Note 13.

At December 31, 2006, futures contracts were as follows:

	<u>No. of Contracts</u>	<u>Maturities</u>	<u>Volume per contract</u>	<u>Notional amount</u>	<u>Fair value</u>	<u>Effect on valuation *</u>
December 31, 2006	166	December 31, 2006 and March 2007	<u>\$0.5</u>	<u>\$ 86</u>	<u>\$81</u>	<u>\$ 5</u>

\* Shown under "Operations with derivative financial instruments" in the balance sheet.

The result of the purchase/sale of derivative financial instruments for the years ended on December 31, 2007 and 2006 was \$3 and \$0, respectively.

#### NOTE 15 - INCOME TAX, ASSET TAX AND FLAT TAX:

##### Income tax and asset tax

The Bank is subject to income tax and asset tax. Income tax is calculated considering certain effects of inflation as taxable or deductible, such as depreciation calculated on values in constant pesos, which makes it possible to deduct current costs, and the effects of inflation on certain monetary assets and liabilities is included in taxable income or deducted by means of the inflationary adjustment, which is similar to the result on monetary position. The current income tax rate is 28% (29% in 2006) and is applied to the tax result.

Following is a reconciliation of the real and effective income tax rates:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Income tax at the real rate (28% and 29%, respectively)	\$ 356	\$ 281
Plus (minus) the effective income tax on:		
Nontaxable effect on the restatement of the statement of income	(6)	(7)
Deductible annual inflation, adjustment	(1)	(16)
Nondeductible preventive reserve for a credit risks	(5)	13
Difference between book and tax depreciation	(1)	(4)
Other (deductible) non deductible- Net	<u>(1)</u>	<u>4</u>
Income tax incurred for the period	342	271
Effect of restatement on income	7	8
Historical income tax	349	279
Deferred income tax	<u>16</u>	<u>13</u>
Income tax provision (income)	<u>\$ 365</u>	<u>\$ 292</u>
Effective income tax rate	<u>29%</u>	<u>30%</u>

The principal differences on which deferred income tax was recorded were the provision for loan loss reserve and difference between the book and tax values of fixed assets, as follows:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Provision for loan loss reserves	(\$ 42)	\$ 76
Fixed assets	(4)	(6)
Futures		1
Others	<u>12</u>	<u>8</u>
	(34)	79
Income tax rate	<u>28%</u>	<u>29%</u>
Valuation allowance*	(10)	22
	<u>-</u>	<u>(15)</u>
Deferred income tax	(\$ 10)	\$ 7

\* As of December 2006, the Bank estimates that certain temporary items will not be reversed, which is why this estimation was recorded.

The provisions for income tax and employee' statutory profit sharing incurred are analyzed as follows:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Income tax incurred	\$349	\$279
Employees' statutory profit sharing incurred	<u>29</u>	<u>22</u>
	<u>\$378</u>	<u>\$301</u>

Tax result -

The principal items affecting determination of the tax result were those pertaining to the effects of inflation and tax depreciation, which are subject to different treatment for book and tax purposes. At December 31, 2007, the Bank estimated a tax profit of \$1,220 (the tax profit declared for 2006 was \$909).

Asset tax -

The Bank is subject to payment of asset tax, which is calculated at the rate of 1.25% on the average of net assets not subject to intermediation, and is payable only in the amount by which asset tax exceeds income tax for the period. Any asset tax paid can be recovered against the amount by which income tax exceeds asset tax in the 10 periods immediately following. In 2007 and 2006, the Bank incurred asset tax of \$2 and \$2 respectively. As from January 1, 2008, this tax is repealed.

Employees' statutory profit sharing -

The Bank is required to pay employees' statutory profit sharing as per the provisions of the Federal Labor Law. Employees' statutory profit sharing for 2007 is \$25 and \$22 was of 2006.

Flat tax

The new Flat Tax Law, published on October 1, 2007, went into effect on January 1, 2008. Flat tax is payable by individuals and business entities with a permanent establishment in Mexico.

Flat tax for the period is calculated by applying the rate of 17.5% (16.5% and 17% for 2008 and 2009, respectively) to a profit determined on a cash flow basis. Said profit is determined by reducing authorized deductions from overall income arising from taxable business activities. IETU debts are subtracted from the foregoing result, as established in the current legislation. On the basis of its tax and financial projections, the Bank estimates that in the future, it will be essentially paying income tax, and does not therefore expect flat tax to affect its financial position.

NOTE 16 - STOCKHOLDERS' EQUITY:

At the March 30, 2007 general special stockholders' meeting, it was agreed to split the Bank's shares, exchanging 12 new shares for each previous share, without affecting the value of the capital stock.

After that split, the Bank's subscribed and paid-in capital stock was composed as follows, and continued unchanged at December 31, 2007:

<u>Class</u>	<u>Series</u>	<u>Shares</u>	<u>Description</u>	<u>Amount</u>
I	"O"	427,836,876	Minimum fixed capital with no withdrawal rights	\$ 428
			Restatement increase	<u>59</u>
			Capital stock as of December 31, 2007	<u>\$ 487</u>

\* Ordinary nominative shares with a par value of \$1 and a book value of 1.14 each, respectively.

At the April 26, 2007 General Ordinary and Special stockholders' meeting, the stockholders agreed to apply the profit for the year ended on December 31, 2006 to increase the legal reserve by \$65 (\$63 nominal pesos) and to allow the other \$590 (\$568 nominal pesos) to remain in results of prior years.

At the General Ordinary and Special Stockholders' Meeting held on January 16, 2006, the stockholders agreed to pay dividends of \$170 (\$160 nominal pesos) from the retained earnings account.

At the General Ordinary and Special Stockholders' Meeting held on April 17, 2006, the stockholders agreed to apply the profit for the year ended on December 31, 2005 to increase the legal reserve by \$20 (\$18 nominal pesos), and the remaining \$375 (\$346 nominal pesos) to retained earnings

The net income for the year is subject to the legal provision requiring that at least 10% of the net income for each period be set aside to increase the legal reserve until it reaches the level of paid-in capital stock.

According to the Law, entities authorized to operate as multiple banking Institutions may pay no dividends in the first three periods, and must apply net income to their reserves.

At December 31, 2007 and 2006, earnings arising from the gain from valuation of financial and derivative instruments are considered to be unrealized, and are thus not subject to capitalization or distribution among the stockholders until realized in cash.

Dividends are free from income tax if paid from the Net Tax Profit Account (CUFIN). Any dividends exceeding the CUFIN are subject to 38.91% income tax. The tax incurred is payable by the Bank and may be credited against income tax for the period or for the immediately two following periods. Dividends payments are subject to no tax withholding.

In the event of a capital reduction, any excess of stockholders' equity over the balances of the capital contributions account is subject to the same tax treatment as dividends, as per the procedures established in the Income Tax Law.

The Ministry of Finance requires Banks to have a percentage of capitalization on assets at risk, which are calculated by applying certain percentages depending on assigned risk. At December 31, 2007, the Bank had complied with the percentage.

As of December 31, 2007, the Bank is in compliance with capitalization rules, which establish that net capital in relation to market and credit risks incurred in operations may not be less than the amount arrived at by adding capital requirements for both types of risk.

#### Capitalization index -

The capitalization rules for financial Banks establish requirements concerning specific levels of net capital as a percentage of assets at risk (both market and credit risk). However, when calculating net capital, deferred tax accounts for a maximum of 10% of basic capital. At December 31, 2007, the Bank was in compliance with the percentage.

When calculating the capitalization index, weighted assets at risk are adjusted on the basis of the market and credit risk. Considering only the credit risk, the total capitalization index at December 2007, and 2006 was 48.70% and 42.3%, respectively. By including the market risk in the determination of assets weighted for risk, the total capitalization index of the Bank was 53%, and 40.01%, in both cases above regulatory requirements.

At December 31, 2007 and 2006, the net capital of the Bank is comprised as follows:

	<u>2007</u>	<u>2006</u>
<u>Basic capital:</u>		
Stockholders' equity	\$ 2,284.8	\$1,359.1
Deferred income tax and employees' statutory profit sharing	(0.0)	(6.5)
Organization expenses and other intangibles	(0.5)	(0.5)
Deferred assets computable as basic	<u>0.0</u>	<u>6.5</u>
Basic capital	2,284.3	1,358.6
Complementary capital (1)	<u>19.1</u>	<u>13.5</u>
Net capital	<u>\$ 2,303.4</u>	<u>\$1,372.1</u>

(1) The rules issued by Banxico consider this caption to include general portfolio reserves with a (A) risk level. See Note 8.

At December 31, 2007 and 2006 weighted positions exposed to market risk are as follows:

	<u>Capital requirement</u>	
<u>Item</u>	<u>2007</u>	<u>2006</u>
Market risk requirement	<u>\$ 30.2</u>	<u>\$ 14.9</u>

Weighted assets subject to credit risk at December 31, 2007 and 2006 are described below:

	<u>Capital requirement</u>	
<u>Item</u>	<u>2007</u>	<u>2006</u>
Credit risk requirement	<u>\$347.9</u>	<u>\$259.4</u>

The above-mentioned figures were obtained from computation of capitalization at December 31, 2007, rated by Banxico.

The net capital position is evaluated on a monthly basis, which gives rise to the ratio of assets at risk to net capital, which is made known to the Risk Committee. Follow-up is provided on any variation in the sufficiency of capital.

NOTE 17 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES:

At December 31, 2007 and 2006, there are no accounts receivable or payable from or to related parties, and there is a \$109 unused line of credit from IFC.

The main transactions carried out with related parties are shown below:

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
<u>Accounts payable to stockholders:</u>		
Comissions	<u>\$ 4</u>	<u>\$ 4</u>
Advisory Services	<u>\$ 1</u>	<u>\$ -</u>
Interest payable	<u>\$ -</u>	<u>\$ 8</u>

NOTE 18 - INFORMATION BY SEGMENTS:

Financial margin

For the years ended on December 31, 2007 and 2006, the financial margin is as follows:

Interest income:

	<u>2007</u>	<u>2006</u>
Loan portfolio interest	\$2,802	\$2,095
Interest arising from investments in securities	3	2
Interest on cash equivalent	3	1
Interest of premiums on repurchase operations	<u>16</u>	<u>14</u>
	<u>\$2,824</u>	<u>\$2,112</u>

Interest expense:

	<u>2007</u>	<u>2006</u>
Time deposits	\$ 60	\$ -
Interbank loans and loans from other organisms	<u>117</u>	<u>182</u>
	<u>\$177</u>	<u>\$182</u>

At December 31, 2007 and 2006, Dls.276,260 and Dls.1,217,985 of foreign currency interest, respectively, are included.

Result on monetary position

Following is the average balance of the main monetary assets and liabilities used in determining this item:

	<u>2007</u>	<u>2006</u>
Assets:		
Cash equivalents	\$ 151	\$ 111
Investments in securities	259	340
Loan portfolio	3,302	2,288
Others	<u>40</u>	<u>53</u>
Total assets	<u>3,752</u>	<u>2,792</u>
Liabilities:		
Loans	\$ 1,051	\$ 1,680
Fund entries	780	
Others	<u>196</u>	<u>130</u>
Total liabilities	<u>2,027</u>	<u>1,810</u>
Difference between assets and liabilities	<u>\$1,725</u>	<u>\$ 982</u>

The Bank has only loans classified as consumer loans, which means that they arise from interest earned on credit products offered, in addition to treasury operations such as interest arising from investments in securities and repurchase operations. Passive operations include time deposits, traditional fund entries and interbank loans and loans from other organisms, which give rise to interest expense.

The presentation of information by segment uses a different grouping from that used in the statement of income.

Following are the different interest and commission income and expenses used to analyze the financial information by segment:

	<u>2007</u>	<u>2006</u>
Loan portfolio interest	\$2,802	\$2,095
Interest arising from investments in securities	19	15
Interest on cash equivalents	3	1
Commissions received on credit operations	<u>32</u>	<u>20</u>
Total income	<u>\$2,856</u>	<u>\$2,131</u>
Interest payable on traditional fund entries	\$ 60	\$ -
Interest payable on interbank loans	117	182
Commissions and fees paid	<u>73</u>	<u>48</u>
Total	<u>\$ 250</u>	<u>\$ 230</u>

NOTE 19 - RISK MANAGEMENT:

Comprehensive risk management -

The Bank seeks to encourage the culture of risk management, by establishing the guidelines for identification, measurement, surveillance and control of different types of risks incurred during the course of operations.

The Bank goals of comprehensive risk management are:

- a. All quantifiable risks must be measured with common methodologies and must be taken only on the basis of analytical decisions.
- b. Risks must be diversified (on various levels, such as geography, sectors, terms and the size of loans, among others).
- c. Risk-taking must be based on an expected return. The greater the risk taken, the greater the compensation demanded.
- d. Risk taking must comply strictly with the limits, policies and procedures established internally by the Bank and externally by current regulations.
- e. Risks must be supervised on a daily basis.
- f. The Board of Directors must be kept informed of the risks to which the Bank is exposed.

The Board of Directors is responsible for approving the objectives, guidelines and policies for overall risk management. For that purpose, the Risk Committee was set up, which meets on a monthly basis.

The risks considered by the Bank are the market risk, the credit risk, the liquidity risk, and the operating risk, including legal.

Comprehensive management of discretionary risks is based principally on the determination of the structure of global and specific limits, and on the application of risk methodologies authorized by the Board of Directors.

The market risk methodology is the value of risk (VaR) that refers to the maximum loss that could be incurred, with a determined probability and time horizon, under normal market conditions. That calculation is handled by the method of historical simulation with a 99% level of reliability and a one-day investment horizon.

In order to ensure that the market risk model is consistent with Mexican market, validity tests known as backtesting are carried out. Additionally, the calculation of the VaR is accompanied with sensitivity measurements and testing under extreme conditions.

The unaudited market and credit risk figures at December 31, 2007 are as follows:

<u>Portfolio</u>	<u>Exposure</u>	<u>95% VaR</u>	<u>VaR/Exposure</u>
Total position	\$ 830.0	\$ 0.1	0.01%

The methodology used to calculate expected and unexpected losses derived from the portfolio credit risk is a CreditRisk+ actuarial model that makes it possible to measure the risk of noncompliance with a loan portfolio without making assumptions concerning the causes leading to noncompliance. The level of reliability at which the unexpected loss is estimated is 95%. Concentration is measured by means of the percentage distribution of the portfolio:

<u>Portfolio</u>	<u>Exposure</u>	<u>Unexpected loss at 95% (UL)</u>	<u>UL/Exposure</u>
Consumer loans	\$ 4,121.3	\$ 57.2	1.39%

For the liquidity risk, the methodology adopted includes the structure and responsibilities for liquidity management, appropriate risk levels, the limits, profiles and calculation of liquidity gaps, as well as a contingency plan in the event of a liquidity crisis.

The Bank defines the settlement risk as the potential loss arising from the impossibility or difficulty of renewing liabilities or contracting others in normal conditions for the Bank due to the advance or forced sale of assets at unusual discounts in order to cover its obligations or because a position cannot be promptly sold, acquired or covered by establishing an equivalent contrary position, for which purpose, the Bank calculates the settlement VaR.

Lastly, for the operating risk, including the technological and legal risk, foreseeing an adverse event is of the utmost importance, and therefore prevention of unexpected losses. Risk management is handled by mapping adverse events in the operating processes and in the identification of losses arising from those events.

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Director of Finance

Rubén Domínguez Sánchez  
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