

CONFORMED COPY

LOAN NUMBER 7363-ME

Loan Agreement

(First Programmatic Finance and Growth Development Policy Loan)

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated April 24, 2006

LOAN AGREEMENT

Agreement dated April 24, 2006, entered into between the UNITED MEXICAN STATES (“Borrower”) (represented through its signatory on page 6 of this Agreement), and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule I to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I—GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II—LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of five hundred one million two hundred sixty thousand Dollars (\$501,260,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”).
- 2.02. The Borrower may cause NAFIN (pursuant to the *Contrato de Mandato*) to withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule I to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which the Commitment Charge commences to accrue in accordance with the provisions of Section 3.01 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter; subject in either case to any waiver of a portion of such charge as may be determined by the Bank from time to time.

- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.
- 2.06. The Payment Dates are February 15 and August 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.08. (a) The Borrower may cause NAFIN (pursuant to the *Contrato de Mandato*) to, at any time, request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.
- 2.09 Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III—PROGRAM

- 3.01 The Borrower declares its commitment to the Program and its implementation. To this end:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower, at the request of the Bank, shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV—PARTICULAR COVENANTS

- 4.01 (a) The Borrower, through SHCP, shall enter into a contract (*Contrato de Mandato*) with NAFIN, satisfactory to the Bank, whereby:
- (i) NAFIN agrees to act as financial agent of the Borrower with regard to the Loan, meaning that, inter alia, NAFIN agrees to represent the Borrower vis-à-vis the Bank for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds and agrees to maintain and operate an account in compliance with the terms of this Agreement; and
 - (ii) the Borrower, through SHCP, shall cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of NAFIN's obligations referred to in paragraph (a) of this Section.
- (b) The Borrower shall exercise its rights and carry out its obligations under the *Contrato de Mandato* in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of *Contrato de Mandato*. In case of any conflict between the terms of the *Contrato de Mandato* and those of this Agreement, the terms of this Agreement shall prevail.

ARTICLE V—REMEDIES OF THE BANK

5.01. The Additional Events of Suspension consist of the following:

- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of the Program, will be carried out.
- (b) The Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program.
- (c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program (including any action listed in Section I of Schedule 1 to this Agreement) in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.

ARTICLE VI—EFFECTIVENESS

6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 9.02 of the General Conditions, namely, that the *Contrato de Mandato* has been executed by the parties thereto.

6.02. The following is specified as an additional matter, within the meaning of Section 9.02 of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Borrower (in its legal opinion) and NAFIN (in a separate legal opinion satisfactory to the Bank, issued by NAFIN counsel acceptable to the Bank), indicate that the *Contrato de Mandato* has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and NAFIN and is legally binding upon the Borrower and NAFIN in accordance with the *Contrato de Mandato's* terms.

6.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on September 3, 2007.

ARTICLE VII— REPRESENTATIVE; ADDRESSES

7.01. The Borrower's Representative is the *Titular de la Unidad de Crédito Público* of SHCP.

7.02. The Borrower's Address is:

Secretaría de Hacienda y Crédito Público
Unidad de Crédito Público
Palacio Nacional
Patio Central

3er piso, oficina 3010
Colonia Centro
06000 México, D.F.

Facsímile: 011-52-55-9158-1156

7.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Mexico City, Mexico, as of the day and year first above written.

UNITED MEXICAN STATES

By /s/ Gerardo Rodríguez Regordosa
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Isabel Guerrero
Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions Taken Under the Program

The actions taken by the Borrower under the Program include the following:

1. The Borrower has enacted a securities market law published in the Borrower's *Diario Oficial de la Federación* on December 30, 2005, establishing the role and duties of the management and boards of listed companies, as well as applicable sanctions, with the objective to enhance corporate governance and minority shareholder rights of firms participating in the capital markets.
2. The Borrower has taken the following actions to strengthen prudential regulations and risk management in the banking sector: issued, through CNBV: (a) a *circular* dated July 1, 2004, establishing corporate governance requirements for integrated risk management of credit institutions; (b) a *circular* dated August 20, 2004, establishing risk-based loan classification and provisioning rules for credit institutions; (c) a *circular* dated December 3, 2004, defining capital adequacy-based early warning indicators to trigger prompt corrective actions; (d) a *disposición* dated April 27, 2005, defining standards for external auditors and credit institutions in relation to the provision of external auditing services; and (e) a *disposición* dated July 5, 2005, strengthening credit management practices for credit institutions.
3. The Borrower has, through CNBV, taken the following actions to enhance market disclosure and transparency: (a) issued a *disposición* dated April 27, 2005, establishing financial reporting requirements for financial group holding companies that are subject to supervision by CNBV; and (b) issued a *resolución* dated April 27, 2005, that modifies and harmonizes the disclosure of financial information by credit institutions.
4. The Borrower has, through the enactment of a securities market law, published in the Borrower's *Diario Oficial de la Federación* on December 30, 2005, enhanced access to the capital markets through: (a) the creation of a new corporate vehicle, *Sociedad Anónima Promotora de Inversión*, SAPI, to facilitate stock market listing; and (b) the rationalization of minimum capital requirements for securities brokers to foster the entrance of new participants.
5. The Borrower has issued a decree published in the Borrower's *Diario Oficial de la Federación* on November 30, 2005 amending articles 2 and 103 of the Borrower's *Ley de Instituciones de Crédito* to increase the role of the capital markets in the supply of credit by allowing enterprises to tap capital markets in order to fund their credit activities.
6. The Borrower has taken the following actions to enable better investment strategies and competition in the pensions industry: (a) amended, through a decree published in the Borrower's *Diario Oficial de la Federación* on January 11, 2005, the Borrower's *Ley de los Sistemas de Ahorro para el Retiro* permitting the transfer of assets to lower cost AFORES without losing seniority discounts; (b) amended CONSAR *circular* 15-12, through amendments thereto dated February 1, 2005, September 22, 2005, and October 7, 2005, to make more flexible the

investment regime of private pensions funds and allow better alignment with workers' risk preferences; and (c) issued, through CONSAR *circular* 28-11, dated July 19, 2005, and *circular* 22-10, dated August 1, 2005, rules to increase cost transparency and lower switching transaction costs for contributors.

7. The Borrower has taken the following actions to widen the range of investment vehicles in the capital markets: (a) issued, through SHCP *oficio* 305-186/2004, dated October 18, 2004, rules allowing the creation of strips of public debt (i.e., allowing the separation and reassembly of public debt bonds into their interest and principal payment coupons) and subsequent implementation thereof by BM; (b) issued, through BM *circular* No.1/2004 dated June 7, 2004, (as amended on September 23, 2005) rules establishing the regulatory framework and operational rules for securities lending; (c) issued, through SHCP and BM *circular* No.13/2005, dated June 30, 2005, rules aiming at increasing secondary market activity by reducing auctions' ownership concentration; and (d) issued, through SHCP, the following regulations and approvals to promote greater activity by investors on the Borrower's organized derivatives exchange and to widen the range of derivatives instruments: (i) Fifth Modification to the miscellaneous fiscal resolution of 2005 dated October 12, 2005; (ii) updates, dated May 14, 2004, and January 4, 2005, to the derivative exchange regulations; and (iii) approvals by SHCP for new derivatives instruments issued on March 10, 2004, December 23, 2004, March 9, 2005 and August 18, 2005.

Section II. Availability of Loan Proceeds

A. General. The Borrower may cause NAFIN (pursuant to the *Contrato de Mandato*) to withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

B. Allocation of Loan Amounts. The Loan shall (except for amounts required to pay the Front-end Fee) be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in Dollars)
Single Tranche	500,006,850
Front-end Fee	1,253,150
TOTAL AMOUNT	501,260,000

C. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and

2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.
- D. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- E. Closing Date.** The Closing Date is June 30, 2006.

SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each February 15 and August 15 Beginning August 15, 2011 through February 15, 2021	5%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3.
 - (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued

on or after the respective Principal Payment Date, the provisions of such subparagraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Section I. Definitions

- (a) “AFORES” means *Administradoras de Fondos para el Retiro*, Pension Funds Managers;
- (b) “BM” means *Banco de México*, the Borrower’s Central Bank;
- (c) “CNBV” means *Comisión Nacional Bancaria y de Valores*, the Borrower’s National Banking and Securities Commission;
- (d) “CONSAR” means *Comisión Nacional de Sistemas de Ahorro para el Retiro*, the Borrower’s National Retirements Savings System Commission;
- (e) “*Contrato de Mandato*” means the contract referred to in Section 4.01. (a) of this Agreement;
- (f) “Excluded Expenditure” means any expenditure:
- (i) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (ii) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery

897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (iii) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (iv) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Bank;
 - (v) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (vi) under a contract with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds during the procurement or execution of such contract, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to remedy the situation;
- (g) "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005 with the modifications set forth in Section II of this Appendix;
 - (h) "NAFIN" means *Nacional Financiera*, S.N.C. a Mexican development bank serving as the Borrower's financial agent for purposes of the Loan;
 - (i) "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter, dated January 26, 2006, from the Borrower to the Bank declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution;
 - (j) "SHCP" means *Secretaría de Hacienda y Crédito Público*, the Borrower's Ministry of Finance and Public Credit; and
 - (k) "Single Tranche" means the amount of the Loan allocated to the category entitled "Single Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.
- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.