

**NOTICE OF ARBITRATION
UNDER THE RULES GOVERNING THE ADDITIONAL FACILITY FOR THE
ADMINISTRATION OF PROCEEDINGS BY THE INTERNATIONAL
CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
AND
THE NORTH AMERICAN FREE TRADE AGREEMENT**

BETWEEN

FIREMAN'S FUND,

Claimant,

AND

THE UNITED MEXICAN STATES,

Respondent.

1. Claimant Fireman's Fund Insurance Company (hereinafter "Claimant" or "Fireman's Fund") submits herewith its Notice of Arbitration against the United Mexican States (hereinafter "Respondent" or "Mexico") pursuant to the applicable provisions of Chapter 11 of the North American Free Trade Agreement (hereinafter "NAFTA"), particularly Article 1120 thereof. The Claimant requests, pursuant to Article 1120.1, that the claims set forth herein be submitted to arbitration under the Additional Facility Rules (hereinafter the "Arbitration Rules") of the International Centre for Settlement of Investment Disputes ("ICSID").

2. This submission is intended to comply with Articles 2 and 3 of the Arbitration Rules. Pursuant to Article 3 of the Arbitration Rules, the Claimant hereby sets forth the information required thereunder, as follows:

The Parties to the Dispute

3. The Claimant and its address are as follows:

Fireman's Fund Insurance Company
777 San Marin Drive
Novato, CA 94998
United States of America

The Respondent's information is the following:

The United Mexican States
General Directorate of Foreign Investments
Ministry of Commerce and Industrial Development
Mexico, DF, Mexico

The Relevant Provisions Embodying the Agreement of the Parties to Refer the Dispute to Arbitration

4. The relevant provisions to the reference of the claim herein to arbitration are those of Chapter 11 of the NAFTA, particularly those in Section B thereof, which comprises Articles 1115 through 1138 thereof, except for those provisions and procedures not applicable to the claims set forth herein. Chapter 11 of the NAFTA is annexed hereto as Exhibit 1.

5. Respondent, as a party to NAFTA, consents to arbitration by the terms of Article 1122. Claimant consents to arbitration in accordance with Article 1120. Claimant's Consent and Waiver was the subject of a resolution of the Board of Directors of Claimant, which Resolution is annexed hereto as Exhibit 2. Claimant caused its Consent and Waiver to be delivered to Respondent on October 29, 2001 at the address designated by Respondent pursuant to Annex 1137.2.

6. More than six months have elapsed since the events giving rise to the claim hereunder.

7. On November 30, 2000, Fireman's Fund delivered its Amended Notice of Intent to Submit a Claim to Arbitration to Respondent, at the address designated by Respondent

pursuant to Annex 1137.2, and pursuant to Article 1119 of the NAFTA, based on the facts and circumstances described herein.

8. The claim is not barred by lapse of time under the terms of Article 1117(2) of the NAFTA.

Appointment of Arbitrators

9. Pursuant to Article 1123 of NAFTA, the Tribunal is to comprise three arbitrators, one appointed by each of the two parties and the third, the presiding arbitrator, to be appointed by agreement of the disputing parties. The Claimant intends to appoint its arbitrator pursuant to the requirements of Article 6 of the Arbitration Rules.

The Additional Facility

10. This dispute falls within the jurisdiction of the Arbitration Rules pursuant to Article 2(a) of the Rules Governing the Additional Facility for the Administration of Proceedings by the Secretariat of the International Centre for Settlement of Investment Disputes. This is a legal dispute arising directly out of an investment between the Claimant, a corporation incorporated under the laws of the State of California, and the Respondent, a disputing State that is not a party to the ICSID Convention.

Information Concerning the Issues in Dispute and the Amount Involved **The Facts and Circumstances Underlying the Claims**

11. The Claimant alleges that Mexico has violated, to its detriment, Articles 1102, 1105, 1110 and 1405 of the NAFTA.

12. Fireman's Fund, a corporation incorporated under the laws of the State of California, has as its principal business the provision of insurance of various kinds, including accident, fire and other types of personal and business insurance.

13. On August 29, 1995, an extraordinary meeting was held in Mexico City of the shareholders of Grupo Financiero Bancrecer, S.A. de C.V. (hereinafter "Grupo Financiero"), a Mexican corporation, in which it was resolved that Grupo Financiero would issue two series of subordinated debentures that would be convertible into stock in Grupo Financiero. One of the two series of debentures was to be denominated in Mexican pesos and the other was to be denominated in dollars. The debentures were to be in the amount of US\$50,000,000 for each of the two series (hereinafter referred to respectively as the "Peso Debentures" and the "Dollar Debentures"). The debentures were then issued and purchased as described below.

14. The Peso Debentures were purchased by various investors, all of Mexican nationality, for the total amount, in Mexican pesos at the exchange rate in effect on the date of issuance of the debentures, of US\$50,000,000. On the same date, the Claimant acquired all of the Dollar Debentures for a total of US\$50,000,000.

15. The funds raised through the issuance of the two series of debentures were to be used for the purpose of capitalizing Bancrecer S.A. Institución de Banca Múltiple (hereinafter "Bancrecer"), the principal subsidiary of Grupo Financiero.

16. In or about 1997, as a result of financial problems suffered by Grupo Financiero and Bancrecer, a Working Group was formed made up of representatives of the Department of Treasury and Public Credit, the Bank of Mexico, the Bank Fund for the Protection of Savings and the National Securities and Banking Commission, all of them entities of the Respondent. The Working Group was formed for the purpose of carrying out an indemnification and capitalization program with respect to Bancrecer.

17. The Working Group made the determination that permission would be given by the Respondent for Bancrecer to purchase, from the Mexican investors, all of the Peso

Debentures for the same amounts originally paid by the Mexican investors, namely, a total of US\$50,000,000. On November 17, 1997, pursuant to determinations made by the Working Group, Bancrecer informed the National Securities and Banking Commission, in its capacity as the entity responsible for the regulation and operation of the financial institutions of Mexico, of the mechanism pursuant to which it proposed that the purchase of the Peso Debentures be carried out. This mechanism required the formation of a trust, which would purchase the Peso Debentures with funds contributed to the trust by Bancrecer.

18. On July 14, 1998, Grupo Financiero informed the National Securities and Banking Commission of the details of the procedures by which the Peso Debentures would be purchased from the Mexican investors. On August 12, 1998, the Office of the Vice President for Special Supervision of the National Securities and Banking Commission stated that it had taken note of the procedure for the acquisition by Bancrecer of the Peso Debentures from the Mexican investors, thereby interposing no objection to the purchase of the Peso Debentures as proposed by Grupo Financiero. The Peso Debentures were purchased from the Mexican investors pursuant to the permission granted by the Respondent.

19. Without the Respondent's permission and without the financial support of the Respondent, Bancrecer would not have been able to make the funds available to the trust for the purchase of the Peso Debentures.

20. Beginning in or about November 1997, when it learned of the intention of the Respondent to permit the purchase of the Peso Debentures, the Claimant had discussions with representatives of the Respondent concerning the arrangements made for the purchase of the Peso Debentures and the fact that no similar arrangements had been made, or permitted to be made, by the Respondent for the purchase of the Dollar Debentures from the Claimant.

21. These discussions took place in the context of a program organized by the Respondent for Bancrecer under which Bancrecer would be transformed from an insolvent bank into a viable bank capable of continuing in business. Under the program, a rescue fund of the Respondent would take over all of Bancrecer's non-performing loans. In exchange, Bancrecer would receive debt instruments issued by the Respondent. Through this transfer, the asset side of Bancrecer's balance sheet would be rendered totally free of non-performing loans. Thereafter, between September 1995 and July 1997, in a series of purchases and transfers, much of the non-performing loan portfolio of Bancrecer was, in fact, taken over by the Respondent.

22. The second part of the recapitalization program – to be carried out simultaneously – was to be the injection into Bancrecer of new equity capital, which would be principally contributed by a foreign banking partner.

23. The program failed to be fully implemented, however, because the Respondent thereafter returned to Bancrecer the entire amount of the loan portfolio previously taken over, thereby scuttling any chance for the recapitalization program to be completed.

24. Through a letter dated July 7, 1999, the Claimant requested of representatives of Grupo Financiero that the Dollar Debentures be acquired by the Respondent on the same terms and conditions as those under which the Mexican investors sold their Peso Debentures.

25. In an effort to comply with the Claimant's request, Grupo Financiero sought from the Bank of Mexico orders that would have the effect of granting to the Claimant treatment equal to that which Respondent had granted to the Mexican holders of the Peso Debentures when it permitted Grupo Financiero and/or Bancrecer to receive the necessary financial support from the Respondent to permit them to purchase the Dollar Debentures from the Claimant at the total price of US\$50,000,000.

26. On August 16, 1999, the Respondent, through the Bank of Mexico, denied the request of Grupo Financiero that a mechanism be put in place to permit the acquisition of the Dollar Debentures from the Claimant.

27. On September 15, 1999, the Respondent caused a notice to be published in various periodicals of national circulation and in the *Diario Oficial* to the effect that Grupo Financiero would be redeeming in advance the Dollar Debentures by causing them to be exchanged for ordinary series of shares of Grupo Financiero. The notice stated that the exchange would take place on October 14, 1999.

28. In furtherance of this plan, Grupo Financiero sent out a notice to its shareholders of a general and extraordinary shareholders meeting at which the shareholders were to be asked to approve the writing off of the entire amount of shares issued pursuant to the above-described debenture redemption against prior losses of Grupo Financiero. The evident purpose of these planned maneuvers was to cause the Claimant to be dispossessed of both its debentures and its shares in Grupo Financiero.

29. On October 1, 1999, Claimant brought a lawsuit in Mexico against the Respondent in which it sought an order suspending the above-described conversion of the Dollar Debentures into shares of Grupo Financiero. On October 12, 1999, after the Claimant obtained an injunction to this effect, the Bank of Mexico refused to grant to Grupo Financiero the authorization to carry out the conversion of the Dollar Debentures into shares of Grupo Financiero.

30. On October 14, 1999, Grupo Financiero failed to make payment to Fireman's Fund of interest due on the Dollar Debentures.

31. On November 3, 1999, a general and extraordinary meeting of the shareholders of Grupo Financiero was held in which it was resolved, among other things, that (a) Bancrecer would cease to be a subsidiary of Grupo Financiero, (b) the Institute for Protection of Bank Savings ("IPAB") would take control of Bancrecer and (c) Grupo Financiero would be dissolved and liquidated.

32. This resolution by the Grupo Financiero shareholders had the effect of causing Grupo Financiero to cease to exist as a financial holding company under Mexican law because, after the separation from it of Bancrecer and the taking over of Bancrecer by IPAB, Grupo Financiero no longer controlled the minimum of three financial institutions required by Mexican law for it to be a financial holding company.

The Violations of the NAFTA

33. The failure of the Respondent to permit Bancrecer and/or the Bank to acquire the Dollar Debentures violated, to the detriment of the Claimant, the obligations undertaken by the Respondent in Articles 1102, 1105, 1110 and 1405 of the NAFTA.

34. Under Articles 1102 and 1405, each of the parties to the NAFTA ("the Parties") must grant to investors of any other Party to the NAFTA treatment no less favorable than that granted, in like circumstances, to its own investors with respect to the establishment, acquisition, expansion, administration, conduct, operation, sale or other disposition of investments.

35. Under Article 1105, each Party must grant the investments of investors from another Party treatment in accordance with international law, including fair and equitable treatment, as well as full protection and security.

36. Under Article 1110, no Party may directly or indirectly nationalize or expropriate an investment of an investor of another Party in its territory, or take a measure tantamount to

nationalization or expropriation of such an investment, except under certain circumstances not applicable to the present case.

37. The Respondent, in permitting the acquisition of the Peso Debentures from the Mexican investors at their initial investment price and not permitting the acquisition of the Claimant's Dollar Debentures, was granting the Claimant treatment less favorable than that granted to the Mexican investors in like circumstances with respect to the sale or disposition of their investments in Mexican territory, in clear violation of the obligations assumed by it under the NAFTA.

38. The actions by the Respondent also constituted a direct and indirect nationalization or expropriation, and/or measures tantamount to nationalization or expropriation, which deprived the Claimant of its rights to receive the principal and interest with respect to the US\$50,000,000 of the Dollar Debentures and of its right to obtain equivalent treatment thereto in the form of equity in a reconstituted and financial viable Bancrecer.

39. The actions taken by the Respondent deprived the Claimant of its rights on a discriminatory basis without payment of compensation. Moreover, the actions taken by the Respondents had as their purpose the conferring of a financial benefit on the Respondent to the detriment and at the expense of the Claimant, since the cost of according non-discriminatory treatment to the Claimant, by allowing Grupo Financiero or Bancrecer to purchase the Dollar Debentures, would have had to be absorbed by the Respondent as the owner in fact of Grupo Financiero and Bancrecer. Indeed, the purchase of the Peso Debentures was done at the direction and at the cost of the Respondent.

Relief And Remedies Sought

40. Claimant seeks, with respect to each of its claims under Article 1102, 1105, 1110 and 1405 of the NAFTA, an award of damages in its favor, and against Respondent, of US\$50,000,000, together with applicable interest, its attorneys' fees and the costs incurred by it in this proceeding, together with such further and additional relief as the Arbitration Tribunal may deem appropriate.

Reservation of Rights

41. The Claimant expressly reserves all of its rights, including but not limited to those afforded under Chapter 11 of the NAFTA and under the provisions of the Arbitration Rules, to set forth its claim for relief in greater detail, and to present evidence and argumentation in support thereof in subsequent filings and presentations to the Arbitration Tribunal that is selected in this matter.

Conclusion

For the reasons stated above, Claimant, by its undersigned counsel and representatives, respectfully requests the Secretary General of ICSID to approve access to the Additional Facility and to register this Notice in the Arbitration (Additional Facility) Register pursuant to Article 4 of the Arbitration (Additional Facility) Rules of ICSID.

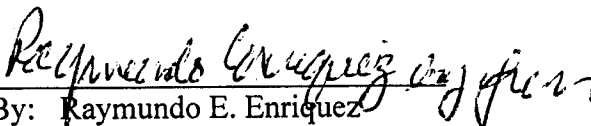
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By: Raymundo E. Enriquez

Dated: October 30, 2001