BBVA Bancomer

# BBVA Bancomer, S.A.,
# Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer,
# acting through its Texas Agency
# U.S. $500,000,000 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022

We, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, a multi-purpose bank incorporated in accordance with the laws of the United Mexican States, or Mexico, acting through our Texas Agency, are offering the U.S. $500,000,000 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022, or the "Notes." The portion of the Notes that is offered and sold in compliance with Rule 144A ("Rule 144A") under the Securities Act of 1933, as amended (the "Securities Act") will be consolidated on the Issue Date (as defined below) to form a single series with, and be fully fungible with, our outstanding 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 (the "Original Notes") previously sold in compliance with Rule 144A and issued on July 19, 2012 (CUSIP No. 05533U AC2 and ISIN No. US05533UAC27), and the portion of the Notes that is offered and sold outside the United States of America (the "United States") in accordance with Regulation S ("Regulation S") under the Securities Act will be consolidated on or after the Consolidation Date (as defined below) to form a single series with, and be fully fungible with, our outstanding 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 previously sold in accordance with Regulation S and issued on July 19, 2012 (CUSIP No. P16259 AH9 and ISIN No. USP16259AH99). The Notes will mature on September 30, 2022, or the "Maturity Date," unless previously redeemed. We may redeem the Notes, subject to any regulatory requirements (including obtaining the approval of *Banco de México* or Mexican Central Bank), at any time if there are specified changes in (1) the Mexican or United States laws affecting the withholding tax applicable to payments under the Notes, (2) the Mexican laws that result in a Special Event (as defined in this offering memorandum) or (3) the applicable tax laws that result in interest on the Notes not being deductible by us in whole or in part for Mexican income tax purposes. See "Description of the Notes—Redemption—Withholding Tax Redemption" and "Description of the Notes—Redemption—Special Event Redemption." **IF OUR CAPITAL RATIO (AS DEFINED IN THIS OFFERING MEMORANDUM) HAS DECLINED BELOW THE MINIMUM PERCENTAGE REQUIRED FROM TIME TO TIME BY THE MEXICAN CAPITALIZATION REQUIREMENTS (AS DEFINED IN THIS OFFERING MEMORANDUM) OR IF A MEXICAN REGULATORY EVENT (AS DEFINED IN THIS OFFERING MEMORANDUM) OCCURS, WE WILL SUSPEND PAYMENT OF BOTH INTEREST AND PRINCIPAL THEREON UNTIL THE END OF THE RELATED SUSPENSION PERIOD (AS DEFINED IN THIS OFFERING MEMORANDUM). BECAUSE PAYMENT OF INTEREST ON THE NOTES IS CUMULATIVE, IN THE EVENT THAT PAYMENTS OF INTEREST CEASE DURING ANY SUSPENSION PERIOD, HOLDERS OF THE NOTES WILL HAVE THE RIGHT TO RECEIVE ANY AMOUNT OF UNPAID INTEREST AT THE END OF THE SUSPENSION PERIOD.** See "Description of the Notes—Treatment of Interest and Principal During a Suspension Period."

The Notes are denominated in U.S. dollars and will bear interest from (and including) July 19, 2012, or the "Original Issue Date," up to (but excluding) the Maturity Date at a fixed rate per annum equal to 6.75%, payable semi-annually in arrears on September 30 and March 30 of each year (each an "Interest Payment Date"), commencing on March 30, 2013.

The Notes will be issued by our Texas Agency but will be our general obligations, not different from our other direct obligations. The Notes will be our unsecured, subordinated, cumulative, preferred obligations. In the event of our bankruptcy (*concurso mercantil*), liquidation or dissolution under Mexican law, the Notes will rank (i) junior to all of our present and future senior indebtedness, (ii) *pari passu* with all of our other present or future subordinated unsecured preferred indebtedness, and (iii) senior to all our unsecured subordinated and non-preferred indebtedness and all classes of our capital stock, as described in this offering memorandum. See "Description of the Notes—Subordination." Payment of principal on the Notes may be accelerated only in the case of certain events involving our bankruptcy, liquidation or dissolution. In accordance with Articles 134 Bis and 134 Bis 1 of the Mexican Banking Law (*Ley de Instituciones de Crédito*), there will be no right of acceleration in the case of a default in the performance of any of our covenants, including the payment of principal and interest in respect of the Notes, or in the case of any deferral in the payment of interest in respect of the Notes. See "Description of the Notes—Events of Default, Notice and Waiver." The Notes will be unsecured and not insured or guaranteed by the Savings Protection Agency (*Instituto para la Protección al Ahorro Bancario*, or IPAB).

Application has been made to have the Notes listed on the Official List of the Irish Stock Exchange, or ISE, and admitted to trading on the Global Exchange Market of the Irish Stock Exchange.

**Investing in the Notes involves risks. See "Risk Factors" beginning on page 15.**
**Issue Price: 109.89%**

plus accrued interest, from and including July 19, 2012 up to (but excluding) September 28, 2012, or the "Issue Date."
We expect that delivery of the Notes will be made in book-entry form through the facilities of the Depository Trust Company (DTC) and will be made on or about September 28, 2012.

The Notes have been rated "A3" by Moody's Investor Service, Inc., and "BBB" by Fitch, Inc. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice.

**THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS EXCLUSIVELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE MEXICAN BANKING AND SECURITIES COMMISSION (*COMISIÓN NACIONAL BANCARIA Y DE VALORES*, OR THE "CNBV"). WE HAVE NOT AND WILL NOT REGISTER THE NOTES WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) MAINTAINED BY THE CNBV AND THEREFORE WE MAY NOT PUBLICLY OFFER THE NOTES OR SELL THE NOTES, NOR CAN THEY BE THE SUBJECT OF BROKERAGE ACTIVITIES IN MEXICO, EXCEPT THAT WE MAY OFFER THE NOTES IN MEXICO TO INSTITUTIONAL AND QUALIFIED INVESTORS PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*). AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, WE WILL NOTIFY AND FILE CERTAIN DOCUMENTATION WITH THE CNBV REGARDING THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY, AND THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT OF SUCH NOTICE BY, THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES, DOES NOT ADDRESS LEGAL, TAX OR OTHER CONSEQUENCES NOR DOES IT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN. THE ACQUISITION OF THE NOTES BY AN INVESTOR, INCLUDING ANY INVESTOR OF MEXICAN RESIDENCY, WILL BE MADE UNDER SUCH INVESTOR'S OWN RESPONSIBILITY.**

**We have not and will not register the Notes under the Securities Act or any state securities laws. We may not offer or sell the Notes within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A and to certain non-U.S. persons in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or any state securities laws. See "Transfer Restrictions."**

***Joint Bookrunners***

**BBVA** | **BofA Merrill Lynch** | **Goldman, Sachs & Co.**

The date of this offering memorandum is September 24, 2012.

## TABLE OF CONTENTS

*BANCO DE MÉXICO* HAS AUTHORIZED THE ISSUANCE OF THE NOTES, AS REQUIRED UNDER APPLICABLE MEXICAN LAW. AUTHORIZATION OF THE ISSUANCE OF THE NOTES BY *BANCO DE MÉXICO* DOES NOT ADDRESS THE LEGAL, TAX OR OTHER CONSEQUENCES TO THE HOLDERS OF THE NOTES, NOR DOES IT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY, OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN, OR THE TRANSLATION OF THE TERMS OF APPLICABLE MEXICAN LAW AND REGULATION, INCLUDING ARTICLES 134 BIS AND 134 BIS 1 OF THE MEXICAN BANKING LAW (*LEY DE INSTITUCIONES DE CRÉDITO*), RELEVANT PROVISIONS OF CIRCULAR 3/2012 ISSUED BY *BANCO DE MÉXICO* AND THE GENERAL RULES APPLICABLE TO MEXICAN BANKS ISSUED BY THE CNBV (*DISPOSICIONES DE CARÁCTER GENERAL APLICABLES A LAS INSTITUCIONES DE BANCA MÚLTIPLE*).

We are responsible for the information contained in this offering memorandum. We have not, and the initial purchasers have not, authorized anyone to provide you with other information and we take no responsibility for other information that others may give you. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Unless otherwise specified or the context otherwise requires, references in this offering memorandum to "the Bank," "Bancomer," "we," "us" and "our" are references to BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and its subsidiaries. References to "the Texas Agency" are to the Texas Agency of BBVA Bancomer, S.A., Institución de Banca Múltiple, and Grupo Financiero BBVA Bancomer. References to "the Issuer" are to the Bank acting through the Agency.

In connection with the issuance of the Notes, Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Stabilizing Managers"), or persons acting on their behalf, may over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Managers or persons acting on their behalf will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made, and, if begun, may be ended at any time, but it must end no later than 30 days after the issue date of the Notes, or no later than 60 days after the date of the allotment of the Notes, whichever is the earlier. Any stabilization action will be undertaken by the Stabilizing Managers or persons acting on their behalf in accordance with applicable laws and regulations.

We, having made all reasonable inquiries, confirm that this offering memorandum contains all information with regard to us, our subsidiaries and the Notes that is material in the context of the issue and offering of the Notes, that the information contained in this offering memorandum is true and accurate and is not misleading as of the date of this offering memorandum, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which would make this offering memorandum or any of such information or the expression of any such opinions or intentions materially misleading. We accept responsibility for the information contained in this offering memorandum.

We are relying upon an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the Notes, you will be deemed to have made the acknowledgements, representations and agreements and the restrictions described above and as further described under "Transfer Restrictions" in this offering memorandum. We are not, and the initial purchasers are not, making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

Neither the CNBV, nor the U.S. Securities and Exchange Commission, nor any state or foreign securities commission has approved or disapproved of the Notes or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and to investors outside the United States so that they can consider a purchase of the Notes. This offering memorandum has been prepared solely for use in connection with the placement of the Notes and for the listing of the Notes on the Official List of the Irish Stock Exchange and admission to trading on the Global

Exchange Market of the Irish Stock Exchange. We have not authorized the use of this offering memorandum for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. This offering memorandum may be distributed and its contents disclosed only to those prospective investors to whom it is provided. By purchasing the Notes, you will be deemed to have made the acknowledgements, representations and agreements and the restrictions described above and as further described under "Transfer Restrictions" in this offering memorandum.

This offering memorandum is based on information provided by us and by other sources that we believe are reliable, but no assurance can be given by the initial purchasers as to the accuracy or completeness of such information. The initial purchasers assume no responsibility for the accuracy or completeness of the information contained herein (financial, legal or otherwise). In making an investment decision, prospective investors must rely on their own examinations of us and the terms of this offering and the Notes, including the risks involved. Moreover, the contents of this offering memorandum are not to be construed as legal, business or tax advice.

This offering memorandum does not constitute an offer of, or an invitation by or on behalf of, us or the initial purchasers or any of our or their respective directors, officers and affiliates to subscribe for or purchase any securities in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this offering memorandum and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales.

THE NOTES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND THE APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES, PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM. YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. SEE "RISK FACTORS" FOR A DESCRIPTION OF SPECIFIED FACTORS RELATING TO AN INVESTMENT IN THE NOTES. NEITHER WE, THE INITIAL PURCHASERS, NOR ANY OF OUR OR THEIR RESPECTIVE REPRESENTATIVES IS MAKING ANY REPRESENTATION TO YOU REGARDING THE LEGALITY OF AN INVESTMENT BY YOU UNDER APPROPRIATE LEGAL INVESTMENT OR SIMILAR LAWS. YOU SHOULD CONSULT WITH YOUR OWN ADVISORS AS TO LEGAL, TAX, BUSINESS, FINANCIAL AND RELATED ASPECTS OF A PURCHASE OF THE NOTES.

The Notes are not deposits with us and are not insured by the United States Federal Deposit Insurance Corporation or any other United States governmental agency or any Mexican governmental agency, including, without limitation, the IPAB, and are not guaranteed or secured, in any manner, by any entity that is part of Grupo Financiero BBVA Bancomer (including its holding company).

We reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the full amount of the Notes offered hereby.

The Notes may not be purchased, held or disposed of by (1) any plan, program or arrangement subject to the U.S. Employee Retirement Income Security Act of 1974, as amended, or ERISA, Section 4975 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, or substantially similar provisions of any federal, state, local or non-US law or (2) any person acting on behalf of or using the assets of any such plan, program or arrangement, unless such purchase, holding and disposition is (a) covered by the exemptive relief provided by (i) Prohibited Transaction Class Exemption, or the PTCE, 96-23, 95-60, 91-38, 90-1 or 84-14, (ii) Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or (iii) another applicable statutory or administrative exemption or (b) not a violation of any federal, state, local or non-US law that is substantially similar to ERISA or Section 4975 of the Code . Prospective purchasers must carefully consider the restrictions on purchase set forth in "Transfer Restrictions" and "Certain ERISA Considerations." For information regarding restrictions on acquisition of the Notes, see "Description of the Notes—Restrictions Applicable to Mexican Financial Institutions."

This offering memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000

(Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

This offering memorandum has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this offering memorandum as completed by final terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State, such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any initial purchaser have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any initial purchaser to publish or supplement a prospectus for such offer. The expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

In making an investment decision, you must rely on your own examination of our business and the terms of this offering, including the merits and risks involved. These Notes have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

**NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## AVAILABLE INFORMATION

We issued the Original Notes under an indenture dated as of July 19, 2012 (the "Base Indenture"), among us, The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent (the "Trustee") and The Bank of New York Mellon (Ireland) Limited, as Irish paying agent and listing agent (the "Irish Paying and Listing Agent"). We will issue the Notes under a supplemental indenture, dated as of September 28, 2012, among us, the Trustee and the Irish Paying and Listing Agent (the "First Supplemental Indenture" and, together with the Base Indenture, the "Indenture"). To permit compliance with Rule 144A under the Securities Act in connection with resales of notes, we will be required under the Indenture, upon the request of a holder of Rule 144A notes or Regulation S notes (during the restricted period, as defined in the legend included under "Notice to Investors"), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request we are neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

The Indenture further requires that we furnish to the Trustee (as defined herein) all notices of meetings of the holders of the Notes and other reports and communications that are generally made available to holders of the Notes. At our request, the Trustee will be required under the Indenture to mail these notices, reports and communications received by it from us to all record holders of the Notes promptly upon receipt. See "Description of the Notes."

We will make available to the holders of the Notes, at the corporate trust office of the Trustee at no cost, copies of the Indenture as well as this offering memorandum, including a review of our operations, and our annual audited consolidated financial statements and our unaudited quarterly consolidated financial statements, each prepared in conformity with Mexican Banking GAAP (as defined herein). We will also make available at the office of the Trustee our unaudited quarterly consolidated financial statements prepared in accordance with Mexican Banking GAAP. Information is also available at the office of the Irish Paying and Listing Agent.

Application has been made to have the Notes listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. This offering memorandum forms, in all material respects, the listing memorandum for admission to the Irish Stock Exchange. We will be required to comply with any undertakings given by us from time to time to the Irish Stock Exchange in connection with the Notes, and to furnish to it all such information as the rules of the Irish Stock Exchange may require in connection with the listing of the Notes.

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are a multi-purpose bank (*institución de banca múltiple*) incorporated in accordance with the laws of Mexico with limited liability (*sociedad anónima*). Most of our directors and officers, as well as the experts named in this offering memorandum, reside outside of the United States, and substantially all of their assets and our assets are located outside of the United States. As a result, it may not be possible for you to effect service of process within the United States upon these persons or to enforce against them or against us in United States courts judgments predicated upon the civil liability provisions of the U.S. federal securities laws. We have been advised by our internal counsel that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws.

## FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to, the following: (1) statements regarding our future results of operations and financial condition, (2) statements of plans, objectives or goals, including those related to our operations, and (3) statements of assumptions underlying such statements. Words such as "believe," "anticipate," "should," "estimate," "forecast," "expect," "may," "intend" and "plan" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

You should not place undue reliance on forward-looking statements, which are based on current expectations. Forward-looking statements involve inherent risks and uncertainties, both general and specific, and there are risks that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements. These factors include the following:

- competition;
- profitability of our businesses;
- acquisitions and divestitures;
- credit and other risks of lending, such as increases in default of borrowers;
- limitations on our access to sources of financing on competitive terms;
- restrictions on foreign currency convertibility and remittance outside of Mexico;
- failure to meet capital or other requirements;
- changes in reserve requirements;
- changes in requirements to make contributions to or for the receipt of support from programs organized by the Mexican Government;
- changes in overall economic conditions in Mexico, including exchange rates and interest rates;
- changes in exchange rates, market interest rates or the rate of inflation;
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives or monetary or fiscal policy in Mexico; and
- the other factors discussed under "Risk Factors" in this offering memorandum.

Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated, expected or intended, as described in this offering memorandum. All forward-looking statements and risk factors included in this offering memorandum are made as of the date on the front cover of this offering memorandum, based on information available to us as of such date, and we do not have any intention nor do we assume any obligation to update these forward-looking statements.

## PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

### Accounting Principles

Our audited consolidated financial statements as of December 31, 2010 and 2011 and for the years ended December 31, 2009, 2010 and 2011 (our "Audited Financial Statements"), and our unaudited consolidated financial statements as of June 30, 2012 and for the six-month periods ended June 30, 2011 and 2012 (our "Unaudited Financial Statements" and together with our Audited Financial Statements, our "Financial Statements") contained in this offering memorandum have been prepared in accordance with the accounting principles and regulations prescribed by the CNBV for banks, as amended, or Mexican Banking GAAP.

Mexican Banking GAAP differs from Mexican Financial Reporting Standards, which we refer to as Mexican GAAP or MFRS, as published by the Mexican Board for the Research and Development of Financial Reporting Standards, or CINIF (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*). Mexican Banking GAAP also differs from generally accepted accounting principles in the United States of America, or U.S. GAAP, and the guidelines of the U.S. Securities and Exchange Commission applicable to banking institutions in the United States. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP." No reconciliation of any of our Financial Statements to U.S. GAAP has been prepared for the purposes of this offering memorandum. Any such reconciliation would likely result in material differences.

Effective January 2008, we adopted the guidelines of MFRS B-10 "Recognition of the Effects of Inflation", which provide that the effects of inflation will only be required to be recorded in our Financial Statements in an inflationary environment where cumulative inflation over the three preceding years is equal to or greater than 26%. Because the economic environment in the three preceding years did not qualify as inflationary, as defined by MFRS B-10, we did not use inflationary accounting to prepare our Financial Statements. However, our Financial Statements reflect the inflation adjustments recognized through December 31, 2007 to our consolidated stockholders' equity and to the non-monetary assets and liabilities held as of that date.

On January 27, 2011, the CNBV issued certain changes to Mexican Banking GAAP. The objective of these changes is to achieve greater consistency with MFRS and International Financial Reporting Standards, as adopted by the International Accounting Standards Board.

As a result of these changes to Mexican Banking GAAP, our Financial Statements as of December 31, 2010 have been reclassified with respect to certain accounts to make them comparable to our Audited Financial Statements for the year ended 2011. These reclassifications are not material.

Our Financial Statements have been adjusted using the value of *Unidades de Inversión*, or UDIs, a peso currency equivalent indexed for Mexican inflation. UDIs are units of account created by *Banco de México* on April 4, 1995. The value in pesos of such units is indexed to inflation on a daily basis as measured by the change in the Mexican National Consumer Price Index, or the NCPI. See UDI Program in "Selected Statistical Information". As of December 31, 2011 and June 30, 2012, one UDI was equal to Ps. 4.691316 and Ps. 4.741055, respectively. For a description of the methodology used to adjust the financial statements to reflect the effects of inflation, see note 4 to our Audited Financial Statements included elsewhere in this offering memorandum.

Unless otherwise specified, our Audited Financial Statements and the other annual financial information contained in this offering memorandum are stated in constant pesos with purchasing power as of December 31, 2011.

Unless otherwise specified, in accordance with Mexican Banking GAAP, our Financial Statements and the other financial information with respect to us contained in this offering memorandum are presented in consolidated form. We consolidate entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. Our investments in affiliates are accounted for under the equity method. See note 14 to our Audited Financial Statements included elsewhere in this offering memorandum.

## Currencies

In this offering memorandum, references to "pesos" or "Ps." are to Mexican pesos, and references to "U.S. dollars" or "U.S. $" are to United States dollars.

This offering memorandum contains translations of various peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated peso amounts into U.S. dollars at the exchange rate of Ps. 13.4084 to U.S. $1.00, which was the rate on June 30, 2012, as published by *Banco de México*, in the Official Gazette of the Federation (*Diario Oficial de la Federación*) on July 2, 2012. On September 14, 2012, the noon buying rate for cable transfers in New York reported by the Board of Governors of the Federal Reserve System was Ps. 12.7410 to U.S. $1.00. On September 18, 2012, the rate published by *Banco de México* in the Official Gazette of the Federation was Ps. 12.7492 to U.S. $1.00. See "Exchange Rates and Currency" for information regarding rates of exchange between the peso and U.S. dollar for the periods specified therein.

## Terms Relating to our Loan Portfolio

As used in this offering memorandum, the following terms relating to our loan portfolio and other credit assets have the meanings set forth below, unless otherwise indicated.

"*Total performing loans*" and "*total performing loan portfolio*" refer to the aggregate of (1) the total principal amount of loans outstanding as of the date presented, (2) amounts attributable to "*accrued interest*, but unpaid" (3) "*rediscounted loans*" and (4) the "*UDI Trusts*" (as explained below). Under Mexican Banking GAAP, we include as income for any reporting period interest accrued but unpaid during that period. Such "*accrued interest*" is reported as part of our total performing loan portfolio in the financial statements until it is paid or becomes part of the total non-performing loan portfolio in accordance with CNBV rules. "*Rediscounted loans*" are peso- and U.S. dollar-denominated loans made to finance projects in industries that qualify for priority status under the wholesale lending programs of the Mexican Government's development banks and are generally funded in part by such development banks. In accordance with Mexican Banking GAAP, rediscounted loans are recorded on the balance sheet as outstanding loans until they are paid or becoming non-performing in accordance with CNBV's rules. As is mandated by the CNBV, total performing loans include the off-balance sheet portfolio trusts, or the UDI Trusts, which are trusts holding our loans converted into UDIs that are consolidated in our financial statements. Under a UDI-based loan or financial instrument, interest is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount in pesos equivalent to the amount due in UDIs at the stated value of the UDIs on the day of payment. Under the UDI Trust program, we are liable for all future losses, if any, on the loans in the UDI Trusts. See notes 3, 11 and 12 to our Audited Financial Statements included elsewhere in this offering memorandum.

The terms "*total non-performing loans*" and "*total non-performing loan portfolio*" include past-due principal and past-due interest. For a description of our policies regarding the classification of loans as non-performing, see "Selected Statistical Information—Non-Performing Loan Portfolio." The term "*net non-performing loans*" refers to total non-performing loans less allowance for loan losses on these loans.

References in this offering memorandum to "*provisions*" are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income, except in the case of certain provisions associated with loans and foreclosed assets and other loan losses that were charged to stockholders' equity (net of deferred taxes). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations."

References in this offering memorandum to "*allowance*" are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item.

The terms "*total loans*" and "*total loan portfolio*" include total performing loans plus total non-performing loans, each as defined above. The terms "net total loans" and "*net total loan portfolio*" refer to net total performing loans plus net non-performing loans, as defined above.

The loan portfolio information provided in "Selected Statistical Information" was determined in accordance with the manner in which we have presented the components of our loan portfolio in other sections of this offering memorandum as described above, except that the data for the loan portfolio presented under "Selected Statistical Information" does not include amounts attributable to accrued interest, which represented less than 1% of our total loan portfolio as of December 31, 2011. See "Selected Statistical Information—Loan Portfolio" and the footnotes to the tables included therein.

**Terms Relating to our Capital Adequacy**

As used in this offering memorandum, the following terms relating to our capital adequacy have the meanings set forth below, unless otherwise indicated.

- "*Total capital*" or "*total net capital*" refers to total net capital (*capital neto*), as such term is determined based on the Mexican Banking Law and the Rules for Capitalization referred to below.

- "*Tier 1 Capital*" refers to the basic portion (*parte básica*) of the total net capital, as such term is determined based on the Rules for Capitalization.

- *"Tier 2 Capital"* refers to the additional portion (*parte complementaria*) of the total net capital, as such term is determined based on the Rules for Capitalization.

- "*Capital Ratio*" refers to the ratio of the total net capital (*capital neto*) to risk-weighted assets calculated in accordance with the methodology established from time to time by the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*, or the SHCP) or the CNBV, as the case may be, pursuant to the Rules for Capitalization and the Mexican Capitalization Requirements.

- "*General Rules Applicable to Mexican Banks*" means the General Rules Applicable to Mexican Banks (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) published by the CNBV in the Official Gazette of the Federation on December 2, 2005, as such regulations have been amended and may be further amended from time to time.

- "*Rules for Capitalization*" means until May 1, 2010 the Rules for Capitalization Requirements of Commercial Banks National Credit Institutions and Development Banks (*Reglas para los requerimientos de capitalización de las instituciones de banca múltiple y las sociedades nacionales de crédito, instituciones de banca de desarrollo*) published in the Official Gazette of the Federation on November 23, 2007, and as of May 1, 2010, the provisions regulating the capitalization of banks included in the General Rules Applicable to Mexican Banks issued by the CNBV, as such regulations may be amended or superseded.

- "*Mexican Capitalization Requirements*" refers to the capitalization requirements for commercial banks set forth under the Mexican Banking Law, Rules for Capitalization and the General Rules Applicable to Mexican Banks, as such regulations may be amended or superseded.

**Other Definitions**

The following additional definitions are used in this offering memorandum:

- "*Mexican Stock Exchange*" means the *Bolsa Mexicana de Valores, S.A.B. de C.V.*

- "*Repurchase Agreement*" means a Mexican law governed repurchase and resale agreement (*reporto*) pursuant to which a party agrees to a temporary purchase or sale of securities in exchange for (1) a specified premium to be paid or received, and (2) the obligation to resell or repurchase the underlying security. Repurchase agreements may or may not be secured.

- "*Sofol*" means limited purpose financial entities, or *sociedades financieras de objeto limitado*.

- "*Sofom*" means multi-purpose financial entities, or *sociedades financieras de objeto múltiple*.

**Rounding Adjustments**

Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetical aggregation of the figures preceding them.

**Market Share and Ranking Information**

Unless otherwise indicated, the market share and ranking information included in this offering memorandum is derived from statistics of the CNBV or the Mexican Banking Association (*Asociación de Bancos de, A.C.*), each as of June 30, 2012.

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## OFFERING MEMORANDUM SUMMARY

*The following summary is qualified in its entirety by the detailed information appearing elsewhere in this offering memorandum. For a more complete understanding of us and the offering made herein, you should read the entire offering memorandum, including the risk factors and the Financial Statements appearing elsewhere in this offering memorandum.*

### The Bank

We are a leading multi-purpose bank with limited liability organized under Mexican law. We provide a wide range of banking, securities and financial services to more than 398,000 companies and government entities and to over 20.2 million retail customers throughout Mexico. As of June 30, 2012, we had total assets of Ps. 1,250,538 million, total deposits (including bank bonds) of Ps. 668,290 million and our stockholders' equity was Ps. 116,806 million. In 2011, our net income was Ps. 23,467 million and for the six months ended June 30, 2012, our net income was Ps. 11,613 million. As of June 30, 2012, based on total assets, number of branches, loans and deposits, we were the largest bank in Mexico.

We are the principal subsidiary of Grupo Financiero BBVA Bancomer S.A. de C.V., a Mexican financial services holding company ("GFBB"). GFBB is controlled and substantially all of its capital stock is beneficially owned by Banco Bilbao Vizcaya Argentaria, S.A., a leading Spanish bank ("BBVA"). As of June 30, 2012, we accounted for approximately 92% of GFBB's total assets and approximately 82% of GFBB's net income.

We are focused on distributing our banking products and services efficiently. As of June 30, 2012, we distributed our products and services in Mexico for all of our banking units through a nationwide network of 1,814 branches, 7,830 automatic wholly-owned teller machines (ATMs) and 120,713 operating point of sale terminals (POS), as well as through mobile phone and internet banking. As of June 30, 2012, approximately 84% of our banking transactions were completed electronically, primarily through ATMs and mobile phone and internet banking. We are present in all 32 states of Mexico.

Over the last three years, our commercial activity has grown at a higher average rate than Mexico's gross domestic product (GDP). From 2009 to 2011, compounded annual growth for our total performing loan portfolio and for our total deposits (including demand and time deposits) was 10.0% and 4.4%, respectively. During the same period, despite the deterioration of the global macroeconomic environment, our loan portfolio has grown while maintaining asset quality. Our performing loan portfolio grew 0.3% in 2009, 12.0% in 2010 and 7.9% in 2011, each as compared to the previous year. Total non-performing loans as a percentage of total loans was 3.1% in 2011; higher than the 2.5% recorded in 2010, but lower than the 3.8% recorded in 2009.

The composition of our loan portfolio has changed over the last three years, with our consumer loan and credit card loan portfolios increasing in weight as compared to our commercial and mortgage loan portfolios. As of June 30, 2012, our performing commercial loan portfolio, which includes loans to corporations, enterprises and financial and governmental entities, represented 51% of our total performing loan portfolio, while our consumer and credit card loan portfolio represented 25% of our total performing loan portfolio and our mortgage loan portfolio represented the remaining 24%.

Our net income grew 0.5% in 2009, 22.2% in 2010 and 4.1% in 2011, each as compared to the previous year. Net income growth in 2011 was mainly a result of higher income from interest rates and fees on loans which increased by Ps. 6,581 million, or 10.4% year-over-year, due to higher lending activity during 2011 as compared to 2010. For the six months ended June 30, 2012, our net income was Ps. 11,613 million, compared to Ps. 11,741 million for the six months ended June 30, 2011, a decrease of Ps. 128 million, or 1.1%, as a result of an increase in net interest expenses and a decrease in trading income, each as compared to the same period last year.

We operate through the following main units:

- Retail banking: this unit focuses on providing banking services and originating credit and debit cards, automobile loans, residential mortgage loans, consumer loans, payroll loans and loans to small businesses through our network of retail branches and ATMs, as well as alternate distribution channels.

- Middle-market and government banking: this unit focuses on providing banking services to companies with annual sales between Ps. 60 million and Ps. 1,000 million per year, offering bridge loans for construction purposes to housing developers, and providing banking services to Mexican federal agencies, states and municipalities.

- Corporate and investment banking: this unit focuses on providing products and services to Mexico's major corporate and institutional customers in lending, mergers and acquisitions, capital markets transactions (equity and fixed income), cash management and e-banking and money-market instruments.

The Mexican financial market is highly competitive. As of June 30, 2012, a total of 42 banks operated in Mexico. We hold the leading position in the following business lines: (

| | As of June 30, 2012 (1) | |
|---|---|---|
| | Market Share | Rank |
| Total assets | 20.6% | 1 |
| Total deposits | 23.8% | 1 |
| Total loans | 24.3% | 1 |
| Number of branches | 15.1% | 1 |

(1) Source: CNBV. Market share includes commercial banks and limited-purpose financial institutions (Sofoles).

Our principal subsidiaries include:

- Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. ("AFORE Bancomer"), a pension fund management company; and

- BBVA Bancomer USA, Inc., (formerly known as BBVA Bancomer Financial Holdings, Inc.) a holding company through which we hold our operations in the United States, including Bancomer Transfer Services, Inc. ("BTS"), a money remittance services company based in the United States; Bancomer Financial Services, Inc. ("BFS"), an agent for BTS in the State of California for money transfers and bill payments; and Bancomer Foreign Exchange, Inc. ("BFX"), a currency exchange company and agent of BTS in the State of Texas.

- For additional detail on our subsidiaries, see "The Bank–Banking divisions–Business through subsidiaries and affiliates."

**Organizational Structure**

We are the principal subsidiary of GFBB, a Mexican financial services holding company.

In addition to our own products and services, we distribute and earn fee income and commissions from a wide range of financial and related products and services in Mexico for GFBB and other affiliates, including:

- bank assurance products on behalf of Seguros BBVA Bancomer, S.A. de C.V.;

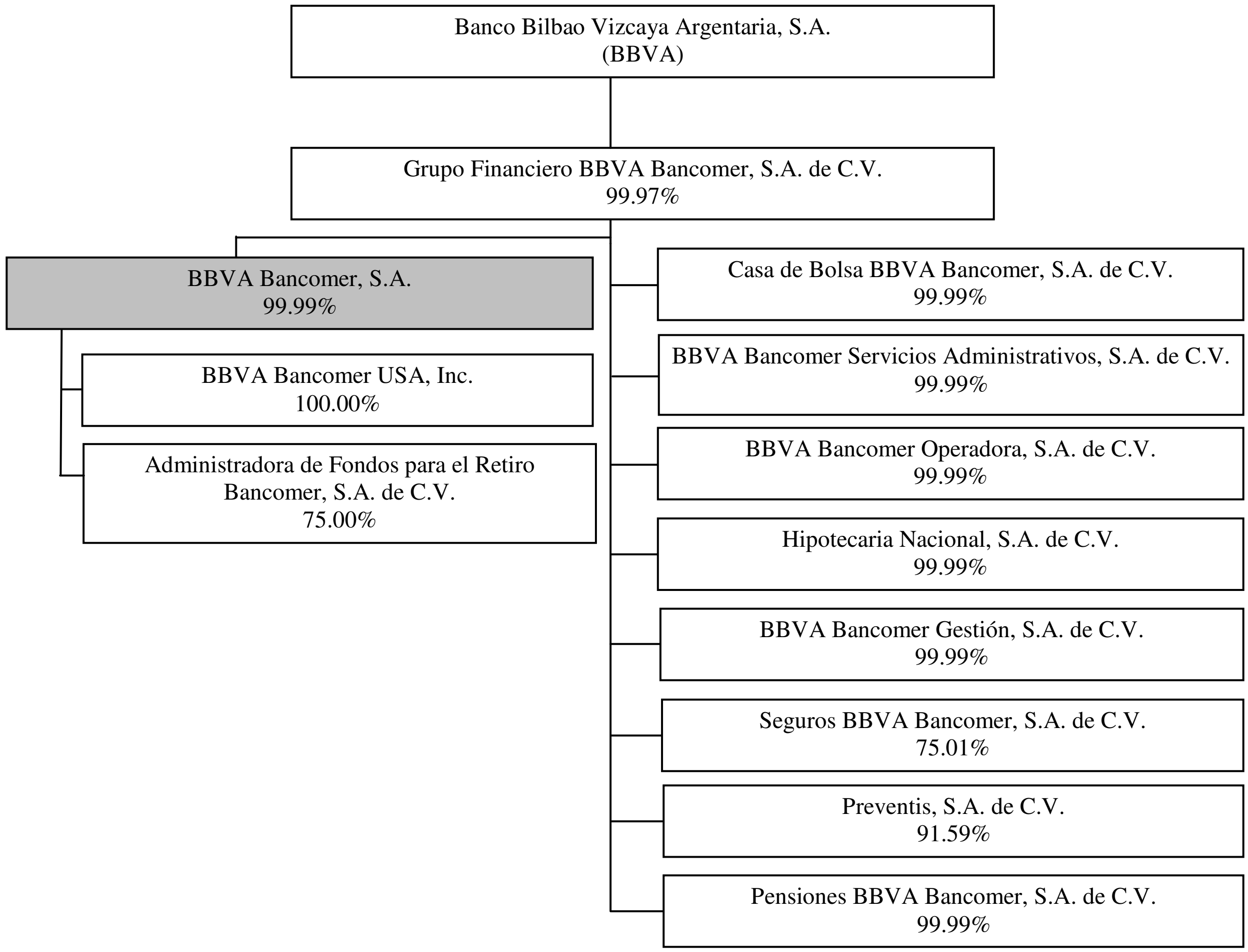
- mutual funds on behalf of BBVA Bancomer Gestión, S.A. de C.V.;

- brokerage services on behalf of Casa de Bolsa BBVA Bancomer, S.A. de C.V.;

- pension fund management on behalf of Pensiones BBVA Bancomer, S.A. de C.V. and

- mortgage loans on behalf of Hipotecaria Nacional, S.A. de C.V.

The following chart presents our current holding organizational structure and that of GFBB, including principal subsidiaries and affiliates, as well as respective ownership interests:




Our headquarters are located at Avenida Universidad No. 1200, Colonia Xoco, Mexico City, Mexico 03339. Our telephone number is (52 55) 5621-3434. Our taxpayer indentification number is BBA - 830831 - LJ2. See "The Bank—Properties."

## Our History

### *General*

Our origins can be traced back to *Banco de Comercio, S.A.*, which was founded in 1932 in Mexico City. In 1977, various institutions comprising the Banco de Comercio Group were consolidated into a multi-purpose bank under the name of "Bancomer." The merger enabled us to maintain our strong ties with local communities throughout Mexico and begin offering the services of a national banking network.

Bancomer was nationalized by the Mexican Government in 1982 along with nearly all other commercial banks in Mexico. As part of the subsequent privatization process, in 1991, a core group of Mexican investors led by Eugenio Garza Lagüera incorporated Grupo Financiero Bancomer ("GFB"), to acquire 56% of Bancomer's outstanding capital stock directly from the Mexican Government.

GFB subsequently increased its ownership of Bancomer through acquisitions and, in 1993, the Mexican Government exchanged its remaining stake in Bancomer for shares of GFB's capital stock, which gave GFB control of nearly 100% of Bancomer's outstanding capital. On May 30, 2003, Bancomer was issued a license by *Banco de México* to operate as a multi-purpose bank in Mexico.

**Strategy**

Our central strategy is to continuously increase the profitability of our business through permanent and long-term growth that will enable us to continue being the leading bank in the Mexican financial market. Future growth will be supported by our customer-driven business model that provides specialized attention to each type of customer. To achieve this goal, we are focused on the following objectives:

***Continue to Focus on Our Strategic Plan***

During 2010, we launched a new strategic plan focusing on the unique market opportunities that Mexico offers to continue growing and diversifying our financial services, which we continue to believe will be our primary focus going forward. Our 2010 strategic plan focuses on the following:

- *Customers*: They are the center of our business, and it is our principal objective to offer specialized attention to each type of customer.

- *Distribution*: We seek to create an integrated multi-channel distribution model and enhance our current distribution network with user friendly channels based on current and new technologies.

- *Simplicity and efficiency*: We seek to improve our operations by making them more efficient, transparent and accessible to customers.

Our 2010 strategic plan includes several initiatives, involving substantially all of our business divisions and administrative units, and is intended to improve our business model, services, commercial efficiency, risk management and profitability.

*Customers*

The principal focus of our strategic plan is a corporate-wide understanding that our customers are the core of our business. Initiatives that have been implemented to advance this objective include cross-selling among our business divisions and creating new value-added products and customized solutions.

Our business model is based on customer segmentation, which entails offering specialized products and services to customers within each segment. We have divided our customer base into nine segments according to their different profiles: four segments for enterprises (corporate, medium-sized business, government entities, small businesses and micro-businesses) and five segments for individuals (high net-worth or *Patrimonial*, upper affluent or *Privada*, affluent or *Personal*, upper mass or *Bancario*, and lower mass or *Express*). As part of our strategic plan, we have also merged our residential mortgage business into our retail banking unit and transferred our commercial housing mortgage business to our middle-market and government banking unit.

We seek to further increase our customer base by serving new customer segments and accessing new markets. We are committed to delivering banking products and services to unbanked and underserved segments of the Mexican population and to helping them increase their financial knowledge. As of June 30, 2012, we had over 20.2 million retail customers, including large corporations, small and medium-sized enterprises, small businesses, government customers and individuals from all customer segments, as compared to 18.5 million customers as of December 31, 2011.

We view customer service as a top priority and we consider our approach to customer service to be one of the features that distinguishes us from our competitors and enables us to maintain a market advantage in the highly competitive Mexican financial services industry. We use the Net Promoter Score ("NPS") methodology, a metric that is capable of predicting growth based on customer satisfaction and willingness to recommend our services. NPS is a strict measure that detects opportunities through an effective mechanism that allows us to identify the causes of satisfaction and dissatisfaction among our customers and prioritize critical areas requiring improvement. We have also created Bancomer Q, a program that primarily seeks to increase the quality of our service and thus improve customer satisfaction by classifying our retail branches into three categories, Blue, Silver or Gold, based on the quality of service provided as measured by the results of customer surveys.

***Distribution***

We seek to create an integrated multi-channel distribution model and enhance our existing distribution network with user-friendly channels based on current and new technologies.

As of June 30, 2012, we had the largest national branch network consisting of 1,814 branches, including 1,682 full-service branches, 24 supermarket branches and 88 specialized branches (56 located in companies and 32 in customs offices near the U.S.-Mexican border to facilitate payment of customs duties). Each of our branches reports to one of eleven divisions located throughout Mexico. We also have a branch located in Houston, Texas.

We have expanded our infrastructure by increasing the number of branches, ATMs and Points of Sale, or POS terminals. In 2011, we invested in the expansion of our ATM network by adding 950 new ATMs and installing 292 *Practicajas* and 18 *Recicladores* throughout Mexico. During the first six months of 2012, we added 120 additional ATMs and 4,637 additional POS terminals to our distribution network. ATMs are our most important transactional channel. In 2011, ATMs processed more than 500 million transactions, or approximately 27% of our total retail banking transactions, whereas our internet portal and "*Línea Bancomer*" processed over 181 million transactions. During the first six months of 2012, ATMs processed more than 262 million transactions, or approximately 26% of our total retail banking transactions, whereas our internet portal and "*Línea Bancomer*" processed more than 90 million transactions.

As of June 30, 2012, we have expanded our points of sale to more than 19,600 stores and establishments, which include retail stores, pharmacies, gas stations and supermarkets, such as OXXO, Farmacias Benavides, Chedraui and WalMart, among others.

We have developed new products and services to address the needs of our customers and expand our distribution network. For example, in 2009, we launched a new generation of ATMs called *Practicajas*, that allow our customers to carry out (i) deposits, (ii) transfers to third parties, (iii) credit card and service payments, and (iv) borrowings at lower transaction costs.

In 2011, we launched *Bancomer Móvil,* a mobile banking system that provides customers with access to free consultations, purchases and basic banking transactions via their mobile phones. In addition, we launched *Cuenta Express*, the first bank account in Mexico that uses a customer's mobile phone number as the account number, thereby providing customers with simple and low-cost access to basic banking services. We are also creating new products designed to make financial services more accessible, such as pre-approved credit lines for payroll customers to be disbursed through our ATMs.

We operate a call center and telephone banking service, which we refer to as "*Línea Bancomer*," that provides our customers access to a toll-free telephone service to conduct certain basic banking transactions, including obtaining account balances and transferring funds. Our call center also allows us to perform telemarketing activities to offer credit cards and bank assurance products (provided by Seguros Bancomer, S.A. de C.V., a subsidiary of GFBB) to our customers, as well as services such as the payment of bills and automatic debits to checking accounts.

Our customers continue to take advantage of our online banking services offered through our internet portal. As of June 30, 2012, we had 1.6 million internet portal clients who executed approximately 416 million transactions during the first six months of 2012, an increase as compared to the 360 million transactions executed during the same period of 2011. In 2011, our internet portal clients executed approximately 751 million transactions, an increase as compared to the 660 million transactions executed in 2010 and 534 million in 2009. In 2011, our internet portal was chosen, for the second consecutive year, as the Best Financial Portal in Mexico by the Mexican Internet Association (AMIPCI) and the Latin American Institute for Electronic Commerce (ILCE).

In 2011, the number of transactions executed through electronic channels reached 182 million on-line banking transactions, 511 million mobile phone banking and ATM transactions and 729 million credit and debit card transactions. During the first six months of 2012, the number of transactions executed through electronic channels reached 91 million on-line banking transactions, 263 million mobile phone banking and ATM transactions and 425 million credit and debit card transactions.

*Simplicity and Efficiency*

We seek to improve our operations through the use of new technologies, product development, customer service quality metrics and methodologies, which allow us to simplify our customers' banking experience. We believe that our new distribution model and customer segmentation will also allow us to increase productivity in each of our banking units.

We maintain one of the most competitive efficiency ratios as compared to our peers in the Mexican financial system, according to the CNBV, and we seek to improve efficiencies through specialized training of our personnel and increased use of automated data and related systems as well as external suppliers when it is more cost-effective to do so. As of June 30, 2012, our efficiency ratio was 45.7%, which represented a deterioration of 2.1 percentage points as compared to 43.6% as of December 31, 2011, and a deterioration of 3.2 percentage points as compared to 42.5% in 2010, mainly due to increases in investments related to infrastructure, innovation and technology.

We have made considerable efforts to reduce branch traffic through the installation of electronic payment systems at our branches and by offering mobile phone and internet banking to our customers. As of December 31, 2009, 20.5% of total banking transactions were made through branch tellers, compared to 19.6% as of December 31, 2010. As of December 31, 2011, this number was reduced to 17.7% and, as of June 30, 2012, this number was further reduced to 16.1%. In addition, our commercial network productivity, a measure of the number of products (specifically, demand deposit accounts, credit cards, consumer loans, small business loans, mortgage loans, insurance and direct debit) sold by each branch executive per month, increased by 22.2% in 2009, 16.8% in 2010 and 20.6% in 2011.

*Increase Our Core Earnings*

We seek to increase our core earnings by reducing our funding costs through selective market and bank offerings, maintaining a low-cost deposit base and concentrating our efforts on products and services with high profit margins, without diminishing the quality of our portfolio.

*Sound Risk Management*

Our risk management strategy has contributed to our profit growth and controlled risk. We consider risk management to be a central part of our strategy, acting as a key differentiator from our competitors and as a tool for future growth and profitability.

Over the last three years, we have fully consolidated our internal credit risk model and we have developed advanced risk modeling tools that accurately measure credit risk. For example, our internal model for provisioning for losses on our credit card portfolio has been certified simultaneously by *Banco de España*, Spain's central bank, and the CNBV. Our risk indicators, such as the "risk premium", which is equal to the provisions for loan losses divided by average loan portfolio, have also performed positively. The risk premium was 5.3% in 2009, 3.6% in 2010, 3.4% in 2011 and 3.3% as of June 30, 2012.

We seek to control credit risk, asset quality and costs in all stages of the credit cycle (origination, follow-up and recovery) through the implementation of advanced tools and methodologies. We have been able to generate segmented and specialized credit behavior scorings that enable us to offer specialized products and prices. We expect to continue to improve our risk platform and modeling tools, which are central components of our strategic plan for risk management that will be in place for the foreseeable future.

We have a clear objective to effectively manage operational risk with structures based on tracking and reliable management of processes. In addition, we have introduced extensive internal risk management and control systems that involve all personnel and areas of the institution. Such programs focus on measuring, tracking and preventing potential risks and preventing money laundering and financing of terrorist activities.

***Maintain and Strengthen Our Leadership Position***

As of June 30, 2012, a total of 42 banks operated in the highly competitive Mexican financial services industry, in which we hold a leadership position (as described above) in the following areas: total assets, total deposits, total loans and number of branches.

In order to increase our profitability and commercial activity, we seek to maintain and strengthen our leadership position. We expect to maintain our market share through (i) the development of strategies and programs designed to increase long-term productivity; (ii) the maintenance and improvement of our processes; and (iii) the development of new business models. In addition, as mentioned above, we will continue to expand our distribution network through sustained investments in capital expenditures.

***Focus on Corporate Reputation and Responsibility***

We seek to act in accordance with our corporate principles and policies, including our commitment to social responsibility. We have a firm commitment to add value not only to the welfare of our customers, shareholders and employees, but also to the welfare of society.

- The following items represent the main corporate principles of BBVA Group:
- ***Customer Value***: The customer as the focus of our business.
- ***Creation of Value***: The creation of value for our shareholders through our business.
- ***Team***: A team-oriented approach as the mechanism for value creation.
- ***Management Style***: A management style that generates enthusiasm.
- ***Ethical***: Ethical conduct and personal and professional integrity as a way of understanding and developing our business.
- ***Innovation***: Innovation as a key to progress.
- ***Social Responsibility***: Corporate social responsibility (including a commitment to environmental management and mitigation of climate change) as a commitment to development.

We are also fully committed to supporting the development of Mexico's educational system, especially through *Fundación Bancomer*. Our foundation primarily supports education in Mexico through various projects. We assign 1.0% of our annual net income to *Fundación Bancomer's* budget. The foundation's most significant project includes a scholarship program called *Por los que se quedan*, which grants scholarships to children from families that have been dispersed as a result of migration. As of June 30, 2012, this program has reached 20 states and 159 municipalities in Mexico. Since its inception, *Por los que se quedan* has granted a total of 25,600 scholarships, totaling Ps. 768,000,000.

We also provide individuals and businesses in Mexico with opportunities to increase their financial knowledge through our program *"Adelante con tu futuro,"* which provides participants with information relating to banking products and services. We provide this service (free of charge) through workshops aimed at helping individuals understand savings, individual retirement accounts, credit card management, credit maintenance, mortgages, life insurance and investment funds. In addition, we host cash flow workshops for small and medium sized business enterprises. These workshops have been held in our retail branches, through mobile classrooms and electronic channels such as our website. Since we launched this program in 2008, more than 1.2 million participants have participated in at least one of our courses.

## THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes, see "Description of the Notes."

| | |
|---|---|
| **Issuer** | BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, acting through its Texas Agency. |
| **Notes** | U.S. $500,000,000 aggregate principal amount of 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022. The Notes are a further issuance of our 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 and will be consolidated and form a single series with the U.S. $1,000,000,000 principal amount of these Notes that were originally issued on July 19, 2012. Upon consummation of this offering, the aggregate principal amount of our 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 will be U.S. $1,500,000,000. |
| **Unsecured; Not Guaranteed** | The Notes will not be secured nor guaranteed by the IPAB or any Mexican governmental agency, or by any other entity that is part of Grupo Financiero BBVA Bancomer, and, by their terms, the Notes are not convertible into shares of any of our capital stock. |
| **Issue Price** | 109.89% of the principal amount, plus accrued interest from and including July 19, 2012 to (but excluding) September 28, 2012, or the Issue Date. |
| **Issue Date** | September 28, 2012 |
| **Maturity Date** | September 30, 2022 |
| **Interest and Principal** | The Notes will bear interest from (and including) July 19, 2012, or the "Original Issue Date," up to (but excluding) the Maturity Date at a fixed rate per annum equal to 6.75%, payable semi-annually in arrears on September 30 and March 30 of each year (each an "Interest Payment Date"), commencing on March 30, 2013. The period beginning on (and including) the Original Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date up to (but excluding) the Maturity Date is called an "Interest Period."<br><br>If any Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay.<br><br>Principal will be paid on the Maturity Date unless the Notes have been redeemed prior thereto as provided in this offering memorandum.<br><br>We have the right to and will defer interest and principal payments on the Notes during a Suspension Period, as described below. The payment of interest and principal with respect to the Notes will resume upon the occurrence of any of the Suspension Period termination events, as described below. |

| | |
|---|---|
| **Fungibility** ................................................ | The portion of the Notes that is offered and sold in compliance with Rule 144A will be consolidated on the Issue Date to form a single series with, and be fully fungible with, our outstanding 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 previously sold in compliance with Rule 144A and issued on July 19, 2012 (CUSIP No. 05533U AC2 and ISIN No. US05533UAC27). On or after the 40th day after the later of the commencement of this offering and the Issue Date (the "Consolidation Date"), the portion of the Notes that is offered and sold outside the United States in accordance with Regulation S will be consolidated to form a single series with, and be fully fungible with, our outstanding Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 previously sold in compliance with Regulation S and issued on July 19, 2012 and originally represented by a Regulation S Global Note (CUSIP No. P16259 AH9 and ISIN No. USP16259AH99).<br><br>The Notes offered in compliance with Regulation S under the Securities Act will have temporary ISIN and CUSIP numbers during the period prior to the Consolidation Date. On or after the Consolidation Date, we expect that the Regulation S Notes will share the same ISIN and CUSIP numbers as the Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 previously sold in compliance with Regulation S. |
| **Redemption** .............................................. | We may not redeem the Notes, in whole or in part, other than as described below under "Withholding Tax Redemption" and "Special Event Redemption." |
| **Withholding Tax Redemption** ................ | We have the option under the Indenture for the Notes to redeem the Notes at any time prior to the Maturity Date, in whole but not in part, at par plus accrued and unpaid interest due on, or with respect to, such Notes and any Additional Amounts (as defined below) upon the occurrence of a Withholding Tax Event (which event happens upon the occurrence of certain changes in tax law and the satisfaction of certain conditions, and is described in "Description of the Notes—Redemption—Withholding Tax Redemption") affecting the Notes (a "Withholding Tax Redemption"); *provided, however,* in the event of such a Withholding Tax Redemption with respect to the Notes, we shall be in compliance with applicable Mexican regulations in effect on the applicable Redemption Date. In the event of such a Withholding Tax Redemption, we are required by *Banco de México* to obtain its authorization to redeem such Notes on or prior to the applicable Redemption Date. |

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| **Special Event Redemption** ....................... | We also have the option under the Indenture for the Notes to redeem the Notes at any time prior to the Maturity Date, in each case in whole but not in part, at the Special Event Price (as defined in "Description of the Notes") upon the occurrence of a Special Event (which event happens upon the occurrence of certain changes in capital treatment or tax deductibility of the Notes and the satisfaction of certain conditions, and is described in "Description of the Notes—Redemption—Special Event Redemption") affecting the Notes (in each case, a "Special Event Redemption"); *provided*, *however*, in the event of such a Special Event Redemption with respect to the Notes, we shall be in compliance with applicable Mexican regulations in effect on the applicable Redemption Date. In the event of such a Special Event Redemption of the Notes, we are required by *Banco de México* to obtain its authorization to redeem such Notes on or prior to the applicable Redemption Date. However, the exclusion of the Notes from our Tier 2 capital at a rate of 10% of their aggregate principal amount per year, which is expected to be required by the new capitalization rules, scheduled to take effect beginning in 2013, will not be deemed a Capital Event. |
| **Suspension Period**.................................... | (1) A Suspension Period will commence and we will defer payment of interest and principal on the Notes upon the occurrence of one of the following:<br><br>(i) our minimum Capital Ratio declines below the minimum percentage required from time to time by the Mexican Capitalization Requirements (a "Capital Ratio Event"); or<br><br>(ii) the CNBV institutes a preventive or corrective measure against us pursuant to Article 134 Bis or Article 134 Bis 1 of the Mexican Banking Law (including the corresponding rules set forth under the General Rules Applicable to Mexican Banks), which requires deferring payments of interest and principal otherwise due on the Notes (a "Mexican Regulatory Event").<br><br>(2) A Suspension Period shall not give rise to an Event of Default under the Indenture or the Notes. A Suspension Period shall terminate and the payment of interest and principal due on the Notes thereof, will resume (i) if the Suspension Period was triggered by a Capital Ratio Event, when our Capital Ratio is no longer below, the minimum percentage required, from time to time, by the Mexican Capitalization Requirements; (ii) if such Suspension Period was triggered by a Mexican Regulatory Event, when the related Mexican Regulatory Event has terminated; or (iii) if dividends or other distributions are paid by us on or in respect of our capital stock, other than the Dividend Exceptions (as defined below).<br><br>(3) During any Suspension Period, we shall not: (i) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock (which includes common and preferred stock); (ii) make any payment of premium, if any, or interest on or repay, repurchase or redeem any of our debt securities that rank *pari passu* with or junior in right of payment and in liquidation to the Notes; or (iii) to the extent any such guaranty is permitted under applicable law, make any guaranty payments with respect to any guaranty by us of the debt securities of any of our subsidiaries if such guaranty ranks *pari passu* with or junior in right of payment and in liquidation to the Notes; provided, |

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| | however, that (x) the foregoing shall not, to the extent permitted by the Mexican Capitalization Requirements or applicable law, prohibit payment of the Dividend Exceptions and (y) the foregoing shall not apply to the extent that we obtain prior regulatory consent for any action that would otherwise be prohibited and resume full payment of interest due (including payment of any previously accrued interest due) on the Notes and principal thereof for the period in which such action is taken. Subject to the foregoing, we shall pay interest due on the Notes and principal thereof so long as we are paying dividends or other distributions on or in respect of our capital stock.<br><br>(4) "Dividend Exceptions" shall mean (i) dividends or distributions in shares of or options, warrants or rights to subscribe for or purchase shares of, our common stock, (ii) any declaration of a stock dividend in connection with the implementation of a stockholders' rights plan, or the issuance of stock under any such plan in the future, (iii) any reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock, (iv) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (v) purchases of common stock related to the issuance of common stock or rights under any of our benefit plans for our directors, officers or employees and (vi) other equivalent transactions not involving payments or distributions in cash. |
| **Treatment of Interest and Principal During a Suspension Period**.................... | *Deferral of Interest Payments and Deferral of Principal Payments*. We have the right to and will defer payments of interest due on the Notes (but do not have the right to and will not cancel the accrual of interest thereon) and defer, but not cancel, the payment of principal thereof for the duration of any Suspension Period. In the event of a deferral of payment of interest on the Notes or deferral of payment of principal thereof, we will notify the holders of the Notes in accordance with the procedures described in the Indenture. Payments of interest due on the Notes will be cumulative, so that in the event that payments of interest cease during a Suspension Period, holders of the Notes will have the right to receive all interest accrued prior to or during a Suspension Period, but not paid as a result of such Suspension Period in effect on the relevant Interest Payment Date(s) on which such payments would have been payable. These interest payments will be payable (without interest on such previously accrued payments) on the next succeeding Interest Payment Date on which a Suspension Period is no longer in effect. Principal Payments may be deferred but not cancelled. When a Suspension Period is no longer in effect, we will notify the holders of the Notes in accordance with the procedures described in the Indenture. |
| **Ranking** .................................................... | The Notes constitute our subordinated preferred indebtedness (*obligaciones subordinadas preferentes*) and (i) will rank junior to all of our present and future senior indebtedness, (ii) will rank *pari passu* with all other present or future unsecured subordinated preferred indebtedness, and (iii) will be senior to our unsecured subordinated non-preferred indebtedness (*obligaciones subordinadas no preferentes*) and all classes of our capital stock. |

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| **Use of Proceeds** ........................................ | Our net proceeds from the issuance of the Notes are estimated to be approximately U.S. $548,450,000. We intend to use the net proceeds of the issuance of the Notes to strengthen our capital structure and for general corporate purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations –Risk-Based Capital." |
| **Events of Default; No Acceleration Except in Case of Certain Events Involving Bankruptcy, Liquidation or Dissolution** ................................................ | An Event of Default is defined in the Indenture as: (i) a default for 30 calendar days in the payment of interest due and payable on the Notes, under the Indenture, other than during a Suspension Period; (ii) a default in the timely payment of the principal due and payable on the Notes, under the Indenture, other than during a Suspension Period; or (iii) certain events involving our bankruptcy (including *concurso mercantil* or *quiebra*), liquidation or dissolution.<br><br>The payment of the principal of the Notes or interest accrued thereon may be accelerated only upon the occurrence of an event of default described in (iii) above (a "Bankruptcy Event of Default"). There is no right of acceleration of the payment of principal of the Notes or interest accrued thereon upon the occurrence of any of the other Events of Default noted above, including a default in the payment of principal or interest. See "Risk Factors—Risks Relating to the Notes—If we do not satisfy our obligations under the Notes, your remedies will be limited." |
| **Voting Rights** ........................................... | None. |
| **Payment of Additional Amounts** ............ | All payments made by or on our behalf in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, and interest, penalties and fines in respect thereof imposed or levied by or on behalf of Mexico or the United States or any other jurisdiction through which payments are made (each a "Relevant Jurisdiction") or any authority or agency therein or thereof having power to tax (collectively, "Relevant Tax") unless the withholding or deduction of such Relevant Tax is required by law. In that event, we will pay as further distributions of interest and principal such additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders or beneficial owners of the Notes or their nominees (collectively, holders) after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction.<br><br>We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify holders for any such taxes paid by the holders. See "Description of the Notes—Payment of Additional Amounts." |
| **Listing** ....................................................... | Application has been made to have the Notes listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. Our U.S. $1,000,000,000 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 issued in July 2012 are admitted to trading on the |

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| | Global Exchange Market of the Irish Stock Exchange; however, no assurance can be given that the Notes will be approved for listing on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. |
| **ERISA Considerations** ............................ | Sales of the Notes to specified types of employee benefit plans and affiliates are subject to certain conditions. See "Certain ERISA Considerations." |
| **Acquisition Restrictions** ........................... | Under applicable Mexican law, we are prohibited from acquiring, directly or indirectly, the Notes. In addition, certain Mexican financial entities may not acquire the Notes. See "Description of the Notes—Restrictions Applicable to Mexican Financial Institutions." |
| **Transfer Restrictions**................................ | We have not registered the Notes under the Securities Act and, unless so registered, may not be offered or sold except (1) to qualified institutional buyers, or QIBs (as defined in Rule 144A under the Securities Act), in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A or (2) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act. See "Transfer Restrictions."As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. The Notes will not be registered in the National Registry of Securities maintained by the CNBV and may not be offered, or sold publicly or otherwise be subject to brokerage activities in Mexico, except pursuant to the private placement exemptions set forth in Article 8 of the Mexican Securities Market Law. |
| **Governing Law** ......................................... | The Indenture, the Notes and related documents will be governed by the law of the State of New York. |
| **Form and Denomination** .......................... | We will issue the Notes in minimum denominations of U.S. $150,000 and integral multiples of U.S. $1,000 and will, once issued, be represented by one or more global notes. The global notes representing the Notes will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee for DTC. DTC will act as depositary. |
| **Securities Identification Numbers**........... | 144A ISIN: US05533UAC27<br><br>144A CUSIP: 05533U AC2<br><br>Reg S ISIN (Before the Consolidation Date):USP16259AJ55<br><br>Reg S ISIN (After the Consolidation Date): USP16259AH99<br><br>Reg S CUSIP (Before the Consolidation Date):P16259 AJ5<br><br>Reg S CUSIP (After the Consolidation Date): P16259 AH9 |
| **Indenture** .................................................. | The Notes will be issued under the Base Indenture, dated as of July 19, 2012 among us, the Trustee and the Irish Paying and Listing Agent, as supplemented by a first supplemental indenture dated as of September 28, 2012 among us, the Trustee and the Irish Paying and Listing Agent. |

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| **Ratings** ...................................................... | The Notes have been rated “A3” by Moody’s Investor Service, Inc. (“Moody’s), and “BBB,” respectively by Fitch, Inc. (“Fitch”). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice. |

## RISK FACTORS

*Prospective purchasers of the Notes should carefully read this entire offering memorandum. Purchasers should consider, among other things, risk factors with respect to Mexican banks and other corporations not normally associated with investments in other countries and other issuers, including those set forth below.*

### Risks Relating to our Business

***We have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions.***

In recent years, the global economy underwent a period of slowdown and unprecedented volatility and was adversely affected by a significant lack of liquidity, loss of confidence in the financial sector, disruptions in the credit markets, reduced business activity, rising unemployment, decline in interest rates and erosion of consumer confidence. Some uncertainty remains concerning the future global economic environment. The global economic slowdown and the U.S. economic slowdown in particular had a negative impact on the Mexican economy and have adversely affected our business. The current situation of the global financial markets, especially as a result of the slow recovery of the United States economy, the ability of certain member states of the European Union to pay or refinance their debt, may have a negative impact on the global and local economy, and consequently our business, financial condition and results of operations. We cannot predict if the actions taken in the United States, Europe and elsewhere in the world to address this situation will be successful in reducing the severity or duration of the economic instability. There is no assurance when such conditions will ameliorate. In addition, recent downgrades of certain banking institutions in these regions, including BBVA, have caused volatility in the capital markets. Further adverse changes affecting the European economy, and the Spanish economy more specifically, could adversely affect the BBVA Group. Such events could affect the perception of our brand among clients, which could, in turn, have an impact on our results of operations.

In particular, we may face, among others, the following risks related to the economic downturn:

- We potentially face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

- The process we use to estimate losses inherent in our credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates, which may, in turn, impact the reliability of the process.

- The value of the portfolio of investment securities that we hold may be adversely affected.

- A worsening of the foregoing conditions may delay the recovery of the financial industry and impact our financial condition.

If all or some of the foregoing risks were to materialize, this could have an adverse effect on us.

***Intensified competition may adversely affect us, including our operational margin.***

We face significant competition from other Mexican banks in providing financial services to the Mexican retail and corporate banking sectors and from international financial institutions. Our main competitors are Banco Nacional de Mexico, S.A., or Banamex, a subsidiary of Citigroup, Inc., Banco Santander México S.A., a subsidiary of Banco Santander Central Hispano, S.A., HSBC Mexico, S.A., a subsidiary of HSBC, Banco Mercantil del Norte, S.A., or Banorte, and Scotiabank Inverlat, S.A., or Scotiabank, a subsidiary of The Bank of Nova Scotia.

Pursuant to the requirements of the North American Free Trade Agreement, or NAFTA, and the Free Trade Agreement between Mexico and the European Union (*Tratado de Libre Comercio entre los Estados Unidos Mexicanos y la Comunidad Europea y sus Estados Miembros*), and the Free Trade Agreement between Mexico and

Japan (*Acuerdo para el fortalecimiento de la Asociación Económica entre los Estados Unidos Mexicanos y el Japón*), non-Mexican financial institutions incorporated in the United States, Canada, member states of the European Union, Japan and other countries that have entered into a free trade agreement with Mexico are now permitted to establish subsidiary financial groups, banks, broker-dealers and other financial entities in Mexico. According to the CNBV, as of June 30, 2012, Mexico's ten largest domestic banks, measured in terms of assets, held 85% of the total assets in the Mexican banking system.

Seven of these ten banks are foreign-owned.

We expect consolidation to continue in the Mexican financial services industry and a stronger competition which may come through mergers and acquisitions or the entry of new players. The SHCP has granted a number of banking licenses for the establishment and operation of several new banking institutions and is likely to continue granting banking licenses to new participants.

In addition, legal and regulatory reforms in the Mexican banking industry have also increased competition among banks and among other financial institutions. We believe that the Mexican Government's policies of adopting market-oriented reforms in the financial industry have brought greater competition. As financial sector reform continues, foreign financial institutions, some with greater resources than us, have entered and may continue to enter the Mexican market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There can be no assurance that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a substantial adverse effect on our competitive edge.

***Mexican Government regulations may adversely affect us, including the value of our assets which may be impaired due to regulatory initiatives and procedures.***

We are subject to extensive regulation regarding our organization, operations, capitalization, transactions with related parties and other matters. These laws and regulations impose numerous requirements on us, including the maintenance of minimum risk-based capital levels and loan loss reserves, regulation of our business practices, diversification of our investments, maintenance of liquidity ratios, regulation of loan granting policies and interest rates charged, and application of required accounting regulations. Many of the applicable laws and regulations have changed extensively in recent years, with a negative impact on our financial position and results of operations. There may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us.

As a result of the economic crisis in Mexico in late 1994 and 1995, all Mexican banks, including us, experienced rapidly escalating levels of non-performing assets. Mexican regulatory authorities and the banking system responded to this crisis in several ways, including:

- Imposing stringent loan loss reserve requirements and capitalization standards;
- Adopting programs designed to provide relief to Mexican borrowers in connection with the restructuring of outstanding loans; and
- Revising Mexican Banking GAAP to impose stringent requirements with respect to the non-performing and non-accrual status of certain loans.

In 2009, in reaction to the global economic crisis of 2008, Mexican regulatory entities further increased loan loss reserves requirements. See also notes 3 and 4 to our Audited Financial Statements included elsewhere in this offering memorandum.

As a result of these initiatives Mexican banks, including us, are required to report continuing and persistent asset quality problems and record relatively large loan loss provisions. We believe that recoveries of non-performing loans as a percentage of our total non-performing loan portfolio are likely to decline over time because of the aging of our non-performing loan portfolio. In addition, because foreclosure procedures on collateral in

Mexico can take a long time, delays or other factors may impair the value of the collateral during the foreclosure process.

Given the current environment of frequent changes to laws and regulations affecting the financial services sector, there may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us and our subsidiaries. See "Supervision and Regulation" for a discussion of the governmental authorities that regulate us.

In particular, on July 26, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision (the "Basel Committee"), reached a broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world, known as Basel III, which includes, among other things, a new definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010.

In June 2011, the CNBV distributed for review the ABM project, which outlines the projected implementation of Basel III standards in Mexico. While the short- and long-term impact of any implementation of Basel III in Mexico remains uncertain, Basel III is expected to impose higher minimum capital requirements on banking institutions, as well as a capital conservation buffer that can be used by banks to absorb losses during periods of financial and economic stress. We cannot foresee how any such regulation might impact our business, financial condition or results of operations. However, it is possible that higher capital requirements in the future as a result of such regulation could cause our Capital Ratios to be insufficient for regulatory purposes and could lead us to engage in capital conservation measures or may require us to raise more equity, which may lead to dilution of earnings and lower return on equity.

***Loan loss reserves requirements in Mexico differ from those in the United States and other countries.***

Except for loans to the Mexican Government and *Banco de México*, IPAB and certain international organizations, we are required to classify each loan or type of loan according to an assessment of risk based on criteria set forth by Mexican banking regulations and to establish corresponding reserves. The criteria to establish reserves include both qualitative and quantitative factors. Mexican banking regulations relating to loan classification and determination of loan loss reserves are generally different and may be less stringent than those applicable to banks in the United States and certain other countries. In 2009, the CNBV approved new rules for provisions for loan losses of the credit card loan portfolio according to expected loss methodology. These rules allow banks to use additional objective and subjective factors in determining loan loss reserves. If the rules applicable in the United States were applicable in Mexico today, the level of our loan loss reserves may be required to be higher than the reserves currently recorded.

We may be required or deem it necessary to increase our loan loss reserves in the future. Increasing loan loss reserves could adversely affect our results of operations and financial position and our ability to pay amounts due on the Notes.

***We engage in transactions with subsidiaries or affiliates of BBVA that may not be on an arm's length basis.***

No assurance can be given that transactions between us and any of BBVA's subsidiaries or affiliates (including subsidiaries or affiliates of our parent company, GFBB) have been or will be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. We have entered into services agreements with our affiliates and are likely to continue to engage in transactions with BBVA and its subsidiaries or affiliates, and no assurance can be given that we will do so on an arm's length basis. In addition, future conflicts of interest between us and BBVA or any of its subsidiaries or affiliates may arise; these conflicts are not required to be and may not be resolved in our favor. See "Related Party Transactions—Affiliate Transactions."

There can be no assurance that future transactions involving BBVA or any of its affiliates or subsidiaries will not have an adverse effect on our financial condition.

***Liquidity risks may materially and adversely affect us.***

Many Mexican banks have suffered severe liquidity problems from time to time since December 1994, particularly in connection with refinancing short-term U.S. dollar liabilities in the international capital markets.

We anticipate that our customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as a source of funds. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed.

We cannot assure you that liquidity problems will not affect the Mexican banking system in the future or that liquidity constraints will not affect us in the future. While we expect to be able to pay or refinance our projected liabilities, we cannot assure you that we will be able to repay our liabilities or refinance our liabilities on favorable terms.

***Currency and interest rate risks may materially and adversely affect us.***

We are exposed to currency risk any time that we hold an open position in a currency other than pesos and to interest rate risk to the extent we have an interest rate repricing gap or carry interest-earning securities having fixed real or nominal interest rates. Such currency and interest rate risks include, among others, the risk that our trading income may not be as strong as in prior periods and thus causes a decrease in our net income. Because of the volatility in peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Our foreign currency liabilities are subject to regulation by *Banco de México* when determining limits to our regulatory capital. Although we follow various risk management procedures in connection with our trading and treasury activities, we cannot assure that we will not experience losses with respect to these positions in the future, any of which could have an adverse effect on us.

***Failure to successfully implement and continue to improve our credit risk management system could have a material adverse effect on us.***

As a commercial bank, one of the main types of risks inherent in our business is credit risk. We may not be able to improve our credit risk management system so that it can function effectively. For example, an important feature of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves a detailed analysis of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating system. In addition, we have been trying to refine our credit polices and guidelines to address potential risks associated with particular industries or types of customers, such as affiliated entities and group customers. However, we may not be able to timely detect these risks before they occur, or due to limited resources or tools available to us, our employees may not be able to effectively implement them, which may increase our credit risk. As a result, failure to effectively implement, consistently follow or continuously refine our credit risk management system may result in a higher risk exposure for us, which could materially and adversely affect us.

***If we are unable to effectively control the level of non-performing or poor credit quality loans in our current loan portfolio and in new loans we extend in the future, or if our loan loss reserves are insufficient to cover actual loan losses, this may have a material adverse effect on us.***

Non-performing or low credit quality loans can negatively impact our results of operations. We cannot assure you that we will be able to effectively control and reduce the number of impaired non-performing loans in our loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our loan portfolio or factors beyond our control, such as the impact of macroeconomic trends and political events affecting Mexico or events affecting certain industries. In addition, while we believe our current loan loss reserve is adequate to cover all loan losses in our loan portfolio, our current loan loss reserves may prove to be inadequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our loan portfolio. As a result, if our credit quality deteriorates we may be required to increase our loan loss reserves, which may adversely affect us. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves are or will be sufficient to cover actual losses. If we are unable to control or reduce the level of our non-performing or poor credit quality loans, we could be materially and adversely affected.

***Our loan and investment portfolios are subject to risk of prepayment, which could have a material and adverse effect on us.***

Our loan and investment portfolios are subject to the risk of prepayment as result of the ability of a borrower or issuer to pay a debt obligation prior to maturity. Typically, in a declining interest rate environment, prepayment activity increases, which reduces the weighted average lives of our earning assets and could have a material and adverse effect on us. We would also be required to amortize net premiums into income over a shorter period of time, which would lower the corresponding asset yield and net interest income.

***We are exposed to risks faced by other financial institutions, and in particular, financial institutions in the Eurozone.***

We routinely transact with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other financial institutions. Many of the routine transactions we enter expose us to significant credit risk in the event of default by one of our significant counterparties. For example, the financial health of a number of European governments was shaken by the European sovereign debt crisis in 2011, contributing to volatility of the capital and credit markets, and the risk of contagion throughout and beyond the Eurozone remains, as a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by nations which are under considerable financial pressure. These liquidity concerns have had, and may continue to have, an adverse effect on interbank financial transactions in general. Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilized. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material and adverse effect on us.

***We may be required to make significant contributions to IPAB.***

IPAB manages the bank savings protection system and the financial support granted to banks in Mexico. Under Mexican law, banks are required to make monthly contributions to IPAB to support its operations that are equal to 1/12 of 0.004% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. Mexican authorities impose regular assessments on banking institutions covered by IPAB for funding. We contributed to IPAB Ps. 216 million in 2009, Ps. 228 million in 2010 and Ps. 242 million in 2011. In the event that IPAB's reserves are insufficient to manage the Mexican bank savings protection system and provide the necessary financial support required by troubled banking institutions, IPAB maintains the right to require extraordinary contributions of participants in the system that we may be required to make. Such extraordinary contributions would increase our expenses and could have a material adverse effect on us.

***We may need additional capital in the future, and may not be able to obtain such capital on acceptable terms, or at all.***

In order for us to grow, remain competitive, enter into new businesses, or meet regulatory capital adequacy requirements, we may require new capital in the future. Moreover, we may need to raise additional capital in the event of large losses in connection with any of our activities that result in a reduction of our stockholders' equity. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial position, results of operations and cash flows;
- any necessary government regulatory approvals;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and

- economic, political and other conditions in Mexico and elsewhere.

We may not be able to obtain additional capital in a timely manner or on acceptable terms or at all.

***Reductions in our credit ratings or those of any of our subsidiaries could increase our cost of borrowing funds and make our ability to raise new funds, attract deposits or renew maturing debt more difficult.***

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our loan portfolio, the level and volatility of our earnings, our capital adequacy, the quality of management, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits, and our ability to access a broad array of wholesale funding sources. Our lenders and counterparties in derivatives transactions are sensitive to the risk of a ratings downgrade. A downgrade in our credit ratings or those of our subsidiaries could increase the cost of refinancing our existing obligations, raising funds in the capital markets or of borrowing funds from private lenders.

***We are subject to market, operational and other related risks associated with our derivative transactions that could have a material adverse effect on us.***

We enter into derivative transactions for trading and hedging purposes. We are subject to market and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder, including providing sufficient collateral).

In addition, in connection with Mexican domestic derivative transactions, Mexican courts have had limited experience in dealing with issues related to derivative transactions, as most disputes have typically been resolved through negotiations among Mexican financial institutions. As a result, the outcome of disputes regarding derivatives reaching the Mexican judicial system are not fully predictable.

Our ability to adequately monitor, analyze and report derivative transactions continues to depend, to a great extent, on our information technology systems, which further increases the risks associated with these transactions and could have a material adverse effect on us.

***The retail banking market is exposed to macroeconomic shocks that may negatively impact household income, and a downturn in the economy could result in increased loan losses.***

One of our main strategies is to focus on the retail banking sector and to grow our retail loan portfolio rapidly. As a result, our loan portfolio may become increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses. Furthermore, because the penetration of bank lending products in the Mexican retail sector historically has been low, there is little basis on which to evaluate how the retail sector will perform in the event of an economic crisis, such as a recession or a significant currency devaluation. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio in the future. During 2009, we saw our consumer total loan portfolio decrease significantly by 14.1% and our mortgage portfolio decrease from 8.5% in 2008 to 7.5% in 2009 because of the increase in unemployment and what we perceive to be a negative macroeconomic environment. During 2010, Mexico's GDP grew by 5.6% and our performing loan portfolio increased by 12%, evidencing the strong correlation between the macroeconomic environment and our banking activities. In 2011, this relationship between the macroeconomic environment and Bancomer's loan portfolio continued as Mexico's GDP grew 3.9% and our loan portfolio grew 7.9%.

***Our increasing focus on individuals and small and medium-sized businesses could lead to higher levels of non-performing loans and subsequent charge-offs.***

As part of our business strategy, we are seeking to increase lending and other services to individuals and to small and medium-sized companies. Individuals and small and medium-sized companies are, however, more likely than large corporations and high-income individuals who have greater resources to be adversely affected by downturns in the Mexican economy. Consequently, in the future we may experience higher levels of non-performing loans, which could result in higher provisions for loan losses. There can be no assurance that the levels of non-performing loans and subsequent charge-offs will not be materially higher in the future.

***Our businesses rely heavily on data collection, processing and storage systems, the failure of which could effect of our risk management and internal control systems the result of which will have a material adverse effect on us.***

All of our main businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets and products at our various branches, at a time when transaction processes have become increasingly complex, with increasing volume. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision-making process and our risk management and internal control systems, as well as our timely response to changing market conditions. If we cannot maintain an effective data collection and management system, our business operations, financial position and results of operations could be materially and adversely affected.

Furthermore, we are dependent on information systems in order to process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our customers with delays or errors, which could reduce demand for our services and products and could materially and adversely affect our financial position and results of operations. Our operational risk division is in charge of measuring, managing and mitigating the risks related to negligence, fraud or human error.

***Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on us.***

Our ability to remain competitive will depend in part on our ability to upgrade our information technology on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could materially and adversely affect our competitiveness, financial position and results of operations.

***The Financial Statements included in this offering memorandum have been prepared and are presented in accordance with Mexican Banking GAAP, which is significantly different from U.S. GAAP.***

The Financial Statements included in this offering memorandum have been prepared and are presented in accordance with Mexican Banking GAAP. Significant differences exist between Mexican Banking GAAP and U.S. GAAP, which are material to the Financial Statements and other financial information included in this offering memorandum. We have made no attempt to identify or quantify the impact of those differences in this offering memorandum. In making an investment decision, you must rely upon your own examination of us, the terms of this offering and the financial information included in this offering memorandum. You should consult your own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information included in this offering memorandum. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

***We may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to additional liability and have a material adverse effect on us.***

We are required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in Mexico. These laws and regulations require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. See "Supervision and Regulation—Money Laundering Regulations." While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances in which we may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent we may fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us. In addition, our business and reputation could suffer if customers use us for money laundering or illegal or improper purposes.

**Risks Relating to Mexico and Other Markets**

***Economic and political developments in Mexico could affect Mexican economic policy and our business, financial condition and results of operations.***

We are a Mexican bank and most of our operations and assets are located in Mexico. As a result, our business, financial condition and results of operations may be affected by the general condition of the Mexican economy, the devaluation of the peso as compared to the U.S. dollar, price instability, inflation, changes in oil prices, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico over which we have no control.

The Mexican Government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican Government actions concerning the economy and regulation of certain industries, including the banking sector, could have a significant effect on Mexican private sector entities in general, and us in particular, and on market conditions, prices and returns on Mexican securities, including our securities.

Political events in Mexico may significantly affect Mexican economic policy and, consequently, our operations. On December 1, 2006, Felipe de Jesús Calderón Hinojosa, a member of the *Partido Acción Nacional* ("PAN"), formally assumed office for a six-year term as the President of Mexico. Currently, no political party holds a simple majority in either house of the Mexican Congress.

Presidential and federal congressional elections in Mexico were held in July 2012. The candidate from the Partido Revolucionario Institucional ("PRI") Enrique Peña Nieto won the presidential election and will take office in December 2012. The Mexican presidential election will result in a change in administration, as presidential reelection is not permitted in Mexico. As a result, we cannot predict whether changes in Mexican governmental and economic policy will result from the change in administration. Any such changes could adversely affect economic conditions in Mexico or the sector in which we operate and therefore could have an adverse effect on us.

***Adverse economic conditions in Mexico may have a material adverse effect on us.***

Most of our operations are dependent upon the performance of the Mexican economy, mainly on matters such as peso-dollar parity, price volatility and inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deterioration in economic conditions that have had a negative impact on us. We cannot assume that such conditions will not return or that such conditions will not have a material and adverse effect on us.

In 2006, Mexico's GDP grew 5.1% and consumption prices decelerated to 3.6%. In 2007, GDP grew 3.2% and inflation was 4.0%. In 2008, GDP grew 1.2% and inflation was 5.1%. Mexico entered into a recession in the fourth quarter of 2008. During 2009 GDP fell by 6.0% and inflation reached 5.3%. In 2010, GDP grew 5.5% and inflation was 4.2%. In 2011, GDP grew by 3.9% and inflation was 3.4%. During the first six months of 2012, GDP grew 4.3%.

Mexico also has, and is expected to continue to have, high real and nominal interest rates. The annualized interest rates on 28-day *Certificados de la Tesorería de la Federación* ("*Cetes*"), averaged approximately 9.2%, 7.2%, 7.7%, 5.3%, 4.4% and 4.3% for 2006, 2007, 2008, 2009, 2010, and 2011 respectively. Relative to the U.S. dollar, considering year average, the peso depreciated by 0.1% in 2006, depreciated by 0.2% in 2007, depreciated by 1.9% in 2008, depreciated by 21.3% in 2009, appreciated by 6.5% and by 1.5% in 2010 and in 2011, each in nominal terms. During the first six months of 2012, considering monthly average, the Peso appreciated 7.2% relative to the U.S. dollar. Accordingly, to the extent that we incur peso-denominated debt in the future, it could be at high interest rates.

Decreases in the growth rate of the Mexican economy, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our services and products, lower real pricing for our services and products or a shift to lower margin services and products. Because a large percentage of our costs and expenses are fixed, we may not be able to reduce costs and expenses upon the occurrence of any of these events, and our profit margins may suffer as a result.

***Depreciation or fluctuation of the peso relative to the U.S. dollar and other currencies can adversely affect us.***

Severe devaluation or depreciation of the Mexican peso may limit our ability to transfer pesos or to convert pesos into U.S. dollars and other currencies and may have an adverse effect on our financial condition, results of operations and cash flows in future periods by, for example, increasing, in peso terms, the amount of our foreign currency-denominated liabilities and the rate of default among our borrowers.

In 2009 and 2010, as a result of the negative economic conditions in the United States and other parts of the world, local and international markets experienced high volatility, which has contributed to the devaluation of the peso. In 2010, the peso appreciated by 6.9% as compared to the U.S. dollar. In 2011, the peso depreciated by 13.8% as compared to the U.S. dollar. During the first six months of 2012, considering monthly average, the Peso appreciated 7.2% relative to the U.S. dollar. The Mexican Government has implemented a series of measures to limit the volatility of the peso. However, we cannot assure you that such measures will be effective or maintained or how such measures will impact the Mexican economy.

Severe devaluation or depreciation of the peso may also result in government intervention, as has occurred in other countries, or disruption of international foreign exchange markets. While the Mexican Government does not currently restrict the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer other currencies outside of Mexico, the Mexican Government could enact restrictive exchange control policies in the future. There are no current restrictions to convert pesos into U.S. dollars. The exchange rate is determined only by supply and demand as a result of a floating regime. Devaluation or depreciation of the peso against the U.S. dollar may also materially and adversely affect us.

***Developments in other countries may adversely affect us and the prices of our debt securities.***

Economic and market conditions in other countries may, to varying degrees, affect the market value of securities of Mexican companies. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican companies. For example during 2007 and 2008, prices of both Mexican debt and equity securities decreased substantially as a result of the global financial crisis. The Dow Jones Industrial Average index fell by 36% from its average level in July 2007 to its January 2009 average level, while Mexico's stock exchange index (IPC) fell by 35% in the same period.

In addition, in recent years economic conditions in Mexico have become increasingly correlated to economic conditions in the United States as a result of the NAFTA and increased economic activity between the two countries, which was highlighted during the recent economic crisis affecting the United States. The Mexican economy continues to be heavily influenced by the U.S. economy and, therefore, the termination of NAFTA, further deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in Mexico. We cannot assure you that the events in other emerging market countries, in the United States or elsewhere will not adversely affect our business, financial position and results of operations.

***Our corporate disclosures may be different or less substantial than those of issuers in other countries.***

Issuers of securities in Mexico are required to make public disclosures that are different and that may be less substantial than disclosures required in countries with highly developed capital markets. In addition, accounting and other reporting principles and standards for credit and other financial institutions in Mexico and the financial results reported using such principles and standards may differ substantially from those results that would have been obtained using other principles and standards, such as U.S. GAAP. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

**Risks Relating to the Notes**

***The Notes will be unsecured and subordinated and rank junior in right of payment and in liquidation to all of our present or future senior indebtedness.***

The Notes constitute our cumulative, subordinated preferred indebtedness (*obligaciones subordinadas preferentes*), will be subordinated and junior in right of payment and in liquidation to all of our senior indebtedness, and will rank *pari passu* without preference among themselves with all our other subordinated preferred indebtedness. No payment of principal (including redemption payments), premium, if any, or interest on the Notes may be made at any time when (1) any senior indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (2) the maturity of any senior indebtedness has been accelerated because of a default.

By reason of the subordination of the Notes, in the case of certain events involving bankruptcy, liquidation or dissolution, although the Notes would become immediately due and payable at their principal amount together with accrued interest thereon, our assets would be available to pay such amounts only after all of our senior indebtedness have been paid in full. As of June 30, 2012, we had, on a consolidated basis, an aggregate of approximately Ps. 55,683 million of senior long-term indebtedness outstanding. The Indenture does not limit our ability to incur additional senior indebtedness and subordinated preferred indebtedness from time to time. See "Description of the Notes—Subordination."

***Interest and principal payments to be made by us under the Notes will be deferred if our Capital Ratio has declined below the Capital Ratio required under the Mexican Capitalization Requirements, or if a Mexican Regulatory Event has occurred and is continuing.***

Under the Rules for Capitalization, capital securities issued by us will be taken into account when assessing our risk-weighted capital adequacy. In order for the subordinated debentures represented by the Notes to qualify as our capital, the "Description of the Notes" section provides that interest and principal payments will be deferred, on the correspondent payment dates, if our Capital Ratio declines below the minimum percentage required from time to time by the Mexican Capitalization Requirements (as of the date of this offering memorandum, the minimum percentage required in order for the CNBV not to require the deferral of interest of subordinated debt such as the Notes is 8%) or if any Mexican Regulatory Event has occurred and is continuing. See "Description of the Notes—Treatment of Interest and Principal During a Suspension Period."

Payments of interest due on the Notes will be cumulative, so that in the event that payments of interest cease during a Suspension Period, holders of the Notes will have the right to receive any amount of unpaid interest at the end of such Suspension Period. See "Description of the Notes—Treatment of Interest and Principal During a Suspension Period." Any suspension of payments due to our failure to maintain a Capital Ratio equal to or greater than the minimum percentage required under the Mexican Capitalization Requirements would have a material adverse effect on our ability to make scheduled payments under the Notes.

For United States federal income tax purposes, we believe that, as of the issue date of the Notes, there is a remote likelihood that a Suspension Period will occur. If, however, a Suspension Period occurs, payments of stated interest is deferred, the Notes could at that time be treated as having been issued with original issue discount for United States federal income tax purposes. This means that you could be required to include accrued interest in your income for United States federal income tax purposes before you receive any cash distributions. See "Taxation—Certain United States Federal Income Tax Consequences."

***If we do not satisfy our obligations under the Notes, your remedies will be limited.***

Payment of principal on the Notes may be accelerated only in specified instances involving our bankruptcy (including *concurso mercantil*), liquidation or dissolution. There is no right of acceleration in the case of a default in the performance of any of our covenants, including a default in the payment of principal or interest. See

"Description of the Notes—Treatment of Interest and Principal During a Suspension Period" and "Description of the Notes—Events of Default, Notice and Waiver."

Even if the payment of principal on the Notes is accelerated due to our bankruptcy (including *concurso mercantil*), liquidation or dissolution, our assets will be available to pay those amounts only after:

- all of our senior obligations have been paid in full as described in "Description of the Notes—Subordination"; and

- we are actually declared bankrupt or are dissolved or put into liquidation for purposes of Mexican law.

As a result, recoveries on the Notes may be substantially limited.

***The Notes are subject to redemption in the event of specified changes affecting the treatment of Notes under the Rules for Capitalization or changes affecting the taxation of the Notes.***

Upon the occurrence and continuation of certain specified changes affecting taxation of the Notes or treatment of the Notes as capital securities under the Rules for Capitalization, as described under "Description of the Notes—Redemption—Withholding Tax Redemption" and "Description of the Notes—Redemption—Special Event Redemption," we will have the option under the Indenture for the Notes to redeem the Notes, at any time prior to the Maturity Date, in whole (but not in part) subject to any regulatory requirements.

***The rating of the Notes may be lowered or withdrawn depending on various factors, including the rating agencies' assessments of our financial strength and Mexican sovereign risk.***

The rating of the Notes addresses the likelihood of payment of principal at their maturity. The rating also addresses the timely payment of interest on each payment date. The rating of the Notes is not a recommendation to purchase, hold or sell the Notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure you that the rating of the Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. A downgrade in or withdrawal of the rating of the Notes will be an event of default under the Indenture. An assigned rating may be raised or lowered depending, among other things, on the respective rating agency's assessment of our financial strength, as well as its assessment of Mexican sovereign risk generally. For instance, following the review for downgrade initiated on several European and U.S. banks, on February 24, 2012 as part of a review of 15 Mexican and Brazilian banking groups, Moody's placed our standalone, deposit and debt ratings on review for downgrade.

***The non-payment of funds by any of our subsidiaries could have a material and adverse effect on our business, financial condition, results of operations and ability to pay amounts due in respect of our debt, including the Notes.***

Our cash flow and our ability to service debt depend in part on the cash flow and earnings of our subsidiaries and the payment of funds by those subsidiaries to us in the form of loans, interest, dividends or otherwise. The subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due under the terms of the Notes or to make any funds available for such purpose. Furthermore, claims of creditors of such subsidiaries, including trade creditors of such subsidiaries, will have priority over our creditors, including the holders of the Notes, with respect to the assets and cash flow of such subsidiaries. Any right we may have to receive assets of any of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of Notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors.

***The market for the Notes may not be liquid and market conditions could affect the price at which the Notes trade.***

The U.S. $1,000,000,000 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 that we issued on July 19, 2012 trade on the Global Exchange Market of the Irish Stock Exchange. We have applied to have the Notes listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange, although no assurance can be given that such listing will be accomplished. In addition, in the event there are changes in the listing requirements, we may conclude that continued listing on the Official List of the Irish Stock Exchange is unduly burdensome. See "General Information." No assurance can be given as to (1) the liquidity of any markets that may develop for the Notes, (2) whether an active public market for the Notes will develop, (3) your ability to sell your Notes (or beneficial interests therein) or (4) the price at which you will be able to sell your Notes. In addition, the Notes have not been registered under the Securities Act and will be subject to transfer restrictions. See "Transfer Restrictions."

We have not and will not register the Notes with the Mexican National Securities Registry maintained by the CNBV and therefore we may not publicly offer the Notes or sell the Notes, nor can they be the subject of brokerage activities in Mexico, except that we may offer the Notes in Mexico to institutional and qualified investors pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law. Future trading prices of the Notes will depend on many factors including, among other things, prevailing interest rates, our operating results, and the market for similar securities. The initial purchasers have informed us that they may make a market in the Notes. However, the initial purchasers are not obligated to do so and any such market-making activity may be terminated at any time without notice to you. In addition, such market-making activity will be subject to the limits of the Securities Act. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. See "Plan of Distribution." In addition, trading or resale of the Notes (or beneficial interests therein) may be negatively affected by other factors described in this offering memorandum arising from this transaction or the market for securities of Mexican issuers generally.

***Holders of Notes may find it difficult to enforce civil liabilities against us or our directors, officers and controlling persons.***

We are organized under the laws of Mexico. Most of our directors, officers and controlling persons reside outside of the United States. In addition, all or a substantial portion of our assets and their assets are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of our Mexican internal counsel, there is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

***Mexican law does not require us to pay our foreign-currency judgments in a currency other than pesos.***

Although our obligations to pay U.S. dollars outside Mexico are valid, under Article 8 of the Mexican Monetary Law (*Ley Monetaria de los Estados Unidos Mexicanos*), if proceedings are brought in Mexico seeking to enforce in Mexico our obligations under the Notes, we would not be required to discharge such obligations in Mexico in a currency other than Mexican currency. Pursuant to such Article 8, an obligation that is payable in Mexico in a currency other than Mexican currency may be satisfied in Mexican currency at the rate of exchange in effect on the date and in the place payment occurs. Such rate currently is determined by *Banco de México* every business banking day in Mexico and published the following business banking day in the Official Gazette of the Federation. It is unclear, however, whether the applicable rate of exchange applied by the Mexican court to determine the Mexican Judgment Currency is the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions that purport to limit our liability to discharge our obligations as described above, or to give any party an additional course of action seeking indemnity or compensation for possible deficiencies arising or resulting from variations in rates of exchange, may not be enforceable in Mexico.

Under the Mexican Bankruptcy Law (*Ley de Concursos Mercantiles*), in the case of our bankruptcy, and under the Mexican Banking Law, in case of a revocation of our license to operate as bank, foreign currency-denominated liabilities would be converted into pesos at the prevailing rate of exchange on the date the insolvency judgment is rendered or on the date that our license to operate as a bank is revoked, as the case may be, and the resulting amount would, in turn, be converted into UDIs.

***If we were declared bankrupt, holders of the Notes may find it difficult to collect payment on the Notes.***

Under Mexican Bankruptcy Law, if we were to become subject to a reorganization proceeding (*concurso mercantil*) or were declared bankrupt (*quiebra*) in a Mexican court, our payment obligations denominated in foreign currency, including the Notes (i) would be converted to Pesos at the exchange rate prevailing at the time such declaration is deemed effective and subsequently converted into UDIs, other than secured debt, (ii) would cease accruing interest to the extent such debt is not secured, (iii) would be paid at the time claims of creditors are satisfied, (iv) would be dependent upon the outcome of the relevant *concurso mercantil* or *quiebra* proceedings, and (v) would not be adjusted to consider any depreciation of the peso against the U.S. dollar occurring after such declaration of insolvency. In addition, in the event of our bankruptcy, Mexican law provides preferential treatment for certain claims, such as those relating to labor, taxes and secured creditors.

## USE OF PROCEEDS

Our net proceeds from the issuance of the Notes are estimated to be approximately U.S. $548,450,000. We intend to use the net proceeds of the issuance of the Notes to strengthen our capital ratios and for general corporate purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations –Risk-Based Capital."

## EXCHANGE RATES AND CURRENCY

Mexico has had a free market for foreign exchange since 1994 and the Mexican Government allows the peso to float against the U.S. dollar. There can be no assurance that the government will maintain its current policies with regard to the peso or that the peso will not depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates published by *Banco de México* in the Official Gazette of the Federation, expressed in pesos per U.S. dollar. The exchange rates shown below are in nominal pesos that have not been restated in constant currency units.

| Period(1) | Low | High | Average(2) | Period-end |
|---|---|---|---|---|
| | (nominal pesos per U.S. dollar) | | | |
| 2003 | 10.11 | 11.40 | 10.79 | 11.20 |
| 2004 | 10.82 | 11.63 | 11.29 | 11.22 |
| 2005 | 10.41 | 11.40 | 10.89 | 10.71 |
| 2006 | 10.43 | 11.48 | 10.90 | 10.88 |
| 2007 | 10.66 | 11.27 | 10.93 | 10.90 |
| 2008 | 9.92 | 13.92 | 11.20 | 13.77 |
| 2009 | 12.60 | 15.37 | 13.50 | 13.04 |
| 2010 | 12.16 | 13.18 | 12.63 | 12.38 |
| 2011 | 11.50 | 14.23 | 12.49 | 13.94 |
| 2012: | | | | |
| January | 12.93 | 13.93 | 13.41 | 13.00 |
| February | 12.64 | 12.89 | 12.78 | 12.85 |
| March | 12.56 | 13.00 | 12.73 | 12.81 |
| April | 12.73 | 13.21 | 13.05 | 13.01 |
| May | 12.92 | 14.38 | 13.66 | 14.38 |
| June | 13.40 | 14.39 | 13.91 | 13.41 |
| July | 13.12 | 13.68 | 13.37 | 13.28 |
| August | 13.07 | 13.42 | 13.18 | 13.26 |
| September (through September 18, 2012) | 12.75 | 13.19 | 12.99 | 12.75 |

(1) Source: Banco de México.
(2) Average of month-end exchange rates for 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010 and 2011. Average of daily exchange rates for January, February, March, April, May, June, July, August and September (through September 18, 2012).

The exchange rate to purchase U.S. $1.00 published by *Banco de México*, in the Official Gazette of the Federation on September 18, 2012 was Ps. 12.7492 to U.S. $1.00.

The Mexican economy has suffered balance of payment deficits and shortages in foreign exchange reserves in the past. While the Mexican Government, for more than ten years, has not restricted the ability of both Mexican and foreign individuals or entities to convert pesos to U.S. dollars, we cannot assure you that the Mexican Government will not institute restrictive exchange control policies in the future. To the extent that the Mexican Government institutes restrictive exchange control policies in the future, our ability to transfer or convert pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal of indebtedness, including the Notes, would be adversely affected.

## DIVIDENDS

We paid dividends of Ps. 15,564 million in 2011, Ps. 12,567 million in 2010 and Ps. 11,889 million in 2009, in each case from our retained earnings. We also paid dividends of Ps. 6,561 million and Ps. 4,850 million in each of March and June 2012, respectively, and plan on paying a dividend of Ps. 4,850 million in each of September 2012 and December 2012.

At the shareholders' meeting held on February 17, 2012, our shareholders approved the distribution of dividends up to an aggregate amount of Ps. 21,111 million and authorized each of the Chairman and the Secretary of our Board of Directors to, individually and on a quarterly basis, take the following actions: (i) decide on the payment of dividends to shareholders on a *pro rata* basis; (ii) determine the amount of each quarterly dividend payment, which shall not exceed the total amount of distributable dividends authorized by our shareholders' meeting; (iii) announce the quarterly dividend payment dates in each of the first, second, third and fourth quarters of 2012, and (iv) determine the proportion or ratio of dividend payment for each of our outstanding shares.

The declaration, amount and payment of dividends is determined, subject to the limitations set forth below, by the affirmative vote of a majority of the holders of our common voting shares, substantially all of which are owned by GFBB, which, in turn is controlled by BBVA. We may not declare or pay dividends to GFBB unless we meet the capital ratio requirements under the Mexican Capitalization Requirements. See "Supervision and Regulation." At June 30, 2012, we had reached this capitalization requirement, and were entitled to declare and pay dividends. Although no assurance can be given, we expect to continue to be in compliance with these capital ratio requirements during 2012.

Under Mexican law, we are required to allocate 10% of our net income (on an unconsolidated basis and after employee profit sharing and other deductions required by Mexican law) to a legal reserve fund, which is not thereafter available for distribution except as a stock dividend, until the amount of the legal reserve equals our paid-in capital. We may pay dividends only out of earnings (including retained earnings after all losses have been absorbed or paid up) and only after such allocation to the legal reserve fund. The reserve fund is required to be funded on a stand-alone basis for each company, rather than on a consolidated basis. The level of earnings available for the payment of dividends is determined under Mexican Banking GAAP. At June 30, 2012, we were in compliance with the regulations pertaining to our legal reserve. Our subsidiaries are required to allocate earnings to their respective legal reserve funds before paying dividends to us, and at June 30, 2012, they were in compliance with this requirement. As of June 30, 2012, we had set aside Ps. 6,881 million in legal reserves compared to paid-in capital of Ps. 24,138 million.

## CAPITALIZATION

The following table sets forth, as of June 30, 2012, our actual capitalization and our capitalization as adjusted to give effect to the issuance on July 19, 2012 of the U.S. $1,000 million Fixed Rate Cumulative Subordinated Preferred Notes Due 2022, this offering and the use of proceeds therefrom.

The following table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Use of Proceeds" and our Financial Statements and the notes thereto included elsewhere in this offering memorandum.

| | As of June 30, 2012 | | |
|---|---|---|---|
| | Actual | As Adjusted | |
| | (millions of Ps. ) | (millions of Ps. ) | (millions of U.S.$) |
| **Long-term indebtedness** | | | |
| Bank bonds | 55,683 | 55,683 | 4,153 |
| Subordinated preferred indebtedness[1] | 16,761 | 36,873 | 2,750 |
| Subordinated non-preferred indebtedness | 32,995 | 32,995 | 2,461 |
| Total long-term indebtedness | 105,439 | 125,551 | 9,364 |
| **Stockholders' equity** | | | |
| Subscribed capital[1] | 39,864 | 39,864 | 2,973 |
| Earned capital | 76,109 | 76,109 | 5,676 |
| Subtotal | 115,973 | 115,973 | 8,649 |
| Minority interest | 833 | 833 | 62 |
| Total stockholders' equity | 116,806 | 116,806 | 8,711 |
| Total capitalization[2] | 222,245 | 242,357 | 18,075 |

(1) As of June 30, 2012, our authorized capital stock consisted of 9,107,142,859 Series "F" shares and 8,749,999,999 Series "B" shares. Of these shares, 7,728,216,167 Series "F" shares and 7,425,148,865 Series "B" shares were issued and outstanding.

(2) Except as disclosed in this offering memorandum, there has been no material change in our capitalization since June 30, 2012.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information presented below should be read in conjunction with "Presentation of Certain Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," our audited Financial Statements and other financial information included elsewhere in this offering memorandum.

Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain important respects from Mexican GAAP and U.S. GAAP. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

On January 27, 2011, the CNBV issued certain changes to Mexican Banking GAAP. The objective of these changes is to achieve greater consistency with MFRS and International Financial Reporting Standards, as adopted by the International Accounting Standards Board.

As a result of these changes to Mexican Banking GAAP, our audited financial statements as of December 31, 2010 have been reclassified with respect to certain accounts to make them comparable to our financial statements for the year ended 2011. These reclassifications are not material. See note 37 to our audited financial statements included elsewhere in this offering memorandum.

Unless otherwise specified, in accordance with Mexican Banking GAAP, our Financial Statements and the other financial information presented below are presented in consolidated form. In accordance with Mexican Banking GAAP, we consolidate entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. Our investments in affiliates are accounted for under the equity method. See note 14 to our Audited Financial Statements included elsewhere in this offering memorandum.

## Audited Financial Information

The selected annual financial information presented below has been derived from and should be read in conjunction with our Audited Financial Statements included elsewhere in this offering memorandum. Such annual financial information, unless otherwise specified, is presented in nominal pesos. Due to Mexican regulations, the information prior to January 1, 2008 is presented in constant pesos as of December 31, 2007.

| | For the Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** | **2011** | **2011**[(1)] |
| | **(millions of constant Ps. as of December 31, 2007, except percentages)** | **(millions of Ps. )** | | | | **(millions of U.S. $)** |
| **Income Statement Data:** | | | | | | |
| Interest income | Ps. 90,858 | Ps. 106,374 | Ps. 97,625 | Ps. 88,764 | Ps. 94,447 | U.S. $ 6,772 |
| Interest expense | (38,788) | (46,831) | (38,405) | (28,618) | (30,981) | (2,221) |
| Monetary gain, net | (1,556) | - | - | - | - | - |
| Net interest income | 50,514 | 59,543 | 59,220 | 60,146 | 63,466 | 4,551 |
| Provision for loan losses | (12,622) | (23,994) | (27,255) | (19,626) | (20,011) | (1,435) |
| Net interest income after provision for loan losses | 37,892 | 35,549 | 31,965 | 40,520 | 43,455 | 3,116 |
| Commissions and fees | 19,221 | 18,670 | 18,683 | 20,598 | 20,551 | 1,474 |
| Trading income | 11 | 2,222 | 6,279 | 4,864 | 4,367 | 313 |
| Other operating income (expense) | 313 | (1,135) | 169 | 596 | 1,289 | 93 |
| Operating revenue | 57,437 | 55,306 | 57,096 | 66,578 | 69,662 | 4,996 |
| Non-interest expense | (30,089) | (31,351) | (33,091) | (36,687) | (39,132) | (2,806) |
| Operating income | 27,348 | 23,955 | 24,005 | 29,891 | 30,530 | 2,190 |
| Other income (expense), net | (757) | (743) | (146) | - | - | - |
| Monetary loss | (287) | - | - | - | - | - |
| Earnings before income taxes and employee profit sharing | 26,304 | 23,212 | 23,859 | 29,891 | 30,530 | 2,190 |
| Share in net income (loss) of unconsolidated subsidiaries and affiliates | 142 | 96 | 301 | 302 | 292 | 21 |
| Income before income taxes | 26,446 | 23,308 | 24,160 | 29,193 | 30,822 | 2,211 |
| Current income taxes and employee profit sharing | (1,715) | (9,654) | (7,105) | (9,612) | (5,052) | (362) |
| Deferred income taxes and employee profit sharing | (4,966) | 4,867 | 1,623 | 2,277 | (1,957) | (140) |
| Income before non-controlling interest | 19,765 | 18,521 | 18,678 | 22,858 | 23,813 | 1,709 |
| Non-controlling interest in consolidated subsidiaries | (128) | (172) | (232) | (317) | (346) | (25) |
| Net income | Ps. 19,637 | Ps. 18,349 | Ps. 18,446 | Ps. 22,541 | Ps. 23,467 | U.S. $ 1,684 |

| | As of or for the Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2011[(1)] |
| | (millions of constant Ps. as of December 31, 2007, except percentages) | (millions of Ps. , except for percentages) | | | | (millions of U.S. $) |
| **Balance Sheet Data:** | | | | | | |
| Total assets | Ps. 1,021,613 | Ps. 1,135,932 | Ps. 1,093,391 | Ps. 1,098,162 | Ps. 1,222,914 | U.S. $ 87,680 |
| Cash and due from Banks | 115,103 | 161,462 | 142,013 | 118,842 | 115,400 | 8,274 |
| Margin Accounts | 5,149 | 11,075 | 2,965 | 3,478 | 3,546 | 254 |
| Securities | 386,479 | 301,335 | 332,647 | 295,042 | 332,865 | 23,865 |
| Total loans | 462,839 | 518,065 | 524,393 | 579,725 | 629,897 | 45,162 |
| Allowance for loan losses | (16,774) | (25,560) | (26,991) | (25,128) | (24,873) | (1,783) |
| Deferred taxes, net | 86 | 5,161 | 6,773 | 8,665 | 6,367 | 456 |
| Other assets | 68,731 | 164,394 | 111,591 | 117,538 | 159,712 | 11,452 |
| Total funding | 525,487 | 629,667 | 639,699 | 719,047 | 728,192 | 52,209 |
| Deposits (excluding bank bonds) | 449,437 | 508,608 | 543,490 | 572,716 | 591,888 | 42,437 |
| Bank bonds | 27,091 | 46,619 | 45,024 | 44,619 | 53,548 | 3,839 |
| Subordinated debt | 23,448 | 35,620 | 37,175 | 41,287 | 62,450 | 4,477 |
| Interbank loans and loans from other entities | 25,511 | 38,820 | 14,010 | 60,425 | 20,306 | 1,456 |
| Other liabilities | 417,223 | 425,122 | 355,102 | 269,703 | 378,345 | 27,127 |
| Total liabilities | 942,710 | 1,054,789 | 994,801 | 988,750 | 1,106,537 | 79,336 |
| Total stockholders' equity | Ps. 78,903 | Ps. 81,143 | Ps. 98,590 | Ps. 109,412 | Ps. 116,377 | U.S. $ 8,344 |
| **Profitability and Efficiency:** | | | | | | |
| Return on average total assets[(2)] | 2.12% | 1.70% | 1.65% | 2.06% | 2.02% | |
| Return on average stockholders' equity[(2)] | 25.62% | 23.10% | 20.68% | 21.83% | 20.95% | |
| Net interest margin[(3)] | 5.44% | 5.52% | 5.31% | 5.49% | 5.47% | |
| Efficiency ratio[(4)] | 43.14% | 38.98% | 39.31% | 42.86% | 44.27% | |
| **Capitalization:** | | | | | | |
| Stockholders' equity as a percentage of total assets | 7.72% | 7.14% | 9.02% | 9.96% | 9.52% | |
| Tier 1 Capital as a percentage of risk- weighted assets | 12.25% | 10.86% | 11.93% | 12.14% | 11.34% | |
| Total capital as a percentage of risk- weighted assets | 14.32% | 14.54% | 14.92% | 15.10% | 15.84% | |
| **Credit Quality Data:** | | | | | | |
| Total performing loans | 452,157 | 501,645 | 504,555 | 565,302 | 610,216 | 43,751 |
| Total non-performing loans | 10,682 | 16,420 | 19,838 | 14,423 | 19,681 | 1,411 |
| Total loans | 462,839 | 518,065 | 524,393 | 579,725 | 629,897 | 45,162 |
| Loans graded "C," "D" and "E"[(5)] | 17,048 | 22,161 | 29,069 | 22,492 | 23,575 | 1,690 |
| Allowance for loan losses | (16,774) | (25,560) | (26,991) | (25,128) | (24,873) | (1,783) |
| **Loan Recovery and Write-offs:** | | | | | | |
| Non-performing loans— average balance | 9,571 | 13,551 | 18,129 | 17,131 | 17,052 | 1,223 |
| Non-performing loans written-off | 8,129 | 12,433 | 19,657 | 14,604 | 22,003 | 1,578 |
| Recoveries in respect of non-performing loans | (406) | (296) | (355) | (488) | (488) | (35) |
| Recovered amounts as a percentage of average non-performing loans | 4.24% | 2.18% | 1.96% | 2.85% | 2.86% | |

(1) Translated at the rate of Ps. 13.9476 per U.S. $1.00, the fixed exchange rate published by Banco de México in the official Gazette of the Federation on December 31, 2011.
(2) Determined on an annualized basis, based on beginning- and end-of-period balances using constant pesos before 2008.
(3) Represents net interest income divided by average total assets. Average total assets are determined on an annualized basis, based on beginning- and end-of-period balances using constant pesos before 2008.
(4) Efficiency ratio is equal to total non-interest expense as a percentage of the aggregate of net interest income and non-interest income (commission and fees, plus trading income plus other operating income). For this purpose, net interest income and non-interest income are calculated before provision for loan losses.
(5) See "Selected Statistical Information—Grading of Loan Portfolio."

## Unaudited Financial Information

The selected unaudited interim financial information for the six months ended June 30, 2011 and 2012 presented below has been derived from and should be read in conjunction with our Unaudited Financial Statements included elsewhere in this offering memorandum. Such interim financial information, unless otherwise specified, is presented in nominal pesos.

| | For the six months ended June 30, | | |
|---|---|---|---|
| | 2011 | 2012 | 2012 (1) |
| | (millions of Ps. ) | | (millions of U.S. $) |
| **Income Statement Data:** | | | |
| Interest income | Ps. 46,122 | Ps. 49,966 | U.S. $ 3,726 |
| Interest expense | (15,314) | (15,776) | (1,176) |
| Monetary gain, net | - | - | - |
| Net interest income | 30,808 | 34,190 | 2,550 |
| Provision for loan losses | (9,789) | (10,238) | (764) |
| Net interest income after provision for loan losses | 21,019 | 23,952 | 1,786 |
| Commissions and fees | 10,023 | 10,295 | 769 |
| Trading income | 3,437 | 1,356 | 101 |
| Other operating income (expense) | 402 | 503 | 38 |
| Operating revenue | 34,881 | 36,106 | 2,694 |
| Non-interest expense | (19,331) | (21,179) | (1,580) |
| Operating income | 15,550 | 14,927 | 1,114 |
| Other income (expense), net | - | - | - |
| Monetary loss | - | - | - |
| Earnings before income taxes and employee profit sharing | 15,550 | 14,927 | 1,114 |
| Share in net income (loss) of unconsolidated subsidiaries and affiliates | 95 | 233 | 17 |
| Income before income taxes | 15,645 | 15,160 | 1,131 |
| Current income taxes and employee profit sharing | (2,377) | (1,706) | (127) |
| Deferred income taxes and employee profit sharing | (1,372) | (1,646) | (123) |
| Income before non-controlling interest | 11,896 | 11,808 | 881 |
| Non-controlling interest in consolidated subsidiaries | (155) | (195) | (15) |
| Net income | Ps. 11,741 | Ps. 11,613 | U.S. $ 866 |

| | As of the six months ended | | |
|---|---|---|---|
| | December 31, 2011 | June 30, 2012 | June 30, 2012 |
| | (millions of Ps. , except for percentages) | | (millions of U.S. $) |
| **Balance Sheet Data:** | | | |
| Total assets | Ps. 1,222,914 | Ps. 1,250,538 | U.S. $ 93,265 |
| Cash and due from Banks | 115,400 | 85,984 | 6,413 |
| Margin Accounts | 3,546 | 4,273 | 319 |
| Securities | 332,865 | 346,439 | 25,837 |
| Total loans | 629,897 | 648,986 | 48,401 |
| Allowance for loan losses | (24,873) | (27,245) | (2,032) |
| Deferred taxes, net | 6,367 | 4,593 | 343 |
| Other assets | 159,712 | 187,508 | 13,984 |
| Total funding | 728,192 | 733,538 | 54,707 |
| Deposits (excluding bank bonds) | 591,888 | 612,607 | 45,688 |
| Bank bonds | 53,548 | 55,683 | 4,153 |
| Subordinated debt | 62,450 | 49,756 | 3,711 |
| Interbank loans and loans from other entities | 20,306 | 15,492 | 1,155 |
| Other liabilities | 378,345 | 400,194 | 29,847 |
| Total liabilities | 1,106,537 | 1,133,732 | 84,554 |
| Total stockholders' equity | Ps. 116,377 | Ps. 116,806 | U.S. $ 8,711 |
| **Profitability and Efficiency:** | | | |
| Return on average total assets[(2)] | 2.02% | 1.88% | 1.88% |
| Return on average stockholders' equity[(2)] | 20.95% | 20.07% | 20.07% |
| Net interest margin[(3)] | 5.47% | 5.53% | 5.53% |
| Efficiency ratio[(4)] | 44.27% | 46.20% | 46.20% |
| **Capitalization:** | | | |
| Stockholders' equity as a percentage of total assets | 9.52% | 9.34% | 9.34% |
| Tier 1 Capital as a percentage of risk- weighted assets | 11.34% | 11.56% | 11.56% |
| Total capital as a percentage of risk- weighted assets | 15.84% | 14.91% | 14.91% |
| **Credit Quality Data:** | | | |
| Total performing loans | 610,216 | 626,659 | 46,736 |
| Total non-performing loans | 19,681 | 22,327 | 1,665 |
| Total loans | 629,897 | 648,986 | 48,401 |
| Loans graded "C," "D" and "E" | 23,575 | 27,086 | 2,020 |
| Allowance for loan losses | (24,873) | (27,245) | (2,032) |
| **Loan Recovery and Write-offs:** | | | |
| Non-performing loans— average balance | 17,052 | 20,259 | 1,511 |
| Non-performing loans written-off | 22,003 | 5,821 | 434 |
| Recoveries in respect of non-performing loans | (488) | (260) | (19) |
| Recovered amounts as a percentage of average non-performing loans | 2.86% | 1.28% | 1.28% |

(1) Translated at the rate of Ps. 13.4084 per U.S. $1.00, the fixed exchange rate published by Banco de México in the official Gazette of the Federation on June 30, 2012.
(2) Determined on an annualized basis, based on beginning- and end-of-period balances.
(3) Represents net interest income divided by average total assets. Average total assets are determined on an annualized basis, based on beginning- and end-of-period balances.
(4) Efficiency ratio is equal to total non-interest expense as a percentage of the aggregate of net interest income and non-interest income (commission and fees, plus trading income plus other operating income). For this purpose, net interest income and non-interest income are calculated before provision for loan losses.

## Other Financial Data and Ratios

The selected financial data and ratios presented below have been derived from and should be read in conjunction with our Financial Statements, together with the notes thereto, and the other financial information included elsewhere in this offering memorandum.

| | As of or for the Years ended December 31, | | | | | As of or for the six months ended June 30, |
|---|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| **Credit Quality Ratios:** | | | | | | |
| Allowance for loan losses as a percentage of total loans | 3.62% | 4.93% | 5.15% | 4.33% | 3.95% | 4.20% |
| Allowance for loan losses as a percentage of total non-performing loans[1] | 157.04% | 155.66% | 136.06% | 174.22% | 126.38% | 122.03% |
| Allowance for loan losses as a percentage of loans graded "C," "D" and "E"[1] | 98.39% | 115.34% | 92.85% | 111.72% | 105.51% | 100.59% |
| Total non-performing loans as a percentage of total loans | 2.31% | 3.17% | 3.78% | 2.49% | 3.12% | 3.44% |
| Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (net performing loans plus net non-performing loans) | 1.33% | 1.80% | 1.38% | 1.88% | 0.83% | 0.76% |
| Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders' equity | 7.72% | 11.26% | 7.26% | 9.78% | 4.46% | 4.21% |
| Provision for loan losses as a percentage of average total loans | 3.92% | 4.32% | 5.04% | 4.72% | 4.13% | 4.08% |
| Charge-offs (net of recoveries) as a percentage of average total loans | 1.17% | 2.02% | 3.02% | 3.03% | 2.95% | 2.12% |
| Loans graded "C," "D" and "E" as a percentage of total loans[1] | 3.68% | 4.28% | 5.54% | 3.88% | 3.74% | 4.17% |

(1) See "Selected Statistical Information—Grading of Loan Portfolio."

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial information presented in this section should be read in conjunction with our Financial Statements included elsewhere in this offering memorandum. As a result of certain changes made by the CNBV to Mexican Banking GAAP in January 2011, our financial statements as of December 31, 2010 have been reclassified with respect to certain accounts to make them comparable to our financial statements for the year ended 2011. These reclassifications are not material. Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in significant respects from Mexican GAAP and U.S. GAAP. For a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP, see "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP." No reconciliation of any of our Financial Statements to U.S. GAAP has been prepared for this offering memorandum. Any such reconciliation could result in material quantitative differences. See "Presentation of Certain Financial and Other Information."

### Economic Environment

Mexico's GDP decreased by 6.0% in real terms during 2009, as compared with 2008. This decline in GDP was caused by a decrease in external demand resulting from the global economic recession, which led to a significant reduction in Mexican exports, mainly in the automobile and electronics sectors. In addition, during the second quarter of 2009, the A/H1N1 influenza outbreak temporarily affected economic activity in several sectors, especially those related to tourism and leisure. Global economic activity began to grow beginning in the second half of 2009, after a significant decline observed in the previous six months. This growth was driven by fiscal and monetary stimulus programs implemented in many advanced economies and in some emerging market countries, as well as several measures taken to stabilize the operation of the international financial system. The Mexican Government undertook a number of measures to mitigate the effects of the global economic recession in Mexico beginning in 2008.

The inflation rate in Mexico in 2009 was 5.3%. Inflation in 2009 followed a downward trend due to the relatively low economic activity and an environment characterized by the absence of demand pressures.

Mexico's GDP increased by 5.5% in real terms during 2010, as compared with 2009, as a result of the positive impact of increased external demand on the manufacturing and services sectors. The continued economic recovery realized during 2010 resulted in an increase in the demand for credit and a reduction in the provision for credit losses. The inflation rate in Mexico in 2010 was 4.2% on average, 1.2 percentage points higher than during 2009. The inflation rate in 2010 exceeded the amount estimated in the budget for 2010 due to (1) the appreciation of the Mexican peso against the U.S. dollar; (2) a positive output gap (growth of aggregate demand exceeds growth of aggregate supply); and (3) moderate wage increases, among other factors.

- In 2011, Mexican economy maintained its cyclical expansion reaching 3.9% for GDP growth. This positive outcome was mainly due to supportive external environment and domestic stability: (i) anchored inflation at minimum levels (3.4%); (ii) macro policies oriented to avoid current account or fiscal imbalances and, a confidence factor for financial markets and, (iii) free exchange rate policy, that acts as a buffer to balance external shocks.

- During the first six months of 2012, Mexico's GDP increased 4.4% mainly due to increases of 3.9% and 5.6% in consumption and exports, respectively. For the year 2012, we expect the Mexican economy will continue its current cyclical recovery without inflation pressures. The European sovereign debt crisis and its potential impact on the global markets, as well as the growth and recovery of the U.S. economy are the main concerns creating macroeconomic uncertainty.

### Effect of Tax Legislation

The Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) was amended in December 2009 (effective January 1, 2010), to provide for an annual increase in the income tax rate from 28% to 30% in 2010, 2011 and 2012, and a decrease to 29% in 2013 and 28% for 2014 and future periods.

The Business Flat Tax Law went into effect in January 2008. According to this law, revenues, deductions and certain tax credits for each year are determined based on cash flows for each year. The established rates are

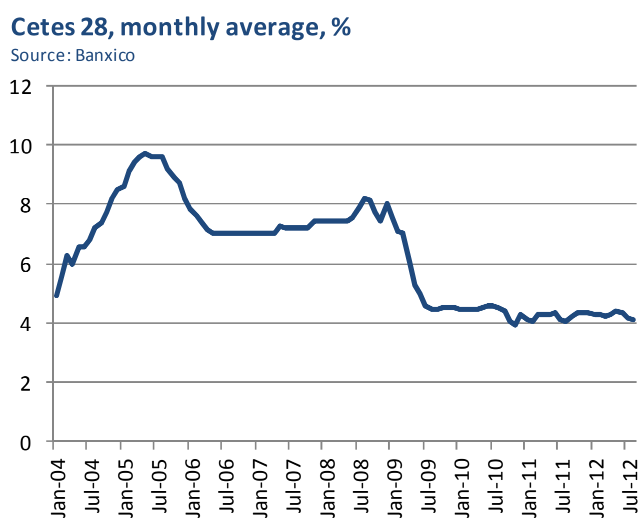
17.0% for 2009, and 17.5% for 2010 and future periods. This law superseded the Asset Tax Law (*Ley del Impuesto al Activo*), or IMPAC, however, subject to certain conditions, the Business Flat Tax Law permits the right to recover payments made pursuant to the Asset Tax law in prior years.

The current income tax rate is the higher of the regular income tax rate and the business flat tax rate. Based on financial projections, and according to INIF 8 (*Interpretación a las Normas de Investigación Financiera 8*, issued by the CINIF, *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*) in the section "Effects of the new flat rate business tax," the Bank determined that it will be subject to regular income tax, and therefore only recognizes deferred regular income tax.

**Effects of Changes in Interest Rates**

Interest rate fluctuations in Mexico have a significant effect on our interest income, interest expense and trading income. Changes in market interest rates may lead to temporary repricing gaps between our interest-earning assets and our interest-bearing liabilities. Most of our interest-earning assets and interest-bearing liabilities carry floating interest rates or are subject to frequent repricing. Upward or downward adjustments of the interest rates on our assets and liabilities generally occur approximately every 28 days. The repricing generally limits the effects of net exposures that regularly occur upon movements in interest rates. See "Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities." In addition, sustained high interest rate environments have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and in a deterioration of asset quality.

During the periods discussed below, the benchmark market interest rate in Mexico was the annual interest rate paid in connection with primary offerings of *Cetes*, which are Mexican Government peso-denominated treasury bills, with 28-day maturities.




- During 2009, the Mexican peso depreciated considerably against the U.S. dollar, mainly as a result of the global economic crisis and investors' aversion to emerging market risk. In an attempt to reduce the adverse effects of the global economic crisis, *Banco de México* reduced the minimum overnight funding rate from 8.25% to 4.50%, which began a cycle of monetary easing and lead to a reduction of domestic medium and long-term interest rates. In addition, in the second, third and fourth quarters of 2009, Mexican financial markets responded positively to improved external economic conditions and increased investor appetite for emerging market risk. As a result, interest rates on 28-day *Cetes* averaged 5.4% and interest rates on 91-day *Cetes* averaged 5.5% in 2009, as compared with average rates on 28-day and 91-day *Cetes* of 7.7% and 7.9%, respectively, during 2008.

- During 2010, despite lingering volatility in international financial markets stemming from instability of certain Euro zone economies, interest rates on 28-day *Cetes* averaged 4.4% and interest rates on

91-day *Cetes* averaged 4.6%, as compared with average rates on 28-day and 91-day *Cetes* of 5.4% and 5.5%, respectively, during 2009. These decreases in interest rates resulted from improvements in the inflation outlook for Mexico, increased investor demand for emerging market risk and the implementation of expansive international monetary policies, particularly in the United States, which maintained international interest rates at low levels through the end of 2010.

- During 2011, low inflation expectations and positive growth in Mexico without demand pressures on prices, as well as increased liquidity supply contributed to maintain domestic short term interest rates at minimum levels. Interest rates on 28-day *Cetes* averaged 4.3% and interest rates on 91-day *Cetes* averaged 4.3%, as compared with average rates on 28-day and 91-day *Cetes* of 4.4% and 4.6%, respectively, during 2010. Economic fundamentals did not isolate the Mexican economy from the increased volatility in financial markets stemming from the fiscal uncertainties in the United States and the unresolved Euro zone crisis. In 2012, the short term interest rates have remained at minimum levels. For example, the average rate of the 28-day *Cetes* in the first half of 2012 was 4.3%.

*Banco de México* has maintained the overnight funding rate or, *"Fondeo,"* at 4.5% from 2009 to the date of this offering memorandum.

**Effects of Changes in the Rate of Inflation**

According to *Banco de México* and *Instituto Nacional de Estadística y Geografía*, or *INEGI*, the annual inflation rate in Mexico was 5.3% for 2009, 4.2% for 2010 and 3.4% for 2011. During the first six months of 2012, the inflation rate in Mexico was 4.3%.

Effective January 2008, we adopted the guidelines of MFRS B-10 "Recognition of the Effects of Inflation", which provide that the effects of inflation will only be required to be recorded in our financial statements in an inflationary environment where cumulative inflation over the three preceding years is equal to or greater than 26%. Because the economic environment in the three preceding years did not qualify as inflationary, as defined in MFRS B-10, we did not use inflationary accounting to prepare our Financial Statements. However, our Financial Statements reflect the inflation adjustments recognized through December 31, 2007 to our consolidated stockholders' equity and to the non-monetary assets and liabilities held as of that date.

In addition, as part of the Mexican Government's debt restructuring program for borrowers facing cash flow constraints, we, along with other commercial banks in Mexico, converted a substantial amount of non-performing peso-denominated loans of such borrowers to UDI-denominated loans. UDIs are a unit of account created by the Mexican Government expressed in pesos, at a given time, the principal amount of financial transactions, as adjusted for inflation. The trusts created for the administration of these UDI-denominated loans were extinguished at the end of November 2009 and the balances were incorporated into our balance sheet.

**Critical Accounting Policies**

The following is a description of certain key accounting policies on which our financial condition and results of operations are dependent. These key accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions. In the opinion of our management, the most critical accounting policies under Mexican Banking GAAP are those related to the establishment of allowances for loan losses, valuation of securities and derivatives, valuation of deferred income tax assets and employee retirement obligations. For a full description of our accounting policies, see note 4 to our Audited Financial Statements included elsewhere in this offering memorandum.

***Allowances for loan losses***

Our allowance for loan losses is maintained in accordance with the rules for the classification and rating of loan portfolios of Mexican banks and the creation of related reserves, or the Loan Classification and Rating Rules, set forth under the General Rules Applicable to Mexican Banks, which require that the commercial portfolio must be rated every three months and the consumer and mortgage loan portfolios must be rated every month.

The allowance for loan losses for our commercial loan portfolio is calculated primarily based on the classification of the loans into prescribed categories. To calculate our commercial loan loss reserve, the Loan Classification and Rating Rules require that we follow a methodology that incorporates an evaluation of the borrower's ability to repay its loan and of the related collateral and guarantees in the loan's rating analysis to estimate a probable loss and define the percentage of necessary reserves. The Loan Classification and Rating Rules allow us to use our own methodology following certain parameters to assign a risk rating to each borrower. This methodology is subject to the review of the CNBV. The CNBV initially approved our methodology in June 2001, and reapproved it in December 2004, December 2006, December 2008 and December 2010. Our current methodology is effective through December 2012. We are required to classify 100% of the aggregate balance of our commercial loans, including all loans with an outstanding balance equal to or greater than 4,000,000 UDIs, as of the classification date. If our analysis of the classification of a commercial loan changes from period to period, then the calculation of the amount of our loan loss reserve will adjust accordingly.

For individual loans, including mortgage and other consumer loans, the loan loss reserve is determined in accordance with a classification based solely on the non-performing status for such loans and prescribed loan loss rates for such classifications. The ratings for these types of loans are performed on a monthly basis.

For consumer credit card loan portfolio, we apply the internal credit card rating model approved by the CNBV on June 22, 2009. The internally developed rating methodology involves calculating the expected 12-month loss as a result of probability of default, loss severity and exposure at default.

The determination of the allowance for loan losses, particularly for commercial loans, requires management's judgment. The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. See "Selected Statistical Information—Grading of Loan Portfolio" and "Selected Statistical Information—Allowance for Loan Losses." Differences between the estimate of the loan loss reserve and the actual loss will be reflected in our financial statements at the time of charge-off.

Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of the collectability of loans will be made in the short term.

***Securities and derivatives***

The balance sheet reflects certain assets and liabilities related to our securities and derivatives portfolio at their estimated fair value. Such amounts are based on either listed market prices or estimated values derived by utilizing dealer quotes or internally generated modeling techniques. As market conditions change, such price vendors generally make adjustments to the fair value of securities and derivatives to reflect those conditions. Future sales of these securities will reflect the market conditions at the time and may differ significantly from the estimated fair market value reflected on the balance sheet, considering that these sales may be realized at a different date.

***Deferred income tax assets***

Based on management's projections, the balance of deferred taxes coming from the allowance for loan losses reserve will be recovered in the short-medium term.

On December 7, 2009, the Official Gazette of the Federation published the tax reform passed by the Mexican Congress, which came into effect on January 1, 2010. This law establishes a temporary increase in the income tax rate to 30% for the years 2010, 2011 and 2012, 29% for 2013 and 28% for 2014 and thereafter. Our management, in accordance with MFRS D-4, "Income Tax", and based on projections of recovery of the deferred tax, adjusted the balance of the deferred taxes according to the income tax rate that is expected to be in effect at the time of their recovery.

***Employee retirement obligations***

Our employee retirement obligations include employee pension plans, seniority premium benefits, life insurance payments and severance indemnities. The determination of our obligations and expenses is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. We evaluate our assumptions at least annually. Our assumptions depend on Mexico's economic circumstances.

Following the execution of the employer substitution contract, as of January 1, 2007 all the employees of Bancomer (except the General Director) were transferred to the payroll of BBVA Bancomer Operadora, S.A. de C.V. (formerly GFB Servicios, S.A. de C.V.), ("Operadora"), a GFBB subsidiary. Notwithstanding, these employees will retain all acquired benefits and seniority, and only those not formerly receiving these benefits will be incorporated into a variable compensation program.

In accordance with Mexican Banking GAAP, actual results that differ from our assumptions (actuarial gains or losses) are accumulated and amortized over future periods and, therefore, generally affect our recognized expenses and recorded obligations in these future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our employees' retirement obligations and our future expenses.

## Results of Operations

### *Six months ended June 30, 2012 compared to six months ended June 30, 2011*

The interim financial information presented in this section for the six months ended June 30, 2011 and 2012 has been derived from and should be read in conjunction with our Unaudited Financial Statements and the notes thereto included elsewhere in this offering memorandum. Such interim financial information, unless otherwise specified, is presented in nominal pesos.

*Net interest income*

The following table sets forth the components of our net interest income:

| | For the Six Months ended June 30, | |
|---|---|---|
| | 2011 | 2012 |
| | (millions of Ps.) | |
| **Interest Income:** | | |
| Interest and fees on loans[1] | Ps. 34,248 | Ps. 37,642 |
| Interest on securities | 1,894 | 1,729 |
| Interest on cash and due from banks | 1,695 | 1,608 |
| Interest on repurchase agreements[2] | 7,269 | 7,892 |
| Interest on margin accounts | 49 | 71 |
| Other | 967 | 1,024 |
| Total interest income | **Ps. 46,122** | **Ps. 49,966** |
| **Interest Expense:** | | |
| Interest on demand deposits | Ps. 1,801 | Ps. 1,951 |
| Interest on time deposits[3] | 4,708 | 4,144 |
| Interest on interbank loans and loans from other entities | 486 | 629 |
| Interest on subordinated debentures | 1,485 | 1,740 |
| Interest on repurchase agreements[2] | 6,694 | 7,090 |
| Other | 140 | 222 |
| Total interest expense | **15,314** | **15,776** |
| Net interest income | **Ps. 30,808** | **Ps. 34,190** |

(1) Interest income includes origination fees on loans of Ps. 480 million for the six months ended June 30, 2012 and Ps. 516 million for the six months ended June 30, 2011.
(2) Interest income on repurchase agreements primarily represents interest income on derivatives and securities purchased under agreements to resell in accordance with Mexican Banking GAAP. Interest expense on repurchase agreements represents interest expense on funds received in connection with securities sold under agreements to repurchase in accordance with Mexican Banking GAAP. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."
(3) Includes interest paid on bank bonds.

Net interest income for the six months ended June 30, 2012 totaled Ps. 34,190 million, an increase of 10.9% as compared to the same period of 2011, mainly as a result of higher income from interest and fees on loans, which increased by Ps. 3,394 million, or 9.9%. This increase in income from interest and fees on loans resulted from an increase in the volume of loans during the first six months of 2012 as compared to the same period of 2011.

*Interest income*

Interest income was Ps. 49,966 million for the six months ended June 30, 2012 compared to Ps. 46,122 million for the six months ended June 30, 2011, an increase of Ps. 3,844 million, or 8.3%. This increase was primarily the result of an 11.2% increase in the volume of performing loans as compared to the same period last year.

Interest and fees on loans was Ps. 37,642 million (75.3% of interest income) for the six months ended June 30, 2012 compared to Ps. 34,248 million (74.3% of interest income) for the six months ended June 30, 2011, an increase of Ps. 3,394 million, or 9.9%. This increase was primarily attributable to an increase in the volume of loans, especially in our consumer and credit card loan portfolios, which grew by 20.0% as compared to the same period in 2011, mainly due to the improved Mexican job market, which led to a rise in average household incomes and, thus, consumer purchases financed by credit cards. See "The Bank–Retail Banking Unit–Consumer loans.

Interest on securities was Ps. 1,729 million (3.5% of interest income) for the six months ended June 30, 2012 compared to Ps. 1,894 million (4.1% of interest income) for the six months ended June 30, 2011, a decrease of Ps. 165 million, or 8.7%. This decrease was primarily attributable to a change in the composition of the securities resulting in a higher proportion of short-term instruments which typically generate less interest income.

Interest on repurchase agreements was Ps. 7,892 million (15.8% of interest income) for the six months ended June 30, 2012 compared to Ps. 7,269 million (15.8% of interest income) for the six months ended June 30, 2011, an increase of Ps. 623 million, or 8.6 %. This increase was primarily attributable to an increase in the number of securities purchased under repurchase agreements.

*Interest expense*

Interest expense was Ps. 15,776 million (46.1% of net interest income) for the six months ended June 30, 2012, compared to Ps. 15,314 million (49.7% of net interest income) for the six months ended June 30, 2011, an increase of Ps. 462 million, or 3.0%, which was primarily due to interest paid in March 2012, on the U.S. $2,000 million of subordinated and senior notes issued in March 2011 as well as the payment of accrued interest in connection with the prepayment in full of our €600 million preferential subordinated notes.

Interest on time deposits (including bank bonds) totaled Ps. 4,144 million (26.3% of interest expense) for the six months ended June 30, 2012 compared to Ps. 4,708 million (30.7% of interest expense) for the six months ended June 30, 2011, a decrease of Ps. 564 million, or 12.0%. This decrease was primarily attributable to our funding strategy of reducing the volume of time deposits and increasing the volume of demand deposits.

Interest on repurchase agreements was Ps. 7,090 million (44.9% of interest expense) for the six months ended June 30, 2012 compared to Ps. 6,694 million (43.7% of interest expense) for the six months ended June 30, 2011, an increase of Ps. 396 million, or 5.9%. This increase was primarily attributable to higher premiums paid due to an increase in the amount of securities sold under repurchase agreements.

*Provisions*

Provisions for loan losses charged against earnings were Ps. 10,238 million for the six months ended June 30, 2012, compared to Ps. 9,789 million for the six months ended June 30, 2011, an increase of Ps. 449 million, or 4.6%. This increase in loan loss provisions was primarily attributable to the expansion of our commercial and consumer loan portfolios.

*Non-interest income*

The following table sets forth the components of our non-interest income:

| | For the six months ended June 30, | |
|---|---|---|
| | 2011 | 2012 |
| | (millions of Ps.) | |
| **Commissions and Fees:** | | |
| Account management | Ps. 1,297 | Ps. 1,167 |
| Cash management and fund transfers | 1,487 | 1,501 |
| Credit cards | 3,190 | 3,446 |
| ATMs | 112 | 120 |
| Pension fund management | 1,409 | 1,518 |
| Mutual fund management(1 | 1,269 | 1,325 |
| Insurance(1) | 624 | 664 |
| Other | 635 | 554 |
| Total commissions and fees | **Ps. 10,023** | **Ps. 10,295** |
| **Trading Income:** | | |
| Valuation Result: | | 5,915 |
| Derivatives | 2,015 | |
| Foreign Currency | 275 | (5,568) |
| Securities investments | (648) | 1,854 |
| Total valuation result | 1,642 | 2,201 |
| Purchase-sale result: | | |
| Derivatives | (1,110) | (1,009) |
| Foreign Currency | 779 | 847 |
| Securities investments | 2,126 | (683) |
| Total purchase-sale result | 1,795 | (845) |
| Total trading income (loss), net | 3,437 | 1,356 |
| Other Operating Income (expenses) | 402 | 503 |
| Total non-interest income | **Ps. 13,862** | **Ps. 12,154** |

(1) These services are provided through GFBB affiliates.

Non-interest income, including trading income and other operating income, was Ps. 12,154 million for the six months ended June 30, 2012 compared to Ps. 13,862 million for the six months ended June 30, 2011, a decrease of Ps. 1,708 million, or 12.3%. This decrease was due to a loss in total trading income of Ps. 2,081 million, or 60.5%.

Total commissions and fees were Ps. 10,295 million for the six months ended June 30, 2012 (84.7% of non-interest income) compared to Ps. 10,023 million for the six months ended June 30, 2011 (72.3% of non-interest income), an increase of Ps. 272 million, or 2.7%. This increase was primarily attributable to an increase in the size of our credit card portfolio and resulting fees charged.

Account management fees were Ps. 1,167 million for the six months ended June 30, 2012 (11.3% of total commissions and fees) compared to Ps. 1,297 million for the six months ended June 30, 2011 (12.9% of total commissions and fees), a decrease of Ps. 130 million, or 10.0%. This decrease was attributable to regulatory changes that limited fees and commissions charged by banks.

Cash management and fund transfers fees were Ps. 1,501 million for the six months ended June 30, 2012 (14.6% of total commissions and fees) compared to Ps. 1,487 million for the six months ended June 30, 2011 (14.8% of total commissions and fees), an increase of Ps. 14 million, or 0.9%. This increase was mainly attributable to higher volumes of cash transfers to Mexican residents from Mexican workers in the United States.

Credit card fees, which include merchant voucher fees, were Ps. 3,446 million for the six months ended June 30, 2012 (33.5% of total commissions and fees) compared to Ps. 3,190 million for the six months ended June 30, 2011 (31.8% of total commissions and fees), an increase of Ps. 256 million, or 8.0%. This increase was primarily attributable to a higher number of transactions and higher volumes resulting from the origination of new credit cards due to an improved economic environment.

Pension fund management fees were Ps. 1,518 million for the six months ended June 30, 2012 (14.7% of total commissions and fees) compared to Ps. 1,409 million for the six months ended June 30, 2011 (14.1% of total commissions and fees), an increase of Ps. 109 million, or 7.7%. This increase was primarily attributable to an increase of 20.8% in the volume of assets under management, from Ps. 217.0 billion as of June 30, 2011 to Ps. 262.2 billion as of June 30, 2012.

Total trading income was Ps. 1,356 million for the six months ended June 30, 2012 compared to Ps. 3,437 million for the six months ended June 30, 2011, a decrease of Ps. 2,081 million, or 60.5%. This decrease was mainly attributable to losses recorded on trading in derivatives and securities investments.

*Non-interest expense*

The following table sets forth the components of our non-interest expense:

| | For the six months ended June 30, | |
|---|---|---|
| | 2011 | 2012 |
| | (millions of Ps.) | |
| Salaries and employee benefits | Ps. 537 | Ps. 613 |
| Administrative and operational expenses | 13,583 | 14,564 |
| Rent, depreciation and amortization | 2,579 | 2,998 |
| Taxes other than income taxes | 1,303 | 1,594 |
| Contribution to IPAB | 1,332 | 1,410 |
| Total non-interest expense | **Ps. 19,334** | **Ps. 21,179** |

Non-interest expense was Ps. 21,179 million for the six months ended June 30, 2012 compared to Ps. 19,331 million for the six months ended June 30, 2011, an increase of Ps. 1,848 million, or 9.6%. This increase was primarily the result of higher administrative and operational expenses as compared to the same period last year.

Salaries and employee benefits expenses totaled Ps. 613 million (2.9% of non-interest expense) for the six months ended June 30, 2012 compared to Ps. 537 million (2.8% of non-interest expense) for the six months ended June 30, 2011, an increase of Ps. 76 million, or 14.2%. This increase was mainly attributable to an increase in the number of employees, from 26,788 as of June 30, 2011 to 28,475 as of June 30, 2012.

Administrative and operational expenses totaled Ps. 14,564 million (68.8% of non-interest expense) for the six months ended June 30, 2012 compared to Ps. 13,583 million (70.3% of non-interest expense) for the six months ended June 30, 2011, an increase of Ps. 981 million, or 7.2%. This increase was primarily the result of the implementation of our strategic growth plan, which required a greater investment in technology and infrastructure, including the modernization of our ATMs and upgrading of our technology. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures.”

Rent, depreciation and amortization expenses were Ps. 2,998 million (14.2% of non-interest expense) for the six months ended June 30, 2012 compared to Ps. 2,579 million (13.3% of non-interest expense) for the six months ended June 30, 2011, an increase of Ps. 419 million, or 16.2%. This increase was primarily the result of an increase in rental rates denominated in U.S. dollars in many of our corporate and branch buildings in Mexico.

Taxes other than income taxes were Ps. 1,594 million for the six months ended June 30, 2012 compared to Ps. 1,303 million for the six months ended June 30, 2011, an increase of Ps. 291 million, or 22.3%, primarily as a result of increases in our value-added tax paid, which resulted from an increase in rent expenses subject to the value-added tax.

Expenses related to contributions to IPAB were Ps. 1,410 million for the six months ended June 30, 2012 compared to Ps. 1,332 million for the six months ended June 30, 2011, an increase of Ps. 78 million, or 5.9%. This increase was attributable to an increase of 9.7% in the volume of deposits for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

*Current and deferred income tax*

Current and deferred income tax was Ps. 3,352 million for the six months ended June 30, 2012, a decrease of Ps. 397 million, or 10.6% as compared to the same period last year as a result of a Ps. 671 million decrease in current income tax. This decrease in current income tax resulted from an increase in the deductible tax rate due to higher inflation during the six months ended June 30, 2012 as compared to the corresponding period last year. Deferred income tax was Ps. 1,646 million for the six months ended June 30, 2012 compared to Ps. 1,372 million for the six months ended June 30 2011, an increase of Ps. 274 million, or 19.97%. This decrease in deferred income tax resulted from an increase in the valuation of certain of our investments.

*Net income*

Net income totaled Ps. 11,613 million for the six months ended June 30, 2012 compared to Ps. 11,741 million for the six months ended June 30, 2011, a decrease of Ps. 128 million, or 1.1%, as a result of an increase in net interest expenses and a decrease in trading income, each as compared to the same period in 2011.

***Year ended December 31, 2011 compared to year ended December 31, 2010***

The annual financial information presented in this section for the years ended December 31, 2010 and 2011 has been derived from and should be read in conjunction with our Audited Financial Statements and the notes thereto included elsewhere in this offering memorandum. Such annual financial information, unless stated differently, is presented in nominal pesos.

*Net interest income*

The following table sets forth the components of our net interest income:

| | For the Years ended December 31, | |
|---|---|---|
| | 2010 | 2011 |
| | (millions of Ps.) | |
| **Interest Income:** | | |
| Interest and fees on loans[1] | Ps. 63,400 | Ps. 69,981 |
| Interest on securities | 3,928 | 4,615 |
| Interest on cash and due from banks | 3,420 | 3,428 |
| Interest on repurchase agreements[2] | 14,984 | 13,963 |
| Interests on margin accounts | 104 | 100 |
| Other | 2,928 | 2,360 |
| Total interest income | Ps. 88,764 | Ps. 94,447 |
| **Interest Expense:** | | |
| Interest on demand deposits | 2,735 | 3,794 |
| Interest on time deposits[2] | 9,536 | 9,510 |
| Interest on interbank loans and loans from other entities | 938 | 813 |
| Interest on subordinated debentures | 2,404 | 3,260 |
| Interest on repurchase agreements[3] | 12,467 | 12,970 |
| Other | 538 | 634 |
| Total interest expense | 28,618 | 30,981 |
| Net interest income | Ps. 60,146 | Ps. 63,466 |

(1) Interest income includes origination fees on loans of Ps. 1,066 million for 2011 and Ps. 982 million for 2010. Includes interest earned on Special Cetes held in connection with funding the UDI Trusts, which were terminated in November 2009. See "—Financial Position."
(2) Includes interest paid on bank bonds.
(3) Interest income on repurchase agreements primarily represents interest income on derivatives and securities purchased under agreements to resell in accordance with Mexican Banking GAAP. Interest expense on repurchase agreements represents interest expense on funds received in connection with securities sold under agreements to repurchase in accordance with Mexican Banking GAAP. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

Net interest income in 2011 increased 5.5% as compared to 2010, mainly as a result of higher income from interest and fees on loans which increased by Ps. 6,581 million, or 10.4% year-over-year, due to an increase in the volume of loans during 2011 as compared to 2010.

*Interest income*

Interest income was Ps. 94,447 million for 2011 compared to Ps. 88,764 million for 2010, an increase of Ps. 5,683 million, or 6.4%. This increase was primarily the result of an increase in the average volume of loans.

Interest and fees on loans was Ps. 69,981 million (74.1% of interest income) for 2011 compared to Ps. 63,400 million (71.4% of interest income) for 2010, an increase of Ps. 6,581 million, or 10.4%. This increase was primarily attributable to an increase in the average volume of loans during 2011, especially in our consumer and credit card loan portfolios, resulting from a combination of a greater number of pre-approved loans disbursed and the execution of agreements with auto distributors for the origination of auto loans. See "The Bank–Retail Banking Unit–Consumer loans."

Interest on securities was Ps. 4,615 million (4.9% of interest income) for 2011 compared to Ps. 3,928 million (4.4% of interest income) for 2010, an increase of Ps. 687 million, or 17.5%. Despite historically low interest rates on the market, the increase in interest on securities in 2011 was primarily attributable to higher average volumes in government securities, such as *Bondes*, *Bonos IPAB*, and corporate bonds (*certificados bursátiles*) held by us.

Interest on repurchase agreements was Ps. 13,963 million (14.8% of interest income) for 2011 compared to Ps. 14,984 million (16.9% of interest income) for 2010, a decrease of Ps. 1,021 million, or 6.8%. This decrease was primarily attributable to a decrease in the number of securities purchased under repurchase agreements.

*Interest expense*

Interest expense was Ps. 30,981 million for 2011, compared to Ps. 28,618 million for 2010, an increase of Ps. 2,363 million, or 8.3%. This increase was primarily explained by a year-over-year increase of (i) Ps. 1,059 million, or 38.7%, in interest on demand deposits due to a larger volume of demand deposits in 2011, and (ii) Ps. 856.0 million, or 35.6%, in interest on subordinated debentures mainly due to an increase in the outstanding volume of subordinated debentures during 2011.

Interest on time deposits (including bank bonds) was Ps. 9,510 million for 2011, compared to Ps. 9,536 million for 2010, a decrease of Ps. 26 million, or 1.4%. In year-end balances, time deposits as a percentage of total deposits decreased from 29.7% in 2010 to 26.1% in 2011, while demand deposits increased from 70.3% in 2010 to 73.9% in 2011. This decrease in time deposits and increase in demand deposits was primarily attributable to a lower volume of time deposits due to our funding strategy of reducing the volume of time deposits and increasing demand deposits.

Interest on repurchase agreements was Ps. 12,970 million (41.8% of interest expense) for 2011 compared to Ps. 12,467 million (43.6% of interest expense) for 2010, an increase of Ps. 503 million, or 4.0%. This increase was primarily attributable to higher premiums paid due to an increase in the amount of securities sold under repurchase agreements.

*Provisions*

Provisions for loan losses charged against earnings were Ps. 20,011 million for 2011 compared to Ps. 19,626 million for 2010, an increase of Ps. 385 million, or 2.0%. This increase in loan loss provisions was primarily attributable to the expansion of our commercial and consumer loan portfolios.

Provisions for loan losses charged against stockholders' equity were Ps. 201 million in 2011. This charge was made against our retained earnings and was approved by the CNBV as a one-time charge resulting from the application of the new methodology to classify unsecured consumer loans and loans to states and municipalities. See notes 4 and 12 to our Audited Financial Statements included elsewhere in this offering memorandum.

*Non-interest income*

The following table sets forth the components of our non-interest income:

| | For the Years ended December 31, 2010 | 2011 |
|---|---|---|
| | (millions of Ps.) | |
| **Commissions and Fees:** | | |
| Account management | Ps. 3,153 | Ps. 2,572 |
| Cash management and fund transfers | 3,000 | 3,018 |
| Credit card | 6,139 | 6,796 |
| ATMs | 434 | 231 |
| Pension fund management | 2,795 | 2,976 |
| Mutual fund management(1) | 2,516 | 2,590 |
| Insurance(1) | 1,118 | 1,190 |
| Other | 1,443 | 1,178 |
| Total commissions and fees | 20,598 | 20,551 |
| **Trading Income:** | | |
| Valuation Result: | | |
| Derivatives | 612 | (1,670) |
| Foreign currency | 822 | (496) |
| Securities investments | (2,142) | (595) |
| Total valuation result | (708) | (2,761) |
| Purchase-sale result: | | |
| Derivatives | (3,815) | 2,804 |
| Foreign currency | 1,653 | 1,642 |
| Securities investments | 7,734 | 2,682 |
| Total purchase-sale result | 5,572 | 7,128 |
| Total trading income (loss), net | 4,864 | 4,367 |
| Other operating income (expenses) | 596 | 1,289 |
| Total non-interest income | Ps. 26,058 | Ps. 26,207 |

(1) These are services provided through GFBB affiliates.

Non-interest income, including trading income and other operating income, was Ps. 26,207 million for 2011 compared to Ps. 26,058 million for 2010, an increase of Ps. 149 million, or 0.6%.

Total commissions and fees were Ps. 20,551 million for 2011 (78.4% of non-interest income) compared to Ps. 20,598 million for 2010 (79.0% of non-interest income), a decrease of Ps. 47 million, or 0.2%. This slight decrease was primarily attributable to regulatory changes that limited certain fees and commissions charged by banks for the use of ATMs, partially offset by an increase in fees and commissions received from credit cards and mutual funds and pension fund management.

Account management fees were Ps. 2,572 million (12.5% of total commissions and fees) for 2011, compared to Ps. 3,153 million (15.3% of total commissions and fees) for 2010, a decrease of Ps. 581 million, or 18.4%. This decrease in account management fees was attributable to regulatory changes that limited fees and commissions charged by banks.

Cash management and funds transfer fees were Ps. 3,018 million (14.7% of total commissions and fees) for 2011, compared to Ps. 3,000 million (14.6% of total commissions and fees) for 2010, an increase of Ps. 18 million, or 0.6%. This increase was mainly attributable to higher volumes of cash transfers from Mexican workers in the United States.

Credit card fees, which include merchant voucher fees, were Ps. 6,796 million (33.1% of total commissions and fees) for 2011, compared to Ps. 6,139 million (29.1% of total commissions and fees) for 2010, an increase of Ps. 657 million, or 10.7%. This increase in credit card fees collected during 2011 was primarily attributable to a higher number of transactions and higher volumes resulting from the origination of new credit cards.

Pension fund management fees were Ps. 2,976 million (14.5% of commissions and fees) for 2011 compared to Ps. 2,795 million (13.6% of commissions and fees) for 2010, an increase of Ps. 181 million, or 6.5%. This increase was primarily due to an increase of 12.3% in the volume of assets under management, which increased from Ps. 209.1 billion in 2010 to Ps. 234.8 billion in 2011.

Total trading income was Ps. 4,367 million for 2011 compared to Ps. 4,864 million for 2010, a decrease of Ps. 497 million, or 10.2%. This decrease was mainly attributable to higher losses on valuation of investments in securities and derivatives, which amounted to Ps. 2,761 million in 2011 compared to a loss of Ps. 708 million in 2010. Such higher losses on valuation of investments in securities and derivatives were mainly explained by higher volatility in the local and global financial markets. In 2011, we had a gain in purchase-sale operations on derivatives, foreign currency and securities of Ps. 7,128 million compared to Ps. 5,572 million in 2010, an increase of Ps. 1,556 million or 27.9%. Such increase was explained primarily by the gain of Ps. 2,804 million obtained in 2011 from purchase and sale of derivatives compared to a loss of Ps. 3,815 million in 2010. Foreign exchange revenues resulting from spot foreign exchange transactions and foreign exchange derivatives were essentially unchanged for 2011 compared to 2010. Security investments purchase and sale results was Ps. 2,682 million in 2011, a reduction of Ps. 5,052 million, or 65.3%, compared to 2010 due to lower volume transaction.

*Non-interest expense*

The following table sets forth the components of our non-interest expense:

| | For the Years ended December 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| | (millions of Ps. ) | | | |
| Salaries and employee benefits | Ps. | 1,044 | Ps. | 1,190 |
| Administrative and operational expenses | | 25,546 | | 27,238 |
| Rent, depreciation and amortization | | 5,049 | | 5,269 |
| Taxes other than income taxes | | 2,535 | | 2,682 |
| Contribution to IPAB | | 2,513 | | 2,753 |
| Total non-interest expense | Ps. | 36,687 | Ps. | 39,132 |

Non-interest expense was Ps. 39,132 million for 2011 compared to Ps. 36,687 million for 2010, an increase of Ps. 2,445 million, or 6.7%. Such increase in non-interest expense was primarily the result of greater administrative and operational expenses.

Salaries and employee benefits expenses were Ps. 1,190 million (3.0% of non-interest expense) for 2011 compared to Ps. 1,044 million (2.8% of non-interest expense) for 2010, an increase of Ps. 146 million, or 14.0%. This increase was mainly attributable to an increase in the number of employees from 27, 114 in 2010 to 28,060 in 2011.

Administrative and operational expenses were Ps. 27,238 million (69.6% of non-interest expense) for 2011 compared to Ps. 25,546 million (69.6% of non-interest expense) for 2010, an increase of Ps. 1,692 million, or 6.6%. This increase was primarily the result of the implementation of our strategic growth plan, which required a greater investment in technology and infrastructure, including modernization of our ATMs and technological sophistication.

Rent, depreciation and amortization expenses were Ps. 5,269 million (13.5% of non-interest expense) for 2011 compared to Ps. 5,049 million (13.8% of non-interest expense) for 2010, an increase of Ps. 220 million, or 4.4%. This increase was primarily the result of an increase in rental rates denominated in U.S. dollars in many of our corporate and branch buildings in Mexico.

Taxes other than income taxes were Ps. 2,682 million for 2011 compared to Ps. 2,535 million for 2010, an increase of Ps. 147 million, or 5.8%, primarily explained by an increase in value-added tax mainly attributable to higher rent expenses, which are subject to value-added tax.

Expenses related to contributions to IPAB were Ps. 2,753 million for 2011 compared to Ps. 2,513 million for 2010, an increase of Ps. 240 million, or 9.6%. This increase was attributable to an increase of 4.6% in the volume of deposits in 2011 as compared to 2010.

*Current and deferred income tax and employee profit sharing*

Current and deferred income tax was Ps. 7,009 million for 2011, a decrease of Ps. 326 million, or 4.4% from Ps. 7,335 million for 2010. The decrease is largely explained by the amortization during 2011 of deferred taxes originated in previous years from allowances for loan losses.

Current income taxes were Ps. 5,052 million for 2011 compared to Ps. 9,612 million for 2010, an increase of Ps. 4,560 million, and employee profit sharing was Ps. 1,957 million for 2011 compared to Ps. 2,277 million for 2010, a decrease of Ps. 320 million, or 14.0%.

*Net income*

Net income was Ps. 23,467 million for 2011 compared to Ps. 22,541 million for 2010, an increase of Ps. 926 million or 4.1%, as a result of the combination of a higher net interest income and lower effective tax rate.

***Year ended December 31, 2010 compared to year ended December 31, 2009***

The annual financial information presented in this section for the years ended December 31, 2009 and 2010 has been derived from and should be read in conjunction with our Audited Financial Statements and the notes thereto included elsewhere in this offering memorandum. Such annual financial information, unless stated differently, is presented in nominal pesos.

*Net interest income*

The following table sets forth the components of our net interest income:

| | For the Years ended December 31, | |
|---|---|---|
| | 2009 | 2010 |
| | (millions of Ps. ) | |
| **Interest Income:** | | |
| Interest and fees on loans[1] | Ps. 66,942 | Ps. 63,400 |
| Interest on securities | 2,072 | 3,928 |
| Interest on cash and due from banks | 4,199 | 3,420 |
| Interest on repurchase agreements[2] | 22,315 | 14,984 |
| Interests on margin accounts | 119 | 104 |
| Other | 1,978 | 2,928 |
| Total interest income | Ps. 97,625 | Ps. 88,764 |
| **Interest Expense:** | | |
| Interest on demand deposits | 2,771 | 2,735 |
| Interest on time deposits[3] | 11,886 | 9,536 |
| Interest on interbank loans and loans from other entities | 1,623 | 938 |
| Interest on subordinated debentures | 2,085 | 2,404 |
| Interest on repurchase agreements[2] | 19,687 | 12,467 |
| Other… | 353 | 538 |
| Total interest expense | 38,405 | 28,618 |
| Net interest income | Ps. 59,220 | Ps. 60,146 |

(1) Interest income includes origination fees on loans of Ps. 982 million for 2010 and Ps. 897 million for 2009. Includes interest earned on Special Cetes held in connection with funding the UDI Trusts, terminated in November 2009. See "—Financial Position."
(2) Interest income on repurchase agreements primarily represents interest income on derivatives and securities purchased under agreements to resell in accordance with Mexican Banking GAAP. Interest expense on repurchase agreements represents interest expense on funds received in connection with securities sold under agreements to repurchase in accordance with Mexican Banking GAAP. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."
(3) Includes interest paid on bank bonds.

Net interest income in 2010 was Ps. 60,146 million compared to Ps. 59,220 million for 2009, an increase of Ps. 926 million, or 1.6%. This increase was mainly the result of a Ps. 9,787 million, or 25.5% decrease in total interest expense as a result of our strategy to increase the sources of low cost funding, primarily demand deposits, as well as a decrease in interest paid on repurchase agreements as a result of lower interest rate levels in the market.

In terms of local currency margins, the difference between the interest rate we charged on average interest-earning assets of 9.5% and the interest rate we paid on average interest-bearing liabilities of 3.3% resulted in a yield spread of 6.2% for 2010, compared to a yield spread of 5.4% for 2009.

*Interest income*

Total interest income was Ps. 88,764 million for 2010 compared to Ps. 97,625 million for 2009, a decrease of Ps. 8,861 million, or 9.1%. This decrease was primarily the result of lower average loan volumes in high yield products, in spite of higher balances at the end of 2010 in almost all lending products. This decrease in total interest income was also the result of lower yields and interest rates on securities resulting from expansive monetary policies adopted by *Banco de México* that reduced real interest rates to historical minimum levels. The interest reference rate (the average of the *Tasa de Interés Interbancaria de Equilibrio,* or TIIE) decreased from 5.9% during 2009 to 4.9% during 2010.

Interest and fees on loans was Ps. 63,400 million (71.4% of interest income) for 2010 compared to Ps. 66,942 million (68.6% of interest income) for 2009, a decrease of Ps. 3,542 million, or 5.3%. This decrease was primarily attributable to a decrease of 8.43% in the average size of our outstanding credit card loans in 2009 reflecting the macro environment at the time.

Interest on securities was Ps. 3,928 million (4.4% of interest income) for 2010 compared to Ps. 2,072 million (2.1% of interest income) for 2009, an increase of Ps. 1,856 million, or 89.6%. This decrease was primarily attributable to lower yields and interest rates on investments in securities resulting from expansive monetary policies that reduced real interest rates to historical minimum levels.

Interest on cash and due from banks was Ps. 3,420 million (3.9% of interest income) for 2010 compared to Ps. 4,199 million (4.3% of interest income) for 2009, a decrease of Ps. 779 million, or 18.6%. The decrease was also attributable primarily to lower interest earned resulting from expansive monetary policies that reduced real interest rates to historical minimum levels.

Interest on repurchase agreements was Ps. 14,984 million (16.9% of interest income) for 2010 compared to Ps. 22,315 million (22.9% of interest income) for 2009, a decrease of Ps. 7,331 million, or 32.9%. This decrease was primarily attributable to the lower interest rate levels in the market resulting from expansive monetary policies, and a decrease in the average volume of repurchase transaction over bonds, particularly during the second half of 2010.

*Interest expense*

Interest expense was Ps. 28,618 million for 2010 compared to Ps. 38,405 million for 2009, a decrease of Ps. 9,789 million, or 25.5%. This decrease was primarily the result of our funding strategy, focused primarily on increasing our low cost funding.

Interest on time deposits (including bank bonds) was Ps. 9,536 million (33.3% of interest expense) for 2010, compared to Ps. 11,886 million (30.9% of interest expense) for 2009, a decrease of Ps. 2,350 million, or 19.8%. This decrease was primarily the result of an 11.5% decrease in 2010 of our average time deposits funding and an 8.6% increase in 2010 of our average funding through demand deposits, reflecting our low cost funding strategy. In year-end balances, the contribution of time deposits decreased from 34.7% in 2009 to 29.7% in 2010, while the contribution of demand deposits grew from 65.3% in 2009 to 70.3% (496 basis points higher) resulting in a reduction of our funding cost as demand deposits represent our lowest-cost source of funding.

Interest on repurchase agreements was Ps. 12,467 million (43.6% of interest expense) for 2010 compared to Ps. 19,687 million (51.3% of interest expense) for 2009, a decrease of Ps. 7,220 million, or 36.7%. This decrease was also attributable primarily to a reduction of interest rates over the period when compared to previous year in securities sold under agreements to repurchase due to expansive monetary policies.

*Provisions*

Provisions for loan losses charged against earnings were Ps. 19,626 million for 2010 compared to Ps. 27,255 million for 2009, a decrease of Ps. 7,629 million, or 28.0%. The decrease in loan loss provisions was primarily attributable to an improvement in the quality of our loan portfolio, particularly in the case of our credit card portfolio, in line with the country's economic recovery.

No provisions for loan losses charged against stockholders' equity were made in 2010. During 2009, the CNBV approved a provision for loan losses charged against stockholders' equity, within the results of from prior years, of Ps. 1,323 million. This provision resulted from a one-time application of the new methodology to classify our credit card loan portfolio issued by the CNBV on August 12, 2009. See notes 4 and 13 to our Audited Financial Statements included elsewhere in this offering memorandum.

*Non-interest income*

The following table sets forth the components of our non-interest income:

| | For the Years ended December 31, | |
|---|---|---|
| | 2009 | 2010 |
| | (millions of Ps. ) | |
| **Commissions and fees:** | | |
| Account management | Ps. 3,134 | Ps. 3,153 |
| Cash management and fund transfers | 3,127 | 3,000 |
| Credit card | 5,396 | 6,139 |
| ATMs | 685 | 434 |
| Pension fund management | 2,332 | 2,795 |
| Mutual fund management[1] | 1,304 | 2,516 |
| Insurance[1] | 1,016 | 1,118 |
| Other | 1,689 | 1,443 |
| Total commissions and fees | 18,683 | 20,598 |
| **Trading income:** | | |
| Valuation result: | | |
| Derivatives | 3,944 | 612 |
| Foreign currency | (4,970) | 822 |
| Securities investments | 3,349 | (2,142) |
| Total valuation result | 2,323 | (708) |
| Purchase-sale result: | | |
| Derivatives | 2,040 | (3,815) |
| Foreign currency | 1,584 | 1,653 |
| Securities investments | 332 | 7,734 |
| Total purchase-sale result | 3,956 | 5,572 |
| Total trading income (loss), net | 6,279 | 4,864 |
| Other operating income (expenses) | 23 | 596 |
| Total non-interest income | Ps. 24,985 | Ps. 26,058 |

(1) These are services provided through GFBB affiliates.

Non-interest income, including trading income and other operating income, was Ps. 26,058 million for 2010 compared to Ps. 24,985 million for 2009, an increase of Ps. 1,073 million, or 4.3%. This increase was primarily attributable to an increase in commissions and fees in 2010, as compared to 2009, resulting from a higher volume of transactions related to pension fund and mutual fund management consistent with the indications of an economic recovery in Mexico, partially offset by a decrease in trading income mainly attributable to losses on the valuation of investments on securities and hedging derivatives.

Total commissions and fees were Ps. 20,598 million for 2010 compared to Ps. 18,683 million for 2009, an increase of Ps. 1,915 million, or 10.2%. This increase was primarily attributable to an increase of mutual fund management commissions resulting from an increase of 27.2% of volume of mutual funds managed during 2010 as compared to the previous year. Credit card fees also increased Ps. 743 million or 13.8%, between 2009 and 2010, as a result of increased consumption levels, reflecting an improvement in the consumer confidence. Pension fund management fees in 2010 increased Ps. 463 million, or 19.9%, as compared to 2009. This increase was primarily due to an increase of 16.9% in the amount of resources managed by the funds.

Account management fees were Ps. 3,153 million (15.3% of total commissions and fees) for 2010, compared to Ps. 3,134 million (16.8% of total commissions and fees) for 2009, representing a slight increase of Ps. 19 million, or 0.6%. Although the amount of account management fees remained stable year-over-year, their weight with respect to the total amount of commissions and fees showed a reduction of 1.5% in 2010 as compared to 2009.

Cash management and funds transfer fees were Ps. 3,000 million (14.6% of commissions and fees) for 2010, compared to Ps. 3,127 million (16.7% of commissions and fees) for 2009, a decrease of Ps. 127 million, or 4.1%. This decrease was mainly attributable to the reduced amount of funds transfers from Mexican workers in the United States, which was in line with the appreciation of the peso against the U.S. dollar during 2010. During this period, the average peso/U.S. dollar exchange rate decreased from Ps. 13.5719 = to U.S. $1.00 in 2009 to Ps. 12.6422 = to U.S. $1.00 in 2010.

Credit card fees, which include merchant voucher fees were Ps. 6,139 million (29.8% of commissions and fees) for 2010 compared to Ps. 5,396 million (28.9% of commissions and fees) for 2009, an increase of Ps. 743 million, or 13.8%. This increase in credit card fees charged during 2010 was primarily attributable to an increase in the number of transactions and higher volumes resulting from new credit cards issued, which increased approximately 23.8% in 2010 when compared to 2009.

Pension fund management fees were Ps. 2,795 million (13.6% of commissions and fees) for 2010 compared to Ps. 2,332 million (12.5% of commissions and fees) for 2009, an increase of Ps. 463 million, or 19.9%. This increase was primarily due to an increase of 17.1% in the amount of funds under management, which grew to Ps. 209.1 billion in 2010 from Ps. 178.8 billion in 2009.

Commissions and fees represented 79.0% of non-interest income for 2010 compared to 74.8% for 2009.

Total trading income was Ps. 4,864 million for 2010 compared to Ps. 6,279 million for 2009, a decrease of Ps. 1,415 million or 22.5%. This decrease was mainly attributable to losses on the valuation of investments on securities and hedging derivatives of Ps. 708 million in 2010 compared to a gain of Ps. 2,323 million in 2009, which resulted from a lower volume of transactions with foreign counterparties as a consequence of closing our Grand Cayman agency, and low interest rates levels in the market during 2009. In 2010 we had a gain of Ps. 5,572 million from purchase and sale of securities and derivatives and foreign exchange transactions compared to a gain of Ps. 3,956 million in 2009, an increase of Ps. 1,616 million, or 40.8%. This increase resulted from a Ps. 3,919 million gain from the purchase and sale of securities and derivatives compared to a gain of Ps. 2,372 million in 2009, which represented an increase of Ps. 1,547 million, or 65.2%. Foreign exchange revenues resulting from spot foreign exchange transactions and foreign exchange derivatives were essentially unchanged for 2010 compared to 2009.

*Non-interest expense*

The following table sets forth the components of our non-interest expense:

| | For the Years ended December 31, | | | |
|---|---|---|---|---|
| | 2009 | | 2010 | |
| | (millions of Ps.) | | | |
| Salaries and employee benefits | Ps. | 1,295 | Ps. | 1,044 |
| Administrative and operational expenses | | 22,719 | | 25,546 |
| Rent, depreciation and amortization | | 4,618 | | 5,049 |
| Taxes other than income taxes | | 1,932 | | 2,535 |
| Contribution to IPAB | | 2,527 | | 2,513 |
| Total non-interest expense | Ps. | 33,091 | Ps. | 36,687 |

Non-interest expense was Ps. 36,687 million for 2010 compared to Ps. 33,091 million for 2009, an increase of Ps. 3,596 million, or 10.9%. Such increase in non-interest expenses was primarily the result of greater administrative and operational expenses, as well as an increase in taxes and (other than income taxes).

Salaries and employee benefit expenses were Ps. 1,044 million (2.8% of non-interest expense) for 2010 compared to Ps. 1,295 million (3.9% of non-interest expense) for 2009, a decrease of Ps. 251 million, or 19.4%. This decrease was primarily attributable to reduced expenses in salaries and benefits in our subsidiaries resulting from an extraordinary reserve in provisions and pension funds of approximately Ps. 150 million in 2009.

Administrative and operational expenses were Ps. 25,546 million (69.6% of non-interest expense) for 2010 compared to Ps. 22,719 million (68.72% of non-interest expense) for 2009, an increase of Ps. 2,827 million, or 12.4%. This increase was primarily the result of the implementation of our strategic growth plan, which required a greater investment technology and infrastructure, including modernization of our ATMs and increased technological sophistication.

Rent, depreciation and amortization expenses were Ps. 5,049 million (13.8% of non-interest expense) for 2010 compared to Ps. 4,618 million (14.0% of non-interest expense) for 2009, an increase of Ps. 431 million, or 9.3%. The increase was primarily the result of an increase in rental rates denominated in U.S. dollars in many of our corporate and branch buildings in Mexico.

Taxes other than income taxes were Ps. 2,535 million for 2010 compared to Ps. 1,932 million for 2009, an increase of Ps. 603 million, or 31.2%, which was primarily attributable to a 1.0% increase in the value added tax rate.

Expenses related to contributions to IPAB were Ps. 2,513 million for 2010 compared to Ps. 2,527 million for 2009, a decrease of Ps. 14 million, or 0.55%. This decrease was attributable to a small reduction in the deposit base in 2010 when compared to 2009.

*Current and deferred income tax and employee profit sharing*

Current and deferred income tax was Ps. 7,335 million for 2010 compared to Ps. 5,482 million for 2009, an increase of Ps. 1,853 million, or 33.8%. This increase was primarily driven by the deduction of preventive loan loss allowances and the valuation of financial instruments. The effective tax rate in 2010 was 24.5% compared to 22.97% in 2009, an increase of 1.5%, primarily as a result of an increase in income before taxes. See note 26 to our Audited Financial Statements included elsewhere in this offering memorandum.

Current income taxes were Ps. 9,612 million for 2010 compared to Ps. 7,105 million for 2009, an increase of Ps. 2,507 million, or 35.3%.

Deferred income tax was Ps. 2,277 million for 2010 compared to Ps. 1,623 million for 2009, an increase of Ps. 654 million, or 40.3%.

*Net income*

Net income was Ps. 22,541 million for 2010 compared to Ps. 18,446 million for 2009, an increase of Ps. 4,095 million, or 22.2%, as a result of a higher net interest income and significantly lower provisioning for loan losses, principally in our consumer portfolio reflecting the overall recovery of the Mexican economy.

**Financial Position**

The following discussion compares our consolidated financial position as of December 31, 2009, 2010 and 2011, and as of June 30, 2012. Unless otherwise specified, the information is presented in nominal pesos.

***Assets***

As of June 30, 2012, we had total assets of Ps. 1,250,538 million, compared to Ps. 1,222,914 million as of December 31, 2011, representing an increase of 2.3%. This increase was attributable to a 2.7% increase in total performing loans, in particular consumer and mortgage loans, and in securities held by us.

As of December 31, 2011, we had total assets of Ps. 1,222,914 million, compared to Ps. 1,098,162 million as of December 31, 2010, representing an increase of 11.4%. This increase was attributable to a 7.9% increase in total performing loans, mainly driven by higher consumer and commercial lending.

As of December 31, 2010, we had total assets of Ps. 1,098,162 million, compared to Ps. 1,093,391 million as of December 31, 2009, representing an increase of 0.4%. This increase was attributable to a 12.0% increase in total performing loans, mainly driven by a significant increase in government and consumer loans. This growth has been consistent with the recovery of the Mexican economy from the global economic crisis.

As of December 31, 2009, we had total assets of Ps. 1,093,391 million, compared to Ps. 1,135,932 million as of December 31, 2008, representing a decrease of 3.7%. This decrease was attributable to a 12.3% decrease in cash due from banks, primarily related to lower investments in foreign financial institutions.

*Total performing loans*

As of June 30, 2012, we had total performing loans of Ps. 626,659 million compared to Ps. 610,216 million as of December 31, 2011, an increase of 2.7%. This increase was mainly attributable to a Ps. 8,721 million or 5.9% increase in the volume of our consumer loan portfolio and a Ps. 3,449 million or 2.4% increase in the volume of our mortgage loan portfolio. As of June 30, 2012, performing commercial loans represented 51.4% of total performing loans, performing consumer loans represented 24.8% of total performing loans and performing residential mortgage loans represented 23.8% of total performing loans.

As of December 31, 2011, we had total performing loans of Ps. 610,216 million compared to Ps. 565,302 million as of December 31, 2010, an increase of 7.9%. This increase was attributable mainly to an increase in the volume of our consumer loan portfolio of Ps. 28,060, million or 23.6%, and an increase in the volume of our commercial loan portfolio of Ps. 16,749 million or 5.6%, as compared to 2009. As of December 31, 2011, performing commercial loans represented 52.1% of total performing loans, performing consumer loans represented 24.0% of total performing loans, and performing residential mortgage loans represented 23.9% of total performing loans.

As of December 31, 2010, we had total performing loans of Ps. 565,302 million compared to Ps. 504,555 million as of December 31, 2009, an increase of 12.0%. This increase was attributable generally to the recovery of the Mexican economy and in particular to a 13.3% increase in commercial loans, principally driven by a 56.8% increase in government loans and a 14.4% increase in consumer loans, in each case compared to the preceding year. As of December 31, 2010, performing commercial loans represented 53.3% of total performing loans, performing consumer loans represented 21.0% of total performing loans, and performing residential mortgage loans represented 25.7% of total performing loans.

As of December 31, 2009, we had total performing loans of Ps. 504,555 million compared to Ps. 501,645 million as of December 31, 2008, an increase of 0.6%. This increase was attributable primarily to a 5.1% increase in commercial loans, which include three main divisions: business or commercial activity, financial and government entities. Performing commercial loans represented 52.7% of total performing loans as of December 31, 2009, performing consumer loans represented 20.6% of total performing loans and performing residential mortgage loans represented 26.8% of total performing loans.

*Total non-performing loans*

As of June 30, 2012, we had total non-performing loans of Ps. 22,327 million compared to Ps. 19,681 million as of December 31, 2011, an increase of Ps. 2,646 million, or 13.4%. This increase was attributable primarily to a higher number of non-performing loans in our commercial credit portfolio, particularly, our housing developers portfolio. As of June 30, 2012, non-performing consumer loans represented 1.0% of our total loans, non-performing mortgage loans represented 1.2% of our total loans and non-performing commercial loans represented 1.2% of our total loans.

As of December 31, 2011, we had total non-performing loans of Ps. 19,681 million compared to Ps. 14,423 million as of December 31, 2010, an increase of Ps. 5,258 million, or 36.5%. This increase was attributable primarily to a higher number of non-performing loans in our commercial credit portfolio; specifically, in our housing developers portfolio, which resulted from the economic crisis in 2008. As of December 31, 2011, non-performing consumer loans represented 0.9% of our total loans, non-performing mortgage loans represented 1.0% of our total loans and non-performing commercial loans represented 1.2% of our total loans.

As of December 31, 2010, we had total non-performing loans of Ps. 14,423 million compared to Ps. 19,838 million as of December 31, 2009, a decrease of Ps. 5,415 million, or 27.3%. This decrease was a result of a significant improvement in the delinquency rate, mainly related to the economic recovery of the Mexican economy which showed a GDP growth of 5.5% in 2010 compared to the 6.6% GDP contraction in 2009. As of December 31, 2010, non-performing consumer loans represented 0.9% of our total loans, non-performing mortgage loans represented 0.9% of our total loans and non-performing commercial loans represented 0.7% of our total loans.

As of December 31, 2009 we had total non-performing loans of Ps. 19,838 million compared to Ps. 16,420 million as of December 31, 2008, an increase of Ps. 3,418 million. This increase was a result of a higher delinquency rate, mainly related to credit card loans in our consumer loan portfolio. As of December 31, 2009, non-performing consumer loans represented 1.7% of total loans, non-performing mortgage loans represented 1.3% of total loans and non-performing commercial loans represented 0.9% of total loans.

*Deferred taxes, net*

As of June 30, 2012, our net deferred taxes were Ps. 4,593 million compared to Ps. 6,367 million as of December 31, 2011, a decrease of 27.9%. This decrease was primarily due to an increase in the fair value of our financial instruments, which, in turn, lead to a reduction in our net deferred tax assets.

As of December 31, 2011 our net deferred taxes were Ps. 6,367 million compared to Ps. 8,665 million for 2010, a decrease of 26.5%. This decrease was primarily explained by an amortization during 2011 of deferred taxes originated in previous years from allowances for loan losses.

Our net deferred taxes were Ps. 8,665 million for 2010 compared to Ps. 6,773 million for 2009, an increase of 27.9%. This increase was primarily attributable to the origination of deferred taxes, which mainly came from the allowances for loan losses.

***Liabilities***

As of June 30, 2012, we had total liabilities of Ps. 1,133,732 million compared to Ps. 1,106,537 million as of December 31, 2011, an increase of 2.5%. This increase was mainly attributable to an increase of 64.1% in our liabilities from repurchase agreements and an increase of 7.0% in demand deposits.

As of December 31, 2011, we had total liabilities of Ps. 1,106,537 million compared to Ps. 988,750 million as of December 31, 2010, an increase of Ps. 117,787 million, or 11.9%. This increase was mainly attributable to an increase of 52.8% in our liabilities from repurchase agreements, 4.6% in the volume of deposits and 51.3% in the volume of subordinated debt, in each case as compared to the previous year. In March 2011, we issued U.S. $2,000 million in subordinated and senior notes.

As of December 31, 2010, we had total liabilities of Ps. 988,750 million compared to Ps. 994,801 million as of December 31, 2009, a decrease of Ps. 6,051 million, or 0.6%. This decrease was mainly driven by a 41.9% decrease in our liabilities from repurchase agreements resulting from a reduction in our borrowings through repurchase agreements, and a 9.7% decrease in time deposits, in each case as compared to the previous year.

As of December 31, 2009 we had total liabilities of Ps. 994,801 million compared to Ps. 1,054,789 million as of December 31, 2008, a 5.7% decrease. This decrease was attributable to a 63.9% reduction in interbank loans, mainly on the demand side.

*Deposits (including bank bonds)*

As of June 30, 2012, we had total deposits (including bank bonds) of Ps. 668,290 million compared to Ps. 645,436 million as of December 31, 2011, an increase of 3.5%. This increase was mainly attributable to a Ps. 30,442 million, or 7.0% increase in demand deposits, which was driven by our ongoing strategy to maintain a profitable funding mix. Time deposits decreased Ps. 9,723 million, or 6.3%, as a result of our decision to improve the profitability of our deposit base.

As of December 31, 2011, we had total deposits (including bank bonds) of Ps. 645,436 million compared to Ps. 617,335 million as of December 31, 2010, an increase of Ps. 28,101 million, or 4.6%. Such increase in deposits is a result of an increase in demand deposits of Ps. 34,971 million, or 8.7%, derived from our ongoing strategy to maintain a profitable funding mix. Time deposits decreased Ps. 15,799 or 9.3%, as a result of our decision to increase the profitability of our deposit base. As of December 31, 2011, we had Ps. 53,548 million in total bank bonds compared to Ps. 44,619 million as of December 31, 2010, an increase of Ps. 8,929 million, or 20.0%.

As of December 31, 2010, we had total deposits (including bank bonds) of Ps. 617,335 million compared to Ps. 588,514 million as of December 31, 2009, an increase of Ps. 28,821 million, or 4.9%. This increase was primarily the result of an increase in demand deposits of Ps. 47,491 million, or 13.4% derived from our ongoing strategy to maintain a profitable funding mix.

As of December 31, 2009, we had total deposits (including bank bonds) of Ps. 588,514 million compared to Ps. 555,227 million as of December 31, 2008, an increase of Ps. 33,287 million. This increase was primarily the result of an increase in demand deposits of Ps. 29,894 million, or 9.2%, and in time deposits of Ps. 4,988 million, or 2.7%.

*Interbank loans and loans from other entities*

As of June 30, 2012, we had interbank loans and loans from other entities of Ps. 15,492 million compared to Ps. 20,306 million as of December 31, 2011. This decrease was the result of lower requirements for short-term funding from banks and other entities.

As of December 31, 2011, we had interbank loans and loans from other entities in the amount of Ps. 20,306 million compared to Ps. 60,425 million as of December 31, 2010, a decrease of Ps. 40,119 million. This decrease was the result of a decrease in payable on demand loans of Ps. 43,979 million. Interbank loans and loans from other entities represented 1.8% of our total liabilities as of December 31, 2011.

As of December 31, 2010 we had interbank loans and loans from other entities in the amount of Ps. 60,425 million compared to Ps. 14,010 million as of December 31, 2009, an increase of Ps. 4 6,415 million. This increase was the result of an increase in payable on demand loans of Ps. 46,675 million. Interbank loans and loans from other entities represented 6.1% of our total liabilities as of December 31, 2010.

As of December 31, 2009, we had interbank loans and loans from other entities in the amount of Ps. 14,010 million compared to Ps. 38,820 million as of December 31, 2008, a decrease of Ps. 24,810 million. This decrease was the result of a significant decrease in payable on demand loans, mainly of short-term loans. Interbank loans and loans from other entities represented 1.4% of our total liabilities as of December 31, 2009.

*Subordinated debt*

On July 19, 2012, we issued in the international markets U.S. $1,000 million Fixed Rate Cumulative Subordinated Preferred Notes Due 2022. At June 30, 2012, we had approximately Ps. 49,756 million of outstanding subordinated debt, which represented 4.4% of our total liabilities.

On March 10, 2011, we issued in the international markets U.S. $1,250 million Fixed Rate Subordinated Preferred Notes due 2021. At March 31, 2012, we had approximately Ps. 58,837 million of outstanding subordinated debt, which represented 5.2% of our total liabilities.

On April 22, 2010, we issued in the international markets U.S. $1,000 million Non-Cumulative Fixed Rate Subordinated Non-Preferred Notes due 2020. At December 31, 2010, we had approximately Ps. 41,287 million of outstanding subordinated debt, which represented 4.2% of our total liabilities.

On June 19, 2009, we issued the 2019 Subordinated Debentures at TIIE plus 130 basis points payable every 28 days and maturing on June 7, 2019. At December 31, 2009, we had approximately Ps. 37,175 million of outstanding subordinated debt, which represented 3.7% of our total liabilities.

On December 10, 2008, we issued the 2020 Subordinated Debentures at TIIE plus 100 basis points payable every 28 days and maturing on November 26, 2020. On October 6, 2008, we issued Subordinated Debentures at TIIE plus 65 basis points payable every 28 days and maturing on September 24, 2018. On July 28, 2008, we issued the 2018 Subordinated Debentures at TIIE plus 60 basis points payable every 28 days and maturing on July 16, 2018. On May 17, 2007, we issued the 2022 Subordinated Debentures at 6.008%, maturing on May 17, 2022, together with the 2017 Subordinated Debentures at 4.799%, maturing on May 17, 2017. On September 28, 2006, we issued the 2014 Subordinated Debentures at TIIE plus 30 basis points payable every 28 days and maturing on September 18, 2014. At December 31, 2008, we had approximately Ps. 35,620 million of outstanding subordinated debt, which represented 3.4% of our total liabilities.

***Stockholders' equity***

As of June 30, 2012, our stockholders' equity was Ps. 116,806 million compared to Ps. 116,377 million as of December 31, 2011, an increase of 0.4%. This increase was mainly attributable to an increase in retained earnings. Stockholders' equity represented 9.3% of our total assets as of June 30, 2012.

As of December 31, 2011, our stockholders' equity was Ps. 116,377 million compared to Ps. 109,412 million as of December 31, 2010, an increase of Ps. 6,965, or 6.4%. This increase was mainly the result of an increase of 19.7% in retained earnings, and a 4.1% increase in net income. Stockholders' equity represented 9.5% of our total assets as of December 31, 2011.

As of December 31, 2010, our stockholders' equity was Ps. 109,412 million compared to Ps. 98,590 million as of December 31, 2009, an increase of Ps. 10,822, or 11.0%. This increase was mainly the result of a 22.2% increase in net income. Stockholders' equity represented 10.0% of our total assets as of December 31, 2010.

As of December 31, 2009, our stockholders' equity was Ps. 98,590 million compared to Ps. 81,143 million as of December 31, 2008, an increase of Ps. 17,447 million, or 21.5%. This increase was a result of an increase of retained earnings. In addition, as a consequence of the merger with Bancomer Servicios, we recorded an increase in paid-in capital in the amount of Ps. 415 million. Stockholders' equity represented 9.0% of our total assets as of December 31, 2009. See note 27 to our Audited Financial Statements included elsewhere in this offering memorandum.

**Liquidity and Funding**

The purpose of liquidity management is to ensure that we have funds available to meet our present and future financial obligations and to respond to business opportunities as they arise. Liquidity needs arise from withdrawals of deposits, repayments on maturity of borrowed funds, extensions of loans or other forms of credit and working capital needs.

We have three principal sources of peso funding: (1) customer deposits, which are highly concentrated in interest bearing demand deposits, (2) *pagarés bancarios*, which are short-term promissory notes and (3) repurchase agreements (see "Annex A—Significant differences between Mexican Banking GAAP and U.S. GAAP—Repurchase Agreements"). The high concentration of interest bearing demand deposits as compared with term obligations reflects public demand for highly liquid deposit instruments with high yields as a result of Mexico's long history of high inflation. Our policy is to price our assets based upon our highest cost source of funds both to ensure that loan pricing reflects our current liquidity conditions and to maximize net interest income.

Customer deposits are our most important funding source and are also our least expensive one. Our funding strategy focuses on increasing the sources of low-cost funding through new banking products and commercial campaigns oriented to grow the volume of demand deposits from our existing customers and expand our customer base. *Pagarés bancarios* are generally issued to meet our short-term funding needs; we seek to replace them with deposits as soon as practical. *Pagarés bancarios* are generally issued with maturities ranging from one to 128 days. As of June 30, 2012, we had Ps. 668,290 million (58.9% of total liabilities) of total deposits.

In the future, we expect to continue using all three funding sources in accordance with their availability, their cost, and our asset and liability management needs. We are aware of the liquidity risk represented by the short-term nature of our funding sources; however, we believe we can respond to a liquidity problem by increasing the interest rates we pay on deposits, by altering our mix of funding sources and by liquidating our short-term assets. We review our pricing policy daily and we believe we are able to reflect higher costs of funding in the pricing of our loans quickly, reducing the effect of any increases in interest paid on deposits as a result of decreased liquidity on our results of operations.

We complement our medium and long-term peso funding by issuing securities in the Mexican market. In November 2006, we established a Ps. 20,000 million program for the issuance of "*Certificados Bursátiles*" in Mexico. The "*Certificados Bursátiles*" program provides for the issuance of peso or UDI denominated notes with tenors of up to 35 years. In January 2011, we renewed the program and registered it with the CNBV for a five-year period to issue in the Mexican market up to Ps. 60,000 million of "*certificados bursátiles*," "*certificados de depósito*" and "*pagarés con rendimiento liquidable al vencimiento*," in UDIs and in Pesos. On May 18 and June 7, 2012, we issued notes under the program for Ps. 2,000 million and Ps. 1,000 million, respectively. As of June 30, 2012, we had approximately Ps. 33,277 million of notes outstanding under the program, of which approximately Ps. 17,478 million was denominated in pesos and approximately Ps. 15,799 million was denominated in UDIs.

The funding for our UDI Trusts is provided by UDI-denominated deposits from the Mexican Government. In return, we purchased from the Mexican Government Special *Cetes* having an interest rate based on the *Cetes* rate and maturities and principal amounts that mirror the maturities and the principal amount of the loans in the UDI Trusts. The Special *Cetes* pay interest in cash only as the loans in the UDI Trusts mature. The Mexican Government's UDI-denominated deposits have a fixed real interest rate, which varies depending on the type of loan in the UDI Trusts. We have complemented our UDI funding by issuing *"Certificados Bursátiles"* as described above. The trusts created for the administration of these UDI-denominated loans were extinguished at the end of November 2009 and the balances were incorporated into our balance sheet.

Our management expects that cash flow from operations and other sources of liquidity, including the net proceeds of this offering will be sufficient to meet our liquidity requirements over the next 12 months, including our expected 2012 capital expenditures discussed below.

**Foreign Currency Position**

Our foreign-currency denominated assets, substantially all of which are dollar denominated, are funded from a number of sources. These sources include deposits of the same currency obtained from various sources, primarily through deposits of private banking customers, medium and large Mexican companies, primarily in the export sector, the placement of certificates of deposit in the Eurodollar market, interbank deposits, fixed-rate notes and subordinated debentures and asset securitizations. In the case of foreign trade transactions, we use trade financing facilities from Mexican development banks and foreign export-import banks. Foreign currency funding rates are generally based on the London Interbank Offered Rate, or LIBOR.

*Banco de México* regulations require that a bank maintain open positions in foreign currencies no higher than a specified level with respect to its total Tier 1 Capital. As of June 30, 2012, our foreign currency-denominated assets, including derivative transactions, totaled U.S. $40.5 billion (Ps. 543,537 million), representing 43.5% of our total assets. At that date, our foreign currency-denominated liabilities, including derivative transactions, totaled to U.S. $38.5 billion (Ps. 516,381 million), representing 45.5% of our total liabilities. As part of our asset liability management strategy, we monitor closely our exposure to foreign currencies to minimize the effect of exchange rate movements on our income.

As of June 30, 2012, we were also in compliance with the limit established for us by *Banco de México* for maturity-adjusted net foreign currency-denominated liabilities, which was U.S. $16.9 billion (Ps. 227,089 million). As of such date, our maturity-adjusted net foreign currency-denominated liabilities were U.S. $3.9 billion (Ps. 53,503 million). For a discussion of the components of Tier 1 and Tier 2 Capital, see "Supervision and Regulation.

For the years ended December 31, 2009, 2010, and 2011 and for the six months ended June 30, 2012, we were in compliance with all regulatory requirements relating to the ratio of dollar-denominated liabilities to total liabilities.

**Capital Expenditures**

Capital expenditures have primarily consisted of expenditures for technology and systems, which decreased its weight with respect to the total investment in capital expenditures from 66% in 2009 to 55% in 2010. In 2011, this weight increased to 63%, mainly because we implemented previously planned and scheduled investments in technology and systems. The purpose of our capital expenditures plan is to increase the development of new strategies and programs, enhance long-term productivity, significantly change our processes and develop new business models.

In 2011, we made investments in capital expenditures in the aggregate amount of U.S. $257 million, which primarily consisted of technology and infrastructure. These expenditures were funded with cash generated from our operations and other sources of liquidity. We expect to have capital expenditures of approximately U.S. $270 million for each of 2012 and 2013 (including value-added taxes). We intend to fund such capital expenditures from internal resources. In addition, we expect to invest approximately U.S. $900 million in connection with the development of our new corporate and operative buildings. This investment will be disbursed over the next three years, and will be funded with internal resources. We expect to complete the construction of our new corporate and operating buildings by 2014.

**Risk-Based Capital**

Pursuant to the Mexican Capitalization Requirements, we are required to maintain specified levels of net capital on an unconsolidated basis as a percentage of risk-weighted assets and credit risk. The Rules for Capitalization and the Mexican Capitalization Requirements set forth the methodology to determine the net capital required relative to market risk and risk-weighted assets. See "Supervision and Regulation—Capitalization." Those regulations provide that (1) our investment in subsidiaries that are related to us in accordance with Article 73 of the Mexican Banking Law, (2) our investment in subsidiaries that do not operate in the financial sector, and (3) revaluation surpluses related to the investments referred to in (1) and (2) above, must be subtracted from the calculation of Tier 1 Capital. The minimum Capital Ratio currently required by the Mexican Capitalization Requirements in order not to be required to defer or cancel interest payments or defer principal payments of our subordinated debt, as applicable, that qualifies to be computed as part of our total net capital, such as the Notes, is 8.0%. As of June 30, 2012 and December 31, 2011, our Capital Ratio was 14.91% and 15.84%, respectively. The table below presents our risk-weighted assets and Capital Ratios as of December 31, 2010 and 2011 and as of June 30, 2012, determined, as required by regulations, on an unconsolidated basis.

| | As of December 31, | | As of June 30, |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (millions of Ps., except for percentages) | | |
| Tier 1 | Ps. 113,589 | Ps. 118,541 | 119,166 |
| Tier 2 | 27,652 | 47,051 | 34,513 |
| Total capital | Ps. 141,241 | Ps. 165,592 | Ps. 153,679 |
| Risk-weighted assets: | | | |
| Credit risk | 554,556 | 620,875 | 615,343 |
| Risk weighted assets | 272,888 | 302,222 | 288,554 |
| Operational risk | 107,908 | 122,175 | 126,691 |
| Total risk weighted assets | 935,352 | 1,045,271 | 1,030,587 |
| Capital ratios (credit, market and operational risk)(1): | | | |
| Tier 1 Capital to risk-weighted assets | 12.14% | 11.34% | 11.56% |
| Tier 2 Capital to risk-weighted assets | 2.96% | 4.50% | 3.35% |
| Total capital to risk-weighted assets | 15.10% | 15.84% | 14.91% |

(1) The difference between the capital ratios presented in this table and the capital ratios presented in note 27 to our Audited Financial Statements included elsewhere in this offering memorandum is attributable to the fact that the capital ratios presented in this table are based on numbers furnished to the CNBV after the issuance of such financial statements.

After giving effect to the completion of this offering, and the application of the proceeds of the Notes, as well as the U.S. $1,000 million issuance of our Fixed Rate Cumulative Subordinated Preferred Notes on July 19, 2012, we expect that our Tier 2 Capital as of June 30, 2012 will increase by Ps. 20,112 million. See "Use of Proceeds" and "Capitalization".

## Off-Balance Sheet Arrangements

In the normal course of business, we are a party to a number of off-balance sheet activities that contain credit, market and operational risk that are not reflected in our Financial Statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit, and long-term contractual obligations under operating leases or service contracts. We record our off-balance sheet arrangements as memorandum accounts, which are described more fully in note 3 to our Audited Financial Statements included elsewhere in this offering memorandum.

We provide customers with off-balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. These loan commitments totaled Ps. 240,585 million as of June 30, 2012, Ps. 229,597 million as of December 31, 2011 and Ps. 199,413 million as of December 31, 2010.

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific covenant, guaranty and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness. We may also require comfort letters and oral assurances. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is required when we deem it necessary.

## SELECTED STATISTICAL INFORMATION

The following information should be read in conjunction with "Presentation of Certain Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Audited Financial Statements, together with the notes thereto, included elsewhere in this offering memorandum.

Unless otherwise specified, in accordance with Mexican Banking GAAP, our Financial Statements and the other financial information with respect to us contained in this offering memorandum are presented in consolidated form. We consolidate entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. Our investments in affiliates are accounted for under the equity method. See note 14 to our Audited Financial Statements included elsewhere in this offering memorandum.

Assets and liabilities have been classified by currency of denomination (pesos or foreign currencies), rather than by domicile of customer, because substantially all of our transactions are effected in Mexico or on behalf of Mexican residents in pesos or foreign currencies. The U.S. dollar is the principal foreign currency used in our transactions. However, Japanese yen, Swiss francs and euros are also used. For purposes of this section, all foreign currency assets and liabilities have been converted into U.S. dollars and then expressed in pesos.

Unless otherwise indicated, annual financial information for 2007 in the following tables is presented in constant pesos as of December 31, 2007; annual financial information for 2008, 2009, 2010 and 2011 is presented in nominal pesos.

Because Mexican tax law does not currently provide income tax exemptions for any investment securities, we do not hold any income tax-exempt investment securities and no tax-equivalence adjustments are considered necessary.

The loan portfolio information provided in this "Selected Statistical Information" was determined in accordance with the manner in which we have presented the components of our loan portfolio elsewhere in this offering memorandum, except that the loan portfolio data presented under this "Selected Statistical Information" does not include amounts attributable to accrued interest, which as of December 31, 2011 represented less than 0.5% of our total loan portfolio. Presentation of the financial and statistical information included in this "Selected Statistical Information" may differ from the manner of presentation required by Mexican Banking GAAP standards for the presentation of our financial statements. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

### Average Balance Sheet and Interest Rate Data

#### *Peso-denominated average balances and interest income*

Average balances for our peso-denominated assets and liabilities have been calculated in the following manner. For each month, an average of the daily peso balances was determined. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months.

For our consolidated subsidiaries, average balances have been calculated on the basis of the average of month-end balances.

#### *Foreign currency-denominated and UDI-denominated average balances and interest income*

Average balances and interest income (expense) for our foreign currency-denominated and UDI-denominated assets and liabilities have been translated into pesos and calculated in the following manner. For each month, an average of the daily foreign currency or UDI balances and of the interest income (expense) was determined. Such daily average balances and interest income (expense) are converted into pesos using the closing exchange rate for the applicable month as published by *Banco de México* in the Official Gazette of the Federation. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months so determined.

For our consolidated subsidiaries, average balances have been calculated on the basis of the average of month-end balances.

***Average interest rate***

The average annual rates earned on interest-earning assets and the average annual rate paid on interest-bearing liabilities are nominal rates.

*Average assets and interest rates*

The table below presents the average balance of assets, interest income and average annual interest rate for the periods specified.

| | For the Years ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2010 | | | 2011 | | |
| | Average Balance | Interest Income | Average Interest Rate | Average Balance | Interest Income | Average Interest Rate | Average Balance | Interest Income | Average Interest Rate |
| | (millions of pesos, except percentages) | | | | | | | | |
| **Deposits in banks:** | | | | | | | | | |
| Pesos | Ps. 67,573 | Ps. 3,850 | 5.70% | Ps. 68,953 | Ps. 3,205 | 4.65% | Ps. 71,157 | Ps. 3,220 | 4.53% |
| Foreign currency | 65,348 | 212 | 0.32% | 19,710 | 77 | 0.39% | 15,535 | 96 | 0.62% |
| Subtotal | 132,921 | 4,062 | 3.06% | 88,663 | 3,282 | 3.70% | 86,692 | 3,316 | 3.83% |
| **Government securities:** | | | | | | | | | |
| Pesos | 300,551 | 17,949 | 5.97% | 231,032 | 14,330 | 6.20% | 223,088 | 11,909 | 5.34% |
| UDIs | 1,984 | 110 | 5.54% | 4,018 | 266 | 6.62% | 3,612 | 236 | 6.53% |
| Foreign currency | 15,336 | 552 | 3.60% | 14,876 | 430 | 2.89% | 14,173 | 381 | 2.69% |
| Subtotal | 317,871 | 18,611 | 5.85% | 249,926 | 15,026 | 6.01% | 240,873 | 12,526 | 5.20% |
| **Investment in other fixed income securities:** | | | | | | | | | |
| Pesos | 15,287 | 808 | 5.29% | 20,375 | 891 | 4.37% | 14,634 | 936 | 6.40% |
| UDIs | 2,101 | 107 | 5.09% | 2,610 | 144 | 5.52% | 1,287 | 54 | 4.20% |
| Foreign currency | 79 | 3 | 3.80% | 5,358 | 26 | 0.49% | 7,980 | 43 | 0.54% |
| Subtotal | 17,467 | 918 | 5.26% | 28,343 | 1,061 | 3.74% | 23,901 | 1,033 | 4.32% |
| **Loans:**(1) | | | | | | | | | |
| Pesos | 438,591 | 65,678 | 14.97% | 460,872 | 63,535 | 13.79% | 504,122 | 71,104 | 14.10% |
| UDIs | 30,910 | 2,826 | 9.14% | 29,290 | 2,531 | 8.64% | 19,656 | 1,306 | 6.64% |
| Foreign currency | 43,873 | 1,787 | 4.07% | 52,778 | 2,366 | 4.48% | 73,484 | 2,925 | 3.98% |
| Subtotal | 513,374 | 70,291 | 13.69% | 542,940 | 68,432 | 12.60% | 597,262 | 75,335 | 12.61% |
| **Debtors from repurchase agreements:** | | | | | | | | | |
| Pesos | 34,424 | 1,832 | 5.32% | 20,159 | 929 | 4.61% | 31,993 | 1,480 | 4.63% |
| Subtotal | 34,424 | 1,832 | 5.32% | 20,159 | 929 | 4.61% | 31,993 | 1,480 | 4.63% |
| **Other interest-earning assets:** | | | | | | | | | |
| Pesos | 6,773 | 449 | 6.63% | 7,118 | 468 | 6.57% | 7,076 | 467 | 6.60% |
| Foreign currency | 3 | – | 0.00% | 2 | – | 0.00% | 4 | – | 0.00% |
| Subtotal | 6,776 | 449 | 6.63% | 7,120 | 468 | 6.57% | 7,080 | 467 | 6.60% |
| **Total interest-earning assets:** | | | | | | | | | |
| Pesos | 863,199 | 90,566 | 10.49% | 808,509 | 83,358 | 10.31% | 852,070 | 89,116 | 10.46% |
| UDIs | 34,995 | 3,043 | 8.70% | 35,918 | 2,941 | 8.19% | 24,555 | 1,596 | 6.50% |
| Foreign currency | 124,639 | 2,554 | 2.05% | 92,724 | 2,899 | 3.13% | 111,176 | 3,445 | 3.10% |
| Subtotal | 1,022,833 | 96,163 | 9.40% | 937,151 | 89,198 | 9.52% | 987,801 | 94,157 | 9.53% |

(1) Interest income includes fees on loans of Ps. 2,485 million in 2009, Ps. 3,869 million in 2010 and Ps. 3,718 million in 2011, which have been included in interest income for the corresponding fiscal year. Fees on loans include origination fees and credit card annual fees.

| | For the Years ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2010 | | | 2011 | | |
| | Average Balance | Interest Income | Average Interest Rate | Average Balance | Interest Income | Average Interest Rate | Average Balance | Interest Income | Average Interest Rate |
| | (millions of pesos, except percentages) | | | | | | | | |
| **Equity investment:** | | | | | | | | | |
| Pesos | 5,288 | | | 11,545 | | | 13,731 | | |
| Foreign currency | 902 | | | 1,974 | | | 1,847 | | |
| Subtotal | 6,190 | | | 13,519 | | | 15,578 | | |
| **Cash due from banks:** | | | | | | | | | |
| Pesos | 27,250 | | | 25,354 | | | 24,011 | | |
| Foreign currency | 6,343 | | | 3,700 | | | 4,734 | | |
| Subtotal | 33,593 | | | 29,054 | | | 28,745 | | |
| **Allowance for loan losses:** | | | | | | | | | |
| Pesos (includes UDIs) | (24,274) | | | (23,477) | | | (22,907) | | |
| Foreign currency | (1,262) | | | (1,411) | | | (1,531) | | |
| Subtotal | (25,536) | | | (24,888) | | | (24,438) | | |
| **Premises and equipment:** | | | | | | | | | |
| Pesos | 17,328 | | | 17,202 | | | 16,702 | | |
| Foreign currency | 97 | | | 21 | | | 19 | | |
| Subtotal | 17,425 | | | 17,223 | | | 16,721 | | |
| **Other non interest—earning assets:** | | | | | | | | | |
| Pesos | 20,595 | | | 27,363 | | | 29,552 | | |
| UDIs | 2,985 | | | 8,272 | | | 3,328 | | |
| Foreign currency | 7,868 | | | 18,729 | | | 3,022 | | |
| Subtotal | 31,448 | | | 54,364 | | | 35,902 | | |
| **Total assets:** | | | | | | | | | |
| Pesos | 924,784 | 90,566 | 9.79% | 871,110 | 83,358 | 9.57% | 914,390 | 89,116 | 9.75% |
| UDIs | 22,582 | 3,043 | 13.48% | 39,576 | 2,941 | 7.43% | 26,652 | 1,596 | 5.99% |
| Foreign currency | 138,587 | 2,554 | 1.84% | 115,737 | 2,899 | 2.50% | 119,267 | 3,445 | 2.89% |
| Total | Ps. 1,085,953 | Ps. 96,163 | 8.86% | Ps. 1,026,423 | Ps. 89,198 | 8.69% | Ps. 1,060,309 | Ps. 94,157 | 8.88% |

*Average liabilities, stockholders' equity and interest rates*

The table below presents the average balance of liabilities and stockholders' equity, interest expense and average annual interest rate for the periods specified.

| | For the Years ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2010 | | | 2011 | | |
| | Average Balance | Interest Income | Average Interest Rate | Average Balance | Interest Income | Average Interest Rate | Average Balance | Interest Income | Average Interest Rate |
| | (millions of pesos, except percentages) | | | | | | | | |
| **Demand deposits (checking accounts):** | | | | | | | | | |
| Pesos | Ps. 112,179 | Ps. 2,423 | 2.16% | Ps. 122,531 | Ps. 2,432 | 1.98% | Ps. 143,526 | Ps. 2,988 | 2.08% |
| Foreign currency | 42,958 | 59 | 0.14% | 39,586 | 24 | 0.06% | 36,843 | 36 | 0.10% |
| Subtotal | 155,137 | 2,482 | 1.60% | 162,117 | 2,456 | 1.51% | 180,369 | 3,024 | 1.68% |
| **Saving deposits:** | | | | | | | | | |
| Pesos | 90,449 | 638 | 0.71% | 95,541 | 747 | 0.78% | 103,557 | 735 | 0.71% |
| Foreign currency | 608 | 4 | 0.66% | 639 | 2 | 0.31% | 687 | - | 0.00% |
| Subtotal | 91,057 | 642 | 0.71% | 96,180 | 749 | 0.78% | 104,244 | 735 | 0.71% |
| **Time deposits:** | | | | | | | | | |
| Pesos | 216,919 | 10,585 | 4.88% | 197,851 | 7,416 | 3.75% | 197,713 | 7,928 | 4.01% |
| UDIs | 9,557 | 419 | 4.38% | 11,515 | 495 | 4.30% | 15,308 | 639 | 4.17% |
| Foreign currency | 8,847 | 20 | 0.23% | 7,172 | 7 | 0.10% | 5,255 | 7 | 0.13% |
| Subtotal | 235,323 | 11,024 | 4.68% | 216,538 | 7,918 | 3.66% | 218,276 | 8,574 | 3.93% |
| **Short-term borrowings:** | | | | | | | | | |
| Pesos | 17,573 | 1,009 | 5.74% | 11,182 | 508 | 4.54% | 8,572 | 401 | 4.68% |
| Foreign currency | 5,592 | 35 | 0.63% | 2,134 | 9 | 0.42% | 8,212 | 45 | 0.55% |
| Subtotal | 23,165 | 1,044 | 4.51% | 13,316 | 517 | 3.88% | 16,784 | 446 | 2.66% |
| **Long-term debt:** | | | | | | | | | |
| Pesos | 7,633 | 534 | 7.00% | 7,264 | 425 | 5.85% | 7,704 | 443 | 5.75% |
| Foreign currency | 1,985 | 67 | 3.38% | 794 | 16 | 2.02% | 766 | 14 | 1.83% |
| Subtotal | 9,618 | 601 | 6.25% | 8,058 | 441 | 5.47% | 8,470 | 457 | 5.40% |
| **Subordinated Notes:** | | | | | | | | | |
| Pesos | 10,990 | 770 | 7.01% | 12,288 | 723 | 5.88% | 12,288 | 1,206 | 9.81% |
| Foreign currency | 24,910 | 1,315 | 5.28% | 28,622 | 1,596 | 5.58% | 49,480 | 2,515 | 5.08% |
| Subtotal | 35,900 | 2,085 | 5.81% | 40,910 | 2,319 | 5.67% | 61,768 | 3,721 | 6.02% |
| **Creditors from repurchase agreements:** | | | | | | | | | |
| Pesos | 331,247 | 17,075 | 5.15% | 235,551 | 10,590 | 4.50% | 218,443 | 9,972 | 4.57% |
| Subtotal | 331,247 | 17,075 | 5.15% | 235,551 | 10,590 | 4.50% | 218,443 | 9,972 | 4.57% |
| **Total interest-bearing liabilities:** | | | | | | | | | |
| Pesos | 786,990 | 33,034 | 4.20% | 682,208 | 22,841 | 3.35% | 691,803 | 23,673 | 3.42% |
| UDIs | 9,557 | 419 | 4.38% | 11,515 | 495 | 4.30% | 15,308 | 639 | 4.17% |
| Foreign currency | 84,900 | 1,500 | 1.77% | 78,947 | 1,654 | 2.10% | 101,243 | 2,617 | 2.58% |
| Subtotal | 881,447 | 34,953 | 3.97% | 772,670 | 24,990 | 3.23% | 808,354 | 26,929 | 3.33% |
| **Non interest-bearing liabilities:** | | | | | | | | | |
| Pesos | 45,630 | | | 81,232 | | | 90,910 | | |
| UDIs | 13,138 | | | 28,061 | | | 195 | | |
| Foreign currency | 53,151 | | | 36,180 | | | 44,912 | | |
| Subtotal | 111,919 | | | 145,473 | | | 136,017 | | |
| **Stockholders' equity:** | | | | | | | | | |
| Pesos | 91,558 | | | 107,342 | | | 115,242 | | |
| Foreign currency | 1,029 | | | 938 | | | 696 | | |
| Subtotal | 92,587 | | | 108,280 | | | 115,938 | | |
| **Total liabilities and stockholders' equity** | | | | | | | | | |
| Pesos | 924,178 | 33,034 | 3.57% | 870,782 | 22,841 | 2.62% | 897,955 | 23,673 | 2.64% |
| UDIs | 22,695 | 419 | 1.85% | 39,576 | 495 | 1.25% | 15,503 | 639 | 4.12% |
| Foreign currency | 139,080 | 1,500 | 1.08% | 116,065 | 1,654 | 1.43% | 146,851 | 2,617 | 1.78% |
| Total | Ps. 1,085,953 | Ps. 34,953 | 3.22% | Ps.1,026,423 | Ps. 24,990 | 2.43% | Ps. 1,060,309 | Ps. 26,929 | 2.54% |

### Changes in Net Interest Income and Expense—Volume and Rate Analysis

The following tables allocate, by currency of denomination, changes in our net interest income between changes in volume and changes in rates for 2011 compared to 2010 and 2010 compared to 2009. Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average balances of interest-earning assets and average balances of interest-bearing liabilities. The variances caused by changes in both volume and rate have been allocated to volume.

*Interest-earning assets*

| | 2010/2009 | | | 2011/2010 | | |
|---|---|---|---|---|---|---|
| | Increase (decrease) due to changes in: | | | Increase (decrease) due to changes in: | | |
| | Volume | Interest Rate | Net Change | Volume | Interest Rate | Net Change |
| | (millions of pesos) | | | | | |
| **Deposits in banks:** | | | | | | |
| Pesos | Ps. 64 | Ps. (709) | Ps. (645) | Ps. 100 | Ps. (85) | Ps. 15 |
| Foreign currency | (178) | 43 | (135) | (26) | 45 | 19 |
| Subtotal | (114) | (666) | (780) | 74 | (40) | 34 |
| **Government securities:** | | | | | | |
| Pesos | (4,312) | 693 | (3,619) | (424) | (1,997) | (2,421) |
| UDIs | 135 | 21 | 156 | (27) | (3) | (30) |
| Foreign currency | (13) | (109) | (122) | (19) | (30) | (49) |
| Subtotal | (4,190) | 605 | (3,585) | (470) | (2,030) | (2,500) |
| **Fixed income securities:** | | | | | | |
| Pesos | 222 | (139) | 83 | (367) | 412 | 45 |
| UDIs | 28 | 9 | 37 | (56) | (34) | (90) |
| Foreign currency | 26 | (3) | 23 | 14 | 3 | 17 |
| Subtotal | 276 | (133) | 143 | (409) | 381 | (28) |
| **Loans:**(1) | | | | | | |
| Pesos | 3,072 | (5,215) | (2,143) | 6,100 | 1,469 | 7,569 |
| UDIs | (140) | (155) | (295) | (640) | (585) | (1,225) |
| Foreign currency | 399 | 180 | 579 | 824 | (265) | 559 |
| Subtotal | 3,331 | (5,190) | (1,859) | 6,284 | 619 | 6,903 |
| **Debtors from repurchase agreements:** | | | | | | |
| Pesos | (657) | (246) | (903) | 547 | 4 | 551 |
| Subtotal | (657) | (246) | (903) | 547 | 4 | 551 |
| **Other interest—earning assets:** | | | | | | |
| Pesos | 23 | (4) | 19 | (3) | 2 | (1) |
| Subtotal | 23 | (4) | 19 | (3) | 2 | (1) |
| **Total interest-earning assets:** | | | | | | |
| Pesos | (1,588) | (5,620) | (7,208) | 5,953 | (195) | 5,758 |
| UDIs | 23 | (125) | (102) | (723) | (622) | (1,345) |
| Foreign currency | 234 | 111 | 345 | 793 | (247) | 546 |
| Total | Ps. (1,331) | Ps. (5,634) | Ps. (6,965) | Ps. 6,023 | Ps. (1,064) | Ps. 4,959 |

(1) Interest income includes fees on loans of Ps. 2,485 million in 2009, Ps. 3,869 million in 2010 and Ps. 3,718 million in 2011, which have been included in interest income for the corresponding fiscal year. Fees on loans include origination fees and credit card annual fees.

*Interest-bearing liabilities*

| | 2010/2009 | | | 2011/2010 | | |
|---|---|---|---|---|---|---|
| | Increase (decrease) due to changes in: | | | Increase (decrease) due to changes in: | | |
| | Volume | Interest Rate | Net Change | Volume | Interest Rate | Net Change |
| | | | (millions of pesos) | | | |
| **Demand deposits (checking accounts):** | | | | | | |
| Pesos | Ps. 205 | Ps. (196) | Ps. 9 | Ps. 437 | Ps. 119 | Ps. 556 |
| Foreign currency | (2) | (33) | (35) | (3) | 15 | 12 |
| Subtotal | 203 | (229) | (26) | 434 | 134 | 568 |
| **Saving deposits:** | | | | | | |
| Pesos | 40 | 69 | 109 | 57 | (69) | (12) |
| Foreign currency | - | (2) | (2) | - | (2) | (2) |
| Subtotal | 40 | 67 | 107 | 57 | (71) | (14) |
| **Time deposits:** | | | | | | |
| Pesos | (715) | (2,454) | (3,169) | (6) | 518 | 512 |
| UDIs | 84 | (8) | 76 | 158 | (14) | 144 |
| Foreign currency | (2) | (11) | (13) | (3) | 3 | - |
| Subtotal | (633) | (2,473) | (3,106) | 149 | 507 | 656 |
| **Short-term borrowings:** | | | | | | |
| Pesos | (290) | (211) | (501) | (122) | 15 | (107) |
| Foreign currency | (15) | (11) | (26) | 33 | 3 | 36 |
| Subtotal | (305) | (222) | (527) | (89) | 18 | (71) |
| **Long-term debt:** | | | | | | |
| Pesos | (22) | (87) | (109) | 25 | (7) | 18 |
| Foreign currency | (24) | (27) | (51) | (1) | (1) | (2) |
| Subtotal | (46) | (114) | (160) | 24 | (8) | 16 |
| **Subordinated Notes:** | | | | | | |
| Pesos | 76 | (123) | (47) | - | 483 | 483 |
| Foreign currency | 207 | 74 | 281 | 1,060 | (141) | 919 |
| Subtotal | 283 | (49) | 234 | 1,060 | 342 | 1,402 |
| **Creditors from repurchase agreements:** | | | | | | |
| Pesos | (4,302) | (2,183) | (6,485) | (781) | 163 | (618) |
| Subtotal | (4,302) | (2,183) | (6,485) | (781) | 163 | (618) |
| **Total interest-bearing liabilities:** | | | | | | |
| Pesos | (5,008) | (5,185) | (10,193) | (390) | 1,222 | 832 |
| UDIs | 84 | (8) | 76 | 158 | (14) | 144 |
| Foreign currency | 164 | (10) | 154 | 1,086 | (123) | 963 |
| Total | (4,760) | (5,203) | (9,963) | 854 | 1,085 | 1,939 |
| **Total net change:** | | | | | | |
| Pesos | 3,420 | (435) | 2,985 | 6,343 | (1,417) | 4,926 |
| UDIs | (61) | (117) | (178) | (881) | (608) | (1,489) |
| Foreign currency | 70 | 121 | 191 | (293) | (124) | (417) |
| Total | Ps. 3,429 | Ps. (431) | Ps. 2,998 | Ps. 5,169 | Ps. (2,149) | Ps. 3,020 |

*Interest earning assets—yield and yield spread*

The following table sets forth, by currency of denomination, the levels of our average interest-earning assets and net interest income, and gross and net yield and yield spread obtained, for each of the periods indicated. In addition, because loan fees are a component of pricing, a table including loan fees (which include loan origination fees and credit card fees) in net interest income has been included. For purposes of this presentation, as required under Mexican Banking GAAP, loan fees are recognized as interest income at the time the related loan is made.

| | For the Years ended December 31, | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | (millions of pesos, except percentages) | | |
| **Total average earning assets:** | | | |
| Pesos | Ps. 863,199 | Ps. 808,509 | Ps. 852,070 |
| UDIs | 34,995 | 35,918 | 24,555 |
| Foreign Currency | 124,639 | 92,724 | 111,176 |
| Total | 1,022,833 | 937,151 | 987,801 |
| **Historical not including loan fees:** | | | |
| Net interest income: | | | |
| Pesos | 55,054 | 56,664 | 61,732 |
| UDIs | 2,618 | 2,430 | 957 |
| Foreign Currency | 1,053 | 1,245 | 821 |
| Total | 58,725 | 60,339 | 63,510 |
| Gross yield:(1) | | | |
| Pesos | 10.20% | 9.83% | 10.02% |
| UDIs | 8.68% | 8.14% | 6.50% |
| Foreign Currency | 2.05% | 3.13% | 3.09% |
| Weighted-average rate | 9.16% | 9.11% | 9.53% |
| Net yield:(2) | | | |
| Pesos | 6.38% | 7.01% | 7.24% |
| UDIs | 7.48% | 6.77% | 3.90% |
| Foreign Currency | 0.84% | 1.34% | 0.74% |
| Weighted-average rate | 5.74% | 6.44% | 6.43% |
| Yield spread:(3) | | | |
| Pesos | 6.01% | 6.49% | 6.60% |
| UDIs | 4.29% | 3.84% | 2.33% |
| Foreign Currency | 0.28% | 1.03% | 0.51% |
| Weighted-average rate | 5.19% | 5.87% | 6.20% |
| **Historical including loan fees:** | | | |
| Net interest income: | | | |
| Pesos | Ps. 57,532 | Ps. 60,517 | Ps. 65,443 |
| UDIs | 2,624 | 2,446 | 957 |
| Foreign Currency | 1,054 | 1,245 | 828 |
| Total | 61,210 | 64,208 | 67,228 |
| Gross yield:(1) | | | |
| Pesos | 10.49% | 10.31% | 10.46% |
| UDIs | 8.70% | 8.19% | 6.50% |
| Foreign Currency | 2.05% | 3.13% | 3.10% |
| Weighted-average rate | 9.40% | 9.52% | 9.53% |
| Net yield:(2) | | | |
| Pesos | 6.66% | 7.49% | 7.68% |
| UDIs | 7.50% | 6.81% | 3.90% |
| Foreign Currency | 0.85% | 1.34% | 0.74% |
| Weighted-average rate | 5.98% | 6.85% | 6.81% |
| Yield spread:(3) | | | |
| Pesos | 6.29% | 6.96% | 7.04% |
| UDIs | 4.31% | 3.89% | 2.33% |
| Foreign Currency | 0.28% | 1.03% | 0.51% |
| Weighted-average rate | 5.44% | 6.28% | 6.20% |

(1) Gross yield is interest income divided by average earning assets.
(2) Net yield represents the total of net interest income divided by average earning assets.
(3) Yield spread represents the difference between gross yield on average interest-earning assets and cost of average interest-bearing liabilities.

***Return on average total assets and average stockholders' equity***

The following table presents certain of our selected financial data and ratios for the periods indicated.

| | For the Years ended December 31, | | |
|---|---|---|---|
| | **2009** | **2010** | **2011** |
| | (millions of pesos, except percentages) | | |
| Net income | Ps. 18,446 | Ps. 22,541 | Ps. 23,467 |
| Average total assets | 1,085,953 | 1,026,423 | 1,060,309 |
| Average stockholders' equity | 92,587 | 108,280 | 115,938 |
| Return on average assets | 1.70% | 2.20% | 2.21% |
| Return on average equity | 19.92% | 20.82% | 20.24% |
| Average stockholders' equity as a percentage of average total assets | 8.53% | 10.55% | 10.93% |

## Interest Rate Sensitivity of Assets and Liabilities

***Interest rates***

*Banco de México*'s regulations mandate that Mexican banks base their interest rates on loans with an amount of 5 million UDIs or less on a fixed rate or a single reference rate published regularly by official sources and that the agreements for such loans specify the factor used to determine the interest rate and, if applicable, the minimum and maximum spread over the reference rate. Currently, we base the interest rates on most of our peso-denominated loans on the TIIE.

In accordance with *Banco de México*'s regulations, our policy with respect to foreign currency-denominated loans, which are principally in U.S. dollars, is generally to price such loans on the basis of LIBOR with repricing intervals of one, three or six months. Spreads over LIBOR are determined in accordance with the marginal cost of funding in currencies other than pesos. Interest on loans to Mexican borrowers paid to our Houston branch is subject to the withholding tax. The established rate is 4.9% for 2012 and future periods. The cost of this withholding tax is reflected in the determination of the overall cost of the loan to the customer. No withholding tax is applicable on loans to Mexican borrowers obtained from approved export credit agencies. Under *Banco de México*'s regulations, an amount equivalent to a portion of our foreign currency-liabilities must be invested in low-risk, highly liquid instruments and deposits. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency—Denominated Liabilities." The cost associated with funding this reserve is also included in determining the cost to customers of foreign currency-denominated loans.

***Interest rate sensitivity***

A key component of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing characteristics of assets and liabilities. For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. Any excess of assets or liabilities over these matched items results in a repricing gap or net exposure. A positive repricing gap normally means that an increase in interest rates would result in an increase in net interest income, while a decrease in interest rates would result in a decrease in net interest income.

Our interest rate sensitivity strategy takes into account, among other things, the rates of return and the underlying degree of risk, liquidity requirements, including minimum regulatory cash reserves, mandatory liquidity ratios (inapplicable to peso lending), withdrawal and maturity deposits, capital cost and additional demands for funds. We monitor our rate and maturity mismatches and positions, which are managed within established limits.

The following table reflects our interest-earning assets and interest-bearing liabilities as of December 31, 2011. Fixed-rate instruments were classified in this table according to their final maturity and other instruments based on their interval of repricing.

| | As of December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **0-30 days** | **31-90 days** | **91-180 days** | **181-365 days** | **Non-rate sensitive or over one year** | **Total** |
| | (millions of pesos, except percentages) | | | | | |
| **Assets:** | | | | | | |
| Variable-rate commercial loans | Ps. 192,615 | Ps. 23,967 | Ps. 3,086 | Ps. 118 | Ps. - | Ps. 219,786 |
| Consumer loans, mortgage loans and lease receivables | 76,487 | 9,990 | 13,484 | 23,122 | 181,353 | 304,436 |
| Fixed-rate commercial loans | 36,717 | 10,708 | 7,540 | 9,026 | 41,684 | 105,675 |
| Total loans | 305,819 | 44,665 | 24,110 | 32,266 | 223,037 | 629,897 |
| Securities and derivatives | 167,999 | 5,407 | 46,774 | 2,722 | 139,822 | 362,724 |
| Creditors from repurchase agreements | (208,,907) | (1,967) | – | (10) | – | (210,884) |
| Debtors from repurchase agreements | 4,540 | – | – | – | – | 4,540 |
| Total interest-earning assets | 269,451 | 48,105 | 70,884 | 34,978 | 362,859 | 786,277 |
| Equity securities | – | – | – | – | 2,591 | 2,591 |
| Cash, property and other non-interest earning assets | – | – | – | – | 148,590 | 148,590 |
| Less: Allowance for loan losses | – | – | – | – | (24,873) | (24,873) |
| Total assets | Ps. 269,451 | Ps. 48,105 | Ps. 70,884 | Ps. 34,978 | Ps. 489,167 | Ps. 912,585 |
| **Liabilities and stockholders' equity:** | | | | | | |
| Notes sold through intermediaries | Ps. 9,468 | Ps. 3,077 | Ps. - | Ps. - | Ps. 2,910 | Ps. 15,455 |
| Notes sold through branches | 128,269 | 9,176 | 796 | 23 | 597 | 138,861 |
| Demand deposits | 349,160 | - | - | - | 88,412 | 437,572 |
| Total deposits | 486,897 | 12,253 | 796 | 23 | 91,919 | 591,888 |
| Short-term debt | 22,220 | 2,796 | 402 | – | – | 25,418 |
| Long-term debt | 25,231 | 3,079 | 173 | 18 | 30,122 | 58,623 |
| Subordinated debentures | 12,313 | – | 10,862 | – | 39,275 | 62,450 |
| Other liabilities | – | – | – | – | 57,829 | 57,829 |
| Stockholders' equity | – | – | – | – | 116,377 | 116,377 |
| Total liabilities and stockholders' equity | Ps. 546,661 | Ps. 18,128 | Ps. 12,233 | Ps. 41 | Ps. 335,522 | Ps. 912,585 |
| Interest rate sensitivity gap | (277,210) | 29,977 | 58,651 | 34,937 | 153,645 | - |
| Cumulative interest rate sensitivity gap | (277,210) | (247,233) | (188,582) | (153,645) | - | - |
| Cumulative gap as percentage of total interest-earning assets | (35.26)% | (31.44)% | (23.98)% | (19.54)% | 0.00% | 0.00% |

As of December 31, 2011, interest-earning assets totaled Ps. 786,277 million. Of these assets, 34.27% repriced every thirty days or less and were comprised of the following: 70.5% of commercial loans, 25.1% of residential mortgage loans and 46.3% of investment securities and derivatives (excluding equity investments) and 0.0% of credits from repurchase agreements. The interest rates for 5.8% of interest-earning assets, comprising mostly commercial loans, are reset periodically every 31 to 180 days.

Non-interest rate sensitive assets and assets that are not repriced within a period of 365 days include, among others, cash, real and personal property and equity investments. Investments in the foregoing assets amounted to Ps. 489,167 million as of December 31, 2011, which represented 53.6% of total assets.

Of our total liabilities as of December 31, 2011, 74.3% consisted of deposits, totaling Ps. 591,888 million, of which 82.3% reprice every 30 days or less, and 2.2% every 31 to 180 days. The remaining 25.7% of our liabilities totaled Ps. 204,320 million as of December 31, 2011 and consisted of Ps. 25,418 million of short-term borrowings, Ps. 121,073 million of long-term debt, subordinated debt, funding from the *Fondo de Operación y Fomento Bancario de la Vivenda*, or FOVI (the Mexican Government's fund for low-income housing assistance) and Ps. 57,829 million of other liabilities. Of our total liabilities, 29.3% reprice every 30 days or less, 8.5% every 31 to 180 days, 0.0% every 181-365 days, and the remaining 62.3% reprice at periods exceeding a year.

**Interest-Bearing Deposits with Other Banks**

*Banco de México*'s regulations require us to maintain a minimum liquidity coefficient of certain foreign currency liabilities. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency—Denominated Liabilities." Accordingly, a substantial majority of our short-term deposits with international banks are denominated in U.S. dollars.

*Banco de México* requires that we hold open positions in foreign currency (short or long) no greater than a specified level with respect to our total Tier 1 Capital. As of December 31, 2011, the limit established for foreign currency-denominated liabilities was U.S. $1,267 million. On the same date, our position in foreign currency-denominated liabilities was U.S. $71.2 million, below the limit imposed by *Banco de México*.

Additionally, *Banco de México* requires us to maintain liquid assets to cover our foreign currency-denominated liabilities. As of December 31, 2011, we were required to have liquid assets for U.S. $24.3 million, and had U.S. $518.4 million, which represents an excess liquidity of U.S. $494.0 million.

Our foreign exchange risk management involves a very close monitoring of exposure to foreign currencies, to neutralize the effect of the currency exchange in our income, as well as perform daily estimates and projections for liquidity in foreign currency, to ensure regulatory compliance, and monitor the Bank's internal guidelines on liquidity.

### Securities

As of December 31, 2011, we held securities in the amount of Ps. 335,435 million, representing 27.43% of our total assets as of that date. The following table presents our portfolio of securities at the dates indicated, including securities under repurchase and resale agreements.

| | As of December 31, | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | | (millions of pesos) | |
| **Peso-denominated:** | | | |
| Mexican Government securities: | | | |
| *Cetes* (federal treasury securities) | Ps. 24,771 | Ps. 6,922 | Ps. 8,270 |
| Special *Cetes* (federal treasury securities) | 13,436 | 14,042 | 14,629 |
| *Bondes* (federal government development bonds) | 79,802 | 41,024 | 92,639 |
| *Bonos* IPAB (bonds issued by IPAB) | 63,771 | 58,978 | 50,700 |
| *Bono Tasa Fija* (fixed-rate bond) | 101,607 | 127,231 | 94,433 |
| Total Mexican Government securities | 283,387 | 248,197 | 260,671 |
| Non-government securities: | | | |
| Local bank bonds and certificates | 10,196 | 13,353 | 9,722 |
| Commercial paper | 184 | 354 | 656 |
| Total non-government securities | 10,380 | 13,707 | 10,378 |
| Equity securities: | | | |
| Listed | 12,866 | 8,345 | 9,827 |
| Not listed | – | – | – |
| Investment in subsidiaries | 1,490 | 1,749 | 1,907 |
| Investment in affiliated companies | 724 | 659 | 631 |
| Total equity securities | 15,080 | 10,753 | 12,365 |
| Total peso-denominated | 308,847 | 272,657 | 283,414 |
| **UDI-denominated:** | | | |
| Mexican Government securities: | | | |
| *Udibonos* (Federal government development bonds) | 1,461 | 2,622 | 5,575 |
| CBIC (Interchangeable stock market certificates) | 1 | 1,181 | 4,211 |
| Total Mexican Government securities | 1,462 | 3,803 | 9,786 |
| Non-government securities: | | | |
| Local bank bonds and certificates | 1,867 | 1,339 | 2,576 |
| Total non-government securities | 1,867 | 1,339 | 2,576 |
| Total UDI-denominated | 3,329 | 5,142 | 12,362 |
| **Foreign currency-denominated:** | | | |
| Mexican Government securities issued abroad | 11,155 | 3,445 | 8,909 |
| U.S. Treasury securities | 7,972 | 7,343 | 8,635 |
| Commercial paper | – | 6,838 | 14,185 |
| Other fixed-income securities | 38 | – | – |
| Equity securities: | | | |
| Listed | 3,307 | 1,982 | 7,877 |
| Investment in affiliated companies | 5 | 4 | 5 |
| Investment in subsidiaries | 44 | 42 | 48 |
| Total foreign currency-denominated | 22,521 | 19,654 | 39,659 |
| Total investment securities | Ps. 334,697 | Ps. 297,453 | Ps. 335,435 |

### *Securities – maturities and average yields*

The following table analyzes by currency, as of December 31, 2011, remaining maturities and weighted-average yields of securities held by us that have a specific date of maturity without the mark-to-market effect on securities.

| | From 1 to 89 days | | From 90 to 179 days | | From 6 to 12 months | | From 1 to 2 years | | From 2 to 3 years | | From 3 to 4 years | | From 4 to 5 years | | More than 5 years | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Total** |
| | (millions of pesos, except percentages) | | | | | | | | | | | | | | | | |
| **Peso-denominated:** | | | | | | | | | | | | | | | | | |
| Mexican Government securities: | | | | | | | | | | | | | | | | | |
| *Cetes* (federal treasury securities) | Ps. 1,064 | 4.48% | Ps. 1,381 | 4.48% | Ps. 5,114 | 4.43% | Ps. – | 0.00% | Ps. – | 0.00% | Ps. – | 0.00% | Ps. – | 0.00% | Ps. – | 0.00% | Ps. 7,559 |
| Special *Cetes* (federal treasury securities) | – | 0.00% | – | 0.00% | – | 0.00% | 7 | 4.35% | – | 0.00% | – | 0.00% | 1,540 | 4.35% | 13,082 | 4.35% | 14,629 |
| *Bondes* (federal government development bonds) | 704 | 4.40% | 623 | 4.48% | 99 | 4.47% | 1,210 | 4.47% | 39,284 | 4.46% | 9,464 | 4.43% | 33,353 | 4.47% | 7,919 | 4.48% | 92,656 |
| BPAs (floating rate bonus bond issued by IPAB) | 746 | 4.35% | 214 | 4.35% | 868 | 4.42% | 1,785 | 4.42% | 12,171 | 4.49% | 7,765 | 4.54% | 5,310 | 4.46% | 21,754 | 4.47% | 50,613 |
| *Bono Tasa Fija* (fixed-rate bond) | – | 0.00% | 4,287 | 7.49% | 424 | (6.21)% | 9,487 | 8.35% | 9,135 | 7.00% | 34,955 | 7.83% | 9,982 | 7.33% | 25,923 | 7.63% | 94,193 |
| BREMS (monetary regulation bonds) | – | 0.00% | – | 0.00% | 710 | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | 710 |
| Total Mexican Government securities | 2,514 | 4.42% | 6,505 | 6.46% | 7,215 | 3.37% | 12,489 | 7.41% | 60,590 | 4.85% | 52,184 | 6.72% | 50,185 | 5.03% | 68,678 | 5.64% | 260,360 |
| Non-government securities | | | | | | | | | | | | | | | | | |
| Local bank bonds and certificates | 1,168 | 4.73% | 1,161 | 4.72% | 37 | 9.17% | 1,558 | 5.02% | 1,205 | 5.70% | 1,930 | 7.98% | 556 | 6.03% | 3,434 | 9.08% | 11,049 |
| Commercial paper | 639 | 4.53% | 16 | 4.74% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | 655 |
| Total peso-denominated | 4,321 | 4.52% | 7,682 | 6.19% | 7,252 | 3.40% | 14,047 | 7.15% | 61,795 | 4.87% | 54,114 | 6.77% | 50,741 | 5.05% | 72,112 | 5.80% | 272,064 |
| **UDI-denominated:** | | | | | | | | | | | | | | | | | |
| *Udibonos* (federal government development bonds) | – | 0.00% | 130 | 3.39% | 406 | 0.00% | 2,516 | 3.46% | 14 | 0.00% | 643 | 0.00% | 286 | 4.53% | 2,400 | 2.78% | 5,583 |
| Promissory notes issued for highway program | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | - |
| CBICs | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | 4,227 | 5.63% | 4,227 |
| Local bank bonds and certificates | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | 794 | 5.39% | 794 |
| Total UDI-denominated | – | 0.00% | 130 | 3.39% | 406 | 0.00% | 2,516 | 3.46% | 14 | 0.00% | 643 | 0.00% | 286 | 4.53% | 7,421 | 4.68% | 10,604 |
| **Foreign currency-denominated:** | | | | | | | | | | | | | | | | | |
| Mexican Government securities issued abroad | 86 | 7.50% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | 1,015 | 4.65% | 23 | 6.38% | 7,591 | 6.55% | 8,715 |
| U.S. Treasury bills | 7,811 | 0.01% | 782 | 0.10% | – | 0.00% | 42 | 0.70% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | 8,635 |
| Commercial paper | 13,669 | 0.62% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | 515 | 2.05% | | 0.00% | – | 0.00% | 14,184 |
| Other fixed-income securities | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | – | 0.00% | | 0.00% | - |
| Total foreign currency-denominated | 21,566 | 0.43% | 782 | 0.10% | – | 0.00% | 42 | 0.70% | – | 0.00% | 1,530 | 3.77% | 23 | 6.38% | 7,591 | 6.55% | 31,534 |
| Total securities (excluding equity securities) | Ps. 25,887 | 1.11% | Ps. 8,594 | 5.60% | Ps. 6,846 | 3.60% | Ps. 16,605 | 6.57% | Ps.61,809 | 4.86% | Ps. 56,287 | 6.61% | Ps. 51,050 | 5.04% | Ps. 87,124 | 5.77% | Ps. 314,202 |

## Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of total performing and total non-performing loans outstanding at the date presented, which include rediscounted loans and loans in the UDI Trusts. The terms "total loans" and "total loan portfolio" include total performing loans plus total non-performing loans. The terms "net total loans" and "net total loan portfolio" refer to net total performing loans plus net non-performing loans.

As of December 31, 2011, our loan portfolio amounted to Ps. 638,700 million, an increase of 9.8% as compared to December 31, 2010. This increase was a result of an 8.0% increase in commercial and corporate loans, which was due to increased activity in small and medium sized enterprises and, micro-businesses, a 0.1% increase in mortgage loans and a 23.6% increase in credit cards and other consumer loans.

### *Loans by type and by borrower*

The following table illustrates our loan portfolio by loan type. Total loans reflect the sum of the total performing loan portfolio and the total non-performing loan portfolio. For a breakdown of non-performing loans by loan type, see "—Non-Performing Loan Portfolio" below. See note 11 to our Audited Financial Statements included elsewhere in this offering memorandum.

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| | (millions of pesos) | | | | |
| Performing loans: | | | | | |
| Commercial and corporate loans:(1) | | | | | |
| Secured or guaranteed by: | | | | | |
| Real estate(2) | Ps. 21,276 | Ps. 25,410 | Ps. 24,075 | Ps. 22,910 | Ps. 14,985 |
| Fixed assets | 3,222 | 4,755 | 3,723 | 3,366 | 3,328 |
| Inventories | 2,195 | 2,847 | 2,152 | 2,020 | 1,848 |
| Other(3) | 1,836 | 1,907 | 1,493 | 1,823 | 5,283 |
| Subtotal | 28,529 | 34,919 | 31,443 | 30,119 | 25,444 |
| Unsecured: | | | | | |
| Term loans | 26,876 | 31,773 | 21,490 | 18,884 | 26,140 |
| Revolving credits | 144,805 | 163,186 | 203,941 | 236,950 | 263,907 |
| Original issue discounts | 4,379 | 8,350 | 10,256 | 14,188 | 8,764 |
| Subtotal | 176,060 | 203,309 | 235,687 | 270,022 | 298,811 |
| Total commercial and corporate loans | 204,589 | 238,228 | 267,130 | 300,141 | 324,255 |
| Consumer loans: | | | | | |
| Residential mortgage | 117,310 | 126,726 | 134,737 | 145,116 | 145,323 |
| Credit card | 86,386 | 85,383 | 64,430 | 70,420 | 80,972 |
| Other consumer credits | 45,036 | 45,174 | 38,808 | 47,658 | 64,947 |
| Total consumer loans | 248,732 | 257,283 | 237,975 | 263,194 | 291,242 |
| Leasing | 5,170 | 4,901 | 5,378 | 4,389 | 4,091 |
| Total performing loans | 458,491 | 500,412 | 510,483 | 567,724 | 619,588 |
| Total non-performing loans(4) | 10,195 | 15,720 | 19,242 | 14,032 | 19,112 |
| Total Loans | Ps. 468,686 | Ps. 516,132 | Ps. 529,725 | Ps. 581,756 | Ps. 638,700 |

(1) Includes loans to government entities and financial entities.
(2) Includes loans secured in whole or in part by cash, securities or property (including plant, inventory and equipment) and loans guaranteed by third parties.
(3) Includes various types of loans secured in whole or in part by cash, securities or other property (including plant or equipment otherwise not included above) and loans guaranteed by third parties.
(4) Does not include past-due interest.

### *Loans by currency*

Foreign currency-denominated loans increased as a percentage of the total loan portfolio from 11.7% as of December 31, 2010 to 13.4% as of December 31, 2011. Foreign currency-denominated loans totaled Ps. 85,332 million as of December 31, 2011, an increase of 25.08% from Ps. 68,221 as of December 31, 2010, each as measured in constant pesos as of such date.

The following table presents the peso- and foreign currency-denominated loan portfolio at the dates indicated. Foreign currency-denominated loans that were not denominated in U.S. dollars were converted into U.S. dollars and then expressed in pesos in accordance with the methodology described in the introduction to the table under "—Average Balance Sheet and Interest Rate Data" above.

| | As of December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
| | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % |
| | (millions of Ps., except percentages) | | | | | | | | | |
| Peso-denominated loans .. | Ps. 418,051 | 89.20% | Ps. 466,275 | 90.34% | Ps. 488,236 | 92.17% | Ps. 513,535 | 88.27% | Ps. 553,368 | 86.64% |
| Foreign currency-denominated loans ....... | 50,635 | 10.80% | 49,857 | 9.66% | 41,489 | 7.83% | 68,221 | 11.73% | 85,332 | 13.36% |
| Total loans ............... | 468,686 | 100.00% | 516,132 | 100.00% | 529,725 | 100.00% | 581,756 | 100.00% | 638,700 | 100.00% |

The loan amounts set out in the above table do not include accrued interest.

### *Loans to the public and private sectors*

As of December 31, 2011, our loans to the public sector totaled Ps. 103,654 million, accounting for 16.2% of our total loan portfolio. As of December 31, 2010, our loans to the public sector amounted to Ps. 85,688 million, accounting for 14.7% of our total loan portfolio.

Loans to individuals are comprised of loans to sole business owners, residential mortgage loans, credit card loans and other consumer loans. As of December 31, 2011, loans to individuals totaled Ps. 301,299 million, representing 47.2% of our total loan portfolio and a 10.8% increase from our total of 2010. This increase in loans to individuals in 2011 over 2010 was primarily the result of greater loan origination. In addition, during 2011 we issued 2.3 million credit cards compared to 2.5 million in 2010.

The following table sets forth an analysis of the composition of our total loan portfolio at the dates indicated with respect to loans to both the public and private sectors.

| | As of December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
| | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % |
| | (millions of pesos, except percentages) | | | | | | | | | |
| Public sector[1] | Ps. 53,491 | 11.41% | Ps. 48,313 | 9.36% | Ps. 59,142 | 11.16% | Ps. 85,688 | 14.73% | Ps. 103,654 | 16.23% |
| Private sector: | | | | | | | | | | |
| Businesses | 156,373 | 33.36% | 192,691 | 37.33% | 216,538 | 40.88% | 221,425 | 38.06% | 231,064 | 36.18% |
| Individuals[2] | 258,338 | 55.12% | 271,659 | 52.63% | 252,581 | 47.68% | 272,052 | 46.76% | 301,299 | 47.17% |
| Other private sector[3] | 484 | 0.11% | 3,469 | 0.68% | 1,464 | 0.28% | 2,591 | 0.45% | 2,683 | 0.42% |
| Total private sector loans | 415,195 | 88.59% | 467,819 | 90.64% | 470,583 | 88.84% | 496,068 | 85.27% | 535,046 | 83.77% |
| Total loans | 468,686 | 100.00% | 516,132 | 100.00% | 529,725 | 100.00% | 581,756 | 100.00% | 638,700 | 100.00% |

(1) Includes loans supported by the full faith and credit of the Mexican Government.

(2) Includes loans to individuals for business activities, as well as mortgage, credit card and other consumer loans and credit exposures connected to leasing.

(3) Includes loans to foreign banks, foreign companies, non-profit entities and certain other entities.

*Performing commercial loans*

As of December 31, 2011, performing commercial and corporate loans totaled Ps. 324,255 million, reflecting an increase of 8.0% from December 31, 2010. This increase was attributable primarily to an 11.4% increase in unsecured revolving lines of credit issued during 2011 as compared to 2010.

As of December 31, 2011, the aggregate outstanding principal amount of our 25 largest loans (including loan exposures to a single corporate group or to an agency of the federal government of Mexico) represented 17.3% of our total loans outstanding. The largest single loan exposure as of December 31, 2011 accounted for 70.2% of our paid-in capital. As of December 31, 2011, of our twenty-five largest outstanding loans, nine loans were rated "A1", nine loans were rated "A2", five loans were rated "B1", one loan was rated "B3" and one was classified as an "exempt loan." As of December 31, 2011, of our ten largest outstanding loans, representing 11.3% of our total outstanding loans, three were rated "A1", two were rated "A2", four were rated "B1" and one was rated as an "exempt loan" as described under "—Loan Portfolio—Loans to the public and private sectors—Performing commercial loans."

As of December 31, 2011, approximately 92.2% of our performing commercial loan portfolio was unsecured with collateral, including mortgages. Unsecured commercial loans, consisting primarily of short-term working capital loans (with terms of 30 to 90 days), are common in Mexico. The credit analysis process and administration of these loans are the same as for secured loans. If we establish an unsecured line of credit it is because we believe the borrower is a creditworthy customer, and the fact that it is an unsecured loan is taken into consideration during the approval process. The additional risk from originating unsecured commercial loans is generally accounted for through larger spreads to cover possible losses. The fact that a loan is unsecured is among several factors considered when we grade the portfolio and, depending on the results of this grading, an appropriate allowance for loan losses is created.

*Performing consumer and residential mortgage loans*

As of December 31, 2011, performing consumer loans (including residential mortgage loans) totaled Ps. 291,242 million, an increase of 10.7% from December 31, 2010. As of December 31, 2010, performing consumer totaled Ps. 263,194 million, an increase of 10.6% from December 31, 2009. The preferred lending products for this market segment have been first residential mortgage loans and credit card loans.

Our performing residential mortgage loan portfolio totaled Ps. 145,323 million as of December 31, 2011, an increase of 0.1% from December 31, 2010. This increase in the amount of performing mortgage loans was primarily attributable to the early termination of the support program “Punto Final”. This program was designed to help those mortgage loan debtors affected by the economic crisis of 1994 and the effect on the balances was to reduced mortgage loans with an impact on provisions by the amount corresponding to the Bancomer write-off and charged to a receivable account from the Mexican Government. In our income statement this effect was reflected in the interest margin associated to this portfolio. On the other hand, excluding the old residential mortgages (the portfolio derived from the crisis), the increase of the residential mortgage portfolio was 7.2% in 2011 as compared to 2010. This increase was primarily attributable to higher activity resulting from a recovery in the Mexican family income. Our performing residential mortgage loan portfolio totaled Ps. 145,116 million as of December 31, 2010, an increase of 7.7% from December 31, 2009.

Substantially all mortgage loans that we originate are recorded on our books, excluding certain mortgage loans granted under government programs for low-income housing.

As of December 31, 2011, our performing credit card portfolio totaled Ps. 80,972 million, an increase of 15.0% from December 31, 2010. As of December 31, 2010, our performing credit card portfolio totaled Ps. 70,420 million, an increase of 9.3% from December 31, 2009. The increase in our performing credit card portfolio for each of these years is attributable to increased credit card issuances. We, like other Mexican banks, reflect, in our interest rates for credit cards, the greater risk associated with such loans. Other types of loans are generally less risky because borrowers are not able to increase their borrowings without prior approval and must generally provide some form of collateral, such as cash, securities or property (including plants, inventories and equipment), and third party guarantees.

***Loans by economic activity***

During the last few years, we have focused our lending activities towards those sectors of the economy that we believe, within the context of our overall risk management policies, have the greatest potential for growth. In addition, we have attempted to reduce our risk by diversifying our loans among a greater number of customers and within a larger geographic area in Mexico.

As of December 31, 2011 our mortgage loans totaled Ps. 151,486 million, our credit card loans totaled Ps. 84,782 million and our commercial loans totaled Ps. 44,654 million. In 2011, we granted approximately 36,027 mortgages directly to individuals and approximately 73,260 mortgages to housing developers, a decrease of 45.2% and 23.9% respectively, each as compared to 2010.

During 2011, our loans to the commercial sector increased by 10.6% as compared to 2010. Our credit card loans increased by 14.5%, as compared to 2010, reflecting an increase in the amount of new credit cards issued. Our loans to major economic sectors (social and community services and manufacturing) increased by 27.4% while loans to the services sector decreased by 47.6%, each as compared to 2010. The following table sets forth an analysis of our loan portfolio’s composition at the dates indicated according to the borrower’s principal economic activity.

| | As of December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
| | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % |
| | (millions of constant Ps., except percentages) | | | | | | | | | |
| **Economic Activity**: | | | | | | | | | | |
| Residential mortgages | Ps. 120,508 | 25.71% | Ps. 130,814 | 25.35% | Ps. 141,245 | 26.66% | Ps. 150,227 | 25.82% | Ps. 151,486 | 23.72% |
| Social and community services[(1)] | 47,930 | 10.23 | 58,543 | 11.34 | 74,100 | 13.99 | 60,771 | 10.45 | 71,159 | 11.14 |
| Manufacturing | 14,320 | 3.06 | 24,831 | 4.81 | 21,117 | 3.99 | 26,496 | 4.55 | 40,052 | 6.27 |
| Construction and real estate development | 44,900 | 9.58 | 58,721 | 11.38 | 57,580 | 10.87 | 58,838 | 10.11 | 40,666 | 6.37 |
| Commercial[(2)] | 29,053 | 6.20 | 38,070 | 7.38 | 45,209 | 8.53 | 40,366 | 6.94 | 44,654 | 6.99 |
| Credit card | 91,746 | 19.58 | 93,532 | 18.12 | 71,242 | 13.45 | 74,022 | 12.72 | 84,782 | 13.27 |
| Services[(3)] | 18,009 | 3.84 | 20,429 | 3.96 | 24,513 | 4.63 | 26,297 | 4.52 | 13,784 | 2.16 |
| Energy and utilities | 33,878 | 7.23 | 24,435 | 4.73 | 27,652 | 5.22 | 36,232 | 6.23 | 35,813 | 5.61 |
| Other | 68,342 | 14.57 | 66,757 | 12.93 | 67,067 | 12.66 | 108,507 | 18.66 | 156,304 | 24.47 |
| Total loans | Ps. 468,686 | 100.00% | Ps. 516,132 | 100.00% | Ps. 529,725 | 100.00% | Ps. 581,756 | 100.00% | Ps. 638,700 | 100.00% |

(1) Includes loans to the public sector.
(2) Includes loans for commercial activities not directly related to manufacturing, as well as loans related to tourism.
(3) Includes credit extended to financial institutions.

Our loan portfolio is characterized by seasonal variations in loan demand and in outstanding loans. For example, heavy demand for agricultural financing drives increases in outstanding loans in March through May of each year. Also, the Mexican economy has historically seen large increases in economic activity during the second half of the year, resulting in significant demand for working capital and inventory financing during the period from September through November and for consumer loans during November and December.

***Maturity composition of the commercial and leasing loan portfolio***

The following table sets forth an analysis with reference to the time remaining to maturity of our performing commercial and leasing loan portfolio as of the dates indicated.

| | As of December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
| | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % | Loan Portfolio | % |
| | (millions of Ps., except percentages) | | | | | | | | | |
| Due within 1 year | Ps. 91,711 | 43.72% | Ps.105,275 | 43.30% | Ps.101,356 | 37.20% | Ps.105,862 | 34.76% | Ps.115,859 | 35.29% |
| Between 1 and 5 year | 63,578 | 30.31 | 70,449 | 28.98 | 87,974 | 32.28 | 104,774 | 34.41 | 119,590 | 36.42 |
| Over 5 years | 54,470 | 25.97 | 67,405 | 27.72 | 83,178 | 30.52 | 93,894 | 30.83 | 92,897 | 28.29 |
| Total | Ps.209,759 | 100.00% | Ps.243,129 | 100.00% | Ps.272,508 | 100.00% | Ps.304,530 | 100.00% | Ps.328,346 | 100.00% |

At December 31, 2011, the total amount of our performing commercial and leasing loan portfolio was Ps. 328,346 million. Of these loans, 35.3% were scheduled to mature within one year and were generally intended to cover the borrower's working capital requirements, the purchase of inventory or the financing of foreign commercial transactions.

Loans maturing after more than one year were generally intended for the renovation of manufacturing plants and purchase of equipment, as well as the construction of factories.

***Interest rate sensitivity of outstanding loans***

The majority of our peso-denominated loans have rates that are reset not less frequently than every 28 days. All rates are determined either by reference to a marginal variable rate or the higher of several reference rates. We began using the TIIE as a reference rate following its establishment in 1995.

The following table sets forth our fixed-rate and variable rate performing loan portfolio.

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| | (millions of Ps. ) | | | | |
| Fixed-rate | Ps. 99,927 | Ps. 107,990 | Ps. 100,890 | Ps. 103,572 | Ps. 105,674 |
| Variable rate(1) | 110,591 | 137,252 | 175,908 | 204,934 | 230,116 |
| Total | 210,518 | 245,242 | 276,798 | 308,506 | 335,790 |
| Total non-performing commercial loans | 759 | 2,113 | 4,290 | 3,976 | 7,444 |
| Allowances for loan losses | (2,746) | (3,529) | (4,882) | (5,635) | (5,755) |

(1) Includes loans that mature or reprice in 30 days or less, which we consider to be effectively variable rate loans.

## Non-Performing Loan Portfolio

In assessing the performance of our loan portfolio, we review both the outstanding balance of our non-performing loan portfolio as well as the Loan Classification and Rating Rules.

The outstanding balance of past-due loans is recorded as non-performing as follows:

- Loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity.
- Loans with a single payment of principal at maturity and with scheduled interest payments are considered past due 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due.
- The loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 90 days after the first installment is due.
- In the case of revolving credit granted, loans are considered past due when payment has not been received for two normal billing periods.
- Customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

Interest is recognized in income when it is accrued. However, the accrual of interest is suspended when loans become non-performing.

Commissions for granting loans are recognized as income when collected.

Restructured non-performing loans are not classified as performing until the collection of three consecutive monthly payments without delay, or the collection of one installment when the amortization covers periods in excess of 60 days.

Renewed loans where the debtor does not pay accrued interest on time, or does not pay at least 25% of the original loan amount, are considered non-performing until proof of timely payment.

Interest accrued during the period in which the loan was considered non-performing is recognized as income at the time collected.

Accrued interest recorded as non-performing interest and included in income becomes part of our total classifiable credit portfolio and is subject to the loan loss reserve requirements of the credit portfolio grading system described under "—Grading of Loan Portfolio" below. The amount of the loan loss allowance for possible credit risks is based upon the grade assigned to the underlying loan.

The non-performing loan portfolio may include credits that our management views as involving different levels of risk and that are accordingly graded for regulatory purposes in any of categories "A" to "E." See "—Grading of Loan Portfolio."

As of December 31, 2011, our total non-performing loans totaled Ps. 19,681 million, or 3.14% of total loans. Of this amount, Ps. 569 million, or 2.9% of total non-performing amounts, represented past-due accrued interest. Total non-performing loans increased by Ps. 5,258 million, or 36.5%, in 2011 as compared to 2010, as non-performing consumer credit card loans increased by 5.8%, or Ps. 208 million, mainly due to an increase in the number of credit cards issued.

As of December 31, 2010, total non-performing loans totaled Ps. 14,423 million, or 2.5% of total loans. Of this amount, Ps. 391 million, or 2.7% of total non-performing loans, represented non-performing accrued interest. Total non-performing loans decreased by Ps. 5,415 million or 27.3% during 2010 as compared to 2009.

As of December 31, 2009, total non-performing loans totaled Ps. 19,838 million, or 3.7% of total loans. Of this amount, Ps. 596 million, or 3.0% of total non-performing loans, represented non-performing accrued interest. Total non-performing loans increased by Ps. 3,418 million or 20.8% during 2009 as compared to 2008.

The following table sets forth an analysis of non-performing loans by type of loan at the dates indicated.

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| | (millions of constant Ps. as of December 31, 2007) | | | (millions of Ps. ) | |
| **Non-performing loans:** | | | | | |
| Commercial and corporate loans: | | | | | |
| Unsecured | Ps. 631 | Ps. 1,924 | Ps. 4,000 | Ps. 3,442 | Ps. 6,665 |
| Secured | 122 | 140 | 226 | 507 | 756 |
| Consumer loans: | | | | | |
| Residential mortgage | 3,198 | 4,088 | 6,508 | 5,111 | 6,163 |
| Credit card | 5,360 | 8,149 | 6,812 | 3,602 | 3,810 |
| Other consumer credits | 878 | 1,370 | 1,632 | 1,343 | 1,695 |
| Leasing receivables | 6 | 49 | 64 | 27 | 23 |
| Past-due interest | 485 | 700 | 596 | 391 | 569 |
| Total non-performing loans | 10,680 | 16,420 | 19,838 | 14,423 | 19,681 |
| Allowance for loans losses | (16,774) | (25,560) | (26,991) | (25,128) | (24,873) |
| Total non-performing portfolio net of allowance for loan losses | Ps. (6,094) | Ps. (9,140) | Ps. (7,153) | Ps. (10,705) | Ps. (5,192) |

## Grading of Loan Portfolio

### *Commercial loans*

In accordance with the Loan Classification and Rating Rules, for the classification of their loan portfolio, Mexican banks must individually classify their commercial loan portfolio for loans or group of loans made to the same borrower if the balance of any individual loan or loans equals or exceeds 4,000,000 UDIs at the classification date for 2010 and 2011. The remainder of the commercial loan portfolio is classified parametrically based on the number of months elapsed as of the first default, if any. Any portion of the portfolio representing debt owed by the Mexico Government, or that is covered by an express guarantee by the Mexican Government, is exempt from these requirements.

We have certified our internal methodology for the evaluation of risks and creation of loan loss allowances for our commercial loan portfolio, which we refer to as the Bancomer Risk Classification (*Calificación de Riesgo Bancomer*), or CRB, with the CNBV. The CNBV has renewed our authorization to use the CRB until November 30, 2012.

We use the CRB to evaluate a borrower's creditworthiness based on the weighted average of grades assigned using five criteria. These criteria include payment history, existing debt ratios, projected payment ability and other conditions affecting the Mexican economy. This analysis takes into account the borrower's financial profile, our financial position and the general economic situation of the banking industry at the time. We then analyze the results against various quantitative and qualitative credit risk factors, weighted by a single algorithmic formula and compared to certain fixed parameters.

The CRB classifies outstanding loans according to loans with acceptable risk levels, loans under observation and loans with unacceptable risk levels or that are in default. The following table shows the risk levels used in the CRB model:

**Risk Level**

1. Exceptional
2. High
3. Good
4. Adequate
5. Potential weakness
6. Existing weakness
7. Critical weakness
8. Loss

The following table presents a comparison of the CRB risk levels and the standard levels used by the CNBV, based upon an analysis of the respective default probabilities between the two methodologies:

| CNBV Risk Level | CRB Risk Levels Equivalents |
|---|---|
| 1,2 | A1 |
| 3 | A2 |
| 4(1) | B1 |
| 4(2) | B2 |
| 5(1) | B3 |
| 5(2) | C1 |
| 6(1) | C1 |
| 6(2) | C2 |
| 7 | D |
| 8 | E |

(1) Non-payment for less than 30 days.
(2) Non-payment for 30 days or more.

Once we determine a borrower's credit rating according to this procedure, we initially classify each loan based on the borrower's credit rating. We then consider the value of any applicable collateral to determine the portion of the loan balance that is covered by the discounted value of collateral securing the loan and the portion of the loan balance that is exposed. The rating we assign to the covered portion of the loan can be modified based on changes in the value of the collateral. In applying the regulations, the rating for the exposed portion of a loan remained unchanged for loans rated between A1 and C1. However, we are required to assign a risk level rating of E to the exposed portion of a loan that was initially rated C2, D or E. In addition, the regulations established various criteria for the determination of the cash value of collateral.

We classify each loan in our commercial loan portfolio based on the following default probability percentages:

| Probability of Default | | | Risk Level |
|---|---|---|---|
| 0.00% | to | 0.50% | A1 |
| 0.51% | to | 0.99% | A2 |
| 1.00% | to | 4.99% | B1 |
| 5.00% | to | 9.99% | B2 |
| 10.00% | to | 19.99% | B3 |
| 20.00% | to | 39.99% | C1 |
| 40.00% | to | 59.99% | C2 |
| 60.00% | to | 89.99% | D |
| 90.00% | to | 100.00% | E |

We record loan loss allowances for individual loans on a monthly basis, and apply the results of the classification quarterly to the balance of the loan recorded on the final day of each month.

*Loans to states and municipalities:*

On October 5, 2011, the CNBV modified the methodology to grade commercial loans granted to states and municipalities and the accounting treatment of such loans.

The new methodology establishes that allowances will be made based on the expected loss, considering the likelihood of default, the severity of the loss and the exposure to default. The likelihood of default shall be determined based on quantitative and qualitative scores considering several risk factors and will range from 0%, for loans guaranteed by programs under Mexican federal law included in the federal expense budget, to 100%, when the loan is past due. Real and personal collateral as well as loan derivatives will be considered to determine the severity of the loss and the exposure to default.

Loans to decentralized agencies of the states and municipalities in excess of 900,000 UDIs as of the classification date will be graded individually considering their risk rating from the ratings agencies authorized by the CNBV, which shall not be more than 24 months old. Municipalities located in states that have an express guarantee from the Mexican Government may be classified based on the risk rating applicable to that state.

The application of this new methodology has caused a cumulative positive effect of Ps. 27 million, net of deferred taxes, which we charged against stockholders equity.

*Residential mortgage loans*

We determine loan loss allowances for our mortgage portfolio by applying specific percentages to a borrower’s unpaid balances, net of supports. Our mortgage loan portfolio is classified into levels based on the number of monthly installments that a loan is in default as of the classification date.

We determine the allowance for loan losses at each level by applying specific percentages based on the following criteria:

- *Probability of default*: an allowance percentage range from 1% to 90% assigned to loans in default for up to four months, depending on the type of mortgage portfolio, and from 95% to 100% to loans in default for five months or more.

- *Severity of loss*: an allowance percentage of 35% is applied to loans in default for up to six months, 70% to loans in default for seven to 47 months, and 100% to loans in default for 48 months or more.

In addition to the allowance requirements under the Loan Classification and Rating Rules for mortgage loans, we contribute a supplementary allowance that reflects the application of our internal model for the classification of mortgage loans, which consists of applying specific percentages (expected loss) to a debtor’s unpaid balance. See note 13 to our Audited Financial Statements included elsewhere in this offering memorandum.

*Consumer revolving loans (including credit cards)*

Our internal advanced model for the classification of consumer revolving loans (including credit cards) was certified by the CNBV on January 25, 2011.

We determine the allowance for loan losses based on the following criteria:

- *Probability of default*: Based on variables, such as portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.

- *Severity of loss*: Calculated based on variables like portfolio type, balance aging and noncompliance period.

- *Exposure*: Determined according to the credit limit and current balance.

The allowance made according to the following percentages:

| Level of risk | Reserve percentages | | |
|---|---|---|---|
| A | 0 | to | 0.99% |
| B-1 | 1 | to | 2.50% |
| B-2 | 2.51 | to | 19.99% |
| C | 20 | to | 59.99% |
| D | 60 | to | 89.99% |
| E | 90 | to | 100.00% |

*Consumer non-revolving loans (excluding credit card loans)*

We determine the allowance for loan losses for our consumer loan portfolio by applying specific percentages to the number of billing periods with payments in default as of the classification date. These billing periods may be weekly, bi-weekly or monthly. We determine our loan loss allowances for our consumer and mortgage loan portfolio based on the following percentages in accordance with the Loan Classification and Rating Rules:

| Risk Level | Percentage of Allowance for Loan Losses |
|---|---|
| A | 0 to 00.99% |
| B | 1 to 19.99% |
| C | 20 to 59.99% |
| D | 60 to 89.99% |
| E | 90 to 100.00% |

Ordinary accrued, but not collected, interest on non-performing loans is considered non-performing. Accordingly, the loan loss allowance recorded for non-performing loans also includes any accrued interest that has not been collected.

*Analysis of graded loans*

The following table analyzes the grading of our loan portfolio as of the dates indicated. In accordance with the CNBV's rules, graded loans reported at the end of a quarter, which we refer to as the reporting quarter, are based on loans outstanding at the end of the preceding quarter after giving effect to charge-offs made during the reporting quarter. Information in this table excludes loans to the federal government of Mexico and to *Banco de México*, but includes accrued interest, past-due interest and off-balance sheet commitments (such as guarantees and letters of credit).

| | As December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | (millions of constant Ps. as of December 31, 2007, except percentages) | | (millions of Ps., except percentages) | | | | | | | |
| Total graded loans: | | | | | | | | | | |
| A | Ps. 398,870 | 86.02% | Ps. 370,647 | 70.72% | Ps. 380,177 | 72.49% | Ps. 429,572 | 73.97% | Ps. 416,344 | 66.95% |
| B | 47,759 | 10.30% | 131,322 | 25.06% | 115,183 | 21.97% | 128,703 | 22.16% | 181,980 | 29.26% |
| C | 8,650 | 1.87% | 12,480 | 2.38% | 15,983 | 3.05% | 12,925 | 2.23% | 17,424 | 2.80% |
| D | 5,843 | 1.26% | 7,249 | 1.38% | 10,970 | 2.09% | 8,079 | 1.39% | 4,482 | 0.72% |
| E | 2,555 | 0.55% | 2,432 | 0.46% | 2,117 | 0.40% | 1,488 | 0.25% | 1,669 | 0.27% |
| Total | Ps. 463,677 | 100.00% | Ps. 524,130 | 100.00% | Ps. 524,430 | 100.00% | Ps. 580,767 | 100.00% | Ps. 621,899 | 100.00% |
| Allowances grading of our loans | 15,277 | | 20,311 | | 23,530 | | 20,395 | | 21,408 | |
| Past-due interest | 486 | | 700 | | 507 | | 339 | | 417 | |
| Excess over minimum regulatory requirements | 990 | | 4,518 | | 2,903 | | 4,329 | | 2,935 | |
| BBVA Bancomer allowance | 16,753 | | 25,529 | | 26,940 | | 25,063 | | 24,760 | |
| Mercury Bank allowance | – | | 4 | | – | | – | | – | |
| *Financiera Ayudemos* Allowance | | | | | 8 | | 6 | | 26 | |
| Securitization Trust 881 allowances | – | | – | | 43 | | 59 | | 87 | |
| Bancomer Financial Holding allowance | 21 | | 27 | | – | | – | | – | |
| Total allowance for loan losses | 16,774 | | 25,560 | | 26,991 | | 25,128 | | 24,873 | |
| Allowance as percentage of: | | | | | | | | | | |
| Graded loans | | 3.62% | | 4.88% | | 5.15% | | 4.33% | | 4.00% |
| Total loans plus interest[(1)] | | 3.63% | | 4.93% | | 5.15% | | 4.33% | | 3.95% |
| Total non-performing amount | | 157.06% | | 155.66% | | 136.06% | | 174.22% | | 126.38% |
| Total non-performing as a percentage of total loans plus interest[(1)] | | 2.31% | | 3.17% | | 3.78% | | 2.49% | | 3.12% |
| Total non-performing loans (non-performing amounts less allowances) as a percentage of total loans plus interest[(1)] | | (1.37)% | | (1.86)% | | (1.44)% | | (1.93)% | | (0.86)% |

(1) Interest includes past-due and outstanding interest.

As of December 31, 2011, the aggregate outstanding principal amount of our 25 largest loans (including loan exposures to a single corporate group or to an agency of the federal government of Mexico) represented 17.3% of our total loans. The largest single loan exposure as of December 31, 2011 accounted for 70.2% of our stated capital. As of December 31, 2011, of the 25 largest loans, nine loans were rated "A1", nine loans were rated "A2", five loans were rated "B1", one loan was rated "B3" and one was classified as an "exempt loan." As of December 31, 2011, of our 10 largest loans, representing 11.3% of our total loans, three were rated "A1", two were rated "A2", four were rated "B1" and one was rated as an "exempt loan" as described under "Selected Statistical Information—Loan Portfolio—Loans to the public and private sectors—Performing commercial loans."

**Allowance for loan losses**

***General***

We provide for possible loan losses in accordance with the regulations of the CNBV and are in compliance with regulatory loan loss allowance requirements. The grading of loans determines the amount of the allowance for loan losses required to be set aside: between 0% and 0.99% for Grade "A" loans, between 1% and 19.99% for Grade "B" loans, between 20% and 59.99% for Grade "C" loans, between 60% and 89.99% for Grade "D" loans and between 90% and 100% for Grade "E" loans. Loans to the federal government of Mexico and *Banco de México*, or "exempt loans," are not subject to the grading system and are effectively deemed to be Grade "A" loans for loan loss allowance purposes. The amount reserved for loan losses is carried in a separate account on our balance sheet and all charge-offs for uncollectible loans are made against this reserve. Mexican banks are required to obtain authorization from their boards of directors in order to charge off loans. In addition, Mexican banks are required to inform the CNBV after such charge-offs have been recorded. For a discussion of our charge-off policy, see "Annex A— Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

As of December 31, 2011, we recorded loan loss provisions charged against earnings totaling Ps. 20,011 million. Our allowance for loan losses amounted to 126.38% of total non-performing loans as of December 31, 2011, as compared to 174.22% as of December 31, 2010 and 136.06% as of December 31, 2009. We believe that our current loan loss allowance is adequate for all known or knowable losses on our assets.

***Analysis of allowance for loan losses***

The following table analyzes our loan loss allowances and movements in loan charge-offs and recoveries for the periods indicated, as well as changes to income and period-end allowances for loan losses.

| | For the Years ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| | (millions of constant Ps. as of December 31, 2007) | (millions of Ps.) | | | |
| Balance at beginning of period | Ps. 16,457 | Ps. 16,774 | Ps. 25,560 | Ps. 26,991 | Ps. 25,128 |
| Increase: | | | | | |
| Provision charged against earnings | 12,622 | 23,994 | 27,255 | 19,626 | 20,011 |
| Recoveries[1] | – | – | – | – | (2,722) |
| Provisions charged against equity | – | 1,699 | 1,323 | – | 201 |
| Exchange rate revaluation | – | 155 | – | – | 370 |
| Inflation revaluation of the UDI program[2] | 642 | 947 | 614 | 239 | 74 |
| Subtotal | 13,264 | 26,795 | 29,192 | 19,865 | 17,934 |
| Decrease: | | | | | |
| Exchange rate revaluation | 83 | – | 100 | 122 | 190 |
| *Punto Final* program for mortgage loans[2] | 908 | 825 | 737 | 709 | 3,092 |
| *Punto Final* program for commercial loans[2] | 3 | 1 | – | – | – |
| Other charge-offs | 11,315 | 17,183 | 26,896 | 20,897 | 14,907 |
| Amount of loans sold | – | – | 28 | – | – |
| Monetary loss | 638 | – | – | – | – |
| Subtotal | 12,947 | 18,009 | 27,761 | 21,728 | 18,189 |
| Balance at the end of period | Ps. 16,774 | Ps. 25,560 | Ps. 26,991 | Ps. 25,128 | Ps. 24,873 |

(1) We may continue our recovery efforts with respect to certain non-performing loans after the date on which such loans are formally written-off. We do not generally maintain a threshold time limit in respect of non-performing loans, following the expiration of which such loans are automatically charged off.

(2) See "—Debtor Support Programs."

***Allocation of allowance for loan losses by category***

| | As of December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
| | Allowance | % | Allowance | % | Allowance | % | Allowance | % | Allowance | % |
| | (millions of constant Ps. except percentages) | | (millions of Ps., except percentages) | | | | | | | |
| Commercial, financial and agricultural | Ps. 2,718 | 16.20% | Ps. 3,504 | 13.70% | Ps. 4,845 | 17.95% | Ps. 5,622 | 22.37% | Ps. 5,730 | 23.03% |
| Residential mortgages | 6,936 | 41.35 | 6,935 | 27.13 | 8,557 | 31.69 | 7,137 | 28.40 | 3,437 | 13.82 |
| Credit card | 4,419 | 26.34 | 8,201 | 32.09 | 8,459 | 31.34 | 6,200 | 24.68 | 7,804 | 31.38 |
| Other consumer loans | 1,197 | 7.14 | 1,677 | 6.56 | 1,683 | 6.24 | 1,488 | 5.92 | 4,525 | 18.19 |
| Leases | 28 | 0.17 | 25 | 0.10 | 37 | 0.14 | 13 | 0.05 | 25 | 0.10 |
| Excess over minimum regulatory requirements | 990 | 5.90 | 4,518 | 17.68 | 2,903 | 10.76 | 4,329 | 17.23 | 2,935 | 11.80 |
| Past-due interest | 486 | 2.90 | 700 | 2.74 | 507 | 1.88 | 339 | 1.35 | 417 | 1.68 |
| Total | Ps. 16,774 | 100.00% | Ps. 25,560 | 100.00% | Ps. 26,991 | 100.00% | Ps. 25,128 | 100.00% | Ps. 24,873 | 100.00% |

Rules for the UDI Trusts require a minimum level of loan loss allowance based upon the CNBV's loan classification rules in the case of commercial loans and in the case of mortgage loans the greater of (1) the minimum required by the loan classification rules and (2) 8% of such loans. This loan loss allowance forms part of the loan loss allowance shown in the Audited Financial Statements included elsewhere in this offering memorandum.

***Foreclosed real estate and other assets***

As of December 31, 2011, the book value of our foreclosed real estate and non-real estate assets, net of allowances, totaled Ps. 4,099 million and Ps. 3.0 million, respectively. As of December 31, 2010, the book value of our foreclosed real estate and non-real estate assets, net of allowance, totaled Ps. 2,940 million and Ps. 2.0 million, respectively. This increase was mainly due to the adjudication of real estate properties from our housing developers' loan portfolio for a value of Ps. 1,159 million, which was caused by a decrease in demand for new houses beginning in 2010.

Under CNBV regulations, Mexican banks that are awarded title to foreclosed property in a judicial auction are required to account for such property at the amount set at the auction. Real estate assets received by the bank in a negotiated settlement with the borrower must be recorded at the lower of the appraised value of the property and the amount of the loan recorded in such settlement. In addition, although time limits to sell foreclosed real estate assets or real estate assets received by the bank in negotiated settlements have not been eliminated from the regulations, as a general practice such time limits have been waived by the CNBV in order to allow banks to sell such assets, subject to market conditions and liquidity requirements.

We operate a specialized unit that administers foreclosed real estate and manages all activities related to the administration, marketing and sale of such properties.

The following table sets forth, by type of property, the book value of foreclosed real estate and non-real estate assets at December 31, 2009, 2010 and 2011.

| | As of December 31, | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | | (millions of pesos) | |
| Real estate: | | | |
| Rural land | Ps. 53 | Ps. 48 | Ps. 46 |
| Urban land | 281 | 638 | 1,202 |
| Family houses | 1,958 | 2,256 | 2,843 |
| Condominiums | 276 | 282 | 444 |
| Industrial plants | 64 | 41 | 43 |
| Commercial building | 24 | 45 | 47 |
| Other | 64 | 141 | 165 |
| Subtotal real estate | 2,720 | 3,451 | 4,790 |
| Allowance for real estate | (522) | (511) | (691) |
| Total real estate, net | 2,198 | 2,940 | 4,099 |
| Non-real estate | 18 | 18 | 20 |
| Allowance for non-real estate | (17) | (16) | (17) |
| Total non-real estate | 1 | 2 | 3 |
| Property type | 2,738 | 3,469 | 4,810 |
| Allowance | (539) | (527) | (708) |
| Total | Ps. 2,199 | Ps. 2,942 | Ps. 4,102 |

***Restructuring of credits***

The deteriorating economic situation in Mexico subsequent to the devaluation of the Mexican peso in December 1994 and the increase in the portfolio of non-performing loans led Mexican banks to implement restructuring programs in most of their business divisions. In addition, the Mexican Government adopted a number of debtor relief programs to facilitate this process.

Restructured loans remain classified as non-performing until at least three payments have been made. Loans restructured under Mexican Government support programs are classified as performing loans.

When we restructure credits, we reclassify current accrued interest, past-due principal and past-due interest as current principal. If the restructuring results in a sufficient improvement in the quality of a credit, we may also maintain a smaller allowance for loan loss with respect to such credit and use any excess allowance to reduce the amount of additional provisions on other credits.

***Debtor support programs***

As described above, the devaluation of the peso in late 1994 and the subsequent economic crisis in Mexico led to the introduction by the Mexican Government of debtor support programs that had significant effects on us. Substantially all of the outstanding debtor support programs were merged at the beginning of 1999 into a single industry-wide program known as *Punto Final*, which was adopted by the Mexican Government and the Mexican Banking Association in December 1998 and became effective on January 1, 1999. The following is a description of the principal debtor support programs.

***UDI program***

On March 30, 1995, the Mexican Government implemented the UDI program, which was designed to encourage the restructuring and conversion of non-performing peso-denominated loans of borrowers facing cash flow constraints to UDI-denominated loans. UDIs are a unit of account created by the Mexican Government that expresses in pesos, at any given time, the principal amount of financial transactions as adjusted for inflation. Unlike a loan denominated in pesos, the interest rate, which is a real rate, on UDI-denominated loans is generally a fixed percentage of the principal amount denominated in UDIs. In UDI terms, there is no negative amortization of a UDI-denominated loan. UDIs are indexed to inflation in peso terms based on the NCPI and, therefore, the principal amount in peso terms will be adjusted for inflation. UDIs are, among other things, designed to mitigate the short-term effects of inflation on borrowers and improve the asset quality of banks, although banks retain the asset quality risk associated with restructured loans. The UDI program covered four types of loans: commercial loans, mortgage loans, loans to states and municipalities and the four categories of loans provided by development banks.

Pursuant to the UDI program, the principal balance and accrued interest on a borrower's peso-denominated loan was restructured and converted to an UDI principal balance, at the peso-UDI exchange rate on the date of the conversion. Banks then transferred these loans, together with a reserve ranging from 0% to 15% of the principal amount of such loans, to a trust controlled by the bank and funded with long-term UDI-denominated deposits purchased by the Mexican Government through *Banco de México*. The transferring bank was required to purchase from the Mexican Government bonds, known as "Special *Cetes*," which are issued by the Mexican Government and currently have an interest rate based on the 28-day *Cetes* rate and maturities and principal amounts that mirror the maturities and principal amount of the UDI loans in the trust. The Special *Cetes* pay interest in cash as the loans in the trust mature. The transferring bank continued to service the transferred loans and remained at risk for any credit losses.

Because the principal balance of a UDI-denominated loan in peso terms increased in line with inflation, there was an increased risk of default in future years if inflation significantly exceed growth in income or operating margin levels in nominal terms. In addition, in the case of secured loans, the loan to value ratios could have deteriorated.

As of December 31, 2009, trusts denominated in UDIs had been liquidated and their balances included in our accounting records totaled Ps. 15,635 million.

In accordance with Mexican Banking GAAP, the UDI Trusts are consolidated for the purpose of presenting our financial information.

***Punto Final program***

All of the outstanding debtor support programs, except for the restructuring of loans to states and municipalities, were merged at the beginning of 1999 into the *Punto Final* program. The *Punto Final* program offers significant discounts to borrowers who are current in the payment of their loans or become current and elect to participate in the program. The *Punto Final* program was principally designed to offer debt relief to mortgage, agricultural and small and medium-sized commercial borrowers.

*Mortgage borrowers*

The benefits of the *Punto Final* program were offered to mortgage borrowers whose loans in pesos and UDIs were granted before April 30, 1996. This program offered borrowers a 50% discount on all payments on such loans, including principal, for the first 165,000 UDIs of a loan's outstanding balance, and a 45% discount for the remaining balance up to 500,000 UDIs. The discounts offered by this program may be accumulated with discounts offered by previously established debtor relief programs. A borrower failing to meet its payment obligations under this program would lose its rights to any discounts, including discounts offered by previously established debtor support programs. Discounts offered by the *Punto Final* program were not initially offered to borrowers under the low-income housing programs financed by the Mexican Government. For a further discussion of the low-income housing programs, see "Selected Statistical Information—Loan Portfolio—Loans to the public and private sectors—Performing consumer and mortgage loans." Almost all of our mortgage loans are residential mortgage loans.

The cost of the discounts offered by the *Punto Final* program for mortgage loans is shared with the Mexican Government, which bears approximately two-thirds of the cost. We have recognized this cost as part of our allowance for loan losses. See note 13 to our Audited Financial Statements included elsewhere in this offering memorandum.

On July 15, 2010, the Mexican Government and certain credit institutions (with the participation of the Mexican Banking Association) entered into an agreement for the early termination of certain debtor support programs (*Convenio para extinguir anticipadamente los programas de apoyo para deudores*, or the "Termination Agreement"). See note 11 to our Audited Financial Statements included elsewhere in this offering memorandum.

*Agricultural borrowers*

The benefits of the *Punto Final* program to agricultural borrowers were offered only to those borrowers with loans granted before June 30, 1996. This program offers borrowers a discount on all payments on such loans, including principal, ranging from a 60% discount on loans of up to Ps. 500,000 (in nominal terms) to 16% on loans of up to Ps. 4.0 million (in nominal terms). These discounts were offered for payments made within two years from the date the program became effective.

The cost of the program offered to agricultural borrowers is shared by the Mexican Government and the relevant bank, with the bank absorbing a percentage ranging from 15% of the cost of the discounts for loans under Ps. 500,000 (in nominal terms) to 10% on loans above Ps. 2.0 million (in nominal terms).

As of December 31, 2011, we had no loans to agricultural borrowers that were subject to this program.

*Small and medium-sized borrowers*

The benefits of the *Punto Final* program to small and medium-sized business borrowers were offered only to those borrowers with loans granted before July 31, 1996. This program offers such borrowers a 45% discount on all payments on such loans, including principal, for the first Ps. 500,000 (in nominal terms) of a loan's outstanding balance. An additional 20% discount was offered on the remaining balance up to Ps. 2.0 million (in nominal terms). The maximum amount that may be refinanced under this program was Ps. 10.0 million (in nominal terms) of outstanding balances as of January 1, 1999. These discounts were offered for payments made within two years from the date the program went into effect.

The cost of the program offered to small and medium-sized business borrowers is shared by the Mexican Government and the bank, with the bank absorbing 22.5% of the cost of the discounts for loans under Ps. 500,000 (in nominal terms) and 8.5% on loans above this amount.

As of December 31, 2011, we had no loans to small and medium-sized business borrowers subject to this program.

Agricultural and small and medium-sized business borrowers who took advantage of discounts offered by the *Punto Final* program could not benefit from additional discounts offered by previously established debtor support programs.

## Other Restructuring Programs

### *Workout and credit recovery*

We operate a central workout unit in Mexico City, as well as four smaller credit recovery units operating throughout Mexico. These units handle debt recovery for borrowers with loans in excess of Ps. 2.0 million in current and past-due principal. Recovery prospects are measured by reference to a scale of 1 through 8, with a loan ranked 1 deemed to have the best recovery prospect and a loan ranked 8 deemed to have the worst recovery prospect. The credit recovery units are automatically engaged in the recovery of non-performing loans ranked 6 or higher.

In the event that a credit recovery unit is unable to reach an agreement with a borrower in respect of non-performing loan amounts and the borrower fails to propose terms for an alternative satisfactory restructuring agreement, the unit submits the loan to our litigation department for the initiation of an action to recover the loan. Foreclosure procedures on collateral in Mexico can take a long period of time. These procedures require the filing of a written petition with a Mexican court requesting the court's authorization to complete the foreclosure. This petition and its approval process are generally subject to significant delays. Accordingly, the value of the collateral may be impaired during the foreclosure process as a result of delays or other factors. As a result, there can be no assurance that the rate of non-performing loan recoveries will not decrease in the future. Loans with respect to which recovery has been unsuccessful despite the implementation of workout procedures and litigation, are charged-off.

## Short-Term Borrowing and Loans from to Repurchase Agreements

The following table sets forth our short-term borrowings and securities sold under agreements to repurchase for the periods indicated.

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | |
| | Amount | Rate | Amount | Rate | Amount | Rate |
| | (millions of pesos, except percentages) | | | | | |
| **Short-term borrowings:** | | | | | | |
| At end of period | Ps. 5,423 | 19.25% | Ps. 52,186 | 0.99% | Ps. 11,274 | 3.96% |
| Daily average indebtedness during period | 23,165 | 4.51% | 13,316 | 3.88% | 16,784 | 2.66% |
| Maximum month-end balance | 46,828 | | 52,286 | | 41,747 | |
| **Securities sold under agreements to repurchase:** | | | | | | |
| At end of period | 237,609 | 7.19% | 138,026 | 7.67% | 210,884 | 4.72% |
| Daily average indebtedness during period | 331,247 | 5.15% | 235,551 | 4.50% | 218,443 | 4.56% |
| Maximum month-end balance | 295,232 | | 249,906 | | 218,628 | |
| **Total:** | | | | | | |
| At end of period | 243,032 | 7.46% | 190,212 | 5.84% | 222,158 | 4.68% |
| Daily average indebtedness during period | 354,412 | 5.11% | 248,867 | 4.46% | 235,227 | 4.42% |
| Maximum month-end balance | Ps. 342,060 | | Ps. 302,192 | | Ps. 260,375 | |

## Deposits

The following table presents the components of our deposit base for the periods indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | (millions of pesos) | | |
| Interest-bearing demand deposits: | | | |
| Peso-denominated | Ps. 227,443 | Ps. 275,277 | Ps. 302,256 |
| Foreign currency-denominated | 42,722 | 36,706 | 37,283 |
| Subtotal | 270,165 | 311,983 | 339,539 |
| Non interest-bearing demand deposits: | | | |
| Peso-denominated | 71,852 | 78,487 | 84,035 |
| Foreign currency-denominated | 12,764 | 11,872 | 13,744 |
| Subtotal | 84,616 | 90,359 | 97,779 |
| Saving deposits: | | | |
| Peso-denominated | 174 | 66 | 66 |
| Foreign currency-denominated | 7 | 7 | 8 |
| Subtotal | 181 | 73 | 74 |
| Time deposits: | | | |
| Peso-denominated | 214,828 | 192,841 | 173,223 |
| Foreign currency-denominated | 17,732 | 20,865 | 33,579 |
| Subtotal | 232,560 | 213,706 | 206,802 |
| Total | Ps. 587,522 | Ps. 616,121 | Ps. 644,194 |

## THE TEXAS AGENCY

### General

On June 2, 2003, the Texas Agency was issued a license by the commissioner of the Texas Department of Banking under the Texas Finance Code (the "Commissioner"). Through the Texas Agency, we are a foreign bank licensed to transact business in the State of Texas under the Texas Finance Code. The Texas Agency's registered office is located at 5075 Westheimer Road, Suite 1260W, Houston, Texas, United States of America; the Agency's telephone number is 713-341-8200; and the Agency's charter number is 5030-03.

A licensed foreign bank agency in the State of Texas has the powers outlined in the Texas Finance Code, including, but not limited to, the power to (i) borrow and lend money with or without property as security and (ii) buy or acquire and sell or dispose of a bill of exchange, draft, note, acceptance or other obligation for the payment of money. The Texas Agency may not accept deposits from citizens or residents of the United States, other than credit balances that are incidental to or arise out of the exercise of other lawful banking powers, but may accept deposits from persons who are neither citizens nor residents of the United States.

### Activities

The Texas Agency is not an entity separate and distinct from BBVA Bancomer S.A., Institución de Banca Múltiple, Grupo Financerio BBVA Bancomer. The Texas Agency is required to keep the assets of our business in the State of Texas, including the assets of the Texas Agency, separate and apart from the assets of our business outside of the State of Texas. Our depositors and creditors arising out of transactions with, and recorded on the books of, the Texas Agency are entitled to absolute preference and priority over the depositors and creditors of our offices located outside of the State of Texas with respect to our assets located in the State of Texas. The majority of transactions of the Texas Agency are performed under our direction and involve issuing debt on our behalf, booking loans originated at our home office and accepting deposits from non-United States corporations, government agencies, or persons who reside, are domiciled, and maintain their principal place of business in a foreign country.

### Regulation of the Texas Agency

Under Mexican law, the Texas Agency's obligations are our obligations. The Texas Agency is subject to regulations issued by the CNBV and *Banco de México*, including liquidity requirements as well as applicable regulations issued by the Texas Department of Banking and the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities."

The Texas Agency is examined by the Texas Department of Banking and is generally subject to all of the laws of the State of Texas that are applicable to a Texas state bank. The Texas Agency is required to keep on deposit with unaffiliated banks in the State of Texas certain money and securities pledged to the Commissioner, and such required amount is subject to the conditions and limitations the Commissioner considers necessary or desirable for the maintenance of a sound financial condition, the protection of the creditors and depositors of the Texas Agency's business in the State of Texas, the public interest in the State of Texas, and the support of public confidence in the business of the Texas Agency. At this time, the Commissioner has not imposed upon the Texas Agency any requirement to maintain a specific ratio of assets to liabilities appearing on the books, accounts and records of the Texas Agency or liquidity requirements. However, the Commissioner has the discretion to impose such requirements as may be necessary or desirable to reflect differences among Texas agencies because of (i) the financial condition of the Texas agency offices of the foreign bank, (ii) the financial condition of the branch or agency offices of the foreign bank located in other states, (iii) the general economic conditions prevalent in the home country of the foreign bank, or (iv) the financial condition of the foreign bank itself, including the financial condition of branches or agencies in other countries, the financial condition of its affiliated bank and non-bank subsidiaries in the United States and the financial condition of the foreign bank on a worldwide consolidated basis or in its home country.

The Texas Agency is required to disclose that deposits and credit balances in the Texas Agency's offices are not insured by the Federal Deposit Insurance Corporation.

The Texas Finance Code authorizes the Commissioner to take enforcement actions to revoke the license of a foreign bank agency or to seize the assets that are located in Texas of a non-United States bank for a variety of offenses, including but not limited to, if the Commissioner by examination or other credible evidence finds that the foreign bank (i) has refused to permit the Commissioner to examine its books, papers, accounts, records or affairs, (ii) has failed to make a report required or made a material false or misleading statement in the report, (iii) has misrepresented or concealed a material fact in the original application for license, or (iv) conducts business in an unsafe and unsound manner. If the Commissioner finds that certain conditions have been met, including consideration of the foregoing factors and others established by statute, and that it is necessary for the protection of the interests of creditors of the foreign bank's business in the State of Texas or for the protection of the public interest, the Commissioner may initiate a variety of enforcement measures, including, without limitation, the following: (i) the Commissioner may issue, without notice and hearing, an order suspending or revoking the license of the foreign bank for a period of up to ninety (90) days, pending investigation or hearing, and (ii) the Commissioner, after issuing a final order revoking the license of a foreign bank, may (a) take possession of the property and business of the foreign bank in the state of Texas, or (b) liquidate the property and business of the foreign bank in the State of Texas, under circumstances and using procedures similar to those used to liquidate a Texas state bank, except that the depositors and creditors of a Texas agency, arising out of transactions with and recorded on the books of a Texas agency, would have an absolute preference and priority over the creditors of the foreign bank located outside of the State of Texas. Upon issuing a final order revoking the license of a foreign bank, such foreign bank must immediately cease all activity in the State of Texas requiring a license. After the Commissioner (or other receiver) completes the liquidation of the property and business of the foreign bank in the State of Texas, the Commissioner would transfer any remaining assets to the foreign bank or to the liquidators of the foreign bank's offices in other states in the event that such proceedings were pending in other states.

In addition to being subject to Texas banking laws and regulations, the Texas Agency is also subject to federal regulation primarily but not limited to the International Banking Act of 1978, as amended (the "IBA"), and the amendments to the IBA made pursuant to the Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA"), and to examination by the Board of Governors of the Federal Reserve Board. Under the IBA, as amended by FBSEA, all United States branches and agencies of foreign banks, such as the Texas Agency, are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by United States bank holding companies.

Among other things, FBSEA provides that a state-licensed branch or agency of a foreign bank may not engage in any type of activity that is not permissible for a federally licensed branch or agency of a foreign bank unless the Federal Reserve Board has determined that such activity is consistent with sound banking practice. A state branch or agency must also comply with the same single borrower lending limits applicable to national banks. These limits are based on the capital of the entire foreign bank. In addition, FBSEA authorizes the Federal Reserve Board to halt the activities of a United States branch or agency of a foreign bank if it finds that the foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country or there is reasonable cause to believe that such foreign bank, or an affiliate, has violated the law or engaged in unsafe banking practice in the United States, and as a result, continued operation of the branch or agency would be inconsistent with the public interest and purposes of the banking laws.

## THE BANK

### The Bank

We are a leading multi-purpose bank with limited liability organized under Mexican law. We provide a wide range of banking, securities and financial services to more than 398,000 companies and government entities and to over 20.2 million retail customers throughout Mexico. As of June 30, 2012, we had total assets of Ps. 1,250,538 million, total deposits (including bank bonds) of Ps. 668,290 million and our stockholders' equity was Ps. 116,806 million. In 2011, our net income was Ps. 23,467 million and for the six months ended June 30, 2012, our net income was Ps. 11,613 million. As of June 30, 2012, based on total assets, number of branches, loans and deposits, we were the largest bank in Mexico.

We are the principal subsidiary of Grupo Financiero BBVA Bancomer S.A. de C.V., a Mexican financial services holding company ("GFBB"). GFBB is controlled and substantially all of its capital stock is beneficially owned by Banco Bilbao Vizcaya Argentaria, S.A., a leading Spanish bank ("BBVA"). As of June 30, 2012, we accounted for approximately 92% of GFBB's total assets and approximately 82% of GFBB's net income.

We are focused on distributing our banking products and services efficiently. As of June 30, 2012, we distributed our products and services in Mexico for all of our banking units through a nationwide network of 1,814 branches, 7,830 automatic wholly-owned teller machines (ATMs) and 120,713 operating point of sale terminals (POS), as well as through mobile phone and internet banking. As of June 30, 2012, approximately 84% of our banking transactions were completed electronically, primarily through ATMs and mobile phone and internet banking. We are present in all 32 states of Mexico.

Over the last three years, our commercial activity has grown at a higher average rate than Mexico's gross domestic product (GDP). From 2009 to 2011, compounded annual growth for our total performing loan portfolio and for our total deposits (including demand and time deposits) was 10.0% and 4.4%, respectively. During the same period, despite the deterioration of the global macroeconomic environment, our loan portfolio has grown while maintaining asset quality. Our performing loan portfolio grew 0.3% in 2009, 12.0% in 2010 and 7.9% in 2011, each as compared to the previous year. Total non-performing loans as a percentage of total loans was 3.1% in 2011; higher than the 2.5% recorded in 2010, but lower than the 3.8% recorded in 2009.

The composition of our loan portfolio has changed over the last three years, with our consumer loan and credit card loan portfolios increasing in weight as compared to our commercial and mortgage loan portfolios. As of June 30, 2012, our performing commercial loan portfolio, which includes loans to corporations, enterprises and financial and governmental entities, represented 51% of our total performing loan portfolio, while our consumer and credit card loan portfolio represented 25% of our total performing loan portfolio and our mortgage loan portfolio represented the remaining 24%.

Our net income grew 0.5% in 2009, 22.2% in 2010 and 4.1% in 2011, each as compared to the previous year. Net income growth in 2011 was mainly a result of higher income from interest rates and fees on loans which increased by Ps. 6,581 million, or 10.4% year-over-year, due to higher lending activity during 2011 as compared to 2010. For the six months ended June 30, 2012, our net income was Ps. 11,613 million, compared to Ps. 11,741 million for the six months ended June 30, 2011, a decrease of Ps. 128 million, or 1.1%, as a result of an increase in net interest expenses and a decrease in trading income, each as compared to the same period last year.

We operate through the following main units:

- Retail banking: this unit focuses on providing banking services and originating credit and debit cards, automobile loans, residential mortgage loans, consumer loans, payroll loans and loans to small businesses through our network of retail branches and ATMs, as well as alternate distribution channels.

- Middle-market and government banking: this unit focuses on providing banking services to companies with annual sales between Ps. 60 million and Ps. 1,000 million per year, offering bridge loans for construction purposes to housing developers, and providing banking services to Mexican federal agencies, states and municipalities.

- Corporate and investment banking: this unit focuses on providing products and services to Mexico's major corporate and institutional customers in lending, mergers and acquisitions, capital markets transactions (equity and fixed income), cash management and e-banking and money-market instruments.

The Mexican financial market is highly competitive. As of June 30, 2012, a total of 42 banks operated in Mexico. We hold the leading position in the following business lines:

| | As of June 30, 2012 (1) | |
|---|---|---|
| | Market Share | Rank |
| Total assets | 20.6% | 1 |
| Total deposits | 23.8% | 1 |
| Total loans | 24.3% | 1 |
| Number of branches | 15.1% | 1 |

(1) Source: CNBV. Market share includes commercial banks and limited-purpose financial institutions (Sofoles).

Our principal subsidiaries include:

- Administradora de Fondos para el Retiro Bancomer, S.A. de C.V. ("AFORE Bancomer"), a pension fund management company; and

- BBVA Bancomer USA, Inc., (formerly known as BBVA Bancomer Financial Holdings, Inc.) a holding company through which we hold our operations in the United States, including Bancomer Transfer Services, Inc. ("BTS"), a money remittance services company based in the United States; Bancomer Financial Services, Inc. ("BFS"), an agent for BTS in the State of California for money transfers and bill payments; and Bancomer Foreign Exchange, Inc. ("BFX"), a currency exchange company and agent of BTS in the State of Texas.

- For additional detail on our subsidiaries, see "The Bank–Banking divisions–Business through subsidiaries and affiliates."

## Organizational Structure

We are the principal subsidiary of GFBB, a Mexican financial services holding company.

In addition to our own products and services, we distribute and earn fee income and commissions from a wide range of financial and related products and services in Mexico for GFBB and other affiliates, including:

- bank assurance products on behalf of Seguros BBVA Bancomer, S.A. de C.V.;

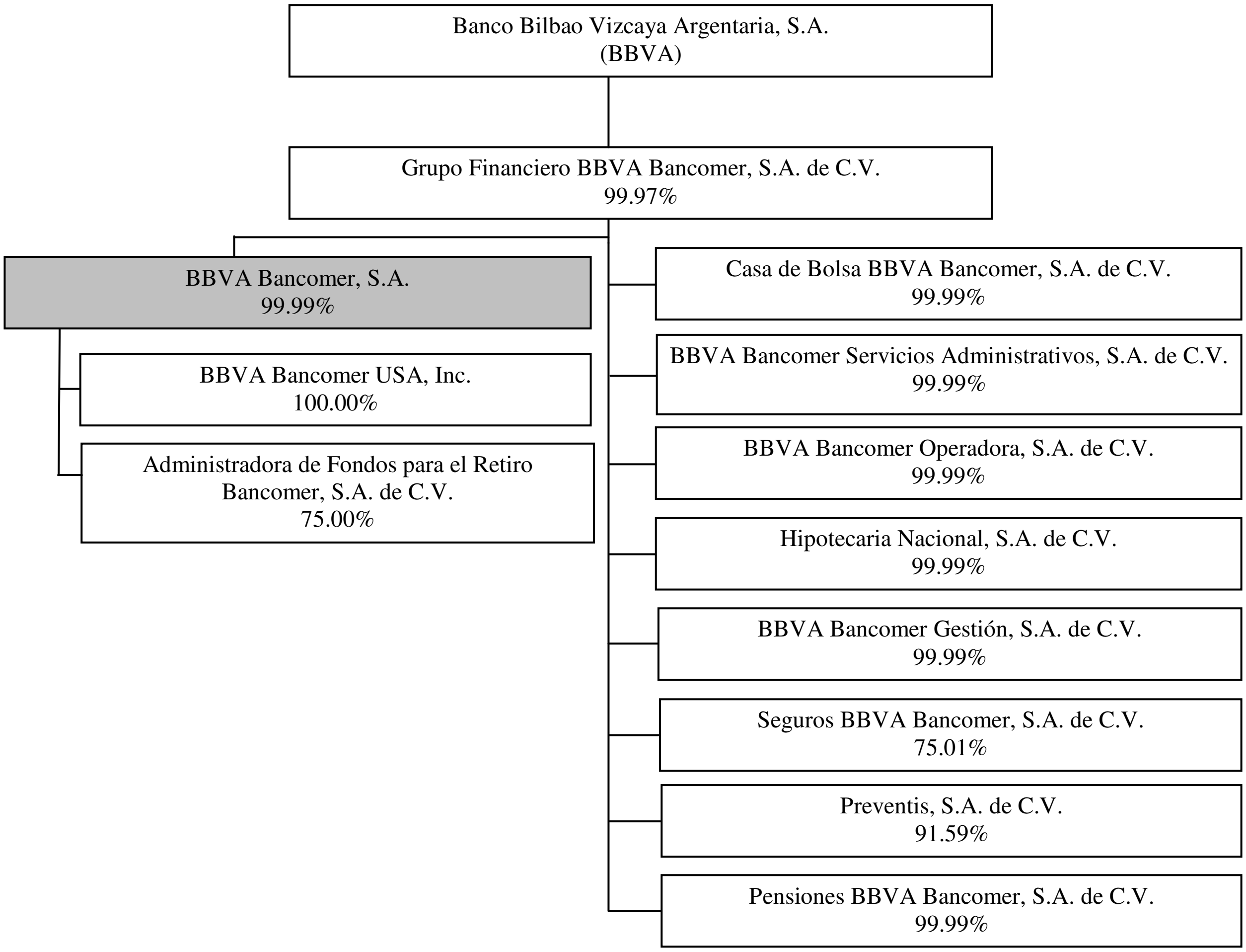
- mutual funds on behalf of BBVA Bancomer Gestión, S.A. de C.V.;

- brokerage services on behalf of Casa de Bolsa BBVA Bancomer, S.A. de C.V.;

- pension fund management on behalf of Pensiones BBVA Bancomer, S.A. de C.V. and

- mortgage loans on behalf of Hipotecaria Nacional, S.A. de C.V.

The following chart presents our current holding organizational structure and that of GFBB, including principal subsidiaries and affiliates, as well as respective ownership interests:




Our headquarters are located at Avenida Universidad No. 1200, Colonia Xoco, Mexico City, Mexico 03339. Our telephone number is (52 55) 5621-3434. Our taxpayer indentification number is BBA - 830831 - LJ2. See “The Bank—Properties.”

## Our History

### *General*

Our origins can be traced back to *Banco de Comercio, S.A.*, which was founded in 1932 in Mexico City. In 1977, various institutions comprising the Banco de Comercio Group were consolidated into a multi-purpose bank under the name of “Bancomer.” The merger enabled us to maintain our strong ties with local communities throughout Mexico and begin offering the services of a national banking network.

Bancomer was nationalized by the Mexican Government in 1982 along with nearly all other commercial banks in Mexico. As part of the subsequent privatization process, in 1991, a core group of Mexican investors led by Eugenio Garza Lagüera incorporated Grupo Financiero Bancomer (“GFB”), to acquire 56% of Bancomer’s outstanding capital stock directly from the Mexican Government.

GFB subsequently increased its ownership of Bancomer through acquisitions and, in 1993, the Mexican Government exchanged its remaining stake in Bancomer for shares of GFB’s capital stock, which gave GFB control of nearly 100% of Bancomer's outstanding capital. On May 30, 2003, Bancomer was issued a license by *Banco de México* to operate as a multi-purpose bank in Mexico.

### *BBVA's Investment in GFB*

In 2000, BBVA acquired operating control of Grupo Financiero Bancomer, S.A. de C.V., which was renamed Grupo Financiero BBVA Bancomer, S.A. de C.V. As a result of a merger of Grupo Financiero BBV-Probursa, S.A. de C.V. ("BBV-Probursa"), an indirect subsidiary of BBVA and the parent of Banco Bilbao Vizcaya Mexico, S.A. ("BBV-Mexico"), into GFB in July 2000, BBVA obtained approximately 30% interest in the outstanding capital of GFB. As a result of a series of transactions effected between January 2002 and March 2004, BBVA acquired approximately 99.9% of the capital stock of GFBB.

Following BBVA's initial investment in GFB in 2000, we grew as a result of our September 2000 merger with Banco Promex, S.A. ("Promex"), an insolvent bank that had been acquired by the Mexican Government, and, to a lesser extent, the transfer of a substantial portion of the traditional banking business of BBV-Mexico to us in 2001. As part of that transfer, certain of our assets and activities, including our ATM network, were transferred to BBV-Mexico. Subsequently, we were renamed BBVA Bancomer, S.A., Institución de Banca Múltiple and BBV-Mexico was renamed BBVA Bancomer Servicios, S.A., Institución de Banca Múltiple, or BBVA Bancomer Servicios.

We are a Mexican company authorized to exist and operate as a foreign-owned subsidiary bank. 100% of our capital is owned by GFBB, a foreign-owned subsidiary holding company, whose capital is, in turn, 99.97% owned by BBVA.

On August 1, 2009, we entered into a merger agreement through which BBVA Bancomer Servicios was merged into BBVA Bancomer, resulting in one financial institution. As a result of this merger, all former business activities of BBVA Bancomer Servicios, including trust and ATM services, are now wholly-owned and carried out directly by us.

## Strategy

Our central strategy is to continuously increase the profitability of our business through permanent and long-term growth that will enable us to continue being the leading bank in the Mexican financial market. Future growth will be supported by our customer-driven business model that provides specialized attention to each type of customer. To achieve this goal, we are focused on the following objectives:

### *Continue to Focus on Our Strategic Plan*

During 2010, we launched a new strategic plan focusing on the unique market opportunities that Mexico offers to continue growing and diversifying our financial services, which we continue to believe will be our primary focus going forward. Our 2010 strategic plan focuses on the following:

- *Customers*: They are the center of our business, and it is our principal objective to offer specialized attention to each type of customer.

- *Distribution*: We seek to create an integrated multi-channel distribution model and enhance our current distribution network with user friendly channels based on current and new technologies.

- *Simplicity and efficiency*: We seek to improve our operations by making them more efficient, transparent and accessible to customers.

Our 2010 strategic plan includes several initiatives, involving substantially all of our business divisions and administrative units, and is intended to improve our business model, services, commercial efficiency, risk management and profitability.

### *Customers*

The principal focus of our strategic plan is a corporate-wide understanding that our customers are the core of our business. Initiatives that have been implemented to advance this objective include cross-selling among our business divisions and creating new value-added products and customized solutions.

Our business model is based on customer segmentation, which entails offering specialized products and services to customers within each segment. We have divided our customer base into nine segments according to their different profiles: four segments for enterprises (corporate, medium-sized business, government entities, small businesses and micro-businesses) and five segments for individuals (high net-worth or *Patrimonial*, upper affluent or *Privada*, affluent or *Personal*, upper mass or *Bancario*, and lower mass or *Express*). As part of our strategic plan, we have also merged our residential mortgage business into our retail banking unit and transferred our commercial housing mortgage business to our middle-market and government banking unit.

We seek to further increase our customer base by serving new customer segments and accessing new markets. We are committed to delivering banking products and services to unbanked and underserved segments of the Mexican population and to helping them increase their financial knowledge. As of June 30, 2012, we had over 20.2 million retail customers, including large corporations, small and medium-sized enterprises, small businesses, government customers and individuals from all customer segments, as compared to 18.5 million customers as of December 31, 2011.

We view customer service as a top priority and we consider our approach to customer service to be one of the features that distinguishes us from our competitors and enables us to maintain a market advantage in the highly competitive Mexican financial services industry. We use the NPS methodology, a metric that is capable of predicting growth based on customer satisfaction and willingness to recommend our services. NPS is a strict measure that detects opportunities through an effective mechanism that allows us to identify the causes of satisfaction and dissatisfaction among our customers and prioritize critical areas requiring improvement. We have also created Bancomer Q, a program that primarily seeks to increase the quality of our service and thus improve customer satisfaction by classifying our retail branches into three categories, Blue, Silver or Gold, based on the quality of service provided as measured by the results of customer surveys.

### *Distribution*

We seek to create an integrated multi-channel distribution model and enhance our existing distribution network with user-friendly channels based on current and new technologies.

As of June 30, 2012, we had the largest national branch network consisting of 1,814 branches, including 1,682 full-service branches, 24 supermarket branches and 88 specialized branches (56 located in companies and 32 in customs offices near the U.S.-Mexican border to facilitate payment of customs duties). Each of our branches reports to one of eleven divisions located throughout Mexico. We also have a branch located in Houston, Texas.

We have expanded our infrastructure by increasing the number of branches, ATMs and Points of Sale, or POS terminals. In 2011, we invested in the expansion of our ATM network by adding 950 new ATMs and installing 292 *Practicajas* and 18 *Recicladores* throughout Mexico. During the first six months of 2012, we added 120 additional ATMs and 4,637 additional POS terminals to our distribution network. ATMs are our most important transactional channel. In 2011, ATMs processed more than 500 million transactions, or approximately 27% of our total retail banking transactions, whereas our internet portal and "*Línea Bancomer*" processed over 181 million transactions. During the first six months of 2012, ATMs processed more than 262 million transactions, or approximately 26% of our total retail banking transactions, whereas our internet portal and "*Línea Bancomer*" processed more than 90 million transactions.

As of June 30, 2012, we have expanded our points of sale to more than 19,600 stores and establishments, which include retail stores, pharmacies, gas stations and supermarkets, such as OXXO, Farmacias Benavides, Chedraui and WalMart, among others.

We have developed new products and services to address the needs of our customers and expand our distribution network. For example, in 2009, we launched a new generation of ATMs called *Practicajas*, that allow our customers to carry out (i) deposits, (ii) transfers to third parties, (iii) credit card and service payments, and (iv) borrowings at lower transaction costs.

In 2011, we launched *Bancomer Móvil,* a mobile banking system that provides customers with access to free consultations, purchases and basic banking transactions via their mobile phones. In addition, we launched *Cuenta Express*, the first bank account in Mexico that uses a customer's mobile phone number as the account number, thereby providing customers with simple and low-cost access to basic banking services. We are also creating new products designed to make financial services more accessible, such as pre-approved credit lines for payroll customers to be disbursed through our ATMs.

We operate a call center and telephone banking service, which we refer to as "*Línea Bancomer*," that provides our customers access to a toll-free telephone service to conduct certain basic banking transactions, including obtaining account balances and transferring funds. Our call center also allows us to perform telemarketing activities to offer credit cards and bank assurance products (provided by Seguros Bancomer, S.A. de C.V., a subsidiary of GFBB) to our customers, as well as services such as the payment of bills and automatic debits to checking accounts.

Our customers continue to take advantage of our online banking services offered through our internet portal. As of June 30, 2012, we had 1.6 million internet portal clients who executed approximately 416 million transactions during the first six months of 2012, an increase as compared to the 360 million transactions executed during the same period of 2011. In 2011, our internet portal clients executed approximately 751 million transactions, an increase as compared to the 660 million transactions executed in 2010 and 534 million in 2009. In 2011, our internet portal was chosen, for the second consecutive year, as the Best Financial Portal in Mexico by the Mexican Internet Association (AMIPCI) and the Latin American Institute for Electronic Commerce (ILCE).

In 2011, the number of transactions executed through electronic channels reached 182 million on-line banking transactions, 511 million mobile phone banking and ATM transactions and 729 million credit and debit card transactions. During the first six months of 2012, the number of transactions executed through electronic channels reached 91 million on-line banking transactions, 263 million mobile phone banking and ATM transactions and 425 million credit and debit card transactions.

***Simplicity and Efficiency***

We seek to improve our operations through the use of new technologies, product development, customer service quality metrics and methodologies, which allow us to simplify our customers' banking experience. We believe that our new distribution model and customer segmentation will also allow us to increase productivity in each of our banking units.

We maintain one of the most competitive efficiency ratios as compared to our peers in the Mexican financial system, according to the CNBV, and we seek to improve efficiencies through specialized training of our personnel and increased use of automated data and related systems as well as external suppliers when it is more cost-effective to do so. As of June 30, 2012, our efficiency ratio was 45.7%, which represented a deterioration of 2.1 percentage points as compared to 43.6% as of December 31, 2011, and a deterioration of 3.2 percentage points as compared to 42.5% in 2010, mainly due to increases in investments related to infrastructure, innovation and technology.

We have made considerable efforts to reduce branch traffic through the installation of electronic payment systems at our branches and by offering mobile phone and internet banking to our customers. As of December 31, 2009, 20.5% of total banking transactions were made through branch tellers, compared to 19.6% as of December 31, 2010. As of December 31, 2011, this number was reduced to 17.7% and, as of June 30, 2012, this number was further reduced to 16.1%. In addition, our commercial network productivity, a measure of the number of products (specifically, demand deposit accounts, credit cards, consumer loans, small business loans, mortgage loans, insurance and direct debit) sold by each branch executive per month, increased by 22.2% in 2009, 16.8% in 2010 and 20.6% in 2011.

***Increase Our Core Earnings***

We seek to increase our core earnings by reducing our funding costs through selective market and bank offerings, maintaining a low-cost deposit base and concentrating our efforts on products and services with high profit margins, without diminishing the quality of our portfolio.

***Sound Risk Management***

Our risk management strategy has contributed to our profit growth and controlled risk. We consider risk management to be a central part of our strategy, acting as a key differentiator from our competitors and as a tool for future growth and profitability.

Over the last three years, we have fully consolidated our internal credit risk model and we have developed advanced risk modeling tools that accurately measure credit risk. For example, our internal model for provisioning for losses on our credit card portfolio has been certified simultaneously by *Banco de España*, Spain's central bank, and the CNBV. Our risk indicators, such as the "risk premium", which is equal to the provisions for loan losses divided by average loan portfolio, have also performed positively. The risk premium was 5.3% in 2009, 3.6% in 2010, 3.4% in 2011 and 3.3% as of June 30, 2012.

We seek to control credit risk, asset quality and costs in all stages of the credit cycle (origination, follow-up and recovery) through the implementation of advanced tools and methodologies. We have been able to generate segmented and specialized credit behavior scorings that enable us to offer specialized products and prices. We expect to continue to improve our risk platform and modeling tools, which are central components of our strategic plan for risk management that will be in place for the foreseeable future.

We have a clear objective to effectively manage operational risk with structures based on tracking and reliable management of processes. In addition, we have introduced extensive internal risk management and control systems that involve all personnel and areas of the institution. Such programs focus on measuring, tracking and preventing potential risks and preventing money laundering and financing of terrorist activities.

***Maintain and Strengthen Our Leadership Position***

As of June 30, 2012, a total of 42 banks operated in the highly competitive Mexican financial services industry, in which we hold a leadership position (as described above) in the following areas: total assets, total deposits, total loans and number of branches.

In order to increase our profitability and commercial activity, we seek to maintain and strengthen our leadership position. We expect to maintain our market share through (i) the development of strategies and programs designed to increase long-term productivity; (ii) the maintenance and improvement of our processes; and (iii) the development of new business models. In addition, as mentioned above, we will continue to expand our distribution network through sustained investments in capital expenditures.

***Focus on Corporate Reputation and Responsibility***

We seek to act in accordance with our corporate principles and policies, including our commitment to social responsibility. We have a firm commitment to add value not only to the welfare of our customers, shareholders and employees, but also to the welfare of society.

- The following items represent the main corporate principles of BBVA Group:
- ***Customer Value***: The customer as the focus of our business.
- ***Creation of Value***: The creation of value for our shareholders through our business.
- ***Team***: A team-oriented approach as the mechanism for value creation.

- ***Management Style***: A management style that generates enthusiasm.

- ***Ethical***: Ethical conduct and personal and professional integrity as a way of understanding and developing our business.

- ***Innovation***: Innovation as a key to progress.

- ***Social Responsibility***: Corporate social responsibility (including a commitment to environmental management and mitigation of climate change) as a commitment to development.

We are also fully committed to supporting the development of Mexico's educational system, especially through *Fundación Bancomer*. Our foundation primarily supports education in Mexico through various projects. We assign 1.0% of our annual net income to *Fundación Bancomer's* budget. The foundation's most significant project includes a scholarship program called *Por los que se quedan*, which grants scholarships to children from families that have been dispersed as a result of migration. As of June 30, 2012, this program has reached 20 states and 159 municipalities in Mexico. Since its inception, *Por los que se quedan* has granted a total of 25,600 scholarships, totaling Ps. 768,000,000.

We also attempt to provide both individuals and businesses in Mexico with opportunities to increase their financial knowledge through our program *"Adelante con tu futuro,"* which provides participants with information relating to banking products and services. We provide this service (free of charge) through workshops aimed at helping individuals understand savings, individual retirement accounts, credit card management, credit maintenance, mortgages, life insurance and investment funds. In addition, we host cash flow workshops for small and medium sized business enterprises. These workshops have been held in our retail branches, through mobile classrooms and electronic channels such as our website. Since we launched this program in 2008, more than 1.2 million participants have participated in at least one of our courses.

***Banking units***

Our new business model is based on customer segmentation. We have the following banking units, which provide banking products and services to customers in the different segments:

- *Retail Banking Unit*: serves individuals in the high net-worth, upper affluent, affluent, upper mass and lower mass banking segments, as well as micro and small enterprises;

- *Middle-Market and Government Banking Unit*: serves medium-sized enterprises and government entities; and

- *Corporate and Investment Banking Unit*: serves major corporate and institutional customers.

### ***Retail Banking Unit***

*General*

Our Retail Banking unit is our major operating business unit and focuses on providing banking services and originating credit and debit cards, automobile loans, residential mortgage loans, consumer loans, payroll loans and loans to small businesses through our network of retail branches and ATMs, as well as alternative distribution channels. As of June 30, 2012, we had 1,794 retail branches and 7,830 ATMs throughout Mexico, as well as distribution channels outside of these networks, including 120,713 POS terminals and our internet portal. As of June 30, 2012, our Retail Banking unit accounted for approximately 22.8 % of our total loan portfolio, 54.4 % of our demand and time deposits, 53.7 % of our net interest income and 60.4 % of our fee income. We have divided the customer base served by our Retail Banking unit into six segments: five segments for individuals based on deposit size (high net-worth, upper affluent, affluent, upper mass and lower mass) and one segment for micro and small enterprises.

Our Retail Banking unit is focused on expanding its customer base by, among other actions, increasing its presence in the payroll accounts segment. We believe that payroll accounts (similar to direct deposits in the United States) is a key segment in which entrance remains modest and considerable potential for deposits and cross-selling exist. We have originated 576,000 new payroll loans in 2009, 813,000 in 2010 and 936,000 in 2011. As of December 31, 2011, we had over 1,276,399 payroll accounts and as of June 30, 2012, we had 1,408,463 payroll accounts. We intend to continue increasing the origination of payroll loans by offering our payroll accounts clients more benefits. We are also focused on delivering banking products and services to unbanked and underserved segments of the Mexican population.

In addition, our Retail Banking unit emphasizes increased productivity by reducing branch traffic through the installation of electronic payment systems at our branches and by offering mobile phone and internet banking to our customers. As a result, during 2011, the productivity of our Retail Banking unit, measured as the number of products sold by each executive per month, increased at an average annual rate of 20.6% as compared to 2010.

*Deposits*

We believe that our diversified and stable deposit base provides us with a low-cost source of funding. Our deposit base has traditionally been one of our strengths and represents an area of prime strategic importance. Our strategy is aimed at increasing our deposit base and maintaining competitive funding costs and we support this strategy through marketing campaigns seeking to increase both the balance of existing savings accounts as well as the number of new savings accounts opened.

Promotional campaigns are typically held twice a year for a two-week period, offering awards such as electronics or other household goods to account holders who open new savings accounts or increase savings account balances by at least Ps. 7,000. In addition, these customers are entered into raffles for more expensive awards such as automobiles.

Our flagship product *El Libretón*, a savings account that includes a debit card with access to ATMs and establishments both domestically and internationally, allows the customer to have immediate access to their resources, and if the customer maintains a minimum balance of Ps. 1,000, the account pays an annual interest rate of 0.30%. An additional advantage of *El Libretón* is that for every multiple of Ps. 3,000 maintained as a monthly average balance in an account, a customer will obtain a ticket to participate in the various prize drawings that we hold.

As of June 30, 2012, the balance of demand deposits originated at our Retail Banking unit was approximately Ps. 247,981 million, which represented 53.8% of our total demand deposits. This level of demand deposits contributed to a reduction of our funding costs, which, in turn, resulted in an increase in our net income for the year. As of June 30, 2012, balances in time deposits and mutual funds originated at our Retail Banking unit were Ps. 72,979 million and Ps. 253,309 million, respectively, which represented 77.1% of our total time deposits and mutual fund balances.

Through our Retail Banking unit, we issue debit cards by means of a variety of different account products. As of June 30, 2012, we had issued a total of approximately 17.8 million debit cards. Aggregate debit card billing for June 30, 2012 totaled Ps. 390,781 million, representing a 12.3% annual increase as compared to June 30, 2011. In addition, we offer time deposits and mutual funds and we are continuously designing specialized products for customers in each segment.

*Credit cards*

We are a leading bank issuer of Visa and private label credit cards in Mexico. Revenues from credit card operations are derived primarily from annual fees charged per account, variable interest rates charged on monthly account balances and merchant fees. We originated 2.1 million new credit cards in 2009, 2.5 million in 2010 and 2.3 million in 2011. As of June 30, 2012, we had over 7.8 million issued credit cards, including Visa and private label credit cards. As of June 30, 2012, total credit card loans outstanding were Ps. 83,646 million, while aggregate credit card billing totaled Ps. 80,605 million.

We offer a wide array of different credit cards depending on the customer's monthly income, in order to reach all types of customers. Our credit card offerings include "*Bancomer Azul*", "*Bancomer Oro*", and "*Bancomer Platinum*", which are accepted by all merchants in Mexico and abroad. Our "*Tarjeta Congelada*" product, which is designed to expand our reach into lower income segments of the population, offers a revolving line of credit with fixed monthly payments. We also offer "*Vida Bancomer*", the first customer loyalty program utilizing a credit card with an embedded intelligent microchip running proprietary software developed to offer real-time rewards to customers and marketing and merchandising flexibility to merchants. As of June 30, 2012, approximately 43% of our credit cards were private label credit cards and represented Ps. 14,350 million in outstanding loans.

Our strong risk screening platform allows us to monitor and differentiate the behavior of each customer to better identify customers with debt problems early on, and offer them a support plan through preferential rates. We have implemented a permanent support program called *Paga Bien, Paga Menos* (pay well, pay less) which, since 2010, has contributed to the growth of our credit card portfolio. At the end of 2011, 45% of our current credit card customers were enrolled in the program. This support program helps strengthen our credit card portfolio by offering better interest rates to credit card customers with higher credit scores, improving the quality of our service and the loyalty of our clients.

*Consumer loans*

Our consumer loan portfolio consists largely of unsecured personal loans, primarily for the purchase of consumer goods. We also offer automobile financing, mainly through partnerships with automobile dealers. Our consumer loan portfolio, excluding credit card loans, reached Ps. 71,838 million as of June 30, 2012, a 28.7% growth from Ps. 55,820 million as of June 30, 2011.

"*Creditón Nómina*" is a credit program collected through payroll deductions which offers customers the ability to borrow up to four months of salary and repay that balance over the course of three years. During the first six months of 2011 we originated more than 1,803,000 of such loans. In addition, we originated 100,706 automobile loans and granted more than 204,000 personal loans as of December 2011. During the first six months of 2012, we originated more than 442,434 of such loans. In addition, we originated 46,272 automobile loans and granted more than 68,783 personal loans as of June 30, 2012. Our platform for monitoring customer credit behavior and expanded multi-channel distribution network allowed us to offer more pre-approved loans in 2011 as compared to 2010. As of December 31, 2011, we originated 121,718 pre-approved loans directly through ATMs, an increase of 25.8% as compared to 2010.

*Residential mortgages*

We have integrated our mortgage residential banking business into our Retail Banking unit through which we continue to offer mortgage loans to individuals. Through our wide network of 61 offices across Mexico, we serve more than 396,000 customers by providing specialized mortgage services.

In 2011, we maintained our leadership position in the residential mortgage market, holding a 40.9% market share in number of new loans, with more than 32,900 loans granted for an amount totaling approximately Ps. 23,365 million. As of June 30, 2012, our residential mortgage portfolio totaled Ps. 151,607 million. The loan to value of our mortgage loans ranges from 65% to 90%.

We believe that there are significant opportunities to continue expanding our residential mortgage business going forward. We also believe that our residential mortgage business will grow in correlation with demand for housing in Mexico, which is expected to expand as a result of population growth and the Mexican Government's continued support of the housing sector.

*Customer segments*

*High net-worth segment*

Through our high net worth segment we provide customized financial and investment services to high-deposit and high net-worth individuals (generally persons with funds of at least Ps. 15 million). These customers are assigned a relationship officer who is familiar with the customer's individual needs, and who can recommend and provide access to specialized products and services.

This segment has 67 relationship officers in 30 offices located throughout Mexico that attend to approximately 3,000 customers. We seek to provide customers in this segment with tailored solutions for their financial needs. In addition, together with *Casa de Bolsa BBVA Bancomer, S.A. de C.V.*, GFBB's brokerage subsidiary, we offer innovative securities trading for customers based on market prices.

*Upper affluent segment*

Through our upper affluent segment we provide specialized products and services to individuals with funds over Ps. 1 million through our relationship officers. This segment operates similarly to our high net-worth segment and has 175 relationship officers in 56 offices with an average of 150 customers per officer.

We are focused on providing customers in this segment with tailored solutions for their financial needs rather than offering them generic products and services.

*Affluent segment*

In 2011, we created a new segment for customers with a monthly income of higher than Ps. 50,000 to offer them specialized attention and tailor-made products. As of June 30, 2012, we had 292 dedicated sales representatives, each of whom attends to an average of 400 customers.

We offer our products to three types of customers within the affluent segment: (i) new and mono-product customers, to whom we offer attractive packages to increase cross-selling of product and service opportunities; (ii) bi-product customers, to whom we offer linked products with high benefits; and (iii) multi-product customers, to whom we offer additional benefits. This will allows us to increase cross-selling in the affluent segment, which previously was not serviced by dedicated sales representatives.

In order to serve our customers in this segment, we are moving from a broad product and communications strategy to a more individualized one. Our objective is to create greater value for our customers in this segment, which, in turn, creates value for us. We believe that our strong risk platform allows us to calculate prices adjusted to risk and offer competitive products to customers in this segment.

*Upper mass segment*

The upper mass segment is our largest retail segment based on number of customers, with more than 12.2 million customers as of June 30, 2012. We provide products and services to individuals in the upper mass segment through 1,790 personal executives, 2,191 commercial executives and our distribution network throughout Mexico.

We are focused on providing customers in this segment with a wide range of products and services in a short period of time and under the highest credit quality standards. In particular, we have a strong focus on analyzing the credit behavior of our credit cards customers in order to offer them credit card upgrades.

*Lower mass segment*

We developed this new segment dedicated to servicing the low-income population without adequate access to financial services. We offer low-cost transactional accounts that allow customers to use our banking services.  As of December 31, 2011, we have installed 500 "Express Modules" in our branches, which have between two to three employees to answer questions and sell products specifically designed for customers in this segment.

We have launched the first mobile account in Mexico, *Cuenta Express,* that is linked to mobile phones and has an account number that is the same as the mobile phone number of the customer. Users of *Cuenta Express* do not need to maintain a minimum average balance.  We also have the largest network of banking correspondent agreements in the country to serve this segment. The CNBV approved our partnership with small merchants, supermarkets and pharmacies to install terminals (ATMs) that allow customers to manage deposits and make loan, credit card and services payments.  As of June 30, 2012, these partnerships have allowed us to expand our network and hours of operation to as late as 8:00 p.m. at more than 19,600 points of sale.

*Micro and small businesses segment*

This segment provides services and originates loans for micro and small businesses.  The maximum amount extended is usually limited to approximately Ps. 15 million, all of which is generally secured.  As of June 30, 2012, we had approximately 381,000 customers in this segment, of which 23,391 were small businesses.

Innovation has been and continues to be the key to our success in this segment.  In 2003, we developed the first unsecured revolving credit lines for our small business customers.  We refer to these credit lines as "*Tarjeta Negocios*"*;* such credit lines are limited to Ps. 4.2 million, and are primarily used by our small business customers to finance their working capital needs.  *Tarjeta Negocios* can also be used as a special purpose credit card, which allows a large number of our small business customers to access term financing for the first time.  Small business owners can use their line of credit electronically and issue checks using their line of credit.  *Tarjeta Negocios* has the support of a Ps. 1,284 million guaranty fund established by the Ministry of Economy (*Secretaría de Economía*) as part of a credit expansion program.  During the first six months of the year, we granted more than 12,300 new loans to small businesses.

In November 2009, we launched "*Tarjeta Micronegocios*", a special credit card to address the needs of micro-businesses which have historically obtained financing through suppliers, family and friends.  The main benefits of this product are that (1) it provides micro-businesses with the opportunity to separate personal from business finances, thereby improving the administration of the business and (2) it frees up personal accounts.  As of June 30, 2012, we have issued more than 7,965 *Tarjetas Micronegocios* for a total amount of Ps. 1,096 million pesos.

To help facilitate management of micro and small businesses, we launched an innovative electronic online banking solution called "*Movimiento PyME"* through which we provide customers in this segment with a platform to, for example, register their sales and charges to their customers, payments to suppliers, and expenses.

In 2011, we were recognized by the Ministry of Economy as the financial intermediary that supported the largest number of micro and small enterprises. This is the fourth time that we have received this recognition of our contribution to the growth of micro and small enterprises through our innovative products and loans, as well as of our participation in programs supported by the Ministry of Economy for this segment.  Such recognition confirms our leadership position in this segment, where we have a market share of 28.4% in stock balances.

***Middle-Market and Government Banking Unit***

Our middle market and government banking unit is composed of the following three divisions:

***Middle-Market***

Our middle-market segment is composed of companies with annual sales between Ps. 60 million and Ps. 1,000 million per year.  We have a network of 85 offices and 440 specialized representatives to serve customers in this segment.  As of June 30, 2012, we had 43,305 customers in our middle-market segment, each with a variety of financial needs.

The middle-market loan portfolio reached Ps. 92,259 million as of June 30, 2012 and represents approximately 32.0% of our total commercial loan portfolio. The quality of this portfolio has not been negatively impacted by its growth; the portfolio has maintained a delinquency ratio below 3% and as of June 30, 2012, the ratio was 2.75%.

Customers in our middle-market segment are also an important source of deposits, as they mostly utilize cash management and saving products. Our middle-market division has constantly increased the array of products designed to meet its customers' needs in terms of cash management and collection solutions. Some of its more popular products are: (1) *Tesorería Integral Bancomer*, which provides easier and faster operation of our customers' financial transactions by the installation of high-technology software through our website; and (2) *Multipagos*, which is a software that has optimized the collection process.

Productivity growth in our middle-market division has been one of the key drivers for its ongoing positive results. As of June 30, 2012, productivity, measured as the number of products sold by each executive per month, increased at an annual rate of 20% as compared to a rate of 2% as of June 30, 2011.

We believe that significant opportunities exist to continue expanding our offering of loans, cash management and collection solutions within this segment as entrance into this segment remains very low. In addition, we have increased cross selling within this segment. As of June 30, 2012, 69% of our customers had more than five classes of products with us, as compared to 67% as of December 31, 2011.

*Housing developers*

This segment includes our business with housing developers to whom we offer bridge loans for construction purposes. We have a specialized network of 44 executives across Mexico, which provides services to 435 customers in this segment. As of June 30, 2012, our portfolio of loans to housing developers totaled Ps. 19,231 million and we committed financing for the construction of 19,548 housing projects, for a total of Ps. 5,623 million.

As a result of the economic slowdown of 2010, we saw the size of our loan portfolio to housing developers decrease as compared to previous years. Accordingly, in 2011, we launched a recovery plan to increase lending to housing developers. This strategy included the strengthening of our monitoring processes and reviewing our housing developers portfolio to expand our knowledge of our customers' needs and offer them customized products to help them complete their projects. We increased the number of loans granted to customers in this segment during the second half of 2011, originating 10,710 more new loans than during the first half of 2011.

***Government Entities***

Our government banking segment services Mexican federal agencies, states and municipalities. We have enhanced our relationships with our government entity customers, which has resulted in our becoming a market leader in this segment. We offer tailored products through a network of 38 offices and 99 specialized representatives that serve 11,778 customers in this segment.

During 2009 and 2010, the government entities segment introduced a new operating model in its offices that removed administrative duties from representatives and increased commercial attributes in all branches. As a result of this new operating model, productivity in this business division, measured as the number of products sold by each executive per month, increased by 30% as of June 30, 2012 (in annual terms).

We offer several products to customers in this segment, such as payroll payouts for government employees, checks, and tax collection solutions for states and municipalities.

As of June 30, 2012, customers in our government banking segment accounted for 9.8% of our total performing loan portfolio and approximately 14.6 % of our total demand and time deposits.

***Corporate and Investment Banking Unit***

In 2008, we designed a new structure and customer portfolio organization to provide greater customer coverage, relying on synergies with other BBVA Group divisions and integrating them into a global vision aimed at offering our customers general solutions to their banking needs. We also defined a new structure with bank representatives dedicated to transactional or relationship activities, as well as industry bankers who specialize in specific sectors in order to better serve our customers, while simultaneously seeking recurrent income and higher return transactions that generate long-term value.

In 2011, we reorganized our Corporate and Investment Banking unit and our Global Markets unit under a new business model that facilitates revenue growth through the innovation and streamlining of our business.

Our Corporate and Investment Banking unit provides, among other things, products and services in lending, mergers and acquisitions, capital markets transactions (equity and fixed income), cash management, e-banking and money-markets.

Our Corporate and Investment Banking unit also provides specialized services to Mexico's major corporate and institutional customers through originating, distributing and managing lending, money-market and investment products and tailored financial solutions. In addition, this unit provides financial advice and structuring and assures, originates and syndicates complex financing structures including project finance, trade finance and syndications. Our cash management division collects and disburses funds on behalf of companies and their suppliers, distributors, customers and employees to facilitate cash flow, reduce operating costs and improve information management. Our transactional product division is constantly working to create projects that stimulate the development of new services in the market. Through our electronic payment service, our corporate customers can make payments to employees, including direct deposits of salaries and wages. In addition, companies that subscribe to this service are able to make payments to other companies that maintain accounts with us or with other third-party banks.

As of June 30, 2012, our Corporate and Investment Banking unit provided services to approximately 350 customers consisting of multi-national companies located in Mexico and local companies that generally have annual sales greater than Ps. 1,000 million, as well as institutional clients. As of June 30, 2012, our Corporate and Investment Banking unit accounted for approximately 18.0% of our total performing loan portfolio, and 10.3% of our total demand and time deposits.

This unit constantly strives to better serve our customers through the development of new products tailored to their needs. Some of our new products include: (i) *Bancomer Net Cash*, a global electronic banking solution that allows corporations, enterprises and government organizations to efficiently and securely execute all their banking transactions though one platform accessible remotely and at any time; (ii) *Bancomer Web Trader*, a simple system that allows investors to trade online and in real time and also offers them market information, analysis, news and applications that can be customized to support our clients' decision-making; and (iii) *ETF CHNTRAC,* a solution that helps our customers invest in China, where we are the second most important exchange-traded fund provider in Latin America, according to BlackRock's ETF Landscape.

Our Corporate and Investment Banking unit has been awarded several prizes over the years by LatinFinance, including: Best Local Investment Bank in Mexico 2011, which was awarded in connection with the secondary global offering of Grupo Financiero Banorte; the IPO of Grupo Financiero Banregio; the underwriting of Caterpillar Credit's long-term bonds and the financing of the construction of OHL Highway Urbana Norte; Best Syndicated Loan for Nemak's financing ,where we acted as a joint-bookrunner, and Best Financing Innovation, as lead-joint-underwriter of ICA's first asset-backed securitization of infrastructure projects under construction.

***Business through subsidiaries and affiliates***

*AFORE BBVA Bancomer*

AFORE BBVA Bancomer is a leading pension fund management company that had over 4.5 million accounts as of June 30, 2012. In addition, as of June 30, 2012, AFORE BBVA Bancomer had Ps. 254,305 million in assets under management, and its market share in terms of assets under management was 15.2% according to the National Commission for Retirement Savings-CONSAR (*Comisión Nacional del Sistema de Ahorro para el Retiro*), the Mexican pension fund regulator. As of June 30, 2012, AFORE BBVA Bancomer was one of the leading retirement funds in the market. As of June 30, 2012, AFORE BBVA Bancomer recorded a net income of Ps. 774 million. We own 75% of AFORE BBVA Bancomer and the remaining 25% is beneficially owned by BBVA.

AFORE Bancomer currently manages eight pension funds, including *Siefore Básica 1 (Bancomer Protege), Siefore Básica 2 (Bancomer Real), Siefore Básica 3 (Bancomer Progresa), Siefore Básica 4 (Bancomer Adelante), Siefore Básica 5 (Bancomer Emprende)*, and has a team specialized in servicing and assisting our customers, with one of the most comprehensive ranges of services in the pension fund management system.

*BBVA Bancomer USA, Inc.*

BBVA Bancomer USA, Inc. (formerly known as BBVA Bancomer Financial Holdings, Inc.) is a holding company through which we hold our operations in the United States, including, (i) Bancomer Transfer Services ("BTS"), a money remittance services company based in the United States; (ii) Bancomer Financial Services ("BFS"), an agent for BTS in the state of California for money transfers and bill payments; and (iii) Bancomer Foreign Exchange ("BFX"), a currency exchange company and agent of BTS in Texas.

*Bancomer Transfer Services, Inc.*

BTS offers money remittance services principally from the United States to Mexico and also services Latin America, Asia, Africa and Eastern Europe. Customers may transfer funds to Mexico through any other money remitter with which BTS has signed agreements, including the U.S. Postal Service.

*Bancomer Financial Service, Inc.*

BFS offers money remittance services, including bill payments, as an agent of BTS through its two branches in Southern California.

*BBVA Bancomer Foreign Exchange, Inc.*

BFX offers currency exchange and trading as an agent under BTS' currency trading license for BTS, other money transmitters, and other financial entities and corporations.

## Competition

***General***

The Mexican financial sector is highly competitive. We face strong domestic competition in all aspects of our businesses from other Mexican financial groups, commercial banks, insurance companies and securities-brokerage houses, as well as from non-Mexican banks and international financial intermediaries. In commercial banking, we compete with other large Mexican banks, many of which, like us, have been incorporated into a financial group and seek to offer a broad array of products and services to their customers. We also compete with certain non-Mexican banks (principally based in the United States) for the business of the largest Mexican industrial groups, government entities and high net worth individuals, as well as in providing U.S. dollar-denominated financing. Additionally, we compete with certain retailers that have recently obtained banking licenses, such as Ahorro Famsa, WalMart, Soriana, and others. In investment banking, we face competition principally from other major Mexican securities-brokerage houses, as well as from international investment banks.

On January 19, 1999, the Mexican Congress removed the remaining restrictions on aggregate foreign ownership, but not individual limits on ownership, of Mexican banks and enacted legislation to change the composition of their boards of directors to further encourage investment by non-Mexican entities in Mexican financial institutions. In addition, NAFTA, the Free Trade Agreement between Mexico and the European Union, the Free Trade Agreement between Mexico and Japan, other treaties, and relevant Mexican laws and regulations allow foreign financial entities incorporated in the United States, Canada, member states of the European Union, Japan and all countries that are party to other free trade agreements with Mexico to establish subsidiary financial groups, banks, broker-dealers and other financial entities in Mexico.

As of June 30, 2012, the Mexican banking system was comprised of 42 private-sector banks, of which 24 are principally Mexican-owned, 18 are foreign-owned and six are government-owned. Mexico's six largest private-sector banks, BBVA Bancomer, Banamex, Santander, Banorte-Ixe, HSBC and Scotiabank, accounted for approximately 76.6% of all outstanding assets of Mexican private sector banks as of June 30, 2012.

As a major commercial bank offering a full range of services to all types of businesses and individual customers, we face a variety of competitors in different aspects of our business, including from seven large privately-owned commercial banks, ten investment banks and 25 "niche" banks.

Commercial banks in Mexico compete in the retail market with limited-purpose financial institutions, or *Sofoles*, which offer mortgage, consumer and commercial loans mainly for low- and middle-income individuals. These institutions may engage in certain banking activities and are supervised by the same regulatory authorities as commercial banks, but are prohibited from engaging in foreign trade finance, offering checking accounts and engaging in foreign currency operations. Since the Mexican economic crisis in 2009, most *Sofoles* have been affected by liquidity problems as a result of difficulties experienced in obtaining funding and many have either disappeared or are in financial restructuring.

Until relatively recently, the commercial, mortgage and automobile credit market for middle- and low-income individual customers was serviced almost exclusively by non-banking institutions. However, banks have recovered market share from these non-banking institutions as such institutions generally have less experience with funding sources. In our case, we believe we have reinforced our position *vis-à-vis* non-banking institutions in the mortgage lending market through GFBB's acquisition of *Hipotecaria Nacional* in 2005. We have also sought to strengthen our position in key sectors, including in the automobile sector, where we have recently signed commercial exclusivity agreements with the Mexican operations of Ford and Suzuki to originate automobile loans through their network of domestic retailers.

The increased competition within the Mexican banking industry in recent years has led to consolidation of the industry, and further consolidation may occur. Mexican regulatory authorities have welcomed new market entrants in order to foster a more competitive market. In 2011, competition in the Mexican banking industry further increased as a consequence of organic growth through mergers and acquisitions, including the merger of Banorte and Ixe and the acquisition of General Electric Capital Corporation by Santander.

Commercial banks also face growing competition from securities firms and other financial intermediaries that can provide corporate customers access to the domestic and international capital markets as an alternative to bank loans, at very competitive prices.

We believe that we have several advantages over many foreign banks and smaller Mexican banks that allow us to compete more effectively. We continuously seek to improve our products and services in order to address greater competition in recent years. Changes in interest rates reflect market behavior and changes in our net interest margin have resulted from variations in volumes tied to macroeconomic factors affecting our competitors and the economy as a whole.

In the retail banking business, we compete with other private Mexican banks and with non-banking institutions. Among private Mexican banks, our strongest competitors in the retail market are Banamex, Santander, HSBC and Banorte-Ixe as those banks have also developed business strategies that focus on service coverage, branch network and strengthening of low-cost distribution channels. We also consider these banks to be our most significant competitors in the small and medium-sized enterprise segment.

The following table sets forth certain statistics relating to the Mexican commercial banking system as of June 30, 2012, except as otherwise indicated:

| | Assets | | Loans | | Deposits | | Stockholders' Equity | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Market Share | Amount | Market Share | Amount | Market Share | Amount | Market Share |
| | | | (in millions, except percentages, as of June 30, 2012) | | | | | |
| Domestic private-sector banks | Ps. 1,652,313 | 23.2% | Ps. 853,409 | 27.6% | Ps. 825,628 | 25.4% | Ps. 170,512 | 23.8% |
| Foreign-owned banks | 4,341,594 | 60.9% | 1,729,801 | 55.9% | 1,986,452 | 61.1% | 451,042 | 62.9% |
| Private-sector total | 5,993,606 | 84.1% | 2,583,210 | 83.5% | 2,812,080 | 86.5% | 621,554 | 86.6% |
| Public-sector banks(1) | 1,021,411 | 14.3% | 441,824 | 14.3% | 438,806 | 13.5% | 81,713 | 11.4% |
| Total banking system | 7,015,317 | 98.4% | 3,025,034 | 97.8% | 3,250,886 | 100.0% | 703,268 | 98.0% |
| Non-banking institutions* | 112,369 | 1.6% | 67,022 | 2.2% | — | — | 14,123 | 2.0% |
| Financial system total | Ps. 7,127,687 | 100.0% | Ps. 3,092,056 | 100.0% | Ps. 3,250,886 | 100.0% | Ps. 717,390 | 100.0% |

Source: CNBV (with subsidiaries).
(1) Includes on demand deposits, time deposits and bank bonds.
* Figures as of December 31, 2009, except loans.

### *Deposits*

As of June 30, 2012, we had deposits of Ps. 668,290 million. Our 23.8% share of the market for deposits, including borrowings from domestic financial institutions, ranks first among commercial banks in Mexico according to the CNBV.

The following table sets forth the market shares in terms of deposits for the six Mexican commercial banks with the largest market shares as of December 31 of each of the last three years, and as of June 30, 2012:

| | Bank Deposits As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| BBVA Bancomer | 25.5% | 24.4% | 23.4% | 23.8% |
| Banamex | 20.5% | 20.5% | 19.1% | 17.8% |
| Santander | 10.6% | 11.2% | 12.2% | 12.6% |
| HSBC | 10.4% | 10.0% | 10.8% | 10.5% |
| Banorte-Ixe | 13.1% | 12.8% | 13.4% | 13.3% |
| Scotiabank Inverlat | 5.0% | 5.0% | 4.5% | 4.8% |
| Six main banks | 85.0% | 83.8% | 83.4% | 82.8% |

Source: CNBV (Quarterly Banking Report, annual and interim consolidated financial statements).

### *Loans*

As of June 30, 2012, we had the largest total loan portfolio among commercial banks in Mexico, with a total of Ps. 644,052 million. Our total loan portfolio represented 24.3% of the market for loans in the Mexican banking system (comprising all commercial banks) as of such date. Despite the adverse macroeconomic environment and improved performance from our major competitors, our total loan portfolio experienced an annual growth rate of 11.7%. The following table sets forth the market shares in terms of loans for the six private-sector banks with the largest market shares as of December 31 of each of the last three years, and as of June 30, 2012.

| | Bank Loans As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| BBVA Bancomer | 24.9% | 26.0% | 24.8% | 24.3% |
| Banamex | 16.6% | 14.9% | 15.5% | 15.7% |
| Santander | 9.9% | 10.2% | 12.4% | 12.8% |
| Banorte - IXE | 12.3% | 12.9% | 13.5% | 13.8% |
| HSBC | 7.6% | 7.7% | 7.4% | 7.4% |
| Scotiabank Inverlat | 4.7% | 4.8% | 4.5% | 4.3% |
| Total | 76.0% | 76.4% | 78.1% | 78.3% |

Source: CNBV (Quarterly Banking Report, annual and interim consolidated financial statements).
Market share includes not only commercial banks but also limited-purpose financial institutions (Sofoles).

### *Stockholders' Equity*

As of June 30, 2012, we ranked second among commercial banks in Mexico in terms of stockholders' equity. We maintain a strong solvency position, despite dividend payout, increasing equity through recurrent income and organic capital generation. Our level of capital allows us to absorb credit demand and have the capacity to almost double the size of balances, target segments with less access to credit and make recurrent investments in technology and infrastructure.

The following table sets forth the level of stockholders' equity for the six largest commercial banks in Mexico (measured by stockholders' equity) as of December 31 of each of the last three years, and as of June 30, 2012.

| | Stockholders' Equity As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| | (millions pesos) | | | |
| Banamex | Ps. 133,103 | Ps. 132,686 | Ps. 126,959 | Ps. 129,877 |
| BBVA Bancomer | 98,590 | 109,412 | 116,377 | 115,970 |
| Santander | 71,092 | 79,268 | 91,710 | 96,538 |
| Banorte - IXE | 44,493 | 49,543 | 55,558 | 59,607 |
| HSBC | 39,828 | 38,220 | 40,031 | 40,285 |
| Scotiabank Inverlat | 25,034 | 27,563 | 27,278 | 28,335 |
| Total | Ps. 412,140 | Ps. 436,692 | Ps. 457,913 | Ps. 470,612 |

Source: CNBV (Quarterly Banking Report, annual and interim consolidated financial statements).

## Properties

We are domiciled in Mexico and our headquarters are located at Avenida Universidad No. 1200, Colonia Xoco, Mexico City, Mexico 03339. As of June 30, 2012, we owned 529 of the properties on which 1,814 of our full-service branches are located. We lease the remainder of our branches from unaffiliated third parties. We believe that our facilities are adequate for their intended purposes. In 2008, we carried out the sale of our main properties, including our headquarters. During the same period, we purchased two plots of land intended for our new corporate headquarters. The corporate building will be located in the financial center of Mexico City, in *Paseo de la Reforma*, and the operative building will be nearby in *Parques Polanco*. We will fund the total investment of approximately U.S. $900 million for these two buildings. This investment will be disbursed over the next three years and we expect to complete the construction of these buildings by 2013.

We also own a building measuring approximately 5,800 square meters in Monterrey, Mexico, which houses our back-up computer facilities. The facility provides computer services to our branches and operational centers in more than 500 regions in Mexico. Our communication network is the largest in Mexico and Latin America.

## Employees

The following table shows the breakdown of our full-time, permanent employees at the dates indicated:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| BBVA Bancomer | 26,568 | 27,114 | 28,060 | 28,475 |
| Overseas branches and representative offices | 30 | 29 | 31 | 31 |
| Subsidiaries | 0 | 0 | 0 | 0 |
| Total | 26,598 | 27,143 | 28,091 | 28,506 |

As of June 30, 2012, we had 28,475 employees of which approximately 39% were unionized. All management positions are held by non-unionized employees. We are party to a single collective bargaining agreement. The collective bargaining agreement was signed on February 2, 2012 and expires on January 31, 2013. We consider relations with our employees to be satisfactory.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial subjects, as well as participation in external seminars.

As required by Mexican law, we must make severance payments to employees whose employment is terminated under certain circumstances, as well as seniority premiums in cases of employees who have worked with us for at least 15 years and decided to terminate their employment with BBVA Bancomer. In addition, we offer pension funds to retired employees based on seniority, including life and disability insurance for all those who qualify for this benefit. All of our employees have the right to receive a productivity bonus. The benefits that we grant our employees include benefits and incentive programs in addition to those established by Mexican labor laws.

Under the terms of our employment agreements, we are required to make certain post-retirement payments to our employees and their dependents. In accordance with Mexican Banking GAAP, we are required to include these payments as an additional liability that must be reflected on our balance sheet. We are permitted to record the additional liability stemming from these payments as a one-time charge to our income statement, or we may amortize the effect of these payments on a straight-line basis over the expected remaining period that our employees will be under employment. We record these liabilities annually as a one-time charge to our income statement. The application of this Mexican Banking GAAP criterion did not have an adverse effect on our financial condition or results of operations for the year ended December 31, 2011 and for the six months ended June 30, 2012.

On December 6, 2006, we entered into an employer substitution agreement (*contrato de sustitución patronal*) with Operadora pursuant to which, as of January 1, 2007, all of our employees (except for our Chief Executive Officer) were transferred to Operadora's payroll. The transfer was made in order to give GFBB the flexibility to deploy personnel into its various business units without requiring a change of employers. All employees' salaries and benefits are paid by Operadora. We pay an amount equal to all employees' salaries and benefits plus a commission to Operadora as a service fee. All of our former employees continue to enjoy their former benefits and seniority. As a result of this transfer, all of our former employees are now part of a performance-based compensation program.

## Legal Proceedings

### *Deposit account cases*

We have faced a number of lawsuits from depositors who held deposit accounts with one of our predecessor entities from 1979 through 1992, the period during which these entities were owned by the Mexican Government. The plaintiff in each lawsuit has claimed that under the terms of the deposit agreement then in effect, we are required to pay the rate of interest (generally in excess of 95%) specified in such deposit agreement indefinitely, regardless of subsequent decreases in market interest rates.

In March of 2010, the Mexican Supreme Court issued rulings in three areas which will be applicable to the lawsuits described in the preceding paragraph. First, high interest rates agreed during a period of high inflation are only applicable to the period originally agreed by the parties. *Banco de México* will fix the applicable interest rate for any extension. Second, interests may only be capitalized if there is an express agreement between the parties. Third, unclaimed interests will prescribe ten years after they accrue. Based on the application of the foregoing, the amount of these contingencies has been substantially reduced and we consider them to be immaterial.

***Other litigation***

There are no relevant ongoing legal, administrative or arbitral proceedings other than those that are part of the normal course of our business, including those related to liquidation or bankruptcy proceedings, in which we, our subsidiaries or shareholders, directors and senior officials, are or could be involved, which could have or has had a significant impact on the outcome of our operations.

There are no legal, administrative or arbitral proceedings with contingencies amounting to more than 10% of the total assets of the Bank.

## RISK MANAGEMENT

### General

Our risk exposures consist of credit, liquidity, operational (including legal) and market risks. Credit risk is defined as the potential loss caused by the partial or total failure of a counterparty or issuer to perform on an obligation to us. Credit risk can affect the performance of both the loan portfolio and the investment portfolio. Liquidity risk encompasses funding liquidity risk, which refers to the inability to renew liabilities or acquire new ones at normal market conditions, and market liquidity risk, which refers to the inability to unwind or offset positions due to a lack of market depth, thereby affecting the value of an asset. Operational risk is the potential loss caused by failures or deficiencies in information systems, internal controls or errors while processing transactions. Market risk is the potential loss due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates and equity prices, and the adverse effect on our traditional banking activities of interest rate and foreign exchange rate fluctuations. We consider risk management an essential activity that requires improvement and adjustment according to our operations.

Mexican financial authorities have formulated rigorous risk management regulations for the banking sector. The CNBV has issued a set of requirements regarding risk management practices for all banking institutions in Mexico. The regulations require that banks have adequate policies and procedures in place to manage credit, liquidity, technological, market, operational and legal risk. This management process must include sound measurement and monitoring methods, as well as the establishment of risk limits. The regulations also require the establishment of a risk committee and a risk management unit. We have implemented and continue to update our program that fully complies with the CNBV requirements and goes beyond them with respect to many issues.

### Risk Management Organizational Structure

Our risk management activities have traditionally been delegated to a risk committee and a risk management unit. Our risk committee, composed of senior officers, currently (1) decides on the strategies and policies related to mitigating financial risks, including the setting of risk limits; (2) evaluates the risk-return ratio; (3) analyzes catastrophic events scenarios and stress testing (4) defines and monitors the general strategy for the asset and liability ratio; (5) defines our general pricing processes and monitors its effects; and (6) analyzes the impact of new products on the asset and liability ratio. Our board of directors ratifies the strategies and limits set by our risk committee. Our risk committee meets on a weekly basis or more frequently, if needed. The risk management unit identifies and measures the quantifiable risk of all our operations.

### Credit Risk

#### *Credit policies and procedures*

Credit risk management is an essential activity for banks. Our credit policies and procedures are designed to centralize credit decisions so as to increase uniform application of credit criteria and minimize the risks associated with individual decision-making. Our credit policies and procedures include quantitative criteria to ensure and surpass certain credit quality standards.

Our board of directors determines the general credit policies for each of our different business areas. Various credit committees that have been specifically set up to centralize and implement our credit approval policies carry out these policies. Credit committees are responsible for credit approval decisions and define the appropriate approval level depending on the risk level.

#### *Credit risk quantification*

We have an integrated bank-wide risk assessment system that provides us with sophisticated risk measurement tools and risk management practices. We use the following two measures for this purpose:

- Expected loss represents the 12-month average loss rate expected for a portfolio based on its current credit quality. Expected loss is determined by using a credit score, rating or behavior score depending on the customer's profile to reflect the expected default frequency of a borrower and the expected loss given a default on any particular operation. We record this measure as a cost by creating a reserve for expected losses relating to a particular portfolio. As of June 30, 2012, the total allowance for expected loan losses equaled Ps. 27,245 million.

- Unexpected loss represents the uncertainty that actual losses will, in fact, differ from expected loss as it measures the impact of external events that may affect the likelihood of a customer's payment and helps us to determine how much economic capital we need in order to maintain an investment grade that is satisfactory to our shareholders.

***Credit analysis and pricing***

Account officers are trained and responsible for assigning risk ratings based on an eight-step scale. These ratings are used as part of the loan application process. The ratings are assigned subjectively, depending on the overall credit exposure rather than the default risk of an individual loan, and are based on macro-economic conditions, current capacity to pay and projected payment capacity. Account officers are responsible for weighting the different factors to produce an overall score. The ratings are updated as the risk is perceived to change, and are reviewed every three months. An account officer's analysis of a loan application is accompanied by a summary of the major sources of risk. With respect to the issuance of commercial credit, there are up to seven pre-authorizations required depending on the amount of the credit requested, as shown in the table below.

**Middle-Market Division's Credit Authorizations by Credit Amount**

| Committee | Maximum amount (millions of U.S. $) |
|---|---|
| Account Executive, co-responsible with Officer Manager | 1.0 |
| Division Manager | 3.9 |
| Middle-Market Banking Committee | 8.6 |
| Credit Risk Central Unit Committee ("UCRC") | 50.0 |
| Central Credit Committee ("CCC") | 80.0 |
| Operations Technical Committee ("CTO") | 100.0 |
| Credit and Market Risk Committee ("CCRM") | Greater than 100.0 |

The pricing of the loan is tied to our risk and operating costs. The pricing formula is based on the following factors: cost of funds (as priced by our finance division) based on general local market conditions, our yield model and market competition; commissions; operating costs; expected losses; required margins; adjustment for risk rating; and capitalization requirements.

***Retail lending analysis***

We perform credit analyses of all our retail borrowers. In the case of individual borrowers, the credit approval process is based primarily on an evaluation of the borrower's repayment capacity. A credit officer evaluates the information presented by the prospective borrower taking into consideration the following factors: (i) the results generated by an automated scoring program, which takes into consideration the potential borrower's income, expenses and personal assets; (ii) the potential borrower's credit history; and (iii) our previous experience, if any, with the potential borrower. We have improved our systems for tracking the repayment of loans and credit card balances. Decisions on the granting of loans are taken at various levels and with varying degrees of involvement by directors and officers, depending on the size of the loan under consideration and the aggregate amount of credit outstanding to the borrower.

Our credit evaluation procedures with respect to credit cards are based on a computerized credit scoring system. The credit scoring process centralizes the decision making process in regard to both the issuance of credit cards and increases in credit lines, increasing the level of control exercised in making such decisions. We have taken additional steps to improve the quality of our credit card assets, including raising the minimum gross monthly income requirement for credit card applicants and verifying the information contained in credit card applications more rigorously.  We have access to on-line information about the credit history of each of our credit card customers that we use in our decision-making process regarding increases or decreases in the credit line provided to a particular customer.  We had a contract with First Data Resources, Inc. to manage a credit card portfolio.  This contract was terminated in 2009 due to the migration of this portfolio to our platform.  We currently use the services of a Mexican credit bureau created jointly by us, other Mexican banks and a Mexican affiliate of TransUnion, a leading U.S. credit bureau, to manage our credit card portfolio.  We have also been working on the development of additional decision-making systems aimed at verifying the reliability of the information obtained from our admission process.

Since 1996, we have re-engineered our mortgage loan origination process by basing it on a computerized credit scoring system that centralizes the decision-making process.  The credit process begins at the pre-qualification phase, which serves as a filter to the loan approval process, and provides all required applicant information including information about the applicant's credit history obtained through a credit bureau, which is reviewed to determine whether an applicant meets the pre-qualification standards.  Appraisal of the property is undertaken through a centralized unit of independent.  The applicable credit committee reviews the applicant's file and the collateral file (including the appraisal) to determine the applicant's debt capacity and the authorized loan amount.  Once a final decision is made, the credit contract is signed before a notary public, the deed is registered at the Public Registry, and the funds are disbursed to the applicant's checking account.  Loan-to-value ratios are set according to the size of the loan with a maximum of 90%, which requires a minimum down payment of 10%.  We only accept first mortgages on property.

***Corporate and middle-market lending analysis***

A potential corporate borrower's evaluation focuses primarily on the credit history and reputation of its owners and management, its production processes and facilities, its current and projected cash flows and the security offered for the loans.  With respect to loans intended to finance a particular project, the evaluation focuses primarily on the experience of the borrower the existence of a technological alliance, market conditions and the projected financial condition of the borrower.  We assign a credit risk rating based on this analysis that helps to identify the customer's risk profile.

Account officers are responsible for preparing proposals regarding corporate loan applications.  Each loan application is then classified according to its industry sector and is then reviewed by the credit manager responsible for that particular sector to determine whether it merits further consideration.  The credit manager, in turn, presents the proposal to a credit committee for approval.  A credit manager's authority to approve a loan is capped at a maximum of U.S. $50 million (or its peso equivalent).  A central credit committee comprised of executives in the risk management division reviews loan applications above that amount.

Loan applications above U.S. $100 million (or its peso equivalent) must be presented by the responsible credit manager to our technical committee of operations that is comprised of the Chairman of our Board of Directors, the Chief Executive Officer, the Executive Vice President of Risk Management, the Director of Credit Risk and the Executive Vice President of the applicable business unit.  Loan applications above U.S. $100 million must be submitted to the Credit and Market Risk Committee (CCRM) for approval.

In addition to our internal limits on lending, we are subject to certain legal lending limits.  For a discussion of these regulatory requirements, see "Supervision and Regulation—Lending Limits."

In middle-market lending, the credit business is divided into divisional sub-groups representing broad geographical sectors.  The divisions are made up of regional offices.  Each regional office has clusters of account officers.  The regional directors and credit directors report to the divisional heads who, in turn, report to the business division director.  Credit decisions are made in conjunction with credit consultants belonging to the credit administration group.  Corporate lending is organized in four broad sectors: industrial and commercial, communications and services, finance and manufacturing.  The corporate lending group has regional offices in Mexico City, Guadalajara and Monterrey.

### *Monitoring*

We operate a compliance center to monitor our borrowers' compliance with the term of loans. The compliance center monitors the dates and payments of loans, the conditions and covenants of loans and any authorized exceptions to standard procedures. The monitoring process also includes the verification of the use of proceeds and satisfaction contractual conditions, financial analysis of the borrower and guarantors, on-site visits to the borrower's place of business, confirmation of credit bureau information and analysis of the economic environment, among other procedures. Finally, the compliance center also operates an early warning default system.

Pursuant to the rules governing lending activities under the General Rules Applicable to Mexican Banks, Mexican banks must implement certain measures relating to lending controls, including processes relating to loan promotion, evaluation, approval, documentation, management control and collection. We have implemented these measures with the approval of the CNBV.

### *Derivative financial instruments*

Credit exposure from derivative financial instruments arises from the risk that customers or counterparties will default on their obligations to us. To reduce this risk, each customer or counterparty engaged in these transactions must have either a trading line of credit, which takes into account the trading risk for each customer or counterparty, or a collateral deposit. The amount of risk implied in derivative financial instrument transactions, measured as the potential credit exposure, is added to the total risk authorized for a specific customer and must be authorized by a credit committee. To quantify the amount of line of credit utilized by a specific customer or counterparty in a derivative financial instrument transaction, our risk management unit calculates, by the use of statistics and volatility levels, the maximum expected credit exposure within a pre-defined confidence level. This amount is the potential credit exposure and corresponds to an amount that must be blocked out of the customers' or counterparties' line of credit. Lines of credit are monitored during the day by a support area of our risk management unit and by our risk management unit at the end of each day.

## Liquidity Risk

Liquidity risk is related to the inability to meet efficiently both expected and unexpected current and future cash flows without affecting either our daily operations or our financial condition. The purpose of managing liquidity risk is to minimize the cost of funds through adequate coverage of liquidity needs that arise in either the ordinary course of business or from unforeseen events.

Our treasury unit is responsible for maintaining adequate short-term liquidity levels in pesos and U.S. dollars. Our Asset and Liability Committee, or ALCO, is responsible for maintaining adequate long-term liquidity levels in pesos and U.S. dollars. Our principal sources of peso funding are customer deposits, which are highly concentrated in checking accounts (non-interest and interest-bearing) and short-term notes with interest due at maturity. Our main sources of U.S. dollar funding are checking accounts (non-interest and interest-bearing), time deposits and foreign exchange derivatives.

Liquidity risk is analyzed by a time horizon (short- and long-term), by concentration of funding and by uses and sources of funding under normal and extreme conditions. Liquidity risk is monitored through a limit scheme for quantitative and qualitative indicators where, if necessary, a contingency plan is implemented for immediate corrective actions.

## Operational Risk

Operational risk is risk that cannot be classified as credit risk, market risk or technical or biometric risk. We measure and endeavor to control operational risk through our operational risk management unit.

Our operational risk management unit reports to a risk executive officer who is responsible for establishing and implementing methodologies and procedures to identify, measure, valuate and mitigate operational risk throughout the Bank. Because operational risk mitigation is a part of every process, the responsibility of its management is assigned to each process owner or manager in the Bank who has designated a member of his staff as operational risk manager, each of whom works as a delegate of the operational risk management unit.

We use EvRO, TransVaR, and SIRO tools to manage operational risk, each of which was developed in-house and is a proprietary trademark. EvRO is a qualitative management tool that identifies and evaluates operational risk factors and helps us establish and prioritize mitigating measures. TransVaR is a collection of a key risk indicators that are customized for each process and that provide information about the level and type of operational risk exposure in the related process. SIRO is a database of historic losses suffered by us as a consequence of operational risk events that are classified by risk class and loss type, business unit and account, among other criteria.

During 2012, the information contained in EvRO and TransVaR will be migrated to a new platform in order to improve the methodology used to identify and evaluate operational risks. The new platform, which is the System for Operational Risk Management "STORM," provides for the simplification of information for effective mitigation and prevention of operational risk.

Operational risk for regulatory capital is currently being calculated under a Basel II basic approach for our branches that are subject to regulatory requirements. Operational risk for economic capital is calculated under a Basel II advanced approach with a diversified allocation of economic capital for each business unit. Calculations under the Basel II Advanced Measurement Approaches (AMA) have been estimated using data as of the end of July 2010 and June 2011, and will be recalculated each year using data as of the end of June.

**Market Risk**

Our exposure to market risk arises from trading and investment in financial instruments, where interest rates, foreign exchange rates (mainly the peso/U.S. dollar exchange rate) and stock prices are the most important sources of market risks, and from traditional banking services such as deposit taking and lending, where the balance sheet is exposed to interest-rate risk and foreign-exchange risk.

Treasury and trading positions are evaluated on a daily basis for market risk using Value at Risk Methodology. In addition, information regarding risk versus limits, scenario analysis and stress tests is produced on a daily basis.

Our risk management unit uses a historical simulation model to calculate value at risk. Equally weighted historical simulation is used as the central measure, against which limits are compared. In addition, historical simulation with Exponentially Weighted Moving Average, or EWMA, is used as a complement because it is more sensitive to risk and, therefore, responds more quickly to changes in volatility and correlation levels. Finally, the effect of portfolio diversification is measured within each model.

Historical data of market parameters such as interest rate curves, foreign exchange prices, volatilities and stock indexes for the last two years are available for value at risk calculations. "Unwind Period Value at Risk" looks to reflect market liquidity risk by calculating the number of days it will take to unwind a position without affecting the market. In making these calculations, market outstanding amounts and trade volume information is compared against current exposures, with the information being updated periodically for internal use.

The following table sets forth the average, maximum and minimum values of the daily Value at Risk during the first six months of 2012, as well as the daily limits in effect as of June 30, 2012. Daily Value at Risk is calculated with a 99% confidence level. Value at Risk is calculated to represent the maximum loss at this confidence level due to changes in market values of trading positions. The information below does not include securities that are no longer traded, recorded as for sale, or as held to maturity, or that are highly illiquid or in workout. During the first six months of 2012, daily Value at Risk did not exceed Ps. 118.25 million. The daily consolidated Value at Risk limit was Ps. 257.90 million. Limits are reviewed periodically.

| | Six months ended June 30, 2012 | | | Actual limit as of June 30, 2012 |
|---|---|---|---|---|
| | Average | Maximum | Minimum | |
| | | | (millions of Ps.) | |
| Equities | 27.92 | 58.16 | 11.49 | 76 |
| Interest rate | 75.20 | 99.13 | 57.28 | 231 |
| Foreign exchange | 13.46 | 52.09 | 2.77 | 66 |
| Vega EQ | 11.34 | 18.90 | 4.29 | 109 |
| Vega FX | 4.34 | 15.17 | 0.86 | 19 |
| Vega IR | 14.12 | 20.40 | 5.34 | 59 |
| Total | 89.05 | 118.25 | 62.67 | 257.90 |

Stress testing is used to complement the value at risk methodology. Stress testing involves the creation of scenarios based on infrequent or catastrophic events to evaluate contingencies, and is of particular importance in periods of highly volatile or illiquid markets. The sensitivity analysis we conduct shows the effect on positions caused by predetermined changes in market variables (a 1% increase in interest rates).

In addition, we have a stop-loss process that issues a warning if losses reach a certain level preset by our board of directors. If a stop-loss warning is issued, the ALCO is convened to establish an action plan.

ALCO monitors our Basis Point Value ("BPV"), Net Interest Income ("NII"), exposures and positions. We seek to manage our assets and liabilities to reduce any potential adverse impact on our results of operation and economic value that might result from changes in interest rates. Risk control of interest rates is conducted through systematic monitoring of limit exposure. Particularly, we have established sensitivity limits for BPV and expected NII for the following 12 months, as well as for economic capital, which is the maximum expected loss in net economic value with a 99% confidence level over a three-month period. In addition, we established a limit for Earnings at Risk, considering the maximum expected loss in NII with a 90% confidence level for the following 12 months.

The primary methods used to estimate the interest rate risk of the balance sheet portfolio are as follows:

- parallel and non-parallel scenario analysis (including stress scenarios); and
- interest rate simulation.

Non-maturity products are characterized according to their economic durations and to their market rate sensitivity. Additionally, for the characterization of the checking accounts and savings deposits we use a stability model authorized in 2006 by the CNBV.

Our non-peso lending activities are generally priced based on LIBOR, with re-pricing intervals of one, three or six months depending on our funding opportunities. Spreads over the LIBOR reference rate are managed in accordance with our marginal cost of funding in currencies other than pesos.

# MANAGEMENT

## Board of Directors

Pursuant to Mexican Banking Law, the board of directors of the largest Mexican banks must be composed of a minimum of five and a maximum of 15 directors, of whom, at least 25% must be independent. There must also be an alternate director appointed for each director. Independent directors shall also have independent alternates. No more than a third of the board members may be employees of the relevant bank.

On February 17, 2012, our shareholders voted to elect the members of our board of directors. Our board of directors meets at least every three months and as of the date of this offering memorandum is chaired by Ignacio Deschamps González, who is also the Chairman of the board of directors of GFBB.

The following table sets forth our current directors and their alternates:

| Name and position | Principal activity | Years on our board of directors | Age |
|---|---|---|---|
| ***Chairman*** | | | |
| Ignacio Deschamps González[1] | Chairman of GFBB | 4 | 49 |
| ***Vice Chairman*** | | | |
| Luis Robles Miaja[1] | Senior Officer of BBVA Bancomer | 4 | 52 |
| ***Secretary*** | | | |
| José Fernando Pío Díaz Castañares | Legal Officer of BBVA Bancomer | 4 | 50 |
| ***Alternate Secretary*** | | | |
| Alfredo Aguirre Cárdenas | Legal Officer of BBVA Bancomer | 0 | 48 |
| ***Directors*** | | | |
| Fernando Gerardo Chico Pardo* | Chairman of Grupo Aeroportuario Del Sureste S.A.B. de C.V. | 2 | 60 |
| José Francisco Gil Díaz* | Executive Chairman of Telefonica Mexico, in Central America and Mexico | 1 | 68 |
| Alberto Bailleres González | Chairman of Industrias Peñoles S.A. de C.V. and of El Palacio de Hierro S.A. de C.V. | 19 | 80 |
| Alejandro Burillo Azcárraga* | Chairman of Grupo Pegaso | 6 | 60 |
| Pablo Escandón Cusi* | Chairman and CEO of Nadro S.A. de C.V. | 5 | 68 |
| José Antonio Fernández Carvajal | CEO of Fomento Económico Mexicano, S.A.B. de C.V. | 19 | 58 |
| Bárbara Garza Lagüera Gonda | Board Member and Shareholder of Coca- Cola FEMSA, S.A.B. de C.V. | 19 | 52 |
| Francisco González Rodríguez | Chairman of BBVA | 10 | 67 |
| Ricardo Guajardo Touché* | Chairman of Audit Committee of GFBB | 19 | 64 |
| ***Alternates*** | | | |
| Cuauhtémoc Pérez Román* | Chairman and CEO of Grupo Urbi | 6 | 60 |
| José María García-Meyer Döhner | General Director- Global Retail & Business Banking BBVA | 0 | 55 |
| Jaime Serra Puche* | Partner of SAI Consultores | 4 | 61 |
| Arturo Manuel Fernández Pérez | President of ITAM | 10 | 58 |
| José Fernando de Almansa y Moreno-Barreda* | Board Member of Telefónica, S.A. | 8 | 63 |
| Andrés Alejandro Aymes Blanchet* | Partner of Aymes y Asociados Consultoría en Eficiencia | 10 | 72 |

| Name and position | Principal activity | Years on our board of directors | Age |
|---|---|---|---|
| Carlos Salazar Lomelín | CEO of Coca- Cola FEMSA, S.A.B. de C.V. | 6 | 61 |
| Manuel Castro Aladro | Senior Officer of BBVA | 2 | 44 |
| Ángel Cano Fernández | Vice Chairman of BBVA | 2 | 51 |

* Independent directors

(1) On August 6, 2012, our shareholders voted to elect the members of our board of directors. The new board will take office on October 1, 2012. The principal changes are that Luis Robles Miaja will replace Ignacio Deschamps González as Chairman of the GFBB and Vicente María Rodero Rodero will replace Luis Robles Miaja as Vice Chairman of the GFBB. Ignacio Deschamps González will become the Head of Global Retail and Business Banking of BBVA.

### Examiners

The examiners of the Bank must be residents of Mexico. The duties of the examiners include monitoring and supervising our operations, books and records. The examiners must comply with obligations imposed by law and internal statute and must meet the following requirements:

- technical capacity;
- knowledge and experience in accounting, financial, legal or administrative matters;
- quality of credit history;
- moral character; and
- absence of any legal impediment to the performance of their duties (such as conflict of interest).

Because of the relationship between the examiners and the Bank, the examiners are bound by confidentiality obligations. They may attend the board of directors' and shareholders' meetings but may not vote.

Although some of the functions of the examiner and the external auditor are similar, their responsibilities differ. To avoid conflicts of interest, examiners cannot sign the audit opinion on our annual financial statements. However, examiners and auditors may work for the same firm.

### Board activities

The main functions of our board of directors are to:

- manage and represent the company and fulfill its corporate purposes;
- appoint and dismiss chief executives, including the CEO, officers, agents, employees and external auditors of the Executive Officers Committee;
- create committees and commissions as it deems necessary, delineating their structure, organization and authority and granting them the necessary powers to carry out the business as the board may determine; and
- summon the ordinary and extraordinary shareholders' meetings.

**Credit and market risk committee**

Our credit and market risk committee is responsible for:

- approving credit operations that involve more than U.S. $30 million, or its equivalent in national and other currencies;
- approving credit and market risk management policies (excluding policies that must be approved by our board of directors);
- overseeing the development of our loan portfolio; and
- addressing certain special issues referred to it by our board of directors.

The current members of our credit and market risk committee are Luis Robles Miaja (Chairman), Andrés Alejandro Aymes Blanchet and Ignacio Deschamps González.

**Audit committee**

Our audit committee performs the following functions:

- *Internal Controls*. Our audit committee reviews and submits internal control procedures and policies to our board of directors for approval, analyzes and approves operations manuals and evaluates our internal control system, reporting its findings and recommendations to our board of directors.
- *Code of Ethics*. Our audit committee analyzes amendments to our code of ethics and submits its recommendations to our board of directors for its approval.
- *Financial Information*. Our audit committee makes recommendations to our board of directors concerning the preparation of our financial information to ensure it is useful, adequate and reliable. The committee also reviews our financial statements, on a quarterly and annual basis, before they are presented to our board of directors and reviews the relevant changes in accounting principles to ensure our financial statements comply with them.
- *Compliance*. Our audit committee reviews and approves the annual program of our compliance unit before it is presented to our board of directors, and the committee verifies our compliance with the program.
- *Anti-Money Laundering and Anti-Funding to Terrorism.* Our audit committee examines and approves annually the working plan about these matters. Each semester the committee evaluates the fulfillment of this plan and its outcomes.
- *Internal Auditing*. Our audit committee evaluates and makes recommendations to our board of directors concerning the appointment of the head of our internal audit unit; reviews and approves our annual auditing plan; supervises and evaluates the independence, quality and effectiveness of our internal auditing department; facilitates communication between our board of directors and our auditors, oversees training of internal auditors; and oversees the implementation of corrective measures taken based on recommendations from the audit committee.
- *External Auditing*. Our audit committee submits external auditing candidates to our board of directors for its approval, verifies that we rotate external auditors every five years, evaluates the independence of the external auditor, ensures that the external auditing program is based on contractual agreements and reviews the external auditor's reports before they are presented to our board of directors.

- *External Supervision*. Our audit committee reviews the results of any inspections by external supervisory bodies and oversees our compliance with their recommendations.

- *Systems*. The audit committee is informed about the incidents that occur in systems and services provided to users through electronic media (i.e., e-mail and websites), to ensure that measures are taken to prevent or avoid any incidents in the future.

- *Outsourcing Operations*. The audit committee is informed of the performance of contracted services to third parties, as well as of compliance with applicable regulations relating to such services, to ensure that appropriate mechanisms are followed to manage, control and protect information created, received, transmitted, processed or stored in the technological infrastructure, telecommunications or information processing services that are performed by such third parties.

- *Credit Risk.* The audit committee is provided with quarterly reports on any deviations detected with respect to objectives, guidelines, policies, procedures, strategy and current regulations concerning credit.

- *Derivative Operations.* Each year the audit committee is informed and informs the board of directors of the results of the annual evaluation regarding our compliance with the requirements imposed by *Banco de México* on our derivative operations, including approval by our board of directors of our procedures, products and risk limits, qualification of our personnel and sufficiency of our infrastructure and internal controls related to our derivative operations.

- *Remuneration System*. Each year the audit committee must update the board of directors regarding the compliance, procedures and success of the remuneration system.

The current members of our audit committee are Ricardo Guajardo Touché (Chairman), Pablo Escandón Cusi and Andrés Alejandro Aymes Blanchet, and the alternate member is Manuel Castro Aladro. In addition, Fernando Pío Díaz Castañares and Alfredo Aguirre Cárdenas are Secretary and Alternate Secretary of the Committee, respectively, and do not have voting powers.

**Executive Committee**

Our executive committee is responsible for:

- working on special and urgent matters of competence of the board of directors that cannot be considered by the entire board of directors given time limitations or other limiting factors. The resolutions of the executive committee must be ratified by the board of directors;

- being knowledgeable about any matter that the Chairman or the Chief Financial Officer submits to the committee;

- convening special meetings of the board of directors; and

- resolving any matter expressly delegated to it by the board of directors.

The current members of the executive committee are Ignacio Deschamps González, Alberto Bailleres González, José Antonio Fernández Carbajal, Ricardo Guajardo Touché and Luis Robles Miaja.

**Executive Officers**

All of our executive officers are appointed by our Chief Executive Officer and their appointments are ratified by our board of directors. Since January 1, 2007, our executive officers, other than our Chief Executive Officer, are employed by Operadora. See “The Bank—Employees.”

The following table sets forth our executive officers, whose appointments were approved in January 2012:

| Name | Position | Years working for our group | Age |
|---|---|---|---|
| Ignacio Deschamps González[1] | Chairman of the Board and Chief Executive Officer | 19 | 49 |
| Luis Robles Miaja | General Director—Communication and Institutional Relations | 19 | 52 |
| Ramón Arroyo Ramos | General Director—Human Resources | 33 | 54 |
| Javier de Todos los Santos Malagón Navas | General Director—Finance | 17 | 47 |
| José Fernando Pío Díaz Castañares | General Director—Legal Counsel | 19 | 50 |
| Gerardo Flores Hinojosa | General Director—Middle-Market and Government Banking | 22 | 48 |
| Eduardo Osuna Osuna | General Director—Mortgage/Commercial Banking | 18 | 42 |
| Héctor Paniagua Patiño | General Director—UCC | 14 | 45 |
| Alejandro Mariano Werner Wainfeld | MD—WBAM México | 1 | 45 |
| Sergio Salvador Sánchez | General Director—Systems and Operations | 14 | 49 |
| Agustín Eugenio Mendoza López | *Director—Knowledge of Client | 22 | 53 |

(1) On August 6, 2012, new executive officers were appointed by our shareholders. The principal change is that Vicente María Rodero Rodero will replace Ignacio Deschamps González as our Chief Executive Officer, effective October 1, 2012. Ignacio Deschamps González will become the Head of Global Retail and Business Banking of BBVA.

## RELATED PARTY TRANSACTIONS

### Loans to Related Parties

Pursuant to the Mexican Banking Law, no loans may be made to any bank officers or employees, except in connection with certain employment benefits. As permitted by the Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Article 73 of the Mexican Banking Law regulates and limits our loans and other transactions (including securities and derivatives transactions) to related parties pursuant to which such parties may become creditors of a bank, including loans to (1) holders of 2% or more of GFBB's or its subsidiaries' shares, (2) principal and alternate board members of GFBB, any of its subsidiaries or us, (3) relatives of a board member or of a 2% or more shareholder of GFBB or us, (4) any person not an officer or employee of GFBB or us who, nevertheless, is empowered to contractually bind GFBB or us, (5) any corporation which has a director or officer in common with GFBB or us or (6) a corporation in which GFBB's external auditors, our employees, holders of 2% or more of GFBB's shares, 2% or more of or our shares, or we or any director or officer of GFBB or of us holds 10% or more of the outstanding capital stock. The majority of our board of directors must approve such loans. Before approval, however, the loan must undergo our customary review procedures for loans, which will vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the highest loan review committee at the management level, and must be recommended by a special committee of directors responsible for reviewing our largest loans and all loans falling within the scope of Article 73 of the Mexican Banking Law. In addition, certain filings must be made with the CNBV with respect to such loans. Loans to individuals in amounts less than the greater of (i) two million UDIs or (ii) 1% of a bank's Tier 1 net capital (approximately Ps. 103,622 million as of June 30, 2012, in our case), are exempt from such provisions. Loans to related parties may not exceed 50% of a bank's Tier 1 Capital. The CNBV may, upon request, grant exemptions from these provisions.

SHCP has adopted rules which exclude from the category of loans to related parties loans granted to the Mexican Government, loans to companies that provide ancillary services to us, provided that in each of these cases such entities do not make a loan to a related party, and loans to our directors or directors of GFBB if they fall within the minimum thresholds set forth above. These loans are not considered for purposes of determining the 50% of Tier 1 Capital limit of our loan portfolio that may consist of loans to related parties, and do not require the prior approval of our board of directors.

As of June 30, 2012, our loans to related parties under Article 73 of the Mexican Banking Law totaled approximately Ps. 33,588 million, which comprised 5.18% of our total loan portfolio at such date. Of the Ps. 33,588 million, approximately Ps. 27,772 million were loans made to GFBB and its subsidiaries and approximately Ps. 5,816 million were loans made to borrowers affiliated with members of our board of directors. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on June 30, 2012, approximately 82.10% were graded "A," 17.66% "B" and 0.24% "C" under the regulations of the CNBV. The majority of such credits are loans for either commercial or industrial activities.

### Affiliate Transactions

From time to time we enter into agreements, including service agreements, with our affiliates. We have entered into service agreements with our affiliates, including with (1) Servicios Corporativos Bancomer, S.A. de C.V. for the sale of certain banking products, (2) Seguros BBVA Bancomer, S.A. de C.V. for the sale of insurance policies, (3) Casa de Bolsa BBVA Bancomer, S.A. de C.V. for brokerage services and (4) Hipotecaria Nacional for the servicing of mortgage loans.

Based on these service agreements, we receive fees on a cost basis from Seguros BBVA Bancomer, S.A. de C.V., and pay fees on a cost basis to Servicios Corporativos Bancomer, S.A. de C.V., Casa de Bolsa BBVA Bancomer, S.A. de C.V. and Hipotecaria Nacional. No assurance can be given that transactions between us, on the one hand, and GFBB and our affiliates (including BBVA), on the other hand, have been or will in the future be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. Future conflicts of interest between us, on the one hand, and GFBB and our affiliates (including BBVA), on the other hand, are likely to develop, which conflicts are not required to be and may not be resolved in our favor.

All of our transactions among our subsidiaries are carried out according to market conditions.

## THE MEXICAN FINANCIAL INDUSTRY

### General

Mexico's financial industry is currently comprised of commercial banks, national development banks, brokerage firms, development trust funds and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loans companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies and limited purpose financial institutions. In 1990, Mexico adopted the Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company. Most major Mexican financial institutions are members of financial groups.

The principal financial authorities that regulate financial institutions are the Ministry of Finance and Public Credit, *Banco de México*, the CNBV, the National Commission for Retirement Savings (*Comisión Nacional del Sistema de Ahorro para el Retiro*), or CONSAR, the National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas*), or the CNSF, the IPAB, and the National Commission for the Defense of Financial Service Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*), or CONDUSEF.

#### *Trend toward multi-purpose banking institutions*

Prior to 1978, the Mexican banking system was comprised primarily of specialized institutions, which were authorized to conduct specified financial activities pursuant to concessions granted by the Mexican Government. Institutions other than multi-purpose banking institutions were not permitted to engage in more than two of the specified activities. During the period from 1978 to the nationalization of commercial banks in 1982, the structure of the Mexican banking system evolved towards the creation of multi-purpose banking institutions, which were allowed to engage in the full range of banking activities.

#### *Nationalization and subsequent privatization*

In September 1982, Mexico's president decreed the nationalization of private Mexican commercial banks. Effective November 18, 1982, a constitutional amendment was adopted to implement the nationalization, which granted the Mexican Government a monopoly on banking and credit service. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking. By 1988, the number had been further reduced to 18, of which six had national coverage, five were regional banks and seven were multi-regional banks. Only two banks, Banco Obrero, S.A. and Citibank N.A., were excluded from the nationalization and continued limited operations as privately-owned commercial banks.

Effective June 28, 1990, the Mexican Constitution was amended to permit Mexican individuals and financial services holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the Mexican Government. Subsequently, a new Banking Law was enacted to regulate the ownership and operation of Mexican commercial banks, national development banks and foreign financial institutions. Pursuant to the Banking Law, Mexico began the process of privatizing commercial banks. By the third quarter of 1992, the Mexican Government had privatized all 18 state-owned commercial banks. Since that time, new commercial banks, have been chartered and regulations regarding investment in the banking sector by foreign investors have been relaxed.

#### *Financial groups*

The enactment of the Financial Groups Law in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups controlled by a financial services holding company, such as ourselves, and made up of a number of financial operating entities. The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial operating subsidiaries. Such subsidiaries may include Mexican banks, brokerage firms, insurance companies, bonding companies, mutual fund operators, mutual funds, auxiliary credit organizations (such as factoring, financial leasing and bond-warehousing companies), Sofoles, Sofomes, foreign exchange service providers and retirement fund administrators. As a general rule, a financial services holding company must maintain a majority participation and effective control of at least two major financial intermediaries (banks, broker-dealers or insurance companies), or three financial intermediaries in general.

The Mexican Financial Groups Law permits entities controlled by the same financial services holding company:

- to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;
- use similar corporate names; and
- conduct their activities in the offices and branches of other entities as part of the same group.

In addition, the Mexican Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial services subsidiaries pursuant to which the holding company agrees to be responsible secondarily and without limitation for the satisfaction of the obligations incurred by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the holding company's assets. For such purposes, a subsidiary is deemed to have losses if:

- its stockholders' equity represents an amount that is less than the amount the subsidiary is required to have as minimum paid-in capital under applicable law;
- capital and reserves are less than the subsidiary is required to have under applicable law; or
- in the judgment of the regulatory commission supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations. No subsidiary of any such holding company is responsible for the losses of the holding company or any other subsidiary thereof. We have entered into such an agreement, as described under "Supervision and Regulation—Financial Groups Statutory Responsibility."

*Authorities of the Mexican Financial System*

The principal financial authorities that regulate financial institutions are the SHCP, the CNBV, the CONSAR, the National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas*, or the "CNSF"), the IPAB, and CONDUSEF. These authorities are subject to a number of organic laws and other administrative regulations that govern their regulatory, supervisory and other powers. Also, these entities continually enact administrative regulations within the scope of their respective authority for the regulation of the corresponding financial entities, as further mentioned below. We, as a financial services holding company, are subject to the supervision and regulation of the CNBV. In addition, we and other financial subsidiaries are subject to the supervision and regulation of the corresponding financial authority, and are in constant interaction with such authorities during their normal course of business.

**Banco de México**

*Banco de México* is the Mexican central bank, which is an autonomous entity that is not subordinate to any other body of the federal government. *Banco de México's* primary purpose is to issue the Mexican currency, as well as maintaining the acquisition power of such currency, the establishment of reference interest rates and ensuring that the banking and payments systems perform under safe and sound principles.

**SHCP**

The SHCP is the regulator in charge of proposing, conducting and controlling the economic policy of the federal government in matters of economics, tax, finance, public budget, public debt and income. Together with the CNBV and *Banco de México*, it is the primary regulator of commercial banks and national development banks. The SHCP participates in the process of incorporation, revocation, operation, merger, control and stock purchase of financial institutions.

**CNBV**

The CNBV is a governmental body subordinate to the SHCP and has independent technical and executive powers. The CNBV is in charge of the supervision and regulation of financial entities, with the purpose of ensuring their stability and sound performance, as well as the maintenance of a safe and sound financial system. The scope of the CNBV's authority includes inspection, supervision, prevention and correction powers. The primary financial entities regulated by the CNBV are commercial banks, national development banks, regulated multiple purpose financial institutions, brokerage firms, as well as publicly traded companies and other entities that have issued debt securities to the public. The CNBV is also in charge of granting and revoking banking and securities brokerage licenses in Mexico.

**CONSAR**

The CONSAR is a governmental body under the SHCP and has independent technical and executive powers. The CONSAR was created in 1997 as part of a comprehensive reform of the retirement savings and pensions system and is in charge of protecting the retirement savings of employees through the regulation and supervision of *Afores* and *Siefores*. The CONSAR evaluates risks borne by the participants in the retirement savings system and makes sure these participants are solvent and maintain adequate liquidity levels.

**CNSF**

The CNSF is a governmental body under the SHCP and has independent technical and executive powers. The CNSF is in charge of the supervision and regulation of insurance and bonding companies, promoting the safe and sound development of the insurance and guaranty bond financial sectors.

**IPAB**

After the 1994 financial crisis, the federal government created the IPAB, an independent, decentralized governmental institution with its own legal standing and assets. The IPAB's primary purpose is the protection and insurance of bank deposits, having also powers to provide solvency to banking institutions, contributing to the safe and sound development of the banking sector and the national payments system. The IPAB is also entitled to acquire assets from distressed banking institutions.

**CONDUSEF**

The CONDUSEF is a governmental body under the SHCP. The CONDUSEF is in charge of the provision of financial orientation, guidance and information to customers of financial services, as well as implementation of corrective measures through the processing of claims by such customers, with the primary purpose of protecting customer's interests. The CONDUSEF may also act as arbitrator in disputes between financial institutions and their customers.

***The Banking Sector***

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies. Prior to the early 1990s, lending by Mexican banks to the private sector had fallen to very low levels. It is estimated, however, that by the end of 1994 average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the Mexican peso in December 1994 initiated a crisis, and the resulting high interest rates and contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects, among others, caused an increase in the non-performing loan portfolio of Mexican financial institutions, particularly during 1995, which adversely affected the capitalization level of financial institutions. Also, increased domestic interest rates and the deteriorating value of the peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV had assumed, or intervened in, the operations of 13 banks and had adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- creating a temporary capitalization program to assist banks;
- establishing a foreign exchange credit facility with *Banco de México* to help banks with dollar liquidity problems;
- increasing the level of required loan loss reserves;
- establishing a temporary program for the reduction of interest rates on certain loans;
- establishing various programs to absorb a portion of debt service cost for mortgage loan debtors (including debt restructuring and conversion support programs); and
- broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

***Reforms to Mexican Banking Law***

On February 1, 2008, the Mexican Congress enacted a number of reforms to the Mexican Banking Law, which grant more power to the CNBV and establish new provisions on transparency and reliability on the disclosure of bank's information. The main objectives of the reforms include:

*Enhancing the CNBV supervisory practices.* The reforms grant ample authority to the CNBV for the supervision of the financial entities under the Mexican Banking Law. The CNBV may perform visits to banks, with the aim to review, verify, test and evaluate the operations, processes, systems of internal control and risk management among others elements that may affect the financial position of banks.

Additionally, the reforms permit the CNBV to partially suspend or restrict the execution of the authorized transactions referred to in Article 46 of the Mexican Banking Law, when such transactions are prohibited or not performed with the required infrastructure or internal controls. The order of suspension can be issued regardless of any other applicable sanctions under the Mexican Banking Law.

*Increasing requirements for the granting of credits to customers.* For the granting of credits, banks are required to analyze and evaluate the viability of payment by borrowers or counterparties, relying on an analysis based on quantitative and qualitative information that allows establishing their credit worthiness and ability of timely payment of the credit. Banks must issue guidelines and lending process manuals and credit procedures shall be performed in accordance with such policies.

*Establishing new provisions on transparency and reliability.* Banks are required to publicly disclose their corporate, financial, administrative, operational, economic and legal information, as determined by the CNBV. Banks must post on their website and in a national newspaper their balance sheets and other relevant information periodically.

*Establishing fiscalization powers for the supervision of external auditors.* The CNBV has powers of inspection and surveillance with respect to entities that provide external audit services to banks, including those partners or employees who are part of the audit team, in order to verify the compliance with the Mexican Banking Law. The CNBV is allowed to: (i) request any information and documentation related to the services rendered; (ii) practice inspection visits; (iii) require the attendance of partners, legal representatives and other employees; and (iv) issue audit procedures to be complied by the auditors, in connection with the tax opinions and practices performed by them.

*Limited-purpose banks.* The reform introduced limited-purpose banks (*bancos de nicho*), which can only engage in a limited amount of banking activities which are specifically set forth in their by-laws. The minimum required capital of limited-purpose banks can vary depending on the activities carried out by such entities, from a range of 90,000,000 UDIs to 36,000,000 UDIs.

***Initiatives to improve creditors' rights and remedies***

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a bankruptcy law.

***Collateral mechanisms***

Laws regarding the perfection and enforcement of security interests include mechanism for pledging without transferring possession, as well as a common security device known in Mexico as the security trust. Applicable law includes provisions related to the enforcement and foreclosure of these security interests, as well as criminal provisions. All personal property being used in a debtor's main business activity by making only a generic description of such property. The provisions regulating the security trust are similar to those governing pledges of personal property, except they provide that title to the collateral must be held by the trustee. Also, the new provisions permit the transfer of title of the pledged assets if agreed by the parties in the case of pledges of listed securities.

***Bankruptcy law***

The Bankruptcy law provides for a single insolvency proceeding encompassing two successive phases: a conciliatory phase of mediation between creditors and debtor; and bankruptcy.

Only IPAB or the CNBV may demand the declaration of insolvency of banking institutions, including us. In the case of banking institutions, such as us, with the declaration of insolvency (*concurso mercantil*) the judicial procedure is initiated in the bankruptcy phase and not, as in common procedures, in the conciliatory phase. The bankruptcy of a Mexican bank is viewed as an extreme measure (because it results in a liquidation and dissolution), which has not been resorted to in practice, and is preceded by a number of measures that seek to avoid it, such as precautionary measures taken by the CNBV, facilities made available by IPAB and an intervention led by the CNBV. Upon presentation of the declaration of insolvency, banking institutions must cease operations and suspend payment of all obligations.

The Bankruptcy Law establishes precise rules that determine when a debtor is in general default in its payment obligations. The principal indications are failure by a debtor to comply with its payment obligations in respect of two or more creditors, and the existence of the following two conditions: (i) 35.0% or more of a debtor's outstanding liabilities are 30 days past-due; and (ii) the debtor fails to have certain specifically defined liquid assets and receivables in order to support at least 80.0% of its obligations which are due and payable.

The Bankruptcy Law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the intervenor (interventor), conciliator (conciliador) and receiver (síndico). The IPAB acts as the receiver and the CONDUSEF may appoint up to three intervenors.

On the date the insolvency judgment is entered, all peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (i.e., mortgage, pledge or security trust) continue to accrue interest on their loans. The bankruptcy law mandates the early termination and netting of derivative repo and securities lending transactions upon the declaration of insolvency.

The Bankruptcy Law provides for a general rule as to the period when transactions may be scrutinized by the judge to determine if they were entered into for fraudulent purposes which is 270 calendar days prior to the judgment declaring insolvency. This period is referred to as the retroactivity period. Nevertheless, upon the reasoned request of the conciliator, the intervenors, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period.

A restructuring agreement must be entered into by the debtor, as well as recognized creditors representing more than 50% of the sum of the total recognized amount corresponding to common creditors and the total recognized amount corresponding to secured or privileged creditors subscribing the agreement. The proposed agreement, once approved by the creditors, must be presented to the IPAB for its approval. Any such agreement, when confirmed by the court, becomes binding on all creditors, and the insolvency proceeding is then considered to be concluded. If an agreement is not reached, the debtor is declared bankrupt.

In December 2007, the Bankruptcy Law was amended to incorporate provisions relating to pre-agreed insolvency proceedings, frequently used in jurisdictions different from Mexico, that permit debtors and creditors to agree upon the terms of a restructuring and thereafter file, as a means to obtain the judicial recognition of a restructuring reached on an out-of-court basis. This also provides protection against dissident minority creditors.

***Deregulation of lending entities and activities***

In July 2006, the Mexican Congress enacted reforms to the General Law of Auxiliary Credit Organizations and Credit Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*), the Mexican Banking Law and the Foreign Investment Law (*Ley de Inversión Extranjera*), with the objective of creating a new type of financial entity called multi-purpose financial entities, or Sofom (the "Sofom Amendments"). The Sofom Amendments were published in the Official Gazette of the Federation on July 18, 2006.

The main purpose of the Sofom Amendments is to deregulate lending activities, including financial leasing and factoring activities. Sofomes are Mexican corporations (*sociedades anónimas*) that expressly include as their main corporate purpose in their by-laws, engaging in lending and/or financial leasing and/or factoring services. Pursuant to the Sofom Amendments, the Ministry of Finance and Public Credit has ceased to authorize the creation of new *Sofoles*, and all existing Sofol authorizations will automatically terminate on July 19, 2013. On or prior to that date, existing Sofoles must cease operating as a Sofol. Failure to comply with this requirement will result in dissolution or liquidation of the Sofol. Existing Sofoles also have the option of converting to Sofomes or otherwise extending their corporate purposes to include activities carried out by Sofomes.

Among others, Sofomes that are affiliates of Mexican credit institutions (i.e., private or public banks) or the holding companies of financial groups that hold a bank are regulated and supervised by the CNBV, and are required to comply with a number of provisions and requirements applicable to banks such as capital adequacy requirements, risk allocation requirements, related party transactions rules, write-offs and assignment provisions, as well as reporting obligations. Regulated Sofomes are required to include in their denomination the words "*Entidad Regulada*" (regulated entity) or the abbreviation thereof "E.R." All other entities whose main purpose is engaging in lending, financial leasing and factoring activities are non-regulated Sofomes and must indicate so in their corporate denomination by including the words "*Entidad No Regulada*" (non-regulated entity) or the abbreviation thereof, "E.N.R." Non-regulated Sofomes are not subject to the supervision of the CNBV.

Sofomes (regulated or non-regulated) are subject to the supervision of the CONDUSEF as is the case with any other financial entity.

The Sofom Amendments also eliminated the restrictions on foreign equity investment applicable to Sofoles, financial leasing and factoring companies, which until the Sofom Amendments became effective, was limited to 49%. Accordingly, the Sofom Amendments may result in an increase in competition in the banking industry, from foreign financial institutions.

## SUPERVISION AND REGULATION

### General

Our operations are primarily regulated by the Mexican Banking Law, and the rules issued thereunder by the Ministry of Finance and Public Credit and the CNBV, as well as rules issued by *Banco de México* and IPAB. The authorities that supervise our operations are the Ministry of Finance and Public Credit, *Banco de México* and the CNBV.

The Ministry of Finance and Public Credit, either directly or through the CNBV, the role of which has been expanded, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities, principally the CNBV and *Banco de México*. Reports to bank regulators are often supplemented by periodic meetings between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

Additionally, banks must publish on their website, among other things:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's board of directors, identifying independent and non-independent directors and including their resume;
- a description and the total amount of compensation and benefits paid to the members of the board of directors and senior officers during the past year;
- unaudited quarterly financial statements for the periods ending March, June and September of each year, together with any comments thereon;
- any information requested by the CNBV to approve the accounting criteria and special registries;
- a detailed explanation regarding the main differences in the accounting used to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification (as determined by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's by-laws in effect at any time and from time to time.

The CNBV has the authority to grant and revoke authorizations to bank institutions and to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations promulgated thereunder. In addition, *Banco de México* has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of *Banco de México* (*Ley del Banco de México*) and regulations that it promulgates and the Law for the Transparency and Regulation of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), including violations relating to the regulation of interest rates and fees and the terms of disclosure of fees charged by banks to customers. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

**Licensing of Banks**

An authorization of the Mexican Government is required to conduct banking activities. The CNBV, subject to the prior favorable opinion of *Banco de México*, has the power to authorize the establishment of new banks, subject to minimum capital standards, among other things. Approval of the CNBV is also required prior to opening, closing or relocating offices, including branches outside of Mexico or transfer of assets or liabilities between branches.

**Intervention**

The CNBV may declare managerial intervention (*intervención*) of a banking institution pursuant to Articles 138 through 149 of the Mexican Banking Law and in such case the Governing Board of IPAB will appoint a "peremptory manager" (*administrador cautelar)* (the "CNBV Intervention").

A CNBV Intervention pursuant to Articles 138 through 149 of the Mexican Banking Law, will only occur when (i) during a calendar month, the Capital Ratio of a bank is reduced from a level equal to or above the minimum Capital Ratio required under the Mexican Capitalization Requirements, to 50% or less than such minimum Capital Ratio; or (ii) a bank does not comply with any minimum corrective measure ordered by the CNBV pursuant to Article 134 Bis 1 of the Mexican Banking Law, does not comply with more than one additional special corrective measures ordered by the CNBV pursuant to such Article 134 Bis 1 or consistently does not comply with any such additional corrective measures ordered by the CNBV and, in the case of this clause (ii), it does not submit itself to the conditional management regime described under "— Improved Framework to Resolve/Support Commercial Banking Institutions —Financial Support — Conditional Management Regime." In addition, a CNBV Intervention may occur when the CNBV in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the public interest or the bank's creditors.

The peremptory manager appointed by IPAB will assume the authority of the board of directors. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law and will not be subject to our board of directors or our shareholders. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

**IPAB**

The Banking Deposit Insurance Law, or the "IPAB Law" (*Ley de Protección al Ahorro Bancario*), which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the bank savings protection agency. IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits.

Only in exceptional cases may IPAB grant financial support to banking institutions. For a detailed description of the financial support that may be granted by IPAB, see "—Resolution and Payment of Guaranteed Obligations."

According to the IPAB Law, banks must provide the information required by IPAB for the assessment of their financial situation and notify IPAB about any event that could affect their financial stability. The IPAB Law expressly excludes the release of such data from bank secrecy provisions contained in the Mexican Banking Law and expressly provides that IPAB and the CNBV can share information and databases of banks.

IPAB is authorized to manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to Congress prepared by IPAB with a detailed account of the transactions conducted by IPAB in the prior year.

IPAB has a governing board of seven members: (i) the Minister of Finance and Public Credit, (ii) the Governor of *Banco de México*, (iii) the President of the CNBV, and (iv) four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The deposit insurance to be provided by IPAB to a bank's depositors will be paid upon determination of the dissolution and liquidation, or bankruptcy of a bank. IPAB will act as liquidator or receiver in the dissolution and liquidation, or bankruptcy of banks, either directly or through designation of a representative. IPAB will guaranty obligations of banks to certain depositors and creditors (excluding, among others, financial institutions) only up to the amount of 400,000 UDIs per person per bank. IPAB will not guarantee (i) deposits and loans constituting negotiable instruments and bearer promissory notes; (ii) liabilities for financial institutions or subsidiaries of the bank, (iii) liabilities not incurred in the ordinary course of business and related party transactions, or (iv) liabilities assumed in bad faith or in connection with money laundering or other illegal activities.

Banks have the obligation to pay IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of IPAB. Under the IPAB Law, banks are required to make monthly ordinary contributions to IPAB, equal to 1/12 of 0.4% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less (i) holdings of term bonds issued by other commercial banks; (ii) financing granted to other commercial banks; (iii) financing granted by IPAB; (iv) subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and (v) certain forward-operations.

IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) such extraordinary contributions may not exceed, on an annual basis, the amount equivalent to 0.3% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.8% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

The Mexican Congress allocates funds to IPAB on a yearly basis to manage and service the IPAB's liabilities. In emergency situations, IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

**Amendments to Banking Laws/Support Commercial Banking Institutions**

In July 2006, certain amendments to the Mexican Banking Law, the IPAB Law and the Financial Groups Law were enacted by Mexican Congress to reinforce the legal framework to adopt and grant financial support to commercial banking institutions undergoing financial difficulties.

**Resolution and Payment of Guaranteed Obligations**

***Revocation of banking license***

In case that the CNBV revokes a license to organize and operate as a banking institution, IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be dissolved and liquidated in accordance with Articles 122 Bis 16 through 122 Bis 29 of the Mexican Banking Law. In such a case, IPAB's Governing Board may determine to undertake the liquidation through any or a combination of the following transactions: (i) transfer the liabilities and assets of the banking institution in liquidation to another banking institution; (ii) constitute, organize and manage a new banking institution owned and operated directly by

IPAB, with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or (iii) any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that IPAB considers as the best and less expensive option to protect the interest of bank depositors.

***Causes to revoke a banking license***

The above mentioned amendments significantly expand the events upon which the CNBV may revoke a banking license. The following are among the most relevant events:

- if the banking institution is dissolved or initiates liquidation or bankruptcy procedures (*concurso mercantil*);

- if the banking institution (a) does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 134 Bis 1 of the Mexican Banking Law; (b) does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 134 Bis 1; or (c) consistently does not comply with an additional special corrective measure ordered by the CNBV;

- if the banking institution does not comply with the minimum Capital Ratio required under the Mexican Banking Law and the Mexican Capital Requirements;

- if the banking institution defaults with respect to any of the following payment obligations (a) in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or *Banco de México*, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system, and (b) in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers.

Upon publication of the resolution of the CNBV revoking a banking license in the Official Gazette of the Federation and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation or the declaration of bankruptcy (*concurso mercantil*) of a banking institution, IPAB shall proceed to make payment of all "guaranteed obligations" of the relevant banking institution, in compliance with the terms and conditions set forth by the Mexican Banking Law, other than those "guaranteed obligations" that have been actually transferred pursuant to articles 122 Bis 25 to 122 Bis 29 of the Mexican Banking Law.

Obligations of a banking institution in liquidation that are not considered "guaranteed obligations" pursuant to the IPAB Law, and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- term obligations will become due (including interest accrued);

- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;

- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interest and will be converted into pesos at the prevailing exchange rate determined by *Banco de México*;

- secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;

- obligations subject to a condition precedent, shall be deemed unconditional;

- obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted; and

- derivatives, repos and securities loans will be early terminated and netted.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference: (i) liquid and enforceable labor liabilities, (ii) secured liabilities, (iii) tax liabilities, (iv) liabilities to IPAB, as a result of the partial payment of obligations of the banking institution supported by IPAB in accordance with the Mexican Banking Law; (v) bank deposits, loans and other liabilities as provided by Article 46, Sections I and II of the Mexican Banking Law, to the extent not transferred to another banking institution, as well as any other liabilities in favor of IPAB different from those referred to clause (iv) above, (vi) any other liabilities other than those referred to in the following clauses, (vii) preferred subordinated debentures, (viii) non-preferred subordinated debentures (such as the Notes), and (ix) the remaining amounts, if any, shall be distributed to stockholders.

**Financial Support**

***Determination by the Financial Stability Committee***

In case that the newly created Financial Stability Committee (the "FSC"), includes representatives of the Ministry of Finance and Public Credit, *Banco de México*, the CNBV and IPAB. In the case that the FSC determines that if a bank were to default on its payment obligations and such default may (i) generate severe negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (ii) put the operation of the payments' system at risk, then the FSC may determine, on a single-case basis, that a general percentage of all of the outstanding obligations of the troubled bank that are not considered "guaranteed obligations" under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the board of directors and certain top level officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures, such as the Notes, be covered or paid by IPAB or any other Mexican governmental agency.

***Types of financial support***

In case that the FSC makes the determination referred to in the prior paragraph, then IPAB's Governing Board will determine the manner according to which the troubled bank will receive financial support, which may be through either of the following options:

- If the FSC determines that the full amount of all of the outstanding liabilities of the relevant troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (i) capital contributions granted by IPAB in accordance with Articles 122 Bis 2 through 122 Bis 6 of the Mexican Banking Law, or (ii) credit support granted by IPAB in accordance with Articles 122 Bis 7 through 122 Bis 15 of the Mexican Banking Law, and in either case the CNBV shall refrain from revoking the banking license granted to such commercial bank.

- If the FSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of transferring the assets and liabilities of such commercial bank to a third party, as set forth in Articles 122 Bis 27 or 122 Bis 29 of the Mexican Banking Law.

***Conditional management regime***

As an alternative to revoking the banking license, a new conditional management regime was created, that may apply to commercial banks with a Capital Ratio below the minimum required pursuant to the Mexican Capitalization Requirements. To adopt this regime, the relevant bank must voluntarily request to the CNBV, with prior approval of its shareholders, the application of the conditional management regime. In order to qualify for such regime, the relevant commercial bank should (i) deliver to the CNBV a plan for the reconstitution of its capital, and (ii) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions with a Capital Ratio equal to or below 50% of the minimum Capital Ratio required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

**Capitalization**

Rules on capitalization included in the General Rules Applicable to Mexican Banks establish the principles and guidelines to accurately reflect in the banks' capitalization index the risks faced by intermediaries, such as credit, market and also operational risks, in order to encourage a more efficient use of capital by the banks.

With respect to credit risk, it will be applicable either a standard method or a method based on internal ratings, which could be basic or advanced and subject to approval by the CNBV. With respect to market risk, the banks will use the standard method. With respect to operational risk, different methods of increasing complexity will apply, in accordance with such rules.

The minimum equity capital requirement applicable to commercial banks (including newly chartered banks) is 90,000,000 UDIs for commercial banks that expressly include in their bylaws all the operations and services described in article 46 of the Mexican Banking Law. The CNBV will determine by general provision the minimum capital amount for commercial banks, according to the operations expressly contemplated by its bylaws. In any case, the subscribed and paid-in capital stock of a commercial bank may be less than 40% of the minimum capital stock required for a bank to perform the multiple operations referred to in Article 46 of the Mexican Banking Law.

Banks are required to maintain a net capital (*capital neto*) relative to market risk, risk-weighted assets incurred in its operation, and operations risk, which may not be less than the capital required in respect of each type of risk. The Mexican Capitalization Requirements set forth the methodology to determine the net capital relative to market risk, risk-weighted assets and operations risk. Under the relevant regulations, the CNBV may impose additional capital requirements and *Banco de México* may, with the CNBV's recommendation, grant temporary exceptions to such requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk-Based Capital."

The Mexican Capitalization Requirements provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee on Banking Supervision (although Mexico does not fully implement such requirements and has not fully implemented the last amendment).

Under the Mexican Capitalization Requirements, Mexican banks are required to maintain a minimum Capital Ratio of 10.0% to avoid the imposition of any of the corrective measures described below. In case that a Mexican bank maintains a minimum Capital Ratio of 8%, the Mexican Capitalization Requirements would require, among other things, the deferral or cancellation of interest payments or deferral of principal payments of its subordinated debt that qualifies as part of its aggregate net capital (such as the Notes). Aggregate net capital consists of Tier 1 Capital and Tier 2 Capital. At all times, Tier 1 Capital must represent at least 50.0% of our aggregate net capital. The Mexican Capitalization Requirements subtract from Tier 1 Capital, among others, certain subordinated debt instruments, capital investments in certain financial entities and in non-financial, non-publicly traded companies, certain investments in the equity of venture-capital funds and investments in related companies, reserves pending to be created, loans and other transactions that contravene applicable law, and intangibles (including goodwill).

The Mexican Capitalization Requirements authorize banks to issue capitalization instruments, such as the Notes. The proceeds from these instruments may constitute Tier 1 or Tier 2 Capital depending on their terms. However, such proceeds may only qualify as Tier 1 Capital up to an amount not greater than 15% of aggregate net Tier 1 Capital (without taking into account other convertible and non-convertible subordinated debentures, such as the Notes).

Failure to meet the capital requirements may result in the imposition of corrective measures described under "Description of the Notes—Treatment of Interest and Principal During a Suspension Period—Suspension Periods." We are in compliance with all applicable Mexican Capitalization Requirements.

Every Mexican bank must maintain certain legal reserves (*fondo de reserva de capital*), included as part of Tier 1 Capital. Banks must allocate 10.0% of their net income to such reserves each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The balance of net income, to the extent not distributed to shareholders, is added to the retained earnings account. Under Mexican law, dividends may not be paid out of the legal reserve. As of June 30, 2012, we had set aside Ps. 6,881 million in legal reserves compared to paid-in capital of Ps. 24,138 million (without adjustment for inflation).

On July 26, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, reached broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world, known as Basel III, which includes, among other things, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010.

While the short- and long-term impact of any implementation of Basel III in Mexico remains uncertain, Basel III is expected to impose higher minimum capital requirements on banking institutions, as well as a capital conservation buffer that can be used by banks to absorb losses during periods of financial and economic stress. We cannot predict the extent to which any of the Basel framework will be implemented under Mexican law, nor can we foresee how any such regulation might impact our business, financial condition or results of operations. However, it is possible that higher capital requirements in the future as a result of such regulation could cause our capital ratios to be insufficient for regulatory purposes and could lead us to engage in capital conservation measures or may require us to raise more equity, which may lead to dilution of earnings and lower return on equity. See "Risk Factors—Risks Relating to Our Business—Mexican Government regulations may adversely affect us, and the value of our assets may be impaired due to regulatory initiatives and procedures."

**Corrective Measures**

Pursuant to the Mexican Capitalization Requirements, the CNBV classifies Mexican banks in several categories based on their Capital Ratio and orders corrective measures to prevent and correct problems that may affect the stability or solvency of banks if a bank fails to meet the minimum required Capital Ratio.

**Reserve and Compulsory Deposit Requirements**

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of *Banco de México*'s monetary policy is to maintain the stability of the purchasing power of the Mexican peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of *Banco de México* have been directed towards a restrictive monetary policy. Under this policy, *Banco de México* has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where every day, the market starts operations with a liquidity deficit which is then compensated by *Banco de México* through daily operations in the money market to provide adequate liquidity and stability to these markets. *Banco de México*'s own experience has shown that its implementation of monetary policy is more effective if it starts from a deficit liquidity position at the beginning of each market day.

In order to manage its maturity exposures to the Mexican financial markets, *Banco de México* has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (Depósitos de Regulación Monetaria), and into investment securities such as longer-term government bonds (Bondes) and compulsory monetary regulatory bonds (Brems). At the same time, *Banco de México* has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

*Banco de México* may impose on Mexican commercial banks reserve and compulsory deposits from time to time. The amount of the deposit that each bank has to make is determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated and registered as of certain date. Such compulsory deposits have an indefinite term. During the time these reserves are maintained on deposit with *Banco de México*, each banking institution receives interest on such deposits every 28 days. *Banco de México* provides advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

**Classification of Loans and Allowance for Loan Losses**

The Loan Classification and Rating Rules set forth under the General Rules Applicable to Mexican Banks, provide a methodology to classify (i) consumer loans (i.e., each of credit card exposure and loans to individuals, divided as separate groups) considering as principal factors (a) for credit card exposure, the probability of non-payment and potential losses (taking into account collateral received), and (b) for loans to individuals, the probability of non-payment, potential losses (taking into account collateral received), and credit exposure (net of reserves created), (ii) mortgage loans (i.e., residential, including loans for construction, remodeling or improvements), considering as principal factors delinquency periods, possibility of non-payment and potential losses (taking into account collateral and guarantees received), and (iii) commercial loans, based principally on an evaluation of the borrower's ability to repay its loan (including country risk, financial risk, industry risk and payment history) and an evaluation of the related collateral and guarantees. Based on this methodology, the percentage of required reserves is determined. The Loan Classification and Rating Rules also permit banks, subject to prior approval by the CNBV, to develop and adopt specific internal procedures within certain parameters to grade the loans in their loan portfolio. See "Selected Statistical Information—Grading of Loan Portfolio" for a description of our internal procedures.

The Loan Classification and Rating Rules require that Mexican banks grade 100.0% of their commercial loan portfolio (except loans made to or guaranteed by the Mexican Government) as of the end of each quarter. The classification of mortgage and consumer loans is required to be made monthly and reported to the CNBV.

The Loan Classification and Rating Rules establish the following categories corresponding to levels of risk and set forth procedures for the grading of commercial loans: Grade "A" loans, representing minimal risk of non-payment; Grade "B" loans, represent low risk loans; Grade "C" loans, representing loans with moderate risk; Grade "D" loans, represent high risk loans; and Grade "E" loans, representing non-collectible loans.

The Loan Classification and Rating Rules provide for additional subcategories of grading on the basis of the collateral or guarantees that may apply to the individual credit subject to grading, as follows:

| | Allowance for Loan Losses | | |
|---|---|---|---|
| **Risk Levels** | **Low/Minus Rating** | **Medium/Average Rating** | **High/Plus Rating** |
| A-1 | | 0.5% | |
| A-2 | | 0.99% | |
| B-1 | 1.0% | 3.0% | 4.99% |
| B-2 | 5.0% | 7.0% | 9.99% |
| B-3 | 10.0% | 15.0% | 19.99% |
| C-1 | 20.0% | 30.0% | 39.99% |
| C-2 | 40.0% | 50.0% | 59.99% |
| D | 60.0% | 75.0% | 89.99% |
| E | | 100.0% | |

Non-performing consumer loans and credit card accounts are classified based on the amount of time such credit card accounts and consumer loans have been past-due. Consumer loans and credit card accounts with zero past-due payments are rated "A," those past-due for one month are rated "B," those past-due for two months are rated "C," accounts past-due three to six months are rated "D" and past-due accounts of seven months or more are rated "E."

Residential real estate mortgage loans are also classified on the basis of the amount of time such loans have been past-due. Real estate mortgage loans with zero past-due payments are rated "A," those past-due for up to four months are rated "B," those past-due for five to six months are rated "C," loans past-due seven to forty-seven months are rated "D" and past-due loans of forty-eight months or more are rated "E."

The grading of commercial loan portfolio is determined by an analysis of the financial risk, industry risk, country risk and the credit experience, which include the following risk factors: financial structure and payment capacity, sources of financing, administration and decision making, integrity of the financial information, market position and the specific collateral or guarantees that secure the loans and the liquidity of any collateral.

The loan loss reserves are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors to write-off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

The determination of the allowance for loan losses, particularly for commercial loans, requires management's judgment. The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. Differences between the estimate of the loan loss reserve and the actual loss will be reflected in our financial statements at the time of charge-off.

Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of the collectability of loans will be made in the short term.

See "Selected Statistical Information—Loan Portfolio" and "Selected Statistical Information—Allowance for Loan Losses—Analysis of Allowance for Loan Losses" for a classification of our loan portfolio and discussion of our allowance for loan losses.

**Liquidity Requirements for Foreign Currency-Denominated Liabilities**

Pursuant to the regulations of *Banco de México*, the liabilities of Mexican banks denominated in foreign currencies (including dollars) are subject to a liquidity coefficient equal to the amount obtained by multiplying all foreign currency-denominated indebtedness which will become due within 60 days or less by a percentage factor dependent on the remaining maturity of the liability (netted against liquid foreign currency-denominated assets also weighted depending on their maturity), which resulting amount must be invested in low-risk and highly liquid instruments and deposits, including, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible, and with no transfer restrictions, to U.S. dollars;
- deposits with *Banco de México*;
- treasury bills, treasury bonds and treasury notes issued by the United States government;
- one-day deposits or one to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P;
- investments in mutual funds or companies identified by *Banco de México* upon the banks' request;

- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements; and

- foreign currency-denominated deposits made with foreign financial institutions rated P-2 by Moody's or A-2 by S&P that may be drawn against on demand or on two-day notice.

Such liquid assets may not be granted as collateral, lent or subject to repurchase transactions or any other similar transactions that may limit their transferability. In addition, the total amount of maturity-adjusted average net liabilities denominated or indexed in foreign currencies that Mexican banks, their subsidiaries or foreign agencies may have (calculated daily) are limited to 1.8 times the amount of their Tier 1 Capital. We are in compliance with the applicable reserve requirement and liquidity coefficients in all material aspects.

**Lending Limits**

In accordance with the General Rules Applicable to Mexican Banks, restrictions relating to the diversification of a bank's financing transactions are determined in accordance with the bank's compliance with Mexican Capitalization Requirements. For a bank with:

- Capitalization ratio greater than 8% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 12.0% of the bank's Tier 1 Capital;

- Capitalization ratio greater than 9% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 Capital;

- Capitalization ratio greater than 10% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 Capital;

- Capitalization ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's Tier 1 Capital; and

- Capitalization ratio greater than 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 40.0% of the bank's Tier 1 Capital.

The limits mentioned in the prior paragraphs are required to be measured on a quarterly basis. The CNBV has discretion to reduce the aforementioned limits, if internal control or the risk management of the bank is inadequate.

Financings guaranteed by unconditional and irrevocable security interests or guarantees, that may be enforced immediately and without judicial action, granted by Mexican credit institutions or foreign financial institutions with investment grade ratings and domiciled in a country member of the European Union or the Organization for Economic Cooperation and Development (which guarantees must be accompanied with a legal opinion as to their enforceability), securities issued by the Mexican Government, and cash (transferred to the bank lender under a deposit that may be freely disposed of by the lender) are exempted from the aforementioned guidelines, but such financings may not exceed 100.0% of a bank's Tier 1 Capital.

Likewise, financings granted to Sofomes for which the bank owns at least 99% of its capital stock, are exempted from the aforementioned guidelines, but such financings may not exceed 100% of a bank's Tier 1 capital. Notwithstanding, if the Sofomes maintain or grant financing (regardless of the origin of the resources) to a person or a group of persons representing common risk, such financing shall comply with the aforementioned limits.

In addition, the aggregate amount of financings granted to the three largest borrowers of a bank, may not exceed 100.0% of the bank's Tier 1 Capital. Banks are not obligated to comply with the aforementioned limits with respect to financings made to the Mexican Government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), *Banco de México*, the IPAB and development banks guaranteed by the Mexican Government. The aforementioned guidelines do not apply to financings made to Mexican banks. The aggregate financings to Mexican banks and to government-controlled companies and decentralized agencies may not exceed 100.0% of such bank's Tier 1 Capital.

Banks are required to disclose, in the notes to their financial statements, (i) the number and amount of financings that exceed 100% of Tier 1 Capital, and (ii) the aggregate amount of financings made to their three largest borrowers.

**Funding Limits**

In accordance with the General Rules Applicable to Mexican Banks, Mexican banks are required to diversify their funding risks. In particular, a Mexican bank is required to notify the CNBV on the business day following its receipt of funds from a person or a group of persons acting in concert that represent in one or more funding transactions, more than 100% of a bank's Tier 1 Capital. As of June 30, 2012, none of our liabilities to a person or group of persons exceeded the 100% threshold.

**Related Party Loans**

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 50% of the bank's Tier 1 capital. For the case of loans and revocable credits, only the disposed amount will be counted. See "Related Party Transactions—Loans to Related Parties."

**Foreign Currency Transactions**

*Banco de México* regulations govern transactions by banks, denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot, foreign exchange transactions (i.e. transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 Capital. In addition, Mexican banks must maintain certain minimum liquidity, prescribed by regulations issued by *Banco de México*, in connection with maturities of obligations denominated in foreign currencies (as discussed under "Liquidity Requirements for Foreign Currency—Denominated Liabilities" above).

**Derivative Transactions**

Certain *Banco de México* rules apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, futures forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares, that are listed in a securities exchange,
- stock exchange indexes,
- Mexican currency, foreign currencies and UDIs,
- inflation indexes,
- yellow corn (maize), wheat, soybeans, sugar, rice, sorghum, oats, coffee, orange juice, cacao, barley, bovine and porcine livestock, milk, canola, soy oil and soy paste, lean value hog carcasses, natural gas, heating oil, gasoline, crude oil, aluminum, copper, nickel, platinum, lead and zinc,

- gold or silver,
- nominal or real interest rates with respect to any debt instrument, and
- loans or other advances.

Mexican banks require an express general approval, issued in writing by *Banco de México* to enter into, as so-called intermediaries, into derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval, would require a specific approval from *Banco de México* to enter into such derivative transactions (or even if in possession of such general approval, to enter into derivative transactions with underlying assets different from the assets specified above). Mexican banks may, however, enter into derivatives without the authorization of *Banco de México*, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable Mexican bank fails to comply with Mexican Capitalization Requirements, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks that execute derivative transactions with related parties or with respect to underlying assets of which the issuer is a related party, are subject to lending limits and other requirements generally specified in connection with related party transactions, set forth in Mexican Banking Law.

Institutions may collateralize derivative transactions through cash deposits, receivables and/or securities of its portfolio. In the case of derivative transactions that take place in OTC markets, collateral may be granted only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, mutual funds manager of pension funds, *Sofoles*, and any other counterpart authorized by *Banco de México*. Mexican banks are required to periodically inform their board of directors with respect to the derivatives entered into, and whether or not the Mexican bank is in compliance with limits imposed by the board of directors and any applicable committee. Mexican banks must also inform *Banco de México* periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of derivatives transactions entered into by Mexican banks, must be other Mexican banks, Mexican financial entities authorized to enter into such derivatives by *Banco de México* or foreign financial institutions. Derivatives must be entered into pursuant to master agreements that must include international terms and guidelines, such as ISDA master agreements. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

We carry out swaps, futures forwards and options related to pesos and foreign currencies in the underlying assets described above, except gold or silver, as well as of credit derivatives related to interest rate according to the Circular 4/2012 published by *Banco de México* on March 2, 2012.

**Repurchase Operations and Securities Lending**

Under a circular issued by *Banco de México*, Mexican banks may enter into repurchase operations with Mexican and foreign counterparts. Repurchase operations may be entered into in respect of bank securities, Mexican Government securities, debt securities registered with the CNBV and certain foreign securities. Repurchase operations must be entered into under master agreements, such as the master agreements of the International Securities Market Association and the Public Securities Association. Collateral may be provided in connection with repurchase operations.

*Banco de México* has also authorized Mexican banks to participate in securities lending activities on terms similar to those applicable to repurchase operations.

**Limitations on Investments in Other Entities**

Under the Financial Groups Law, subsidiaries of a financial services holding company may not acquire more than 1.0% of the capital stock of another Mexican financial institution, and under no circumstances may they own capital stock of their own financial services holding company, of other subsidiaries of their financial services holding company or of entities that are shareholders of their own financial services holding company or of other subsidiaries of their financial services holding company. In addition, members of a financial group may not extend credit in connection with the acquisition of their capital stock, the capital stock of their financial services holding company or the capital stock of other subsidiaries of their financial services holding company. Without the prior approval of the Ministry of Finance and Public Credit (which shall take into consideration the opinions of *Banco de México* and the primary Mexican regulatory commission supervising the financial entity), members of a financial group may not accept as collateral shares of stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks. A notice to the Ministry of Finance and Public Credit is required prior to acquisition of shares of capital stock of non-Mexican financial entities, or of entities engaged in activities related to those of a bank.

In addition, Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines: (i) up to 5.0% of the capital of such companies at any time; (ii) more than 5.0% and up to 15.0% of the capital of such companies for a period not to exceed three years, upon prior authorization of a majority of the members of each class of the bank's board of directors; and (iii) for higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, with prior authorization of the CNBV. The total of all such investments made by a bank may not exceed 30.0% of such Tier 1 Capital.

**Restrictions on Liens and Guarantees**

Under the Mexican Banking Law, banks are specifically prohibited from (i) pledging their properties as collateral (except when pledging collection rights or securities in transactions with *Banco de México*, development banks, public federal trust and IPAP or if the CNBV so authorizes or as described above with respect to derivative transactions, securities lending and repurchase transactions) and (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers' acceptances.

**Bank Secrecy Provisions; Credit Bureaus**

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking transactions (including loans) to any third parties (including any purchaser, underwriter, or broker or holder of any of the bank's securities) other than (i) the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact, (ii) judicial authorities in trial proceedings in which the accountholder is a party or defendant; (iii) the Mexican federal tax authorities for tax purposes; (iv) the SHCP for purposes of the implementation of measures and procedures to prevent terrorism and money laundering; (v) the Federal Auditor (*Auditoría Superior de la Federación*), to exercise its supervisory authority; (vi) the supervisory unit of the Federal Electoral Agency, and (vii) the federal attorney general's office (*Procuraduría General de la República*) for purposes of criminal proceedings, among others. In most cases, the information needs to be requested through the CNBV.

The Mexican Banking Law authorizes the CNBV to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws; provided, however, that an agreement must be in place between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus. We currently use the services of Buró de Crédito, S.A. de C.V., a Mexican credit bureau created jointly by us, other Mexican banks and a Mexican affiliate of TransUnion, a leading U.S. credit bureau.

## Money Laundering Regulations

Mexico has in effect rules relating to money laundering; the most recent set of rules have been in effect since April 21, 2009 (the "Money Laundering Rules").

Under the Money Laundering Rules, we are required to satisfy various requirements, including:

- the establishment and implementation of procedures and policies, including client identification and know-your-customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (*Código Penal Federal*));

- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Money Laundering Rules);

- reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and

- the establishment of a communication and control committee (which, in turn, must appoint a compliance officer) in charge of, among other matters, supervising compliance with anti-money laundering provisions.

We are also required to organize and maintain a file before opening an account or entering into any kind of transaction, for the identification of each client (each, an "Identification File").

An individual's Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained updated): (i) full name, (ii) date of birth, (iii) nationality and country of birth, (iv) tax identification number and the certificate evidencing the tax identification number issued by the SHCP or the population registry identification number and evidence thereof issued by the Ministry of Interior, as the case may be, (v) occupation, profession, main activity or line of business, (vi) complete domicile (including telephone number), (vii) e-mail address, if any, and (viii) advanced electronic signature series number, when applicable.

An entity's Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained updated): (i) corporate name, (ii) domicile, (iii) nationality, (iv) name of the sole administrator, the members of the board of directors, the general manager or any relevant attorney-in-fact, (v) main activity or line of business, (vi) tax identification number and the certificate evidencing the tax identification number issued by the SHCP, (vii) advanced electronic signature series number, when applicable, and (viii) copy of the public deed containing its constitutive documents.

Identification Files shall be maintained for the complete duration of the corresponding agreement entered into with such client, and for a minimum term of ten years from the date such agreement is terminated.

Under the Money Laundering Rules, we must provide to the SHCP, through the CNBV, (i) quarterly reports (within ten business days from the end of each quarter) with respect to transactions equal to, or exceeding, U.S. $10,000, (ii) monthly reports (within 15 business days from the end of the month) with respect to international funds transfers, received or sent by a client, with respect to transactions equal to, or exceeding, U.S. $10,000, (iii) reports of unusual transactions, within 60 calendar days counted from the date an unusual transaction is detected by our systems, and (iv) periodic reports of suspicious transactions, within 60 calendar days counted from the date the suspicious transaction is detected.

In June 2010 new regulations were issued by the SHCP, as amended in September and December 2010, which restrict cash transactions denominated in U.S. dollars that may be entered into by Mexican banks. Pursuant to such regulations, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals in excess of U.S. $4,000 per month for deposits. Mexican banks are also not permitted to receive physical cash amounts, in U.S. dollars, from their corporate clients, except in very limited circumstances.

Also, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals, in excess of U.S. $300 per day for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S. $1,500.

In addition, the newly enacted regulations set forth certain reporting obligations for Mexican banks regarding their U.S. dollar cash transactions, to the SHCP (through the CNBV).

**Rules on Interest Rates**

*Banco de México* regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For peso-denominated loans, banks may choose either: a fixed rate, TIIE, *Cetes*, MEXIBOR (Mexican Bank Overnight Rate), CCP (*costo de captación promedio a plazo*), the rate determined by *Banco de México* as applied to loans funded by or discounted with NAFIN or the rate agreed to with development banks in loans funded or discounted with them. For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose either a fixed rate, EURIBOR, LIBOR or the rate agreed with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar-denominated loans, banks may choose either a fixed rate, CCP-Dollars, LIBOR or the rate agreed with international or national development banks or funds, for loans funded by or discounted with such banks or funds.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. Similarly, a bank's spread has also been restricted to a single formula of either a fixed percentage or a number of basis points to be added to the selected reference rate.

On July 11, 2008, *Banco de México* issued rules regulating a bank's yield on credit card debt and provided that certain information regarding interest charges be included on the credit card statements sent to card users.

**Fees**

Under *Banco de México* regulations, Mexican banks, Sofoles and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients, (i) charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (*costo anual total*), (ii) charge alternative fees, except if the fee charged is the lower fee, and (iii) charge fees for the cancellation of credit cards issued. In addition, among other things, Mexican banks may not (i) charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts, (ii) charge fees for returned checks received for deposit in a deposit account or as payment for loans granted, (iii) charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services, or (iv) charge different fees depending upon the amount subject of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks, Sofoles and Sofomes permitting customers the use of, or operating, ATMs must choose between two options for charging fees to clients withdrawing cash or requesting balances: (i) specifying a fee for the relevant transactions, in which case, Mexican banks, Sofoles and Sofomes issuing credit or debit cards ("Issuers") may not charge cardholders any additional fee (Issuers are entitled to charge operators the respective fee), or (ii) permit Issuers to charge a fee to clients, in which case, banks, Sofoles and Sofomes my not charge additional fees to clients.

*Banco de México*, on its own initiative or as per request from the CONDUSEF (*Comisión Nacional para la Defensa de los Usuarios de las Instituciones Financieras*), banks, Sofoles or Sofomes, may assess whether reasonable competitive conditions exist in connection with fees charged by Banks, Sofoles or Sofomes in performing financial operations. *Banco de México* must obtain the opinion of the Federal Competition Commission (*Comisión Federal de Competencia*) in carrying out this assessment. *Banco de México* may take measures to address the issues.

On October 12, 2009, *Banco de México* published Circular 24/2009, which modifies the rules on ATM-user fees and became effective on April 30, 2010.

**Law for the Protection and Defense of Financial Service Users**

A Law for the Protection and Defense of Financial Service Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). CONDUSEF acts as arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. As a banking institution, we must submit to CONDUSEF's jurisdiction in all conciliation proceedings (initial steps of a dispute) and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks to maintain an internal unit designated to resolve any and all controversies submitted by clients. We maintain such a unit.

CONDUSEF maintains a Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*), in which all financial services providers must be registered, that assists CONDUSEF in the performance of its activities. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions. Furthermore, CONDUSEF may scrutinize banking services provided by using standard accession agreements.

We may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. We may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. We may be subject to coercive measures or sanctions imposed by CONDUSEF. We are not the subject of any material proceedings before CONDUSEF.

**Law for the Transparency and Regulation of Financial Services**

The law for the Transparency and Regulation of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), published in the Official Gazette of the Federation in June 2007, aims to regulate (i) the fees charged to customers of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds; (ii) the fees that financial institutions charge to each other for the use of any payment system; (iii) interest rates that may be charged to customers, and (iv) other aspects related to financial services, in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants *Banco de México* the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements. *Banco de México* has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (*costo anual total*), which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any publicity and of information provided in account statements. We must inform *Banco de México* of any changes in fees at least 30 calendar days before they become effective.

**Law on Transparency and Development of Competition for Secured Credit**

On December 30, 2002, the Mexican Congress enacted the Law on Transparency and Development of Competition for Secured Credit (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*, or the "Secured Credit Law"), as amended on June 15, 2007. The Secured Credit Law provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (*i.e.*, purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following: (i) the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable; (ii) the compliance by credit institutions and borrowers with certain requirements in the application process; (iii) that offers made by credit institutions granting secured loans shall have binding legal effect; (iv) the inclusion of mandatory provisions in loan agreements; and (v) the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among credit institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers in connection with refinancings.

**Financial Groups Statutory Responsibility**

The Financial Groups Law requires that each financial services holding company, enter into an agreement with each of its financial services subsidiaries, which includes us. Pursuant to such agreement, the financial services holding company is responsible secondarily and without limitation for performance of the obligations incurred by its subsidiaries as a result of the authorized activities of such subsidiaries, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the financial services holding company's assets. For such purposes, a subsidiary is deemed to have losses if (1) its stockholders' equity represents an amount that is less than the amount the subsidiary is required to have as minimum paid-in capital under applicable law, (2) its capital and reserves are less than the subsidiary is required to have under applicable law, or (3) in the judgment of the regulatory commission supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations.

The financial services holding company has to inform the CNBV of the existence or potential existence of any such obligation or loss. The financial services holding company would only have to respond with respect to the obligations of its financial services subsidiaries fifteen business days after the CNBV delivers notice of its approval of the enforceability of such obligations. The financial services holding company responds to the losses of its subsidiaries by making capital contributions to such subsidiaries.

In the event of a financial services holding company's statutory responsibility with respect to a bank, IPAB must determine the amount of the preliminary losses of such bank. The financial services holding company is required to create a capital reserve for the amount of such losses. The financial services holding company is also required to collateralize the payment of the bank's losses that are paid by IPAB pursuant to its law. Such collateral may be created over the financial services holding company's assets or over such company's shares or those of its subsidiaries.

A financial services holding company is not allowed to pay any dividends or transfer any monetary benefit to its shareholders as of the date on which IPAB determines the bank's losses, up to the date on which the financial services holding company has paid for the bank's losses.

No subsidiary is responsible for the losses of the financial services holding company or of the Financial Services holding company's subsidiaries. GFBB has entered into such an agreement with us and its other financial services subsidiaries.

**Ownership Restrictions; Foreign Financial Affiliates**

Ownership of a financial services holding company's capital stock is no longer limited to specified persons and entities under the Financial Groups Law and the group's corporate charter. Series F shares may be purchased, directly or indirectly, by foreign financial institutions who are residents of a country that has entered into a free trade agreement with Mexico and must represent at all times at least 51% of the paid-in capital.

Notwithstanding the above, under the Financial Groups Law, foreign entities with governmental authority cannot purchase a financial services holding company's capital stock. Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are qualified investors as defined in the Financial Groups Law.

In accordance with applicable law (1) the capital of banks may be composed of voting Series O shares, which may be owned both by Mexican and non-Mexican investors, by Series F shares, which may be owned only by foreign financial institutions or Series B shares, which represent a minority interest in a bank controlled by a foreign financial institution and may be owned by Mexican or foreign investors and, (2) any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the CNBV, (3) the CNBV has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank and (4) the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of whom must qualify as independent. Minority shareholders own our Series B shares.

The change in foreign ownership rules continued the liberalization of the Mexican banking system commenced under NAFTA. Pursuant to NAFTA, the Free Trade Agreement between Mexico and the European Union, the Free Trade Agreement between Mexico and Japan, the Free Trade Agreement between Mexico and European Free Trade Zone and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, member states of the European Union, Japan and other countries with which Mexico has executed relevant international trade agreements, or financial services holding companies formed in Mexico by such foreign financial entities, will be treated identically to Mexican investors when investing in affiliate banks and other financial entities.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have none of the rights of a stockholder with respect to such shares and will be required to forfeit such shares in accordance with procedures set forth in the Mexican Banking Law and the Financial Groups Law.

**Pension Fund Management**

The Mexican Social Security Law (*Ley del Seguro Social*) established the AFORE pension system. Among other economic benefits and other services to be provided to participants in the social security system, the Social Security Law provides that each worker may establish an independent retirement account, which is to be managed by an approved AFORE. Pursuant to the AFORE Law (*Ley de los Sistemas de Ahorro para el Retiro*), the main functions of an AFORE include, among others, (1) administering pension funds in accordance with the Social Security Law, (2) creating and administering individual pension accounts for each worker, (3) creating, administering and operating specialized pension funds (*Sociedades de Inversion Especializadas en Fondos para el Retiro*), or SIEFOREs, (4) distributing and purchasing SIEFOREs' shares, (5) contracting pension insurance and (6) distributing, in certain cases, the individual funds directly to the pensioned worker.

The AFOREs and SIEFOREs are subject to the supervision of CONSAR, which is charged with the coordination, regulation and supervision of the pension system. Under the Social Security Law, no AFORE may have more than 20% of the total market, which as of June 30, 2012, according to the CONSAR, consisted of approximately 47.4 million accounts of workers.

**Related Party Transactions**

The Banking Law requires that the board of directors of a bank approves any transaction in which a related party becomes a debtor of a bank. Such transactions include deposits, loans, credits, discounts and the net position of derivatives transactions. The total amount of related party transactions may not exceed 50% of Tier 1. Related parties include, among others, persons that own directly or indirectly 2% or more of the shares of the relevant bank or of its holding or other members of the financial group, directors and officers of the bank or of any entity in which the bank or its holding company have more than 10% of the shares or any corporation in which the officers and directors are part of the management.

The approval process for related party transactions is similar to any other loan, except that any loans to a related party above 1.0% of Tier 1 Capital or 2 million UDIs, which is determined based on the National Consumer's Price Index, an inflation index determined by *Banco de México*, must be approved by our board of directors with the favorable opinion of our credit committee.

**Texas Banking Supervision and Regulation**

See above under "The Texas Agency."

## DESCRIPTION OF THE NOTES

We issued a series of notes qualifying as Tier 2 Capital (the "Notes") through our Texas Agency (the "Agency"), under the Base Indenture, dated as of July 19, 2012, among us, the Trustee and the Irish Paying and Listing Agent, as supplemented by a first supplemental indenture, dated as of September 28, 2012, among us, the Trustee and the Irish Paying and Listing Agent, which may be amended or supplemented from time to time. This summary describes the general terms and provisions of the Notes. The description of certain provisions of the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture and the Notes, including the definitions therein of certain terms. We urge you to read each of the Indenture and the forms of the Notes because they, and not this description, define your rights as a holder of Notes. In case of any conflict regarding the rights and obligations of the holders of the Notes under the Indenture, the Note, and this offering memorandum, the terms of the Indenture will prevail. You may obtain a copy of the Indenture and the forms of the Notes by contacting the trustee at the address indicated in this offering memorandum.

### General

The Notes will be issued in the aggregate principal amount of U.S. $500,000,000 in registered form, in minimum denominations of U.S. $150,000 and integral multiples of U.S. $1,000 in excess thereof. The Notes are a further issuance of, will be consolidated to form a single series with, and will be fully fungible with, our outstanding 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022, U.S. $1,000,000,000 principal amount of which was issued on July 19, 2012. We will issue the Notes through the Agency, but the Notes will represent our general, unsecured and subordinated, preferred obligations. The Notes constitute Subordinated Preferred Indebtedness and will rank (i) junior to our present and future Senior Indebtedness (ii) *pari passu* without preference among themselves and with all our present and future other unsecured Subordinated Preferred Indebtedness and (iii) senior only to our unsecured Non-Preferred Subordinated Indebtedness and all classes of our capital stock, as described in this offering memorandum. See "—Subordination." We expect to incur additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness from time to time, and the Indenture for the Notes does not prohibit or limit the incurrence of other indebtedness, including additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness.

The Notes will be unsecured and not guaranteed, or otherwise eligible for reimbursement, by the IPAB or any other Mexican governmental agency, or by any other entity that is part of Grupo Financiero BBVA Bancomer, and, by their terms, are not convertible into our shares or equity capital.

The Notes will mature and be payable in full on September 30, 2022 (the "Maturity Date") unless earlier redeemed. We may redeem the Notes in whole, but not in part, under the circumstances described below under "—Redemption—Withholding Tax Redemption" and "—Redemption—Special Event Redemption." Other than in accordance with a Withholding Tax Redemption or a Special Event Redemption, the Notes will not be redeemable prior to the Maturity Date.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under "—Book-Entry System."

We will maintain an office or agency in the Borough of Manhattan, The City of New York, where the Notes may be presented for exchange or transfer. Such office or agency initially will be located at The Bank of New York Mellon, 101 Barclay Street, 4E, New York, New York, 10286, Attention: Global Finance Unit. The holders of the Notes will not have to pay a service charge to register the transfer or exchange of any Notes, but we may require that holders pay any applicable tax or other governmental charge.

The Indenture and the Notes do not contain any provision that would protect the holders of the Notes against a sudden and dramatic decline in our credit quality resulting from a takeover, recapitalization or other restructuring or other event involving us that may adversely affect our credit quality.

## Principal and Interest

### *Interest periods*

The Notes will bear interest from (and including) July 19, 2012, up to (but excluding) September 30, 2022 (the "Maturity Date"), at a rate per annum equal to 6.75%, payable semi-annually in arrears on September 30 and March 30 of each year (each an "Interest Payment Date"), commencing on March 30, 2013. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date up to (but excluding) the Maturity Date is called an "Interest Period." If any Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay. Interest on the Notes in respect of an Interest Period will be calculated on the basis of a 360-day year of twelve 30-day months. For purposes hereof, the term Business Day is defined in the Indenture for the Notes as any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York or Mexico City are authorized or required by law or executive order to remain closed.

### *Additional Interest*

Any amount of interest or principal in respect of the Notes not paid on an Interest Payment Date or the Maturity Date shall bear interest, to the extent permitted by applicable law, at the relevant interest rate plus 1.00%, from (and including) the date when such amount was due to (but excluding) the date of payment, *provided*, however, that during a Suspension Period (as defined in "– Treatment of Interest During a Suspension – Suspension Period"), such additional interest shall be payable with respect only to unpaid principal and not unpaid interest.

## Unclaimed Money, Prescription

If money deposited with the trustee or any agent for the payment of principal of, premium, if any, or interest or Additional Amounts (as defined below), if any, on the Notes remains unclaimed for two years, the trustee or such paying agent shall return the money to the Bank subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to the Bank for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the Indenture does not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

## Further Issuances

The Notes will be issued in an aggregate principal amount of U.S. $500,000,000. The Notes are a further issuance of, will be consolidated to form a single series with, and will be fully fungible with, our outstanding 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022, U.S. $1,000,000,000 principal amount of which was issued on July 19, 2012. Upon consummation of this offering, the aggregate amount of our 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 will be U.S. $1,500,000,000.Without notice to or consent of the holders of the Notes offered by this offering memorandum, additional notes may be issued under the Indenture having the same ranking, interest rate, maturity date and other terms as the Notes, other than the original issue date and interest accrual date, provided that if the additional notes are not fungible with the Notes for U.S. federal income tax purposes, the additional notes will have a separate CUSIP number. Any additional notes, together with the Notes offered by this offering memorandum, will constitute a single series of Notes under the Indenture.

## Payment of Additional Amounts

All payments made by or on our behalf in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the United States, or any other jurisdiction through which payments are made (each a "Relevant Jurisdiction") or any authority or agency therein or thereof having power to tax (collectively, "Relevant Tax") unless the withholding or deduction of such Relevant Tax is required by law. In that event, we will pay as further distributions of interest and principal such additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders or beneficial owners of the Notes or their nominees (collectively, holders) after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder (or beneficial owner) to the extent that such Relevant Tax:

(1) is imposed only by virtue of such holder (or beneficial owner) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes; or

(2) is imposed only by virtue of such holder or any other person having failed to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or other lack of connection with the Relevant Jurisdiction or any similar claim for exemption or reduction in the rate of withholding, if such declaration is required under applicable law, provided that (x) we have or our agent has provided the holder of the Notes or its nominee with at least 60 days' prior written notice of an opportunity to make such a declaration or claim, and (y) in no event, shall such holder's requirement to make such a declaration or claim require such holder to provide any materially more onerous information, documents or other evidence than would be required to be provided had such holder been required to file IRS Forms W-8BEN, W-8ECI, W-8EXP and/or W-8IMY; or

(3) is imposed only by virtue of such holder (or beneficial owner) not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such holder would be entitled to Additional Amounts had the Notes been surrendered during such 30-day period; or

(4) is imposed pursuant to any European Council Directive regarding taxation of savings income (including European Council Directive 2003/48/EC, or the Savings Directive) or pursuant to any law implementing or complying with, or introduced in order to conform to any such Directive; or

(5) is imposed on a Note presented for payment (where presentation is required) by a holder (or beneficial owner) that could have avoided such Relevant Tax by presenting such Note to another paying agent in a member state of the European Union; or

(6) in the event the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or

(7) is an estate, inheritance, gift, sale, transfer, personal property or similar tax or assessment; or

(8) is imposed as a result of any combination of (1) through (7) above.

We will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in the Relevant Jurisdiction in accordance with applicable law.

We will furnish to the trustee, within 30 Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, an officer's certificate and other documentation acceptable to the trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by us. Upon written request made by the holders to the trustee, copies of such officer's certificate or other documentation, as the case may be, will be made available to the holders.

To give effect to the foregoing, we will, upon the written request of any holder, indemnify and hold harmless and reimburse the holder for the amount of any Relevant Taxes (other than any Relevant Taxes for which the holder would not have been entitled to receive Additional Amounts pursuant to any of the conditions described in the first paragraph of this section titled "Payment of Additional Amounts") so imposed on, and paid by, such holder as a result of any payment of principal or interest on the Notes, so that the net amount received by such holder after such reimbursement will not be less than the net amount the holder would have received if such Relevant Tax had not been imposed or levied and so paid. Holders will be obligated to provide reasonable documentation in connection with the foregoing.

We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify the holders for any such taxes paid by holders.

All references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by us under the Notes or the Indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the Indenture.

If we shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the Indenture, we will use our reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that we pay such Additional Amounts.

We undertake to comply with the Savings Directive or any other directive implementing the conclusions of the European Council of Economic and Finance Ministers, or ECOFIN, meeting of 26-27 November 2000, or the Savings Directive, that may be brought into force and to use our best efforts to maintain a paying agent in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to the European Union Savings Directive.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of the Notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder shall, by accepting the Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto. We will inform the trustee of the refund or credit within 30 Business Days of our determination that we are entitled to receive such refund or credit.

**Treatment of Interest and Principal During a Suspension Period**

***Deferral of Interest and Principal Payments***

We have the right to and will defer payment of interest and principal due on the Notes (but do not have the right to and will not cancel the accrual of interest thereon) and defer, but not cancel, the payment of principal thereof for the duration of any Suspension Period (see "—Suspension Periods"). In the event of a deferral of the payment of interest on the Notes or deferral of payment of principal thereof, we will notify the holders of the Notes in accordance with the procedures described in the Indenture. Payments of interest due on the Notes will be cumulative, so that in the event that payments of interest cease during a Suspension Period, holders of the Notes will have the right to receive all interest accrued prior to or during a Suspension Period, but not paid as a result of such Suspension Period in effect on the relevant Interest Payment Date(s) on which such payments would have been payable. These interest payments will be payable (without interest on such previously accrued payments) on the next succeeding Interest Payment Date on which a Suspension Period is no longer in effect. Principal payments may be deferred but not cancelled. When a Suspension Period is no longer in effect, we will notify the holders of the Notes in accordance with the procedures described in the Indenture.

***Suspension Periods***

For purposes hereof, a Suspension Period will commence and we will defer but not cancel the payment of interest and principal due thereon upon the occurrence of one of the following:

(1) our minimum Capital Ratio declines below the minimum percentage required, from time to time, by the Mexican Capitalization Requirements (a "Capital Ratio Event"); or

(2) the CNBV institutes a preventive or corrective measure against us pursuant to Article 134 Bis or Article 134 Bis 1 of the Mexican Banking Law (including the corresponding rules set forth under the General Rules Applicable to Mexican Banks), which requires deferring payments of interest and principal otherwise due on the Notes (each a "Mexican Regulatory Event.")

***General Rules Applicable to Mexican Banks and its Application to Us***

Article 134 Bis of the Mexican Banking Law provides that in the exercise of its supervisory duties the CNBV, through general regulations approved by its Board of Governance, will classify banking institutions based on their compliance with the provisions of the Rules for Capitalization, which may take into account Capital Ratios that reflect the degree of stability and solvency of a bank.

Article 134 Bis 1 of the Mexican Banking Law provides that if a bank does not comply with the minimum Capital Ratio required pursuant to the Mexican Capitalization Requirements (i.e., the minimum Capital Ratio for a bank not to be required to suspend payment of interest and/or defer payment of principal on outstanding subordinated debt, as the case may be), the bank must implement the corrective measures ordered by the CNBV, including:

(1) informing the board of directors of the bank's classification, based on the Capital Ratio thereof, and submit a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulation; the bank shall provide written notice to the general director and the chairman of the board of directors of the bank's regulated holding company with respect to such events and the status thereof;

(2) within a period not to exceed fifteen (15) business days, filing with the CNBV, for its approval, a capital recovery plan to increase the bank's Capital Ratio; the bank's capital recovery plan shall be approved by such bank's board of directors before it is submitted to the CNBV;

(3) suspending any payment of dividends to its shareholders, as well as any mechanism or act for the making of any distributions or the granting of any economic benefits to shareholders;

(4) suspending any share repurchase programs;

(5) deferring or canceling payment of interest and deferring the payment of principal on outstanding subordinated debt, as the case may be, or, if applicable, exchanging outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency if ordered by the CNBV; these corrective measures shall be applicable to subordinated debt considered part of the bank's Tier 1 Capital or Tier 2 Capital; in the event that the bank issues subordinated debt, the bank is obligated to include in the documentation evidencing the relevant debt, in the applicable Indenture and in the applicable offering document, that such deferral of payment of principal or deferral and cancellation of payments interest, as the case may be, shall apply upon the occurrence of certain events as provided in the General Rules Applicable to Mexican Banks and that the implementation of such measures shall not be considered a default under the relevant debt documentation;

(6) suspending payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the general director or any officer within the next two levels, and suspending the

granting of new benefits to the general director and the officers mentioned above until the bank complies with the minimum Capital Ratio set forth under the Mexican Capitalization Requirements;

(7) abstaining from increasing outstanding amounts of any loans granted to any individual who is a related party; and

(8) any other corrective measures that, in each case, are provided by the General Rules Applicable to Mexican Banks.

Article 134 Bis 1 of the Mexican Banking Law further provides that:

- If a bank complies with the minimum Capital Ratio required pursuant to the Mexican Capitalization Requirements (i.e., the minimum Capital Ratio for a bank not to be required to cancel or suspend and cancel payment of interest and defer payment of principal on outstanding subordinated debt) but its Capital Ratio is not equal to or greater than the minimum Capital Ratio for a bank not to be subject to any corrective measures, the bank must implement certain corrective measures ordered by the CNBV, including, among others, (A) informing the board of directors of the bank's classification, based on the Capital Ratio thereof and submitting a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulation including the principal regulatory ratios, that reflect the Bank's degree of stability and solvency (together with any determinations or indications made by any of the CNBV or Banco de México) and providing written notice to the general director and the chairman of the board of directors of the bank's holding company with respect to such events and the status thereof; (B) abstaining from entering into any transaction that may decrease the bank's Capital Ratio below the Mexican Capitalization Requirements; and (C) any other corrective measures ordered by the CNBV.

- Regardless of the capitalization level, the CNBV may order the implementation of additional special corrective measures, including, among others: (1) requiring compliance with additional corrective measures that the bank will be required to carry out to avoid a decrease of its Capital Ratio; (2) special audits to be performed by special auditors in connection with specific matters; (3) abstaining from increasing the salaries and benefits of all officers and employees of the bank, except for any change in salary previously agreed and subject to the officers' and employees' labor rights; (4) removing officers, directors, statutory auditors or external auditors, appointing the persons that will hold the relevant positions; or (5) any other measures ordered by CNBV, based on its inspection and supervision authorities.

- Corrective measures will not be applicable to Mexican banks with a Capital Ratio equal to or greater than the minimum Capital Ratio required by the Mexican Capitalization Requirements plus 25% thereof.

The Capital Ratio currently required by the Mexican Capitalization Requirements for a bank not to be required to defer or cancel payment of interest and defer payment of principal on outstanding subordinated debt, as applicable, is 8%. Accordingly, under the Mexican Capitalization Requirements currently in effect a bank with a Capital Ratio of 10% or greater will not be subject to any corrective measures.

The General Rules Applicable to Mexican Banks, classify Mexican banks in several categories based on their Capital Ratio. The relevant corrective measures are determined based on the following classifications:

| **Class** | **Capital Ratio** |
|---|---|
| Class I | Equal to or greater than 10% |
| Class II | Equal to or greater than 8% and less than 10% |
| Class III | Equal to or greater than 7% and less than 8% |
| Class IV | Equal to or greater than 4% and less than 7% |
| Class V | Less than 4% |

The General Rules Applicable to Mexican Banks, further provide that corrective measures applicable to banks classified in Class III, IV and V include, among others, requiring a bank to suspend payment of interest and, if ordered by the CNBV, defer payment of any principal on outstanding subordinated debt or exchange outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency; in the event that the bank issues subordinated debt, a bank must include in the relevant debt documentation, in the applicable Indenture and in the applicable offering memorandum, that such suspension of payment of interest and deferral of payment of principal shall apply to subordinated debt in the event that a bank is classified in Class III, IV or V and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

We are currently classified as Class I and our Capital Ratio was 14.91% as of June 30, 2012.

***Conclusion of a Suspension Period***

The payment of interest or principal due on the Notes thereof will resume:

(1) if the Suspension Period was triggered by a Capital Ratio Event, when our Capital Ratio is no longer below the minimum percentage required, from time to time, by the Mexican Capitalization Requirements;

(2) if such Suspension Period was triggered by a Mexican Regulatory Event, when the related Mexican Regulatory Event has terminated; or

(3) if dividends or other distributions are paid by us on or in respect of our capital stock, other than the Dividend Exceptions (as defined below).

***Further Provisions on Suspension Periods***

Notwithstanding anything in this offering memorandum to the contrary, a Suspension Period shall not give rise to any Event of Default under the Indenture or the Notes.

We must give the trustee notice of any Suspension Period affecting the Notes at least five Business Days prior to the earlier of (1) the date the interest due on the Notes would have been payable except for such Suspension Period and (2) the date the trustee is required to give notice to any securities exchange or to holders of the Notes of the record date or the date such interest is payable but in any event not less than five Business Days prior to such record date. We must also give the trustee notice of the termination of any Suspension Period not more than three Business Days after the Suspension Period is no longer in effect.

During any Suspension Period, we shall not:

(1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock (which includes common and preferred stock);

(2) make any payment of premium, if any, or interest on or repay, repurchase or redeem any of our debt securities that rank *pari passu* with or junior in right of payment and in liquidation to the Notes; or

(3) to the extent any such guaranty is permitted under applicable law, make any guaranty payments with respect to any guaranty by us of the debt securities of any of our subsidiaries if such guaranty ranks *pari passu* with or junior in right of payment and in liquidation to the Notes; provided, however, that (x) the foregoing shall not, to the extent permitted by the Mexican Capitalization Requirements or applicable law, prohibit payment of the Dividend Exceptions and (y) the foregoing shall not apply to the extent that we obtain prior regulatory consent for any action that would otherwise be prohibited and resume full payment of interest due (including payment of any previously accrued interest

due) on the Notes and principal thereof for the period in which such action is taken. Subject to the foregoing, we shall pay interest due on the Notes and principal thereof so long as we are paying dividends or other distributions on or in respect of our capital stock.

For the purposes hereof, "Dividend Exceptions" shall mean (1) dividends or distributions in shares of or options, warrants or rights to subscribe for or purchase shares of, our common stock, (2) any declaration of a stock dividend in connection with the implementation of a stockholders' rights plan, or the issuance of stock under any such plan in the future, (3) any reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock, (4) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged, (5) purchases of common stock related to the issuance of common stock or rights under any of our benefit plans for our directors, officers or employees and (6) other equivalent transactions not involving payments or distributions in cash.

**Subordination**

The Indenture for the Notes provides that the Notes constitute Subordinated Preferred Indebtedness (*obligaciones subordinadas preferentes*), (i) will rank junior to all of our present and future Senior Indebtedness, (ii) will rank *pari-passu* with all other present or future Subordinated Preferred Indebtedness and (iii) will be senior to unsecured Subordinated Non- Preferred Indebtedness (*obligaciones subordinadas no preferentes*) and all classes of our capital stock. No payment of premium, if any, or interest on the Notes may be made at any time when (1) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (2) the maturity of any Senior Indebtedness has been accelerated because of a default.

In the event of the acceleration of the maturity of the Notes due to our insolvency or liquidation and upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, concurso mercantil, quiebra or similar proceedings in connection with our insolvency or bankruptcy, (1) all principal, premium, if any, and interest due or to become due on all Senior Indebtedness must be paid in full before the holders of Subordinated Preferred Indebtedness (including the Notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of unsecured Subordinated Preferred Indebtedness (including the Notes) will be entitled to receive pari passu among themselves any payment in respect thereof. The Notes and all other Subordinated Preferred Indebtedness will be senior to our Subordinated Non-Preferred Indebtedness and all classes of our capital stock.

***Definitions***

For the purposes of the Notes:

(1) The term Senior Indebtedness is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness or Subordinated Non-Preferred Indebtedness (including the Notes), and any deferrals, renewals or extensions of such Senior Indebtedness;

(2) The term Subordinated Preferred Indebtedness (including the Notes, the U.S. $1,000,000,000 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 issued on July 19, 2012 and our 2021 Notes) is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness, but is senior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness (including our 2022 Notes, our 2020 A-Notes, our 2020 B-Notes, our 2019 Notes, our 2018 A-Notes, our 2018 B-Notes and our 2014 Notes) and all classes of our capital stock, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;

(3) The term Subordinated Non-Preferred Indebtedness (which includes our 2022 Notes, our 2020 A-Notes, our 2020 B-Notes, our 2019 Notes, our 2018 A-Notes, our 2018 B-Notes and our 2014 Notes) is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness and Subordinated Preferred Indebtedness, but is senior in right of payment and in liquidation to all classes of our capital stock, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness; and

(4) The term Indebtedness for Money Borrowed is defined in the Indenture to mean any obligation of, or any obligation guaranteed by us (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures or other written instruments, but shall not include (a) any trade accounts payable in the ordinary course of business, (b) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness, (c) indebtedness to any of our employees, (d) our indebtedness which, when incurred, was without recourse to us, and (e) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks pari passu with or junior in right of payment and in liquidation to any of the indebtedness described in clause (a) or (b) above.

**No Limitation on Additional Indebtedness**

The Indenture places no limitation on the amount of additional Senior Indebtedness or Subordinated Preferred Indebtedness that we may incur. We may incur from time to time additional indebtedness constituting Senior Indebtedness or Subordinated Preferred Indebtedness.

**Redemption**

***Withholding Tax Redemption***

We have the option under the Indenture for the Notes to redeem the Notes at any time prior to the Maturity Date, in whole but not in part, at par plus accrued and unpaid interest due on, or with respect to, the Notes upon the occurrence of a Withholding Tax Event (as defined below) affecting the Notes, (a Withholding Tax Redemption); provided, however, in the event of such a Withholding Tax Redemption, we shall be in compliance with applicable Mexican regulations in effect on the applicable Redemption Date. In the event of such a Withholding Tax Redemption, we are required by *Banco de México* to obtain its authorization to redeem the Notes prior to the applicable Redemption Date.

Our obligation to obtain Banco de México's authorization to redeem the Notes is for information purposes only and shall not grant any rights to the trustee or the holders of the Notes.

For the purposes of the foregoing, the term Withholding Tax Event is defined in the Indenture to mean (i) the receipt by us and the delivery to the trustee of an opinion of a nationally recognized law firm experienced in such matters to the effect that, as a result of (a) any amendment to or change (including any announced prospective change) in the laws or treaties (or any regulations thereunder) of any Relevant Jurisdiction affecting taxation, (b) any judicial decision, official administrative pronouncement or regulatory procedure, of any Relevant Jurisdiction, (each an "Administrative Action"), or (c) any amendment to or change in the official position or the official interpretation of such Administrative Action that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction, irrespective of the manner in which such amendment or change is made known, which amendment or change is effective or such pronouncement or decision is announced on or after the date of issuance of the Notes, (collectively, a "Change in Tax Law"), there is more than an insubstantial risk that we are or will be liable for more than a *de minimis* payment of Additional Amounts in respect of the Notes in excess of the gross amount of Additional Amounts payable in respect of the Notes prior to such Change in Tax Law and (ii) the delivery to the trustee of a certificate signed by our chief financial officer stating that the requirement to make such withholding or deduction cannot be avoided by taking reasonable measures available to us (such measures not involving any material cost to us or the incurring by us of any other tax or penalty).

***Special Event Redemption***

We also have the option under the Indenture to redeem the Notes at any time prior to the Maturity Date, in whole but not in part, at the Special Event Price (as defined below) upon the occurrence of a Special Event (as defined below), (a Special Event Redemption); provided, however, in the event of such a Special Event Redemption with respect to the Notes, we shall be in compliance with applicable Mexican regulations in effect on the applicable Redemption Date. In the event of such a Special Event Redemption of the Notes, we are required by *Banco de México* to obtain *Banco de México's* authorization prior to the Redemption Date to redeem the Notes.

Our obligation to obtain *Banco de México's* authorization to redeem the Notes is for information purposes only and shall not grant any rights to the trustee or the holders of such Notes.

For the purposes of the foregoing:

(1) The term Special Event in respect of the Notes is defined in the Indenture to mean a Capital Event or a Tax Event (both as defined below);

(2) The term Capital Event in respect of the Notes is defined in the Indenture to mean the reasonable determination by us that, as a result of (a) the occurrence of any amendment to or change in, the laws or any regulations thereunder of Mexico or (b) any official administrative pronouncement or judicial decision interpreting or applying these laws or regulations, which amendment or change is effective or which pronouncement or decision is announced on or after the date of issuance of the Notes, there is more than an insubstantial risk that we will not be entitled to treat the Notes as Tier 2 Capital, or the then equivalent of Tier 2 Capital for purposes of the Rules for Capitalization and Mexican Capitalization Requirements, as then in effect and applicable to us;

(3) The term Tax Event is defined in the Indenture to mean the receipt by us of an opinion of a nationally recognized law firm experienced in such matters to the effect that, as a result of a Change in Tax Law, there is more than an insubstantial risk that interest payable by us on the Notes is not or will not be deductible by us in whole or in part for Mexican income tax purposes;

(4) The term Special Event Price is defined in the Indenture to mean an amount equal to (a) 100% of the principal amount of the Notes to be prepaid plus any accrued and unpaid interest due to the date of prepayment plus (b) the Make Whole Amount in respect of such Notes;

For purposes of the Notes:

(a) The term Make-Whole Amount is defined in the Indenture to mean an amount, determined by us, equal to the excess, if any, of (i) the present value of the remaining scheduled payments of principal and interest to the Maturity Date, computed by discounting such payments on a semiannual basis on each Interest Payment Date (assuming a 360-day year of twelve 30-day months) using a discount rate equal to the Treasury Yield plus 0.75% over (ii) the outstanding principal amount of the Notes plus accrued interest thereon to (but excluding) the applicable date of prepayment. The date of determination of such Make-Whole Amount shall be the third Business Day prior to the applicable payment date;

(b) The term Treasury Yield is defined in the Indenture to mean, as of any date of determination, an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the per annum rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Maturity Date, and trading in the public securities markets either as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Maturity Date, and (B) the other maturity as close as possible to, but later than the Maturity Date, in each case as published in the most recent H.15 (519) or, if a weekly average yield to maturity for United States Treasury securities maturing on the Maturity Date is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519); and

(c) The term H.15 (519) is defined in the Indenture to mean the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System and most recent H.15 (519) means the H.15 (519) published prior to the close of business on the third Business Day prior to the applicable payment date.

Notwithstanding the foregoing, the exclusion of the Notes from our Tier 2 Capital at a rate of 10% of their aggregate principal amount per year expected to take effect beginning in 2013, pursuant to Basel III as implemented in Mexico, shall not be deemed a Capital Event as described in clause (2) above.

***Redemption Procedures***

If we give a notice of a Withholding Tax Redemption or Special Event Redemption in respect of the Notes, by 12:00 noon, New York City time, on the applicable Redemption Date, to the extent funds are legally available, with respect to the Notes being redeemed and held by The Depositary Trust Company ("DTC") or its nominee, the trustee or the Paying Agent will pay the applicable redemption price to DTC. Such notice will also be made in accordance with the procedure set forth in "—Notices." With respect to the Notes being redeemed and held in certificated form, the trustee, to the extent funds are legally available, will pay the applicable redemption price to the holders thereof upon surrender of their certificates evidencing the Notes. Interest payable on or prior to the Redemption Date shall be payable to the holders of the Notes on the relevant record dates. If notice of redemption shall have been given and funds deposited with the trustee to pay the applicable redemption price for the Notes being redeemed, then upon the date of such deposit, all rights of the holders of the Notes will cease, except the right of the holders of the Notes to receive the applicable redemption price, but without interest on such redemption price, and the Notes will cease to be outstanding. In the event that any Redemption Date in respect of the Notes, is not a Business Day then the applicable redemption price payable on such date will be paid on the next succeeding day that is a Business Day (without any interest or other payment in respect of any such delay) with the same force and effect as if made on such date. In the event that payment of the applicable redemption price is improperly withheld or refused and not paid by us (1) interest due on the Notes being redeemed will continue to accrue at the then applicable rate, from the Redemption Date originally established by us to the date such applicable redemption price is actually paid, and (2) the actual payment date will be the Redemption Date for purposes of calculating the applicable redemption price.

In the event of a partial optional prepayment of the Notes, the Notes shall be redeemed from each holder thereof pro rata according to the aggregate principal amount of the Notes held by the relevant holder in relation to the aggregate principal amount of all Notes. In respect of the Notes held by DTC or its nominee, the distribution of the proceeds from such redemption will be made to DTC or its nominee and disbursed by DTC or its nominee in accordance with the procedures applied by DTC or its nominee. In determining the proration of the Notes to be redeemed, we may make such adjustments as may be appropriate in order that only the Notes in authorized denominations shall be redeemed, subject to the minimum denominations set forth in this offering memorandum.

We shall deliver notice of any redemption to the trustee at least 40 days prior to the applicable Redemption Date. The trustee shall in turn mail notice of any such redemption to each holder of the Note at least 30 days but not more than 60 days prior to the Redemption Date to each holder of the Notes in accordance with the procedures described in the Indenture. Unless we default in payment of the applicable amounts due on, or in the repayment of, the Notes, on and after the applicable Redemption Date, interest due will cease to accrue on the Notes called for redemption.

**Rule 144A Information**

For so long as any of the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer shall furnish, upon the request of any holder, such information as is specified in Rule 144A(d)(4) under the Securities Act: (i) to such holder, (ii) to a prospective purchaser of such Note (or beneficial interests therein) who is a qualified institutional buyer ("QIB") designated by such holder and (iii) to the trustee for delivery to any applicable holders or such prospective purchaser so designated, in each case in order to permit compliance by such holder with Rule 144A in connection with the resale of such Note (or beneficial interest therein) in reliance upon Rule 144A. All such information shall be in the English language.

**Periodic Reports**

So long as the Notes are outstanding, we will furnish to the Trustee:

(a) Within 120 days following the end of each of our fiscal years, (i) our consolidated audited income statements, balance sheets and cash flow statements and the related notes thereto for the two most recent fiscal years in accordance with Mexican Banking GAAP (''GAAP''), which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission, together with an audit report thereon by our independent auditors, (ii) the English version of our annual financial statements and (iii) our annual financial information included in the English version of our annual report as provided to our shareholders; and

(b) Within 60 days following the end of the first three fiscal quarters in each of our fiscal years, (i) quarterly reports containing unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for us and our consolidated subsidiaries on a consolidated basis, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission and (ii) our quarterly financial information included in the English version of our quarterly report as provided to our Bancomer.

None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the U.S. Securities and Exchange Commission. In addition, we shall furnish to the holders of the Notes and to prospective investors, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by Persons who are not ''affiliates'' under the Securities Act.

In addition, if and so long as the Notes are listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, copies of such reports and information furnished to the Trustee will also be made available at the specified office of the paying agent in Dublin.

**Events of Default, Notice and Waiver**

An Event of Default is defined in the Indenture as:

- a default for 30 calendar days in the payment of interest due and payable on the Notes, as applicable under the Indenture, other than during a Suspension Period;

- a default in the timely payment of the principal due and payable of the Notes, as applicable under the Indenture, other than during a Suspension Period; or

- certain events involving our bankruptcy (including *concurso mercantil* or *quiebra*), liquidation or dissolution.

The payment of the principal of the Notes or interest accrued and unpaid thereon may be accelerated only upon the occurrence of an event of default described in the last bullet point above, referred to as a Bankruptcy Event of Default. There is no right of acceleration of the payment of principal or accrued and unpaid interest of the Notes upon the occurrence of any of the other Events of Default noted above, including a default in the payment of principal or interest. If payment of the principal of the Notes or accrued and unpaid interest is accelerated, we or the trustee shall promptly notify holders of our Senior Indebtedness, Subordinated Preferred Indebtedness and

Subordinated Non-Preferred Indebtedness of the acceleration. If an Event of Default occurs under the Indenture and is continuing, the trustee may pursue any available remedy (excluding acceleration, except as provided above) under the Indenture to collect the payment of due and unpaid principal of and interest on the Notes, or to enforce the performance of any provision of the Notes or the Indenture.

If a Bankruptcy Event of Default occurs and is continuing, the Notes will become immediately due and payable without any declaration or other act on the part of the trustee or any holder of the Notes. The Notes will become immediately due and payable at their principal amount together with accrued interest up to (but excluding) the date of payment without further action by any person. For the avoidance of doubt, no Mexican Regulatory Event will constitute our bankruptcy (including *concurso mercantil* or *quiebra*), liquidation or dissolution, nor during a Suspension Period in respect of the Notes, will a deferral in the payment of interest on the Notes entitle the holders of the Notes to accelerate the payment of principal of the Notes. In the event of a *concurso mercantil*, holders of the Notes may not be able to collect the full amount payable under the Notes and other bankruptcy rules may affect the timing or amount paid to holders of the Notes. See "Risk Factors—If we do not satisfy our obligations under the Notes, your remedies will be limited."

Holders may not enforce the Indenture or the Notes except as provided in the Indenture. The holder of any Note, however, will have the right to receive payment of the principal of and interest on that Note on or after the due dates, Redemption Dates or Maturity Date expressed in the Indenture or such Note and, subject to the cancellation and deferral provisions set forth in the Note and the Indenture and certain other limitations and conditions, to institute a lawsuit for the enforcement of any such payment on or after such respective dates. The Trustee may refuse to enforce the Indenture or the Notes unless it receives indemnity or security satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the outstanding Notes may direct the trustee under the Indenture in its exercise of any trust or power in respect thereof. The Trustee may withhold from holders notice of any continuing Event of Default (except a default in payment of principal or interest) if the Trustee in good faith determines that withholding notice is in their interest.

Under the Indenture, we must furnish the Trustee annually with a statement regarding any default in the performance of our obligations thereunder.

***Modification of Indenture; Waiver of Covenants***

Subject to authorization by *Banco de México*, we and the Trustee may, without the consent of any holders of Notes, amend, waive or supplement each of the Indenture or the Notes in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the Indenture or the Notes to any provision in this "Description of the Notes" and to make any change that does not adversely affect the rights of any relevant holder in any material respect. In addition, we and the Trustee may amend, waive or supplement the Indenture or the Notes with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Notes. However, without the consent of the holder of each Note and the approval of 75% of the members of our board of directors, we may not, among other things:

- change the maturity date of the principal of or any interest payment date (or periods on any Note);
- reduce the principal amount of or interest on any Note;
- change the currency of payment of principal or interest on any Note;
- modify any other payment provision of any Note;
- impair the right to sue for the enforcement of any payment on or with respect to any Note;
- reduce the percentage in principal amount of outstanding Notes that is required for the consent of the holders in order to modify or amend the Indenture or to waive compliance with some provisions of the Indenture or to waive some defaults; or

- modify the subordination provisions relating to the Notes in any manner adverse to the holders of the Notes.

The holders of a majority in aggregate principal amount of the outstanding Notes may waive any past default or Event of Default under the Indenture, except a default under a provision that cannot be modified without the consent of each holder of a Note that would be affected.

**Consolidation, Merger, Sale or Transfer of Assets**

We may not, without the consent of holders of at least 66 2/3% in aggregate principal amount of the outstanding (as defined in the Indenture) Notes , consolidate with or merge into, or convey or transfer, in one transaction or a series of transactions, all or substantially all of our properties and assets to any person, unless:

(1) the resulting entity, if other than us, is organized and existing under the law of Mexico and assumes all of our obligations to:

(x) pay the principal of, and interest on, the Notes; and

(y) perform and observe all of our other obligations under the Indenture; and

(2) we are, or any successor entity is, as the case may be, not, immediately after any such transaction, in default under the Indenture.

**Restrictions Applicable to Mexican Financial Institutions**

Unless otherwise permitted by applicable law, the Indenture will provide that the Notes (i) may not constitute collateral granted in favor of Mexican credit institutions (*instituciones de crédito*) including us and (ii) may not be acquired by us for our own account or by any of the following entities:

(a) Mexican financial entities (*entidades financieras*) of any kind that acquire the Notes for their own accounts except for (1) investment companies that invest in debt and common instruments (*sociedades de inversión en instrumentos de deuda y comunes*), (2) securities brokers (*casas de bolsa*) that acquire the Notes for placement with investors, and (3) insurance companies (*instituciones y sociedades mutualistas de seguros*) and bonding companies (*instituciones de fianzas*) to the extent they acquire the Notes to invest their technical reserves; provided, however, that the exceptions referred to in (1) and (2) of this paragraph shall not apply to (x) investment companies in which we or any other entity that forms part of our financial group holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of our financial group;

(b) Mexican or non-Mexican entities with respect to which we (1) own voting stock representing at least 51 percent of their outstanding paid-in capital, (2) have control of the shareholders' meetings of such entity or (3) are in a position to appoint the majority of the members of such entity's board of directors;

(c) Mexican pension or retirement funds if managed by us or another entity that forms part of our financial group; and

(d) We or another entity that forms part of our financial group acting in its capacity of trustee, representative, agent or attorney-in-fact if, by acting in such capacity, it has discretionary investment authority; provided, however, that any Mexican financial entity or Mexican pension or retirement fund that is not otherwise prevented from investing in the Notes may acquire, together with any other such entity that is an affiliate or that forms part of the same financial group on a collective basis, up to 10% of the principal amount of the Notes.

## Notices

Notice to holders of the Notes will be given by mail to the addresses of such holders as they appear in the security register.

## Book-Entry System

The Notes will be represented by one or more Global Notes.

The Global Notes representing the Notes will be issued in the form of one or more registered notes in global form, without interest coupons and will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes are being offered and sold in this offering in the United States solely to qualified institutional buyers under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S; and
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under "Transfer Restrictions."

### *Rule 144A Global Notes*

Notes offered and sold to qualified institutional buyers under Rule 144A are referred to collectively as the "Rule 144A Global Notes." Interests in the Rule 144A Global Notes will be available for purchase only by qualified institutional buyers.

The Notes offered and sold in reliance on Rule 144A will have, commencing on their date of issuance, the same CUSIP, ISIN and Common Code numbers as, and will be fungible with, the 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 originally issued on July 19, 2022 and offered and sold in reliance on Rule 144A.

### *Regulation S Global Notes*

Notes offered and sold in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933 to persons which are non-U.S. persons are referred to collectively as the "Regulation S Global Notes" and, together with the Rule 144A Global Notes, the "Global Notes."

On or prior to the 40th day after the date of issuance of the Notes sold pursuant to Regulation S, any resale or transfer of beneficial interests in the Regulation S Global Notes to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

During a 40-day distribution compliance period commencing on the date of issuance, the Notes offered hereby and sold in offshore transactions in reliance on Regulation S will be represented by temporary CUSIP, ISIN and Common Code numbers. After such 40-day distribution compliance period, such Notes will have the same CUSIP, ISIN and Common Code numbers as, and will be fungible with, the existing notes offered and sold in compliance with Regulation S.

Investors may hold their interest in a Global Note representing the Notes through organizations that are participants in DTC (including, Euroclear or Clearstream, Luxembourg).

### *Exchanges among the Global Notes*

Transfers by an owner of a beneficial interest in a Regulation S Global Note representing the Notes to a transferee who takes delivery of that interest through a Rule 144A Global Note representing the Notes will be made only in accordance with applicable procedures and upon receipt by the trustee of a written certification from the transferee of the beneficial interest in the form provided in the Indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing the Notes to a transferee who takes delivery of the interest through a Regulation S Global Note representing the Notes will be made only upon receipt by the trustee of a certification from the transferor that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144A under the Securities Act.

Any beneficial interest in one of the Global Notes representing the Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note representing the Notes will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

### *Book-entry procedures for the Global Notes*

Ownership of beneficial interests in a Global Note representing the Notes will be limited to DTC and to persons that may hold interests through institutions that have accounts with DTC. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by DTC, and its respective participants for that Global Note. The conveyance of notices and other communications by DTC to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect.

DTC holds the securities of its respective participants and facilitates the clearance and settlement of securities transactions among its respective participants through electronic book-entry changes in accounts.

Principal and interest payments on the Notes represented by a Global Note will be made to DTC, as the sole registered owner and the sole holder of the Notes represented by the Global Note for all purposes under the Indenture. Accordingly, we, the trustee and any paying agent will have no responsibility or liability for:

- any aspect of DTC's records relating to, or payments made on account of, beneficial ownership interests in a Note represented by a Global Note;
- any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a Global Note held through those participants; or
- the maintenance, supervision or review of any of DTC's records relating to those beneficial ownership interests.

### *DTC*

DTC has advised us that upon receipt of any payment of principal of or interest on a Global Note representing the Notes, DTC will immediately credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Note as shown on DTC's records. The initial purchasers of the Notes will initially designate the accounts to be credited. Payments by participants to owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices, as is the case with securities held for customer accounts registered in "street names," and will be the sole responsibility of those participants.

The Notes represented by a Global Note can be exchanged for definitive Notes of the same series in registered form only if:

- DTC notifies us that it is unwilling or unable to continue as depositary for that Global Note or at any time DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by us within 90 calendar days; we, in our sole discretion, determine that such Global Note will be exchangeable for definitive Notes in registered form and notify the trustee of our decision; or an Event of Default with respect to the Notes represented by that Global Note has occurred and is continuing.
- A Global Note representing the Notes that can be exchanged under the preceding sentence will be exchanged for definitive Notes that are issued in authorized denominations in registered form for the same aggregate amount. Those definitive Notes will be registered in the names of the owners of the beneficial interests in the relevant Global Note as directed by DTC and may bear the legend as set forth under "Transfer Restrictions."

**Registrar, Transfer Agent and Paying Agents**

The Trustee will act as registrar for the Notes. The Trustee will also act as transfer agent and paying agent for the Notes. We have the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as we may require) in respect of any tax or other governmental charges that may be imposed in relation to it. We will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

For so long as the notes are listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange, we will maintain a paying agent in Ireland. We have initially appointed The Bank of New York Mellon (Ireland) Limited as Irish paying agent and listing agent. To the extent that the Irish paying agent is obliged to withhold or deduct tax on payments of interest or similar income, we will, to the extent permitted by law, ensure that it maintains an additional paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to the Savings Directive or any other directive on the taxation of savings implementing the conclusions of the ECOFIN meeting of June 3, 2003 or any law implementing or complying with, or introduced in order to conform to, such directive.

**Listing**

Application has been made to have the Notes listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.

**The Trustee**

The Bank of New York Mellon will act as trustee under the Indenture. Notices to the trustee should be directed to the trustee at its Corporate Trust Office, located at 101 Barclay Street, 4 East, New York, NY 10286, Attn: Global Finance Unit. The trustee also will initially act as registrar, paying agent and agent for service of demands and notices in connection with the Notes and the Indenture. The trustee may resign or be removed under circumstances described in the Indenture and we may appoint a successor trustee to act in connection with the Notes. Any action described in this offering memorandum to be taken by the trustee may then be taken by the successor trustee.

The trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with us or our affiliates with the same rights it would have if it were not trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

The Indenture contains some limitations on the right of the trustee should it become a creditor of ours, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The trustee will be permitted to engage in transactions with us. The occurrence of a default under the Indenture could create a conflicting interest for the trustee. In this case, if the default has not been cured or waived within 90 days after the trustee has or acquires a conflicting interest, the trustee generally is required to eliminate the conflicting interest or resign as trustee for the Notes. In the event of the trustee's resignation, we will promptly appoint a successor trustee for the Notes.

The trustee may be removed by the holders of a majority of the outstanding Notes if an Event of Default under the Indenture has occurred and is continuing. No resignation or removal of the trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the Indenture.

**Governing Law; Consent to Jurisdiction**

The Indenture and the Notes will be governed by, and construed in accordance with, the law of the State of New York.

We will consent to the jurisdiction of the Supreme Court of the State of New York, Borough of Manhattan, County of New York, or the United States District Court for the Southern District of New York and will agree that all disputes under the Indenture may be submitted to the jurisdiction of such courts. We will irrevocably consent to and waive to the fullest extent permitted by law any objection that we may have to the laying of venue of any suit, action or proceeding against us or our properties, assets and revenues with respect to the Indenture or any such suit, action or proceeding in any such court and any right to which we may be entitled on account of place of residence or domicile.

To the extent that we or any of our revenues, assets or properties shall be entitled to any immunity from suit, from the jurisdiction of any such court, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process remedy, we will irrevocably agree not to claim and will irrevocably waive such immunity to the fullest extent permitted by the laws of such jurisdiction.

We will agree that service of all writs, claims, process and summons in any suit, action or proceeding against us or our properties, assets or revenues with respect to the Indenture or any suit, action or proceeding to enforce or execute any judgment brought against us in the State of New York may be made upon CT Corporation System, 111 Eighth Avenue, New York, New York 10011, and we will irrevocably appoint CT Corporation System as our agent to accept such service of any and all such writs, claims, process and summonses.

**Currency Rate Indemnity**

We have agreed that, if a judgment or order made by any court for the payment of any amount in respect of any Notes is expressed in a currency other than U.S. dollars, we will indemnify the relevant holder against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from our other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the Notes.

**Replacement of Notes**

In case of mutilated, defaced, destroyed, lost or stolen Notes, application for replacement thereof may be made to the trustee or us. Any such Note shall be replaced by the trustee in compliance with such procedures, on such terms as to evidence and indemnification as the trustee and we may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

## TRANSFER RESTRICTIONS

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes you will be deemed to have made the following acknowledgements, representations to and agreements with the initial purchasers and us:

1. You acknowledge that:

- The offering is being made in accordance with Rule 144A and Regulation S under the Securities Act;
- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:

- you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the Notes to you in reliance on Rule 144A; or
- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.

3. You acknowledge that neither we nor the initial purchasers nor any person representing us or the initial purchasers has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from us.

4. You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:

(a) to us or any of our subsidiaries;

(b) under a registration statement that has been declared effective under the Securities Act;

(c) for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;

(d) through offers and sales that occur outside the United States to non-U.S. purchasers within the meaning of Regulation S under the Securities Act; or

(e) under any other available exemption from the registration requirements of the Securities Act,

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control.

You also acknowledge that:

- the above restrictions on resale will apply from the closing date until the date that is one year (in the case of Rule 144A Notes) or 40 days (in the case of Regulation S Notes) after the later of the closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes (the "Resale Restriction Period"), and will not apply after the applicable Resale Restriction Period ends;

- we and the trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clauses (d) and (e) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee; and

- each Note will contain a legend substantially to the following effect:

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK TO THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

UNTIL [IN THE CASE OF THE 144A NOTES: ONE YEAR] [IN THE CASE OF THE REGULATION S NOTES: 40 DAYS] AFTER THE COMMENCEMENT OF THE OFFERING, AN OFFER OR SALE OF SECURITIES WITHIN THE UNITED STATES BY A DEALER (AS DEFINED IN THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")) MAY VIOLATE THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IF SUCH OFFER OR SALE IS MADE OTHERWISE THAN IN ACCORDANCE WITH RULE 144A THEREUNDER.

THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY BE

OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (2) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON THE HOLDER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULES 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (5) PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT, ACCOMPANIED BY AN OPINION OF COUNSEL REGARDING THE AVAILABILITY OF SUCH EXEMPTION OR (6) TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN THIS LEGEND.

5. You represent that either (i) you are not, and you are not purchasing the Notes with the assets of, or for or on behalf of, (1) an employee benefit plan (as defined in Section 3(3) of ERISA), (2) any other plan or arrangement that is subject to ERISA or Section 4975 of the Code (each of (1) and (2), a "Plan"), or (3) any governmental, church or non-U.S. plan or other arrangement (a "Non-ERISA Arrangement"), that is subject to any federal, state, local or non-U.S. law that is substantially similar to ERISA or Section 4975 of the Code ("Similar Laws"), or any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3 (42) of ERISA) or otherwise or (ii) your purchase, holding and disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement from any Similar Laws) pursuant to the exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Law.

6. You acknowledge that we, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the initial purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

**Each purchaser that is acquiring Notes pursuant to Regulation S under the Securities Act represents that it is not acquiring the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person or in the United States.**

# TAXATION

## Certain United States Federal Income Tax Consequences

The following summary describes certain United States federal income tax consequences pertaining to the acquisition, ownership and disposition of the Notes. Unless otherwise stated, this summary deals only with Notes held as capital assets (generally, property held for investment purposes) by United States holders and Non-United States holders (each as defined below) who purchased the Notes upon original issuance at their original offering price. As used in this offering memorandum, a "United States holder" means, for United States federal income tax purposes, a beneficial owner of the Notes who is: (i) an individual citizen or resident of the United States; (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate the income of which is subject to United States federal income taxation regardless of its source; or (iv) a trust if (a)(1) a United States court is able to exercise primary supervision over the trust's administration and (2) one or more United States persons have the authority to control all of the trust's substantial decisions or (b) it has validly elected to be treated as a United States person for United States federal income tax purposes. This summary does not deal with special classes of holders such as banks or other financial institutions, thrifts, real estate investment trusts, regulated investment companies, insurance companies, brokers or dealers in securities or currencies, tax-exempt investors, investors that own or have owned stock constituting 10% or more of our total combined voting power (whether such stock is directly, indirectly or constructively owned), securities traders who elect to use the mark-to-market method of accounting for their securities holdings, United States expatriates, or persons who hold the Notes as part of a hedge or an integrated investment (including a "straddle") or as other than a capital asset. This summary does not address the tax consequences to United States holders that have a functional currency other than the U.S. dollar or the tax consequences to shareholders, partners, or beneficiaries of a holder of Notes. Further, this summary does not include any description of any alternative minimum tax consequences or any description of the tax laws of any state or local government or of any foreign government that may be applicable to the Notes. This summary is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, and administrative and judicial interpretations thereof, as of the date hereof, all of which are subject to change, possibly on a retroactive basis, and to different interpretations.

We believe that the Notes should be treated as our debt instruments for United States federal income tax purposes and, in the absence of any change or clarification in the law, by regulation or otherwise, requiring a different characterization of the Notes, intend to so treat the Notes, including, where required, filing information returns with the Internal Revenue Service, or the IRS, in accordance with this treatment. Prospective investors in the Notes should be aware, however, that the IRS is not bound by our characterization of the Notes as indebtedness, and the IRS could possibly take a different position as to the proper characterization of the Notes for United States federal income tax purposes which may affect the timing and character of income, gain or loss recognized in respect of a Note. For example, it is possible that the Notes could be treated as equity interests in us for United States federal income tax purposes. Treatment of the Notes as equity interests could have adverse tax consequences to certain holders. In addition, prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to the tax treatment of the Notes and no assurance can be given that the IRS will not take contrary positions to the tax consequences described herein. The following discussion of the principal United States federal income tax consequences of the acquisition, ownership and disposition of the Notes is based upon the assumption that each Note will be treated as our debt instrument for United States federal income tax purposes.

If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of the Notes, the United States federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and upon the activities of the partnership. A holder of the Notes that is a partnership and partners in such partnership should consult their own tax advisors as to the United States federal income tax consequences of acquiring, holding and disposing of the Notes.

**THIS DISCUSSION HAS BEEN WRITTEN TO SUPPORT THE MARKETING OF THE NOTES. IT WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING UNITED STATES FEDERAL INCOME TAX PENALTIES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS AS TO THE**

**UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES, AS WELL AS THE EFFECT OF ANY STATE, LOCAL, OR FOREIGN TAX LAWS.**

***Interest income and original issue discount***

As previously stated, we intend to treat the Notes as debt for United States federal income tax purposes, and the following discussion is based on the assumption that such treatment will apply for such federal income tax purposes.

Under the applicable Treasury regulations and based upon certain representations, facts and assumptions provided by the Issuer, the Notes will not be treated as issued with original issue discount, or OID, within the meaning of Section 1273(a) of the Code. Treasury regulations under Section 1273 of the Code provide that debt instruments like the Notes will not be considered issued with OID by reason of a suspension period (during which interest is canceled or deferred and payment of principal is deferred) if the likelihood of such a suspension period is "remote." We have concluded, and this discussion assumes, that, as of the date of this offering memorandum, the likelihood of the occurrence of a suspension period is "remote" within the meaning of the applicable regulations. Accordingly, except as set forth below, stated interest on the Notes (including the amount of any withholding taxes and any additional amounts paid with respect thereto) generally will be taxable to a United States holder as ordinary income at the time it is paid or accrued in accordance with such holder's regular method of accounting for United States federal income tax purposes.

If, however, we suspend or defer payments on the Notes, the Notes may become OID instruments at such time. If the Notes are treated as OID instruments, a determination will be made whether and to what extent income must be accrued with respect to the Notes. Holders of the Notes should seek the advice of their tax advisors in the event that we suspend or defer payments on the Notes.

The Treasury regulations described above have not yet been addressed in any rulings or other interpretations by the IRS in situations similar to those of the Notes, and it is possible that the IRS could take a contrary position. If the IRS were to assert successfully that the stated interest on the Notes was OID regardless of whether we exercise our option to suspend payments of interest and on such Notes, all holders of the Notes would be required to include such stated interest in income on a daily economic accrual basis.

Subject to certain limitations (including a minimum holding period requirement), a United States holder generally will be entitled to a credit against its United States federal income tax liability for Mexican or other income taxes withheld by us. Alternatively, a United States holder may elect to claim a deduction for such Mexican or other income taxes in computing its United States federal taxable income provided that the election applies to all foreign income taxes paid or accrued by the United States holder for the taxable year. Interest received or accrued on the Notes and Additional Amounts generally will constitute foreign source income to United States holders for United States foreign tax credit purposes. The calculation of United States foreign tax credits and, in the case of a United States holder that elects to deduct foreign taxes, the availability of deductions, involve the application of complex rules that depend on a United States holder's particular circumstances. United States holders are urged to consult their own tax advisors regarding the application of the United States foreign tax credit rules in their particular situations.

***Notes Purchased at a Premium***

A U.S. Holder that purchases a Note at a price (excluding pre-issuance accrued interest, which will be excluded from income) greater than its principal amount will be considered to have purchased the Note at a premium, and may elect to amortize such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Note. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. Holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. Holder that elects to amortize such premium must reduce its tax basis in a Note by the amount of the premium amortized during its holding period.

***Redemption, sale or other taxable disposition of the Notes***

Upon redemption, sale or other taxable disposition of the Notes, a United States holder will recognize gain or loss equal to the difference between the amount realized on the redemption, sale or other taxable disposition of the Notes and the United States holder's adjusted tax basis in such Notes (less an amount equal to any accrued but unpaid interest, which will be treated as such). Such gain or loss will be a capital gain or loss and will be long-term capital gain or loss if the Notes have been held for more than one year at the time of sale. Certain non-corporate United States holders (including individuals) may be eligible for preferential rates of taxation on long-term capital gain. Any such gain or loss realized on the redemption, sale or other taxable disposition of the Notes generally will be treated as U.S.-source gain or loss for United States federal income tax purposes. The deductibility of capital losses is subject to limitations.

***Certain Non-United States holders***

As used in this offering memorandum, the term "Non-United States holder" means a beneficial owner of the Notes that is neither a United States holder nor a partnership (or other entity classified as a partnership for United States federal income tax purposes).

A Non-United States holder generally will not be subject to withholding of United States federal income tax on payments in respect of the Notes. In addition, a Non-United States holder will not be subject to United States federal income or withholding tax on gain realized on the sale or exchange of the Notes, unless (1) such gain is effectively connected with the conduct by the Non-United States holder of a trade or business in the United States (and, if required under an applicable income tax treaty, is attributable to a permanent establishment or, in the case of an individual Non-United States holder, a fixed base maintained in the United States by the Non-United States holder), or (2) in the case of gain realized by an individual Non-United States holder, the Non-United States holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met. If the second exception (2) applies, the Non-United States holder generally will be subject to tax at a rate of 30% on the amount by which the gains derived from the sales that are from United States sources exceed capital losses allocable to United States sources. If the first exception (1) applies, the Non-United States holder generally will be subject to United States federal income tax with respect to the gain in the same manner as a United States holder, as described above. In addition, if such Non-United States holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

***Information reporting and backup withholding***

A United States holder (other than an "exempt recipient," which includes certain recipients that, when required, demonstrate their exempt status) may be subject to backup withholding at the applicable statutory rate on, and to information reporting requirements with respect to, payments of principal or interest on, and to proceeds from the sale, exchange or other taxable disposition, including a redemption, of the Notes. In general, if a non-corporate United States holder subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding may apply. The backup withholding tax is not an additional tax and may be credited against a United States holder's regular United States federal income tax liability or refunded, provided the required information is timely furnished to the IRS.

Non-United States holders are generally exempt from backup withholding so long as such Non-United States holders provide us (or our paying agent) with a properly executed appropriate IRS Form W-8 (or other applicable form). Backup withholding is not an additional tax. Any backup withholding tax generally will be allowed as a credit or refund against the Non-United States holder's United States federal income tax liability, provided that the required information is timely furnished to the IRS.

**THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE ACQUISITION,**

**OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN UNITED STATES FEDERAL OR OTHER TAX LAWS.**

## Certain Mexican Income Tax Consequences

The following summary contains a description of the principal Mexican Federal tax consequences of the purchase, ownership and disposition of Notes by a Non-Mexican Holder (as defined below). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Notes. In addition, it does not describe any tax consequences: (1) arising under the laws of any taxing jurisdiction other than Mexico, (2) arising under the laws of any state or municipality within Mexico, or (3) that are applicable to a resident of Mexico for tax purposes.

A "Non-Mexican Holder" is a holder who is not a resident of Mexico for tax purposes, as defined by the Mexican Federal Fiscal Code (*Código Fiscal de la Federación*), or that does not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico. Under Mexico's tax laws, a natural person is a resident of Mexico for tax purposes if the individual has established his or her home in Mexico. In the event the individual also has a home in another country, the individual will be deemed a resident of Mexico for tax purposes when his or her "center of vital interests" is in Mexico. A "center of vital interests" is deemed to be in Mexico if, among other considerations: (1) more than 50% of an individual's total income in any calendar year qualifies as Mexican source income, or (2) when an individual's center of professional activities is located in Mexico. Mexican nationals who file a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico, in which his or her income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered Mexican residents for tax purposes during the year of filing of the notice of such residence change and during the following three years. Mexican nationals are deemed Mexican residents for tax purposes, unless such nationals can demonstrate otherwise. A legal entity is a resident of Mexico if it is organized under the laws of Mexico, or if the main administration of its business or its place of effective management is established in Mexico.

This summary is based upon Mexican Income Tax Law and Mexican Federal Fiscal Code in effect as of the date of this offering memorandum, which are subject to change. Prospective purchasers of the Notes should consult their own tax advisers as to the Mexican or other tax consequences of the purchase, ownership and disposition of Notes, including, in particular, the effect of any foreign state or municipal or local tax laws. The acquisition of the Notes by an investor who is a resident of Mexico will be made under its own responsibility. Residents of Mexico who become holders of Notes are urged to notify us upon their acquisition of the Notes.

Mexico has entered into, and is negotiating several, tax treaties with various countries, that may affect the Mexican withholding tax liability of Non-Mexican Holders. Prospective purchasers of the Notes should consult their own tax advisers as to the tax consequences, if any, of such treaties.

Under the Mexican Income Tax Law, and the regulations thereunder, principal and interest on the Notes (which includes any amounts paid in excess of the issue price for the Notes, which under Mexican law is deemed to be interest) paid by us, through our Houston Agency, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Capital gains realized from the sale or other disposition of the Notes by a Non-Mexican Holder will not be subject to any Mexican income or other taxes.

A Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership, or disposition of the Notes, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

## CERTAIN ERISA CONSIDERATIONS

A fiduciary of a pension, profit-sharing or other employee benefit plan (as defined in Section 3(3) of ERISA) (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit Plans, as well as any plan or arrangement subject to Section 4975 of the Code, including, without limitation, individual retirement accounts and Keogh plans (also "Plans") and any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3 (42) of ERISA) or otherwise, from engaging in certain transactions involving "plan assets" with any persons who are "parties in interest" under ERISA or "disqualified persons" under the Code ("Parties in Interest") with respect to such Plan. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those Parties in Interest, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain employee benefit plans and arrangements including those that are governmental plans (as defined in section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) ("Non-ERISA Arrangements") are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, non-U.S. or other regulations, rules or laws ("Similar Laws").

The acquisition, holding and/or disposition of the Notes by a Plan or any entity whose underlying assets are deemed to be the assets of a Plan with respect to which we or certain of our affiliates is or becomes a Party in Interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired, held or disposed of pursuant to and in accordance with an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions, or "PTCEs," that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions are:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;

- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;

- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;

- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and

- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities and related lending transactions, provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more than "adequate consideration" in connection with the transaction (the "service provider exemption").

Any purchaser or holder of a Note or any interest therein, including any transferee of such Note or interest, will be deemed to have represented and warranted by its purchase and holding of the Notes that it either (1) is not a Plan or a Non-ERISA Arrangement and is not purchasing those Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement or (2) the purchase, holding and disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA

Arrangement, from any Similar Laws) pursuant to the PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, the service provider exemption or another applicable statutory or administrative exemption (or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Law).

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or any other applicable exemption, or the potential consequences of any purchase, holding or disposition of the Notes under Similar Laws, as applicable. If you are an insurance company or the fiduciary of a Plan or a Non-ERISA Arrangement, and propose to invest in Notes, you should consult your legal counsel.

## PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated September 24, 2012 we have agreed to sell to the initial purchasers and the initial purchasers have severally agreed to purchase, the principal amount of the Notes opposite their name on the table herein. For purposes of the Purchase Agreement due to certain timing matters relating to the offering of the Notes in various jurisdictions, the sale of the Notes occurred on September 24, 2012. The settlement and delivery of the Notes will be made against payment therefore on or about the date specified on the cover page of this offering memorandum, September 28, 2012, which is longer than the T+3 standard convention with respect to the settlement cycle for trades in the secondary market.

| Initial Purchasers of the Notes | Principal Amount |
|---|---|
| Banco Bilbao Vizcaya Argentaria, S.A[(1)] | U.S. $166,666,000 |
| Goldman, Sachs & Co. | U.S. $166,666,000 |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | U.S. $166,668,000 |
| Total | U.S. $500,000,000 |

(1) Includes Regulation S Notes only

The purchase agreement provides that the initial purchasers are obligated to purchase all of the Notes, if any are purchased. The purchase agreement also provides that if an initial purchaser defaults, the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated.

The initial purchasers propose to offer the Notes initially at the offering price on the cover page of this offering memorandum and may also offer the Notes to selling group members at the offering price less a selling concession. After the initial offering, the offering price may be changed. The offering of the Notes by the initial purchasers is subject to receipt and acceptance and subject to the initial purchasers' right to reject any order in whole or in part.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons in offshore transactions in reliance on Regulation S under the Securities Act. Each of the initial purchasers has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the Notes (1) as part of its distribution at any time, or (2) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells the Notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of such Notes within the United States, or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the Notes are restricted as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

Banco Bilbao Vizcaya Argentaria, S.A. will act as joint bookrunner in this offering together with Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co., and as an initial purchaser of Regulation S Notes in this offering. Banco Bilbao Vizcaya Argentaria, S.A. is not a broker-dealer registered with the SEC and will participate only in the offering of Regulation S Notes outside of the United States.

### United Kingdom

Each of the Initial Purchasers has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of

Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

**European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of any Notes which are the subject of the offering contemplated by this offering memorandum may not be made in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the initial purchasers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall result in a requirement by us or any representative to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and the amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State in question) and includes any relevant implementing measure in that Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

**Hong Kong**

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

**Singapore**

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

**Japan**

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

**Mexico**

The Notes have not been and will not be registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the CNBV, and may not be offered or sold publicly, or otherwise be subject of brokerage activities in Mexico, except pursuant to a private placement exemption set forth under Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be delivered to the CNBV to comply with a legal requirement and for information purposes and the delivery and the acceptance by the CNBV of such notice, does not imply any certification as to the investment quality of the Notes or our solvency, liquidity or credit quality.

**Chile**

The Notes may not be offered or sold in Chile, directly or indirectly, by means of a "Public Offer" (as defined under Chilean Securities Law (Law No 18,045 and regulations from the *Superintendencia de Valores y Seguros* of the Republic of Chile)). Chilean institutional investors (such as banks, pension funds and insurance companies) are required to comply with specific restrictions relating to the purchase of the Notes. See "Offering and Sale" in the offering memorandum for additional restrictions on the offer and sale of the Notes in certain jurisdictions.

**Colombia**

The Notes have not been and will not be registered on the Colombian National Registry of Securities and Issuers or in the Colombian Stock Exchange. Therefore, the Notes may not be publicly offered in Colombia. This material is for your sole and exclusive use as a determined entity, including any of your shareholders, administrators or employees, as applicable. You acknowledge the Colombian laws and regulations (specifically foreign exchange and tax regulations) applicable to any transaction or investment consummated pursuant hereto and represent that you are the sole liable party for full compliance with any such laws and regulations.

**Peru**

The Notes have not been and will not be approved by or registered with the Peruvian securities regulatory authority, the National Supervisory Commission of Companies and Securities (*Comisión Nacional Supervisora de Empresas y Valores*). However, the Notes have been registered with the Superintendency of Banking, Insurance and Private Pension Funds (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) in order to be offered or sold in private placement transactions addressed to Peruvian institutional investors such as Peruvian private pension funds.

***General***

Purchasers of notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering memorandum.

The initial purchasers and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities and other financial and non-financial activities and services. The initial purchasers or their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for us and our affiliates in the ordinary course of business for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the initial purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investment and securities activities may involve assets, securities and/or instruments of the issuer directly, as collateral securing other obligations or otherwise and/or persons and entities with relationships with the issuer. The Initial Purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We have agreed to indemnify the several initial purchasers against liabilities or to contribute to payments which they may be required to make in that respect.

The U.S. $1,000,000,000 6.75% Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 previously sold by us on July 19, 2012 trade on the Global Exchange Market of the Irish Stock Exchange. Application has been made to have the Notes listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. The initial purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. They are not obligated, however, to make a market in the Notes and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Notes.

The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions.

- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

**These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.**

## NOTICE TO CANADIAN RESIDENTS

### Resale Restrictions

The distribution of the Notes in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of the Notes are made. Any resale of the Notes in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the Notes.

### Representations of Purchasers

By purchasing Notes in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the Notes without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent,
- the purchaser has reviewed the text above under Resale Restrictions, and
- the purchaser acknowledges and consents to the provision of specified information concerning its purchase of the Notes to the regulatory authority that by law is entitled to collect the information.

Further details concerning the legal authority for this information is available on request.

### Rights of Action – Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this Pricing Supplement during the period of distribution will have a statutory right of action for damages, or while still the owner of the Notes, for rescission against us in the event that this Pricing Supplement, together with the offering memorandum, contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the Notes. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the Notes. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the Notes were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the Notes as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

### Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

**Taxation and Eligibility for Investment**

Canadian purchasers of the Notes should consult their own legal and tax advisors with respect to the tax consequences of an investment in the Notes in their particular circumstances and about the eligibility of the Notes for investment by the purchaser under relevant Canadian legislation.

## GENERAL INFORMATION

### Clearing Systems

We have applied to have the Notes accepted for clearance through Euroclear and Clearstream. In addition, application will be made to have the Notes accepted for trading in book-entry form by DTC. For the Rule 144A Global Note, the ISIN number is US05533UAC27 and the CUSIP number is 05533U AC2, and for the Regulation S Global Note, the ISIN number is USP16259AH99 and the CUSIP number is P16259AH9. The Notes offered in compliance with Regulation S under the Securities Act will have temporary ISIN and CUSIP numbers during the period prior to the Consolidation Date (ISIN number USP16259AJ55 and CUSIP number P16259 AJ5). On or after the Consolidation Date, we expect that the Regulation S Notes will share the same ISIN and CUSIP numbers as the Fixed Rate Cumulative Subordinated Preferred Notes Due 2022 previously sold in compliance with Regulation S.

### Listing

We have applied to have the Notes listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. Copies of our bylaws, the Indenture, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements and any published quarterly unaudited consolidated financial statements will be available at our principal executive offices, as well as at the offices of the Trustee, registrar, paying agent and transfer agent, and at the offices of the Irish Paying and Listing Agent, as such addresses are set forth in this offering memorandum. We believe the auditor’s reports included herein have been accurately reproduced. We will maintain a paying agent in Ireland for so long as any of the Notes are listed on the Official List of the Irish Stock Exchange.

### Authorization

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes, except for the signature of the Indenture by the CNBV that will be obtained on or prior to the date on which the Notes are issued.

## LEGAL MATTERS

The validity of the Notes will be passed upon for us by our General Counsel, Lic. José Fernando Pío Díaz Castañares, Cleary Gottlieb Steen & Hamilton LLP, New York, New York and Mayer Brown LLP, Houston, Texas. Certain legal matters will be passed upon for the initial purchasers by Shearman & Sterling LLP, New York, New York, and Ritch Mueller, S.C., Mexico City, Mexico. Cleary Gottlieb Steen & Hamilton LLP and Shearman & Sterling LLP will rely upon our General Counsel, Lic. José Fernando Pío Díaz Castañares, and Ritch Mueller, S.C. with respect to matters governed by Mexican law and upon Mayer Brown LLP, with respect to matters governed by Texas law.

## INDEPENDENT AUDITORS

Our Audited Financial Statements included in this offering memorandum have been audited by Galaz, Yamazaki, Ruiz, Urquiza, S.C., a member of Deloitte Touche Tohmatsu, independent accountants, as stated in their report. With respect to our Unaudited Financial Statements included in this offering memorandum, Galaz, Yamazaki, Ruiz, Urquiza, S.C. reported that they have applied limited procedures in accordance with professional standards for a review of such information. Galaz, Yamazaki, Ruiz, Urquiza, S.C., a member of Deloitte Touche Tohmatsu, independent auditors, is a member of the Association of Public Accountants of Mexico (*Colegio de Contadores Públicos de México, A.C.*).

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

**Independent Auditors' Report to the Board of Directors and Stockholders of BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer**

We have audited the accompanying consolidated balance sheets of BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries (the "Institution") as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011, all expressed in millions of Mexican pesos. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

Note 2 to the financial statements describes the operations of the Institution and the effects thereon of current regulatory conditions. Notes 3 and 4 describe the accounting criteria established by the Commission in the "General regulations applicable to credit institutions", which the Institution uses for the preparation of its financial information. Note 5 indicates the principal differences between the accounting criteria established by the Commission and Mexican Financial Reporting Standards, commonly used in the preparation of financial statements for entities not subject to the Commission's regulation concerning credit institutions. Furthermore, as explained in Note 4, during 2010 and 2011, the Commission issued modifications to the accounting criteria and rating methodologies for commercial, granted to states and municipalities, mortgage, and non-revolving consumer portfolios.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries as of December 31, 2011 and 2010, and the results of their operations, changes in their stockholders' equity and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with the accounting criteria prescribed by the Commission.

Our audits also comprehended the translation of Mexican peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of users.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Jorge Tapia del Barrio

February 15, 2012

**BBVA BANCOMER, S. A.,**
**INSTITUCIÓN DE BANCA MÚLTIPLE,**
**GRUPO FINANCIERO BBVA BANCOMER**

**CONSOLIDATED BALANCE SHEETS**
**OF THE INSTITUTION AND ITS SUBSIDIARIES**
**AT DECEMBER 31, 2011 AND 2010**
**(In millions of Mexican pesos)**

| | As December 31, 2010 | As December 31, 2011 | 2011 (Thousands of U.S dollars) |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 118,842 | $ 115,400 | $ 8,274 |
| Margin call accounts | 3,478 | 3,546 | 254 |
| Securities: | | | |
| Trading | 154,722 | 213,112 | 15,279 |
| Available for sale | 125,972 | 105,082 | 7,534 |
| Held to maturity | 14,348 | 14,671 | 1,052 |
| Total securities | 295,042 | 332,865 | 23,865 |
| Debtors from repurchase agreements | - | 4,540 | 326 |
| Derivatives: | | | |
| Trading | 54,598 | 63,633 | 4,562 |
| Hedging transactions | 4,655 | 10,828 | 776 |
| | 59,253 | 74,461 | 5,338 |
| Valuation adjustments derived from hedges of financial assets | 1,663 | 969 | 69 |
| Performing loans: | | | |
| Commercial loans | | | |
| Business or commercial activity | 211,941 | 218,536 | 15,668 |
| Financial entities | 8,540 | 7,425 | 532 |
| Government entities | 80,675 | 91,944 | 6,592 |
| | 301,156 | 317,905 | 22,792 |
| Consumer | 118,674 | 146,734 | 10,520 |
| Mortgage | 145,472 | 145,577 | 10,437 |
| Total performing loans | 565,302 | 610,216 | 43,749 |
| Non-performing loans: | | | |
| Commercial loans: | | | |
| Business or commercial activity | 4,029 | 7,555 | 542 |
| Financial entities | 5 | 1 | - |
| Consumer | 5,167 | 5,756 | 413 |
| Mortgage | 5,222 | 6,369 | 457 |
| Total non-performing loans | 14,423 | 19,681 | 1,412 |
| Total loans | 579,725 | 629,897 | 45,161 |
| Allowance for loan losses | (25,128) | (24,873) | (1,783) |
| Total loans, net | 554,597 | 605,024 | 43,378 |
| Benefits receivable from securitization transactions | 1,256 | 1,175 | 84 |
| Receivables, sundry debtors and prepayments, net | 28,944 | 44,188 | 3,168 |
| Repossessed assets, net | 2,942 | 4,102 | 294 |
| Property, furniture and equipment, net | 15,324 | 17,086 | 1,225 |
| Equity investments | 2,454 | 2,591 | 186 |
| Deferred taxes, net | 8,665 | 6,367 | 456 |
| Other assets: | | | |
| Deferred charges, prepaid expenses and intangibles | 5,702 | 10,600 | 760 |
| Total assets | $ 1,098,162 | $ 1,222,914 | $ 87,679 |



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**BBVA BANCOMER, S. A.,**
**INSTITUCIÓN DE BANCA MÚLTIPLE,**
**GRUPO FINANCIERO BBVA BANCOMER**

**CONSOLIDATED BALANCE SHEETS**
**OF THE INSTITUTION AND ITS SUBSIDIARIES**
**AT DECEMBER 31, 2011 AND 2010**
**(In millions of Mexican pesos)**

| | 2010 | 2011 | 2011 (Thousands of U.S. dollars) |
|---|---|---|---|
| **Liabilities:** | | | |
| Deposits: | | | |
| Demand deposits | $ 402,601 | $ 437,572 | $ 31,373 |
| Time deposits: | | | |
| The general public | 143,194 | 138,861 | 9,956 |
| Money market | 26,921 | 15,455 | 1,108 |
| | 170,115 | 154,316 | 11,064 |
| Bank bonds | 44,619 | 53,548 | 3,839 |
| | 617,335 | 645,436 | 46,276 |
| Interbank loans and loans from other entities: | | | |
| Payable on demand | 48,158 | 4,179 | 300 |
| Short-term | 7,258 | 11,052 | 792 |
| Long-term | 5,009 | 5,075 | 364 |
| | 60,425 | 20,306 | 1,456 |
| Creditors from repurchase agreements | 138,026 | 210,884 | 15,120 |
| Security loans | - | 1 | - |
| Collateral sold or delivered in guarantee: | | | |
| Repurchase agreements | 19 | - | - |
| Security loans | 10,787 | 24,723 | 1,773 |
| Derivatives: | | | |
| Trading | 62,932 | 72,121 | 5,171 |
| Hedge transactions | 1,419 | 2,600 | 186 |
| | 64,351 | 74,721 | 5,357 |
| Valuation adjustments derived from hedges of financial liabilities | 1,105 | 3,134 | 225 |
| Other payables: | | | |
| Income taxes | 1,191 | - | - |
| Employee profit sharing (PTU) payable | 33 | 33 | 2 |
| Transaction settlement creditors | 22,592 | 24,404 | 1,750 |
| Creditors for collateral received in cash | 7,605 | 10,187 | 730 |
| Accrued liabilities and other | 19,151 | 24,771 | 1,776 |
| | 50,572 | 59,395 | 4,258 |
| Subordinated debt | 41,287 | 62,450 | 4,477 |
| Deferred credits and advanced collections | 4,862 | 5,487 | 393 |
| Total liabilities | 988,750 | 1,106,537 | 79,335 |
| **Stockholders' equity** | | | |
| Subscribed capital: | | | |
| Paid-in capital | 24,138 | 24,138 | 1,731 |
| Share premium | 15,726 | 15,726 | 1,128 |
| Earned capital: | | | |
| Capital reserves | 6,881 | 6,881 | 493 |
| Results of prior years | 34,572 | 41,385 | 2,966 |
| Unrealized gain on available-for-sale securities | 2,662 | 2,412 | 173 |
| Result from valuation of cash flow hedging instruments | 1,954 | 1,255 | 90 |

| | 2010 | 2011 | 2011 |
|---|---|---|---|
| | | | (Thousands of U.S. dollars) |
| Result from conversion of foreign subsidiaries | 107 | 171 | 12 |
| Net income | 22,541 | 23,467 | 1,683 |
| | 108,581 | 115,435 | 8,276 |
| Non-controlling interest in consolidated subsidiaries | 831 | 942 | 68 |
| Total stockholders' equity | 109,412 | 116,377 | 8,344 |
| Total liabilities and stockholders' equity | $ 1,098,162 | $ 1,222,914 | $ 87,679 |

**BBVA BANCOMER, S. A.,**
**INSTITUCIÓN DE BANCA MÚLTIPLE,**
**GRUPO FINANCIERO BBVA BANCOMER**

**CONSOLIDATED STATEMENTS OF INCOME**
**OF THE INSTITUTION AND ITS SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**
**(In millions of Mexican pesos)**

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 (Thousands of U.S. dollars) |
| Interest income | $ 97,625 | $ 88,764 | $ 94,447 | $ 6,772 |
| Interest expense | (38,405) | (28,618) | (30,981) | (2,221) |
| Net interest income | 59,220 | 60,146 | 63,466 | 4,551 |
| Provision for loan losses | (27,255) | (19,626) | (20,011) | (1,435) |
| Net interest income after provision for loan losses | 31,965 | 40,520 | 43,455 | 3,116 |
| Commission and fee income | 24,211 | 27,039 | 28,184 | 2,021 |
| Commission and fee expense | (5,528) | (6,441) | (7,633) | (547) |
| Trading income | 6,279 | 4,864 | 4,367 | 313 |
| Other operating income | 23 | 596 | 1,289 | 92 |
| Administrative and promotional expenses | (33,091) | (36,687) | (39,132) | (2,806) |
| Net operating income | 23,859 | 29,891 | 30,530 | 2,189 |
| Share in net income of unconsolidated subsidiaries and affiliates | 301 | 302 | 292 | 21 |
| Income before income taxes | 24,160 | 30,193 | 30,822 | 2,210 |
| Current income tax | (7,105) | (9,612) | (5,052) | (362) |
| Deferred income tax | 1,623 | 2,277 | (1,957) | (140) |
| Income before non-controlling interest | 18,678 | 22,858 | 23,813 | 1,708 |
| Non-controlling interest in consolidated subsidiaries | *(232)* | *(317)* | *(346)* | *(25)* |
| Net income | $ 18,446 | $ 22,541 | $ 23,467 | $ 1,683 |

## BBVA BANCOMER, S. A.,
## INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BBVA BANCOMER

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
## OF THE INSTITUTION AND ITS SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
## (In millions of Mexican pesos)

| | Subscribed Capital | | Earned Capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital | Share Premium | Capital Reserves | Results of Prior Years | Unrealized Gain on Available for Sale Securities | Result from Valuation of Cash Flow Hedging Instruments | Result from Conversion of Foreign Subsidiaries | Net Income | Noncontrolling Interest in Consolidated Subsidiaries | Total Stockholders' Equity |
| Balances at December 31, 2008 | $ 21,430 | $ 15,031 | $ 5,784 | $ 18,100 | $ 974 | $ 659 | $ 206 | $18,349 | $ 610 | $ 81,143 |
| Changes due to stockholders' decisions-.................. | | | | | | | | | | |
| Transfer of 2008 net income ................................ | - | - | - | 18,349 | - | - | - | (18,349) | - | - |
| Cash dividends paid ............................................ | - | - | - | (11,889) | - | - | - | - | - | (11,889) |
| Merger effects with BBVA Bancomer Servicios, S. A. ................................................................ | 2,708 | 695 | 1,097 | 5,203 | - | - | - | - | - | 9,703 |
| Dividends paid by Administradora de Fondos para el Retiro Bancomer, S. A. de C. V. ...................................................... | - | - | - | - | - | - | - | - | (145) | (145) |
| Total ........................................................... | 2,708 | 695 | 1,097 | 11,663 | - | - | - | (18,349) | (145) | (2,331) |
| Comprehensive income - ......................................... | - | - | - | - | | | | | | |
| Net income for the year........................................ | - | - | - | - | - | - | - | 18,446 | 232 | 18,678 |
| Result from valuation of securities available for sale ................................................................... | - | - | - | - | 1,026 | - | - | - | - | 1,026 |
| Result from valuation of cash flow hedging instruments ...................................................... | - | - | - | - | - | 1,098 | - | - | - | 1,098 |
| Recognition of the allowance for credit losses of the credit card consumer portfolio derived from the change of rating methodology ........................ | - | - | - | (953) | - | - | - | - | - | (953) |
| Adjustment for valuation of associated companies ........................................................... | - | - | - | 8 | - | - | - | - | - | 8 |
| Effect of changes in UDI exchange program......... | - | - | - | (17) | - | - | - | - | - | (17) |
| Cash dividends paid ........................................... | - | - | - | - | - | - | (62) | - | - | (62) |
| Total ........................................................... | - | - | - | (962) | 1,026 | 1,098 | (62) | 18,446 | 232 | 19,778 |
| Balances at December 31, 2009 .................................. | 24,138 | 15,726 | 6,881 | 28,801 | 2,000 | 1,757 | 144 | $18,446 | 697 | 98,590 |
| Changes due to stockholders' decisions- | | | | | | | | | | |
| Transfer of 2009 net income ................................ | - | - | - | 18,446 | - | - | - | (18,446) | - | - |
| Cash dividends paid ............................................ | - | - | - | (12,567) | - | - | - | - | - | (12,567) |
| Dividends paid by Administradora de Fondos para el Retiro Bancomer, S. A. de C. V. ...................................................... | - | - | - | - | - | - | - | - | (183) | (183) |
| Total ........................................................... | - | - | - | 5,879 | - | - | - | (18,446) | (183) | (12,750) |
| Comprehensive income- | | | | | | | | | | |
| Net income for the year........................................ | - | - | - | - | - | - | - | 22,541 | 317 | 22,858 |
| Result from valuation of securities available for sale ................................................................... | - | - | - | - | 662 | - | - | - | - | 662 |
| Result from valuation of cash flow hedging instruments ...................................................... | - | - | - | - | - | 197 | - | - | - | 197 |
| Adjustment for valuation of subsidiary companies ........................................................... | - | - | - | (108) | - | - | - | - | - | (108) |
| Result from conversion of foreign subsidiaries | - | - | - | - | - | - | (37) | - | - | (37) |
| Total ........................................................... | - | - | - | (108) | 662 | 197 | (37) | 22,541 | 317 | 23,572 |



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| | Subscribed Capital | | Earned Capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital | Share Premium | Capital Reserves | Results of Prior Years | Unrealized Gain on Available for Sale Securities | Result from Valuation of Cash Flow Hedging Instruments | Result from Conversion of Foreign Subsidiaries | Net Income | Noncontrolling Interest in Consolidated Subsidiaries | Total Stockholders' Equity |
| Balances at December 31, 2010 | 24,138 | 15,726 | 6,881 | 34,572 | 2,662 | 1,954 | 107 | 22,541 | 831 | 109,412 |
| Changes due to stockholders' decisions- | | | | | | | | | | |
| Transfer of 2010 net income | - | - | - | 22,541 | - | - | - | (22,541) | - | - |
| Cash dividends paid | - | - | - | (15,564) | - | - | - | - | - | (15,564) |
| Dividends paid by Administradora de Fondos para el Retiro Bancomer, S. A. de C. V. | - | - | - | - | - | - | - | - | (236) | (236) |
| Total | - | - | - | 6,977 | - | - | - | (22,541) | (236) | (15,800) |
| Comprehensive income | | | | | | | | | | |
| Net income for the year | - | - | - | - | - | - | - | 23,467 | 346 | 23,813 |
| Result from valuation of securities available for sale | - | - | - | - | (250) | - | - | - | - | (250) |
| Result from valuation of cash flow hedging instruments | - | - | - | - | - | (699) | - | - | - | (699) |
| Recognition in the allowance for portfolio loan losses due to changes in the rating methodology | - | - | - | (142) | - | - | - | - | - | (142) |
| Adjustment for valuation of subsidiary companies | - | - | - | (22) | - | - | - | - | 1 | (21) |
| Result from conversion of foreign subsidiaries | - | - | - | - | - | - | 64 | - | - | 64 |
| Total | - | - | - | (164) | (250) | (699) | 64 | 23,467 | 347 | 22,765 |
| Balances at December 31, 2011 | $ 24,138 | $ 15,726 | $ 6,881 | $ 41,385 | $ 2,412 | $ 1,255 | $ 171 | $23,467 | $ 942 | $ 116,377 |

**BBVA BANCOMER, S. A.,**
**INSTITUCIÓN DE BANCA MÚLTIPLE,**
**GRUPO FINANCIERO BBVA BANCOMER**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**OF THE INSTITUTION AND ITS SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**
**(In millions of Mexican pesos)**

| | As of December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2011 (Thousand of U.S. dollars) |
| Net income | $ 22,541 | $ 23,467 | $ 1,683 |
| Adjustments derived from items not involving cash flows: | | | |
| Profit or loss derived from the valuation of investment and financing activities | (41) | 85 | 6 |
| Depreciation of property, furniture and equipment | 1,788 | 1,241 | 89 |
| Amortization of intangible asset | 776 | 960 | 69 |
| Provisions | 5,118 | 2,498 | 179 |
| Current and deferred income taxes | 7,335 | 7,009 | 503 |
| Share in net income of unconsolidated subsidiaries and affiliates | (302) | (292) | (21) |
| Noncontrolling interest | 317 | 346 | 25 |
| | 37,532 | 35,314 | 2,533 |
| Operating activities: | | | |
| Change in margin call accounts | (602) | 80 | 6 |
| Change in investments in securities | 37,491 | (35,638) | (2,555) |
| Change in debtors from repurchase agreement | 652 | (4,540) | (326) |
| Change in derivatives (assets) | (654) | (9,035) | (648) |
| Change in loan portfolio (net) | (59,979) | (42,109) | (3,019) |
| Change in benefits receivable from securitized transactions | (32) | 73 | 5 |
| Change in repossessed assets (net) | (742) | (1,160) | (83) |
| Change in other operating assets (net) | (7,985) | (15,488) | (1,110) |
| Change in deposits | 31,991 | 21,029 | 1,508 |
| Change in interbank loans and other loans from other entities | 46,678 | (40,869) | (2,930) |
| Change in creditors from repurchase agreements | (99,584) | 72,858 | 5,244 |
| Change in security loans | - | 1 | - |
| Change in collaterals sold or delivered in guarantee | 2,305 | 13,937 | 999 |
| Change in derivatives (liabilities) | 393 | 7,711 | 553 |
| Change in subordinated debt | 5,475 | 17,413 | 1,248 |
| Change in other operating liabilities | 5,443 | 6,820 | 489 |
| Change in hedging instruments (of hedged items related to operation activities) | 230 | (1,110) | (80) |
| Payment of income taxes | (6,714) | (9,525) | (683) |
| | (45,634) | (19,552) | (1,402) |
| Net cash used in operating activities | | | |
| Investing activities: | | | |
| Proceeds from the disposal of property, furniture and fixtures | 2,117 | 4 | - |
| Payments for the acquisition of property, furniture and fixtures | (3,081) | (3,008) | (216) |
| Proceeds from the disposal of equity investments | 285 | 78 | 6 |
| Payments for the acquisition of equity investments | (194) | (159) | (11) |
| Collection of cash dividends | 29 | 203 | 15 |
| Payments for the acquisition of intangible assets | (80) | (1,785) | (128) |
| Net cash used in investing activities | (924) | (4,667) | (334) |
| Financing activities: | | | |

| | As of December 31, | | |
|---|---|---|---|
| | **2010** | **2011** | **2011** |
| | | | **(Thousand of U.S. dollars)** |
| Cash dividends paid | (12,567) | (15,564) | (1,116) |
| Cash dividends paid to minority interest of Afore Bancomer | (183) | (236) | (17) |
| Net cash used in financing activities | (12,750) | (15,800) | (1,133) |
| Net decrease in cash and cash equivalents | (21,776) | (4,705) | (338) |
| Cash flow adjustments from exchange rate fluctuations | (1,395) | 1,263 | 91 |
| Cash and cash equivalents at the beginning of the year | 142,013 | 118,842 | 8,521 |
| Cash and cash equivalents at the end of the year | $ 118,842 | $ 115,400 | $ 8,274 |

**BBVA Bancomer, S. A.,**
**Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer**

# Notes to the Consolidated Financial Statements

**Of the Institution and its Subsidiaries for the years ended December 31, 2011 and 2010**
**(In millions of Mexican pesos)**

## 1. Explanation added for translation into English

The accompanying consolidated financial statements have been translated from the original statements prepared in Spanish into English for use outside of Mexico. The accounting criteria to prepare the accompanying financial statements used by of BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries (the "Institution") conform with the financial reporting requirements prescribed by the Mexican National Banking and Securities Commission (the "Commission") but do not conform with Mexican Financial Reporting Standards ("MFRS"), and may differ in certain significant respects from the financial reporting standards accepted in the country of use.

## 2. Incorporation and corporate purpose

BBVA Bancomer, S. A., Credit Institution, Grupo Financiero BBVA Bancomer (the "Institution") is a subsidiary of Grupo Financiero BBVA Bancomer, S. A. de C. V. (the "Financial Group") and is regulated, among others, by the Mexican Credit Institutions Law and general purpose regulations issued by the Commission and by Banco de México. The Institution and its subsidiaries engage in full service banking activities, carried out in accordance with such laws, which activities mainly include receiving funds, accepting loans, granting credits, trading securities and derivatives and executing trust fund agreements. Also, Administradora de Fondos para el Retiro Bancomer, S. A. de C. V. (the "Afore Bancomer"), the principal subsidiary of the Institution, is regulated by the Mexican National Commission for Retirement Savings.

The Commission, as regulator of financial institutions, is empowered to review the financial information of the Institution and can request changes thereto.

The main regulatory provisions require credit institutions to maintain a minimum capital ratio in relation to the credit and market risks of their operations, comply with certain limits with respect to deposit acceptance, debentures and other kinds of funding, which may be denominated in foreign currency, and establish minimum limits for paid-in capital and capital reserves, which the Institution complies with satisfactorily.

The Institution has no employees, except for the General Director; it is managed by BBVA Bancomer Operadora, S. A. de C. V. and BBVA Bancomer Servicios Administrativos, S. A. de C. V., (related parties) which provide management advisory and personnel services, under the contract signed by the parties.

## 3. Basis of preparation of the financial statements

***Monetary unit of the financial statements -*** The financial statements and the notes as of December 31, 2011 and 2010 and for the years then ended include balances and transactions in Mexican pesos of different purchasing power.

***Consolidation of financial statements -*** The accompanying consolidated financial statements include the financial statements of the Institution, those of  its subsidiaries in which control is exercised, and its securitized transactions trust. Equity investments in mutual funds are measured according to the equity method, in conformity with the accounting criteria prescribed by the Commission. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2011 and 2010, the consolidated subsidiaries of the Institution are as follows:

| Company | Participation | Activity |
|---|---|---|
| Fideicomiso Centro Corporativo Regional | 100.00% | Technological infrastructure support. |
| BBVA Bancomer USA, Inc. (before BBVA Bancomer Financial Holdings, Inc.) | 100.00% | Holder of companies engaged in the sale of notes denominated in U.S. dollars and other foreign currencies, as well as bank operations. |
| Opción Volcán, S. A. de C. V. | 99.99% | Real estate leasing. |
| Desitel, Tecnología y Sistemas, S. A. de C. V. | 99.99% | Provider of computer data transfer services. |
| Afore Bancomer | 75.00% | Pension fund management. |
| Fideicomiso No. 29764-8 Socio Liquidador de Operaciones Financieras | 100.00% | Offset and settle exclusively futures contracts on behalf of third parties. |
| Fideicomiso No. 29763-0 Socio Liquidador de Operaciones Financieras | 99.99% | Offset and settle exclusively futures contracts on behalf of group companies. |
| Adquira México, S. A. de C. V. | 50.00% | Build, administer, market and operate a shopping club, as well as markets by economic means (As of 2011). |
| Apoyo Mercantil, S. A. de C. V. | 99.99% | Operating leases for furniture and vehicles (up to November 2011). |
| Visacom, S. A. de C. V. | 99.99% | Holding company of companies engaged in marketing and data communication activities between companies. |
| Financiera Ayudamos, S. A. de C. V. | 99.99% | Granting of credit in accordance with the terms of article 87-B of the General Law on Credit Organizations and Auxiliary Activities. |
| Unidad de Avalúos México, S. A. de C. V. | 99.99% | Appraisal services. |
| Fideicomiso Irrevocable Número 881 | 100.00% | Issuance of certificates through the Mexican Stock Market backed by mortgage loans. . |

The operations of the foreign subsidiary are modified in the recording currency to be presented in accordance with the Commission's accounting criteria. The financial statements are converted to Mexican pesos and the effects from conversion are recorded in stockholders' equity.

## 4. Significant accounting policies

The accounting policies of the Institution, which are in conformity with the accounting criteria of the General Regulations Applicable to Credit Institutions (the "Regulations") prescribed by the Commission, require that management make certain estimates and use certain assumptions to determine the valuation of some of the items included in the financial statements and make the required disclosures to be included therein. While the estimates and assumptions used may differ from their final effect, management believes they were adequate under the circumstances.

In accordance with accounting criterion A-1 of the Commission, the accounting criteria applied by credit institutions will be adjusted to MFRS, as established by the Mexican Board for the Research and Development of Financial Reporting Standards ("CINIF"), except when, in the judgment of the Commission, a specific accounting provision or standard must be applied to properly reflect the specialized operations carried out by financial institutions.

***Changes in the Accounting Criteria of the Commission -***

***Changes that occurred in fiscal 2011 -***

In 2011, certain amendments to the accounting criteria for credit institutions were published in the Federal Official Gazette.

The main changes are as follows:

- A clarification of the accounting standard regarding the treatment of collateral in transactions with derivatives in over-the-counter markets, which will be accounted for separately from margin accounts and recorded in an accounts receivable or payable, as applicable.

- The host contract and the embedded derivative of hybrid financial instruments that may be separated shall be presented separately. Previous criteria established that they must be presented together; the embedded derivative must now be presented under the "Derivatives" line item.

- The Accounting Treatment B-6 "Credit portfolio" of the Regulations (which will go into effect in March 2012) is modified, mainly to establish the following:

    1. In the event of a restructuring or renewal, when sundry loans granted to the same borrower are consolidated into a single loan, the treatment applicable to the worst of the loans involved in the restructuring or renewal will be applied to the total balance of the resulting debt.

    2. When it is demonstrated that there is sustained payment to cease considering the restructured or renewed loan as past due, the bank must provide evidence to Commission to show that the borrower is able to pay.

    3. Installment loans with periodic payments of principal and interest are transferred to overdue portfolio when they are 90 days or three months overdue, regardless of the number of days in the calendar month.

    4. Current loans other than those that have a single payment of principal at maturity and periodic payments of interest , which are restructured or renewed without having completed at least 80% of the original term of the loan, will still be considered as current only when the borrower has:

        a. Settled the total amount of the accrued interest, and
        b. Settled the principal of the original loan, which should have been settled as of the date of renewal or restructuring, as the case may be.

        If all the conditions described in the preceding paragraph are not fulfilled, they will be considered as overdue from the time that they are restructured or renewed until there is evidence of sustained payment.

5. The commissions for loan restructuring are incorporated as commissions for the initial granting of the loan, and are subject to deferral during the new term of the restructured credit.

6. Unamortized balances of deferred commissions are recognized to results of the year under the heading "Commissions and rates collected" on the date when credit lines are cancelled.

7. Deferred commissions and costs associated with the granting of loans must be presented on a net basis in the balance sheet.

8. Loans with a single payment of principal and interest at maturity which are renewed at any time will be considered as overdue until there is evidence of sustained payment. They will be considered as current only when the borrower has timely paid the total amount of the interest payable and also paid 25% of the original amount of the loan.

- The income statement presentation is restructured. The "Other income" and "Other expense" line items are eliminated and their items are now presented under "Other operating income (expenses)" within Operating income and the "Share in net income of unconsolidated subsidiaries and affiliates" is presented below Operating income.

*Changes in accounting estimates applicable in 2011 -*

- On October 25, 2010, a Ruling was published in the Federal Official Gazette whereby the general provisions applicable to credit institutions in regard to the mortgage and consumer loan portfolio rating methodologies are amended to allow the early identification of losses by incorporating greater credit information and to base the allowance for loan losses on methodologies that reflect the expected loss instead of the incurred loss.

  The methodologies consider three factors to determine the allowances: (1) likelihood of default, (2) severity of the loss and (3) exposure to default, in accordance with the formulas prescribed by the Commission.

- On October 5, 2011, a Ruling was published in the Federal Official Gazette whereby the general provisions applicable to credit institutions in regard to the rating methodology of the trade loan portfolio granted to States and municipalities are amended.

***Changes in the NIFs issued by the CINIF applicable:***

The following accounting pronouncements were issued by the CINIF in 2010 and became effective as of January 1, 2011:

- *B-5, Financial information by segments* - It establishes the managerial approach to disclose financial information by segments, unlike Bulletin B-5, which, although it used a managerial approach, required the classification of the disclosed information by economic segments, geographical areas or standardized customer groups; it requires the separate disclosure of interest income, interest expense and liabilities; and information on goods, services, geographical areas and main customers and suppliers.

- *NIF C-5, Prepaid expenses* - Establishes that a basic characteristic of prepaid expenses is that they do not yet transfer to the Company the risks and benefits inherent to the goods or services that it will acquire or receive; it requires recognition of impairment losses when they lose their ability to generate future economic benefits and presentation in the balance sheet under current or non-current assets.

- *NIF C-6, Property, plant and equipment* - It incorporates the treatment of the exchange of assets based on the commercial substance; includes the bases to determine the residual value of a component, consider current amounts; eliminates the requirements to assign a certain value to property, plant and equipment without a cost or at an acquisition cost that is inadequate; establishes the rule to continue depreciating a component when it is not being used, unless activity-based depreciation methods are used.

*Improvements to 2011 NIFs.-* The main improvements that generate accounting changes are:

– *NIF B-1, Accounting changes and error corrections* - If the entity has applied a retrospective accounting change or corrected a misstatement, it requires the presentation of a balance sheet at the beginning of the oldest period for which comparative financial information is presented.

– *Bulletin C-3, Accounts receivable* - Establishes standards for the recognition of interest income on accounts receivable and clarifies that the recognition of interest income earned on accounts receivable whose recovery is unlikely is not allowed.

– Bulletin D-5, *Leases* - It establishes that the discount rate that must be used by the lessor to determine the present value is the interest rate inherent in the lease contract whenever it can be practically determined, and that otherwise, the incremental interest rate must be used. Both the lessor and the lessee must disclose more complete information about their lease transactions. The result on the sale and leaseback for finance leases must be deferred and recognized during the term of the contract, The gain or loss on the sale and leaseback of an operating lease must be recognized in results at the time of the sale, provided the transaction is executed at fair value.

– Bulletin C-10, *Derivative financial instruments and hedging transactions*.

*Improvements to 2011 NIFs.-* The main improvements that do not generate accounting changes are:

– *NIF C-2, Financial instruments* - Eliminates the net presentation of the effects of derivatives and the hedged items.

– *NIF C10, Derivative financial instruments and hedging transactions* - It clarifies that when only a portion of the position subject to risk is hedged, the effects of the risks not hedged by the primary position must be recognized in conformity with the valuation method of such primary position.

The principal accounting practices followed by the Institution are as follows:

***Recognition of the effects of the inflation in the financial statements -*** Beginning January 1, 2008, the Institution discontinued recognition of the effects of inflation, in conformity with the guidance in NIF B-10. Through December 31, 2007, such recognition resulted mainly in inflationary gains or losses on non-monetary and monetary items, which are presented in the financial statements as an increase or decrease in stockholders' equity accounts, and also in nonmonetary items.

The accumulated inflation of the three years prior to 2011 and 2010, measured through the value of the Investment Units (UDI), is 11.63% and 14.40% respectively, for which reason the economic environment in both years is classified as noninflationary. As already noted, the cumulative effects of inflation up to December 31, 2007 were kept in the accounting records of the balance sheet as of December 31, 2011 and 2010. As discussed previously, the cumulative effects of inflation up to December 31, 2007 are maintained in the accounting records of the balance sheet as of December 31, 2011 and 2010.

Inflation rates for the years ended December 31, 2011 and 2010 were 3.61% and 4.29%, respectively.

***Cash and due from banks -*** Cash and due from banks are recorded at nominal value, except for silver and gold coins, which are stated at their fair value at each period-end. Cash held in foreign currency is valued at the exchange rate published at year end by Banco de México.

The foreign currencies acquired whose settlement is agreed at a date after the completion of the purchase and sale transaction will be recognized at such transaction date as restricted funds available (foreign currencies to be received), whereas the foreign currencies sold will be recorded as a disbursement of funds available (foreign currencies to be delivered). The counterparty must be a settlement account, either credit or debit, as the case may be.

This heading also includes interbank loan transactions agreed at a term of less than or equal to three business days, as well as other funds available, such as correspondent funds and liquid notes.

***Margin call accounts*** - Guarantee deposits for financial derivatives transactions in recognized markets are recorded at face value.

Guarantee deposits are intended to achieve compliance with obligations related to derivatives executed in recognized markets and refer to the initial margin and to subsequent contributions or withdrawals made during the effective term of the respective contracts.

***Securities -***

– *Trading securities:*

Trading securities are those securities in which the Institution invests to take advantage of short-term market fluctuations. The transaction costs for the acquisition of the securities are recognized in results of the year on the acquisition date. These securities are stated at fair value (which includes the discount or markup, as the case may be) in conformity with the following guidelines:

*Debt instruments:*

Debt instruments are valued at fair value, which must include both the principal and accrued interest. Interest earned is determined based on the effective interest method.

*Equity instruments:*

Equity instruments are valued at their fair value. In the case of securities registered with the National Securities Registry (RNV) or authorized, registered or regulated in markets recognized by the Commission.

Gains or losses resulting from valuation are recognized in the statement of income.

– *Securities available for sale:*

Securities available for sale are debt instruments and equity securities acquired with an intention other than obtaining gains from trading them on the market or holding them to maturity. The transaction costs for the acquisition of the securities are recognized as part of the investment. These securities are valued in the same way as trading securities with unrealized valuation gains or losses recognized in stockholders' equity.

– *Securities held to maturity:*

Securities held to maturity are debt instruments with fixed or determinable payments or an established maturity acquired with both the intent and the capacity of holding them to maturity. These instruments are initially recorded at fair value, which presumably reflects the agreed price, plus the transaction costs for the acquisition of securities. They are subsequently accounted for using amortized cost, thus affecting the results of the year based on accrued interest and the discount or markup received or paid for their acquisition according to the effective interest method.

The Institution determines the increase or decrease from appraisal at fair value using restated prices provided by the price supplier, who uses different market factors in its determination.

Cash dividends of share certificates are recognized in the results for the year in the same period in which the right to receive the related payment is generated.

The exchange gain or loss on investments in securities in foreign currencies is recognized in results for the year.

The accounting criteria issued by the Commission permit the transfer of securities classified as "held to maturity" to the category of "securities available for sale", provided the Institution ceases to have the intention or capacity to hold them to maturity.

Also, such criteria allow for reclassifications to be made to the category of “Securities held to maturity”, and from “Trading securities” to “Securities available for sale”, under extraordinary circumstances, subject to the prior assessment and express authorization of the Commission.

***Security value impairment*** - Credit institutions must assess whether there is objective evidence regarding the impairment of a security at the balance sheet date.

A security is only considered to be impaired and, accordingly, an impairment loss is only incurred when there is objective evidence of this impairment as a result of one or more events which occurred after its initial recognition, which affected estimated future cash flows and can be reliably determined. It is unusual that a single event is determined as the sole cause of impairment, and it is more common that impairment results from the combined effect of different events. The losses expected as the result of future events are not recognized, regardless of their probability.

***Repurchase transactions* -** Repurchase agreements are recorded as follows:

At the contracting date of the repurchase transaction, when the Institution is the reselling party, the entry of cash or a debit settlement account, and an account payable at fair value, initially at the agreed-upon price, are recorded and represent the obligation to restitute cash to the repurchasing party. Subsequently, during the term of the repurchase transaction, the account payable is valued at fair value by recognizing the interest on the repurchase agreement using the effective interest method in results of the year.

In relation to the collateral granted, the Institution will reclassify the financial assets in its balance sheet as restricted, which will be valued based on the criteria described above in this note until the maturity of the repurchase transaction.

When the Institution acts as repurchasing party, the withdrawal of funds available is recognized on the contracting date of the repurchase transaction or a credit settlement account, with an account receivable recorded at fair value, initially at the price agreed, which represents the right to recover the cash paid. The account receivable will be valued subsequently during the term of the repurchase agreement at fair value through the recognition of interest on the repurchase agreement based on the effective interest method in the results of the year.

The Institution will recognize the collateral received in memorandum accounts, following the guidelines for valuation established in accounting criterion B-9, “Custody and administration of goods”, until the maturity of the transaction.

***Collateral granted and received other than cash in repurchase agreements* -** In relation to the collateral in repurchase transactions granted by the seller to the buyer (other than cash), the buyer recognizes the collateral received in memorandum accounts, by following the guidelines on custody transactions established in criterion B-9 “Custody and administration of goods” for their valuation. The selling party reclassifies the financial asset on its balance sheet, and it is presented as restricted, for which purpose the standards for valuation, presentation and disclosure are followed in accordance with the respective accounting treatment.

When the buyer sells the collateral or provides it as a guarantee, the resources from the transaction are recognized, as well as an account payable for the obligation to repay the collateral to the selling party (measured initially at the price agreed), which is valued at fair value for its sale or, if it is given as guarantee in another repurchase transaction, at its amortized cost, (any spread between the price received and the value of the account payable is recognized in results of the year).

Furthermore, if the buyer then becomes a seller for another repurchase transaction using the same collateral received as guarantee for the initial transaction, the repurchase interest agreed in the second transaction must be recognized in results of the year as it is accrued, in accordance with the effective interest method, adjusting the account payable valued at amortized cost as mentioned above.

The memorandum accounts recorded for collateral received by the buyer are canceled when the repurchase transaction reaches maturity or there is a default on the part of the seller.

For transactions in which the buyer sells or in turn provides the collateral received as guarantee (for example, when another repurchase or securities loan transaction is agreed), the control of such sold or pledged collateral is performed in memorandum accounts, by applying for valuation purposes the standards for custody transactions established in accounting criterion B-9.

The memorandum accounts recorded for collateral received which were in turn sold or pledged by the buyer, are canceled when the collateral sold is acquired to repay it to the seller, or when the second transaction in which the collateral was granted reaches maturity or there is a default on the part of the counterparty.

***Securities loans -*** Securities loans are transactions in which the transfer of securities is agreed from the lender to the borrower, with the obligation to return such securities or other substantially similar ones on a given date or as requested, in exchange for a premium as consideration. In these transactions, a collateral or guarantee is requested by the lender from the borrower.

At the contracting date of the securities loan, when the Institution acts as lender, it records the security subject matter of the loan transferred to the borrower as restricted, for which purpose the standards for valuation, presentation and disclosure, based on the respective accounting treatment, are followed. Furthermore, the collateral received that guarantees the securities loaned is recorded in memorandum accounts.

The amount of the premium earned is recognized in results of the year through the effective interest method during the term of the transaction.

When it acts as the borrower, at the contracting date of the securities loan, the Institution records the security subject matter of the loan received in memorandum accounts, following the valuation guidelines for the securities recognized, in the account "Assets in custody or under administration".

The security subject matter of the transaction received and the collateral received are presented in memorandum the heading of "Collateral received by the Institution". The collateral received from other transactions are presented under the heading of "Collateral received and sold or pledged as collateral by the Institution".

***Derivatives -*** The Institution carries out two different types of transactions:

– Hedging of an open risk position. Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions.

– Trading. Consists of the position assumed by the Institution as market participant for purposes other than hedging open risk positions.

The Institution's policies require that for purposes of entering into derivative transactions, both trading parties must belong to the Financial System and have authorization from the *Banco de México* to carry out this type of transaction, classifying and, if applicable, determining risk exposure lines. Prior to carrying out these transactions, corporate customers must be granted a credit line authorized by the Credit Risk Committee or provide readily realizable guarantees through the pertinent bond contracts. Transactions involving mid-sized and small businesses, as well as individuals, are carried out through readily realizable guarantees established in bond contracts.

The assets and/or liabilities arising from transactions with derivative financial instruments are recognized or cancelled in the financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset.

The Institution initially recognizes all agreed derivatives (including those forming part of hedges) as assets or liabilities (depending on the rights and/or obligations they embody) in the balance sheet at fair value, which presumably reflects the price at which the transaction was agreed. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results.

All derivatives are subsequently valued at fair value without deducting the transaction costs incurred for their sale or other types of disposal; this valuation effect is then recognized in the results of the period under "Trading income".

Derivatives must be presented under a specific asset or liability heading depending on whether their fair value (as a consequence of the rights and/or obligations they embody) results in a debit or credit balance, respectively. These debit or credit balances can be offset as long as they comply with the offsetting rules established by the applicable accounting criterion.

In the balance sheet, the derivatives heading must be divided between those held for trading and hedging purposes.

*Hedging transactions:*

Hedge derivatives are valued at market, and the effect is recognized depending on the type of accounting hedge, as follows:

a. If they are fair value hedges, the primary position covered is valued at market and the net effect of the derivative hedge instrument is recorded in results of the period under the heading "Trading income".

b. If they are cash flow hedges, the hedge derivative is valued at market and the valuation of the effective part of the hedge is recorded in the account "Result from valuation of cash flow hedges". The ineffective part is recorded in results of the period under the heading "Trading income".

*Trading transactions:*

– *Forward and futures contracts*:

  The balance represents the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as a surplus value and presented in assets; however, if negative, it is considered as a shortfall and presented in liabilities.

– *Options*:

  The balance represents the fair value of future cash flows to be received, and recognizes the valuation effects in results of the year.

– *Swaps:*

  The balance represents the difference between the fair value of the swap asset and liability.

***Embedded derivatives*** **-** The Institution separates the embedded derivatives of structured notes, whereby the reference underlying is based on the exchange rate, price indexes, interest rate options with extendable periods and UMS bond price options.

In the case of debt and bond contracts in which the reference underlying is an interest rate with implied cap, floor and collar options, they are considered as closely related to the host contract and ,consequently, these items are not segregated. Accordingly, the main contract issued for debt and bonds is recorded based on the applicable criteria to each contract, at the amortized cost in both cases.

***Loan portfolio*** - The balances in the loan portfolio represent the amounts disbursed to borrowers, less repayments made to date, plus accrued but unpaid interest. The "Allowance for loan losses" is presented as a deduction from the total loan balance.

The outstanding balance of past-due loans is recorded as non-performing as follows:

- When there is evidence that the customer has been declared bankrupt.

- When payments have not been fully settled according to contractual terms, considering that:

    – Loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity.

    – Loans with a single payment of principal at maturity and with scheduled interest payments are considered past due 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due.

    – The loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 90 days (3 months) after the first installment is past due.

    – In the case of revolving credit granted, loans are considered past due when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 calendar days following maturity.

    – Customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

Interest is recognized in income when it is accrued. The accrual of interest is suspended when loans become non-performing.

Interest accrued during the period in which the loan was considered non-performing is not recognized as income until collected.

The commissions collected for the initial granting of loans are recognized as a deferred credit under the heading of "Deferred credits and advanced collections", which is amortized as interest income using the straight-line method over the term of the loan. Any other type of commission is recognized on the date that it is generated, under the heading of "Commissions and fee income".

Commissions collected on the restructuring or renewal of loans are added to the commissions originated and are recognized as a deferred loan that is amortized to results using the straight-line method throughout the new term of the loan.

Incremental costs and expenses incurred for the initial granting of credits are recognized as a deferred charge, which must be amortized to the results of the year as an interest expense during the same accounting period in which revenues are recognized for collected commissions. As the Institution considers that the incremental costs and expenses incurred for the initial granting of credits are immaterial, they were recognized in results as they were incurred.

Commissions collected for annual credit card fees, whether for the first year or for subsequent renewals, are recognized as a deferred credit under the "Deferred credits and advance collection" heading and amortized over a 12-month period to the results of the year under the "Commissions and fee income" heading.

The costs and expenses incurred to grant credit cards are recognized as a deferred charge, which is amortized over a 12-month period to the results of the year under the respective heading, depending on the nature of the cost or expense.

Restructured overdue credits are not considered as current portfolio until there is evidence of sustained payment, which is considered to have occurred when the banks receive payment on time and in full for three consecutive monthly installments, or the payment of an installment in those cases where the installment covers periods in excess of 60 days and it is evidenced that the borrower is able to pay. Furthermore, when a number of loans granted to the same creditor are consolidated into a single loan, the treatment applicable to the lowest rated loan involved in the restructuring or renewal will be applied to the total balance of the resulting debt.

Renewed loans for which the debtor does not pay accrued interest on time, or does not pay at least 25% of the original loan amount, are considered non-performing until proof of timely payment.

*Acquisitions of credit portfolio* - On the acquisition date of the portfolio, the contractual value of the portfolio acquired must be recognized based on the type of portfolio which the originator would have classified; any difference generated in relation to the acquisition price is recorded as follows:

a) When the acquisition price is lower than its contractual value, in results of the year under the heading of "Other operating income (expenses)", up to the amount of the allowance for loan losses that was created as established in the following paragraph, and the surplus as a deferred credit, which will be amortized when the respective collections are made, based on the percentage which the latter represent of the contractual value of the loan;

b) When the acquisition price of the portfolio is higher than its contractual value, as a deferred charge, which will be amortized as the respective collections are made, based on the percentage which the latter represent of the contractual value of the loan;

c) Regarding the acquisition of revolving credits, such difference will be recognized directly to results of the year on the acquisition date.

***Allowance for loan losses -***

– *Commercial loan portfolio:*

In accordance with the regulations regarding the methodology for classification of the loan portfolio, credit institutions will individually classify the commercial loan portfolio for the loans or group of loans owed by the same debtor, whose balance equals or exceeds an amount equivalent to 4,000,000 UDIs at the classification date for 2011 and 2010. The remainder is classified parametrically based on the number of months elapsed as of the first default. The portfolio owed by the Federal Government or with an express federal guarantee is exempted.

In 2001 the Institution certified its internal classification scheme for debtor risk, Bancomer Risk Classification ("CRB"), before the Commission to comply with the requirements for classification of risk and the creation of allowances for loan losses.

On October 29, 2010, the Institution requested from the Commission the renewal of the application of the CRB internal methodology, which was authorized in official notice 111-2/23001/2011, effective up to November 30, 2012.

CRB is used to determine a client's creditworthiness through the weighted result of the grades based on five risk criteria, which include: performance, historical payment capacity, indebtedness capacity, projected payment capacity and macroeconomic conditions. These criteria represent the valuation of the client's profile, the financial position of the company and the economic status of the industry, which are measured through the grading of various quantitative and qualitative credit risk factors, weighted through the application of a single algorithm and fixed weighting parameters. The design of this algorithm and its associated weighting factors are the result of statistical and econometric analyses applied to historical data for several years.

The internal classification system presents different levels of risk, which identify loans on a level of acceptable risk, loans under observation and loans of unacceptable risk or in default. The risks included in the CRB model are summarized in the following list:

**Level**

1. Exceptional
2. High
3. Good
4. Adequate
5. Potential weakness
6. Actual weakness
7. Critical weakness

8. Loss

The comparability of the CRB with Regulatory Risk Classification is based upon an analysis of equivalency of default probabilities between the CRB and the Debtor's Risk Classification according to the Commission, and is as follows:

| **CRB** | **Commission's Classification Equivalent** | **Payment Experience** |
|---|---|---|
| 1 | A1 | |
| 2 | A1 | |
| 3 | A2 | |
| 4 | B1 | Non-payment for less than 30 days |
| 4 | B2 | Non-payment for 30 days or more |
| 5 | B3 | Non-payment for less than 30 days |
| 5 | C1 | Non-payment for 30 days or more |
| 6 | C1 | Non-payment for less than 30 days |
| 6 | C2 | Non-payment for 30 days or more |
| 7 | D | |
| 8 | E | |

Once the borrower's rating is determined according to this procedure, each loan is initially classified based on the borrower's rating, and subsequently, based on the value of the respective collateral, the Institution determines the portion of the loan balance covered by the discounted value of collateral and the portion of the exposed balance. The rating assigned to the covered portion can be modified based on collateral quality. Also, the exposed portion will maintain the initial loan rating provided that it is between A1 and C1 or it must be set at risk level E, if the initial loan rating is C2, D or E. Furthermore, the Regulations establish various criteria to determine the value of collateral based on the case in which it can be converted to cash.

The allowances for the losses from the commercial loan portfolio created by the Institution as a result of the individual classification of each loan will be classified in accordance with the following percentages:

| **Probability of Default** | | | **Risk Level** |
|---|---|---|---|
| 0% | to | 0.50% | A1 |
| 0.51% | to | 0.99% | A2 |
| 1.00% | to | 4.99% | B1 |
| 5.00% | to | 9.99% | B2 |
| 10.00% | to | 19.99% | B3 |
| 20.00% | to | 39.99% | C1 |
| 40.00% | to | 59.99% | C2 |
| 60.00% | to | 89.99% | D |
| 90.00% | to | 100.0% | E |

The Institution records the respective allowance for loan losses on a monthly basis, applying the results of the classification performed quarterly to the balance of the loans as of the last day of each month.

– *Portfolio of States and their Municipalities:*

On October 5, 2011, the Federal Official Gazette published a Ruling which modifies the Provisions related to the classification methodology of commercial loan portfolio granted to States and their Municipalities, as well as the accounting treatment for loan portfolio. The most important modifications refer to the following:

In regard to the rating methodology of the trade loan portfolio granted to States and municipalities:

1) A new methodology is established that modifies the current incurred loss model to rate and create the allowance for this portfolio to a model based on expected loss in which the losses for the next 12 months are estimated using the best loan information available.

2) The new methodology considers the likelihood of default, the severity of the loss and the exposure to default.

3) The likelihood of default is determined based on quantitative and qualitative scores based on several risk factors established in the Regulations. The likelihood of default will be 0% for loans guaranteed by a program established by a federal law that is in turn included in the Federal Expense Budget of the related year. With certain exceptions, when a loan with the credit institution is past due, the likelihood of default will be 100%.

4) Real and personal collateral as well as loan derivatives will be considered to determine the severity of the loss and the exposure to default.

Loans owed by decentralized agencies of the States and their Municipalities in excess of 900,000 UDIS at the classification date will be rated individually by considering a level of risk based on the ratings assigned by the ratings agencies (Fitch, Moody's, HR Ratings and S&P) authorized by the Commission (this classification must not be more than 24 months old). Those municipalities which have an express personal guarantee by the government of their State may be classified with the level of risk applicable to the State which supports them. Finally, it is established that real guarantees must be assessed using the same regulatory mechanism applicable to any secured loan and when there is no Federal Participation, the level of risk must be moved two levels higher.

The Institution applied the modifications issued by the Commission to the classification methodology of the portfolio of States and their Municipalities described above, which allows institutions to recognize the initial cumulative effect of applying the new methodology with a charge to stockholders' equity. The initial cumulative financial effect derived from the application of the portfolio classification methodology was $27, net of deferred taxes.

– *Mortgage portfolio:*

The Institution determines the allowance for loan losses related to the mortgage portfolio based on that established by the Commission, calculating the Probability of Default, Severity of Loss and Exposure (expected loss model) as of the classification date, according to the following:

- Probability of default: For portfolio with less than four payments in arrears, it is determined based on the number of late payments, the maximum delay in the last four monthly periods, the average payment commitment of the last seven periods, as well as the value of the guarantees with respect to the loans and the currency; and 100% if there are four or more late payments.

- Severity of loss: This is determined based on the value of the guarantee with respect to the loans and the means of formalizing the guarantee, and, in the case of unemployment insurance coverage, the balance of the housing subaccount.

The credit reserves established for the mortgage portfolio based on the internal model exceed those required by the Commission, mainly because the parameters of default probability are higher and the fact that the Institution has applied a discretional provision covering 100% of the balances deferred due to borrower support plans.

Up to 2010, the allowance for loan losses related to mortgage portfolio was determined by applying specific percentages to the unpaid balance of the debtor, net of support, stratifying the totality of the portfolio based on the number of monthly payments which showed default on installments due and payable as of the classification date.

For each stratum, the allowances for loan losses were determined based on the results of applying specific percentages for the following items:

– Probability of Default: the allowance percentages for this item ranged from 1% to 90% up to four monthly payments in default, depending on the type of mortgage portfolio, and from 95% to 100% for five monthly payments in default and thereafter.

– Severity of Loss: the allowance percentages for this item ranged from 35% for credits with up to six monthly payments in default, 70% for 7 to 47 monthly payments in default and 100% for 48 monthly payments in default and thereafter.

The allowances for loan losses on the mortgage portfolios established by the Institution as the result of classifying the loans will be based on the following percentages:

| Risk Level | Percentage of Allowance for Loan Losses |
|---|---|
| A | 0 to 0.99% |
| B | 1 to 19.99% |
| C | 20 to 59.99% |
| D | 60 to 89.99% |
| E | 90 to 100.00% |

– *Consumer loan portfolio that does not include credit card operations:*

The Institution determines the allowance for loan losses related to non-revolving consumer portfolio as established by the Commission, calculating the Probability of Default, Severity of Loss and Exposure (expected loss model) as of the classification date, as follows:

– *Probability of default:* Depending on the payment periodicity and the type of credit, it is determined using variables such as the number of payments in arrears, the maximum length of arrears, average payment compliance, the remaining term and the number of times that the credit is paid or financed.

– *Severity of loss:* This is 65% for up to 10 months in arrears and 100% thereafter.

– Exposure refers to the balance as of the classification date excluding interest accrued but not collected for credits in overdue portfolio.

The following table is used to determine the level of risk for the ranges of applicable allowance percentages:

| Level of risk | Allowance Percentage Ranges for Loan Losses |
|---|---|
| A | 0 to 0.99% |
| B | 1 to 19.99% |
| C | 20 to 59.99% |
| D | 60 to 89.99% |
| E | 90 to 100.00% |

The Institution applied the amendments issued by the Commission to the consumer loan portfolio rating methodology, which allowed institutions to recognize the initial cumulative effect of the change with a charge to stockholders' equity. The initial cumulative financial effect derived from the application of the portfolio rating methodology against stockholders' equity was $115, net of deferred taxes.

– *Consumer credit card loan portfolio:*

The Commission approved the Institution's request to apply an internal credit card rating model per official notice 111-1/69930/2009 on June 22, 2009, in the understanding that it will be used as of the month in which the Institution notifies the Commission of its intention to do so. Similarly, on August 31, 2009, the Institution notified the Commission of its decision to apply this internal model and that the initial accrued effect derived from its application would be recorded in stockholders' equity in conformity with the modification issued by the Commission.

During the year 2010, the Institution requested authorization from the Commission to apply new parameters for classification of revolving consumer credit portfolio used in its "Internal methodology for expected loss"; such authorization was granted in official notice 111-2/23006/2011 dated January 25, 2011.

The internally developed rating methodology involves calculating the expected 12-month loss based on the following:

– Noncompliance probability - Based on variables including portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.

– Loss severity - Is calculated based on variables like portfolio type, balance aging and noncompliance period.

– Exposure - Is determined according to the credit limit and current balance.

The allowance for credit card losses created by the Institution following this credit rating process is classified according to the following percentages:

| **Level of risk** | **Reserve percentages** | | |
|---|---|---|---|
| A | 0 | to | 0.99% |
| B-1 | 1 | to | 2.50% |
| B-2 | 2.51 | to | 19.99% |
| C | 20 | to | 59.99% |
| D | 60 | to | 89.99% |
| E | 90 | to | 100.00% |

As of December 31, 2011 and 2010, the classification and creation of the allowance for loan losses of the consumer credit portfolio is performed with figures as of the last day of each month and is presented to the Commission at the latest as of the 30 days following the month classified, in accordance with the reserve percentages applicable to each type of portfolio, as indicated above.

Additionally, a reserve is recognized for the total amount of the uncollected interest earned applicable to credits that are considered as past-due portfolio.

*Additional reserves:*

The additional reserves established by the Institution reflect internal rating models, mainly for mortgage loans, which consists of applying specific percentages (expected loss) to the unpaid balance of the debtor.

***Securitization with transfer of ownership -*** By securitizing the mortgage portfolio with transfer of ownership, the Institution (the "Transferor") transfers the financial assets through a securitization vehicle (the "Trust"), to enable the latter to issue securities through an intermediary (the "Casa de Bolsa"), for placement among small investors, which represent the right to the returns or the proceeds generated from the securitized financial asset, and as consideration the Transferor receives cash and a certification granting it the right to the remaining flows from the Trust after payment of the certificates to their holders.

The Transferor provides administrative services for the transfer of the financial assets and recognizes in results of the year the revenues derived from such services at the time they are earned. Such revenues are presented under the heading of "Commissions and fee income". Any expenses incurred from managing the Trust will be reimbursed by the Trust itself with the prior authorization of the Common Representative, provided that the Trust has sufficient cash flows to make such reimbursement. The Transferor will hold any payments made on account of the Trust in debtor accounts until the latter reimburses such expenses.

On December 17, 2007, the Commission authorized the Institution, through Official Letter number 153/1850110/2007, of the registration in of the National Securities Register of the Share Certificate Issuance Program up to the amount of $20,000 or its equivalent in UDIs with an effective term of five years computed as of the authorization date; such program is revolving.

The Institution recognized the securitized transactions performed during 2009 according to the new accounting criteria issued by the Commission in April 2009 regarding "Asset recognition and derecognition", "Securitized transactions" and "Consolidation of special-purpose entities". After applying these criteria, the Institution derecognized the securitized assets held by the trusts, which were subsequently consolidated on its balance sheet. Accordingly, these assets are recorded under assets in the balance sheet. The securitizations performed prior to 2009 are not consolidated, based on the treatment established by the Commission.

The benefit valuation methodology applied to the securitized transaction remnant is detailed below:

- The Institution has tools to measure and quantify the impact of securitized transactions on the balance sheet and statement of income based on the cost of funding, release of capital, reserves and liquidity levels when structuring issuances and during the life of each.

- The valuation system measures the follow-up of certificate performance and the subordinated portions recorded by the Institution and, if applicable, it also values the bond position to consider its possible sale on a secondary market.

- The valuation model is used to calculate the Institution's constant historical prepayment rate computation, the mortality rate, current credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

Notwithstanding the above, the Institution, maintaining a conservative position, has decided not to recognize the valuation of the benefits on the remnant of securitization transactions of the trusts 711, 752, 781 and 847, which resulted from the application of the methodology explained above, and recognized only the amortization of the value of the confirmed cash flows received from such trusts, which are held at nominal cost.

The characteristics of securitization contracts are detailed in Note 14.

***Other receivables -*** Balances of sundry debtors that are not settled within the 90 or 60 days following their initial recognition (the number of days depend on whether balances are identified or not) are reserved with a charge to results of the year, regardless of the possibilities of recovery.

The debit and credit balances of the transaction settling accounts represent currency and security purchases and sales recorded on the date of transaction.

***Repossessed assets or assets received through payment in kind -*** Assets which are foreclosed or received through payment in kind are recorded at the lower of cost or fair value, less the strictly indispensable costs and expenses incurred when they were awarded.

Goods acquired through legal foreclosure are recorded on the date on which the foreclosure is ruled upon.

Goods received as payment are recorded on the date on which the in-kind payment document is executed or when the delivery or transfer of ownership is formalized in a document.

On the recording date of the repossessed assets or assets received through payment in kind, the value of the asset which originated the foreclosure, as well as its respective reserve, must be canceled from the balance sheet, or the portion involving accrued or overdue payments settled through the partial payments in kind referred to by criterion B-6, "Loan Portfolio".

If the value of the asset which originated the foreclosure, net of reserves, exceeds the value of the repossessed assets, the difference will be recognized in results of the year under the heading "Other operating income (expenses)".

When the value of the asset that originated the foreclosure, net of reserves, is less than the value of the repossessed assets, the value of the latter must be adjusted to the net value of the asset.

Repossessed assets are valued according to the type of asset in question, and such valuation must be recorded against results of the year as "Other operation income (expenses)", as the case may be.

In accordance with the rules of the Commission, the mechanism to follow in determining the allowance for holding repossessed assets or assets received as payment in kind, is as follows:

**Allowance for personal property**

| Time elapsed as of the repossession or payment-in-kind (months) | Allowance percentage |
|---|---|
| Up to 6 | 0% |
| More than 6 and up to 12 | 10% |
| More than 12 and up to 18 | 20% |
| More than 18 and up to 24 | 45% |
| More than 24 and up to 30 | 60% |
| More than 30 | 100% |

**Allowance for real estate property**

| Time elapsed as of the repossession or payment-in-kind (months) | Allowance percentage |
|---|---|
| Up to 12 | 0% |
| More than 12 and up to 24 | 10% |
| More than 24 and up to 30 | 15% |
| More than 30 and up to 36 | 25% |
| More than 36 and up to 42 | 30% |
| More than 42 and up to 48 | 35% |
| More than 48 and up to 54 | 40% |
| More than 54 and up to 60 | 50% |
| More than 60 | 100% |

***Property, furniture and equipment -*** They are recorded at acquisition cost. The assets that come from acquisitions up to December 31, 2007 were restated by applying factors derived from the UDIs up to that date. The related depreciation and amortization is recorded by applying a given percentage based on the estimated useful life of such assets to the cost restated to that date.

Depreciation is determined based on the cost or the cost restated until 2007, using the straight-line method as of the month following the acquisition date, applying the following rates:

| | Rate |
|---|---|
| Real estate | 2.5% |
| Computer equipment | 25% |
| ATM's | 12.5% |
| Furniture and equipment | 10% |
| Vehicles | 25% |
| Machinery and equipment | 10% |

The Institution capitalizes the interest from financing as part of construction in progress.

***Impairment of long-lived assets in use -*** The Institution revises the book value of long-lived assets in use, in the presence of any indicator of impairment which shows that the book value might not be recoverable, considering the higher of the present value of the future net cash flows or the net selling price, in the event of their eventual disposal. Impairment is recorded if the book value exceeds the higher of the aforementioned values. The indicators of impairment considered for such purposes are, among others, the losses from operations or negative cash flows in the period, if they are combined with a history or projection of losses, depreciation and amortization charged to results which, in percentage terms, in relation to revenues, are substantially higher than those of previous years, or the services rendered, competition and other economic and legal factors.

***Equity investments -*** The Institution recognizes its investments in associated companies where it has control or significant influence by use of the equity method based on their accounting value reported in the last available financial statements of these entities.

***Income taxes -*** The income tax (ISR), and the Business Flat Tax (IETU) are recorded in results of the year in which they are incurred. To recognize deferred income taxes, based on its financial projections, the Institution must determine whether it will incur ISR or IETU and recognize deferred taxes for the tax that it will essentially pay. Deferred taxes are recognized by applying the respective rate to the temporary differences resulting from comparing the book and tax values of assets and liabilities, including the benefit of tax loss carryforwards. A deferred tax asset is only recorded when its recovery is highly likely.

The effect of all the items above is presented net in the balance sheet within the caption “Deferred taxes”.

Asset tax paid which is expected to be recovered is recorded as a tax credit and is presented in the balance sheet under the heading of “Deferred charges, prepaid expenses and intangibles”.

***Other assets -*** Software, computer developments and intangible assets are recorded originally at the face value incurred, and were restated from that date of acquisition or disbursement until December 31, 2007, using the factor derived from the UDI.

The amortization of software, computer developments and intangible assets with a definite useful life is calculated by the straight-line method, applying the respective rates to the restated expense.

***Goodwill*** - The goodwill generated for the excess of the cost over accounting value of subsidiaries on the acquisition date was recognized in accordance with the provisions of Bulletin C-15, *Impairment in the Value of Long-Lived Assets and Their Disposal*, and is subject to annual impairment tests.

***Labor liabilities -*** Under Mexican Labor Law, the Institution is liable for the payment of severance indemnities and seniority premiums to employees terminated under certain circumstances.

The Institution records the liability for severance payments, seniority, pensions, comprehensive medical services and life insurance as it is accrued, in accordance with actuarial calculations based on the projected unit credit method, using nominal rates in 2011 and 2010. The Institution recognizes the actuarial gains and losses against the result of the year, in accordance with NIF D-3 *Employee Benefits*.

Therefore, the liability is being recognized which, at present value, will cover the benefits obligation projected to the estimated date of retirement of the employees working at the Institution and its subsidiaries, as well as the obligation derived from the retired personnel.

***Sundry provisions -*** Sundry provisions are recognized for present obligations as a result of past events, that are probable to result in the future use of economic resources and that can be reasonably estimated.

***Foreign currency transactions -*** Foreign currency transactions are recorded at the exchange rate effective at the transaction date except for those generated by foreign branches. Assets and liabilities denominated in foreign currency are adjusted at the period end exchange rate published by Banco de México. Exchange fluctuations related to these assets and liabilities are charged to the income statement.

***Financial margin*** - The Institution's financial margin is composed by the difference between total interest income less interest expense.

Interest income is composed by the general returns generated by the loan portfolio based on the periods established in loans executed with borrowers and negotiated interest rates, the application of interest collected in advance, the premiums or interest accrued by deposits made with financial entities, bank loans, margin call accounts, securities investments, repurchase agreements and securities loans, together with debt placement premiums, commissions collected for initially granting credit and the dividends of equity instruments are included in interest income.

Interest expense is composed by the Institution's fund attraction premiums, discounts and interest, bank loans, repurchase agreements, securities loans, debentures, debt placement issuance expenses and discounts. The amortization of costs and expenses incurred to originate loans is included within interest expenses.

***Comprehensive income -*** This is composed of the net result of the year, plus other items representing a gain or loss from the same period, which, in accordance with the accounting practices followed by the Institution, are presented directly in stockholders' equity, such as the result from valuation of securities available for sale, the result from the valuation of cash flow hedge instruments, and the result from conversion of foreign operations, the initial effect derived from the first application of the change in classification methodology for credit portfolio, among others.

***Memorandum accounts -***

Memorandum accounts are used to record assets or commitments which do not form part of the Institution's balance sheet because the related rights are not acquired or such commitments are not recognized as a liability of the entities until such eventualities occur, respectively. The amounts accrued in the memorandum accounts have only been subject to audit tests when an accounting record arises from their information (the memorandum accounts that were not audited are indicated in each case):

– *Contingent assets and liabilities:*

  Any formal claims received by the Institution which involve some kind of liability are recorded in books.

– *Credit commitments:*

  Credit commitments represent the amount of letters of credit granted by the Institution which are considered as irrevocable commercial credits not utilized by the borrowers, and unused authorized credit lines.

  The items recorded in this account are subject to credit classification.

– *Assets in trust or under mandate (unaudited):*

  Assets in trust include the value of the goods received in trust, and the data related to the administration of each one is kept in separate records. Assets under mandate record the declared value of the goods subject to mandate contracts executed by the Institution.

– *Assets in custody or under administration (unaudited):*

  This account is used to record the goods and securities which are received from third parties for custody or to be administered by the Institution.

– *Collateral received by the Institution:*

  This balance represents the total amount of collateral received in repurchase transactions and securities loans, with the Institution acting as the repurchasing party and borrower.

– *Collateral received and sold or given in guarantee by the Institution:*

This balance represents the total collateral received and sold or given in guarantee when the Institution acts as a repurchasing party and borrower.

– *Other recording accounts (unaudited):*

As of December 31, 2011 and 2010 the other recording accounts present a balance of $1,442,476 and $1,458,540, respectively.

**5. Principal differences compared to MFRS**

The consolidated financial statements have been prepared in accordance with the accounting rules established by the Commission which, in the following instances, differ from MFRS, which is commonly applied in the preparation of financial statements for other types of unregulated entities:

– The accounting criteria issued by the Commission allow the transfer of securities classified as held to maturity to available for sale provided it does not have the intention or capacity to hold them to maturity. Likewise, securities can be reclassified from the category of securities held to maturity or negotiable securities to that of securities available for sale, albeit with the authorization of the Commission. According to Financial Information Standards Interpretation No. 16, *Transfers of Categories of Financial Instruments Held for Trading Purposes* (INIF 16), financial instruments held for trading purposes can be transferred to the categories of securities available for sale or securities held to maturity in those cases in which a primary financial instrument trades on an illiquid market and provided it fulfills certain requirements.

– The Commission's accounting criteria establish that in fair value hedges the adjustment to book value for the valuation of the item hedged should be presented in a separate heading in the balance sheet, instead of presenting it together with the primary position covered, as established in the MFRS.

– The amount of collateral given in cash, securities or other highly liquid assets in transactions involving derivatives on recognized markets or stock exchanges is presented under a specific balance sheet heading denominated "Margin call accounts" instead of being presented under the heading of "Derivatives", as established by MFRS.

– The initial recognition derived from the application of the new classification methodologies for nonrevolving consumer and States and their Municipalities portfolios, issued by the Commission, as described in Note 4, was recorded with a charge to stockholders' equity in the account "Result from previous years", not in the result for the year, as required by the MFRS.

– Interest accrued on past-due loans is recorded in memorandum accounts. When such interest is collected, it is recognized directly in results of the year. Up to 2010, the NIF required the recording of the accrued interest in results and the recognition of the respective reserve; however, based on improvements to the MFRS 2011, as indicated in Note 4, this no longer represents a difference in 2011.

– Under the Commission's accounting criteria for acquired loan portfolio, the face value of the portfolio acquired must be reported as loan portfolio, and any difference generated compared to the acquisition price when it is lower than the contractual value of the portfolio, must be recorded in results of the year up to the amount of any allowance for loan losses established and the excess as a deferred credit, which will be amortized as the respective collections are made, based on the percentage that the latter represent of the contractual value of the loan. When the acquisition price exceeds the contractual value of the portfolio, it will be recorded as a deferred charge, and will be amortized as the respective collections are made, based on the percentage that the latter represent of the contractual value of the credit. In accordance with the MFRS, the portfolio must be recognized at fair value as of the acquisition date; i.e., the purchase price.

– Current employee statutory profit sharing (PTU) is presented in the income statement under the heading "Administrative and promotional expenses". In accordance with the MFRS, current PTU is presented under the heading "Other operation income (expenses)".

– Sundry debts not collected in 90 or 60 days, depending on their nature, are reserved with a charge to results of the year, regardless of their possible recovery.

– The accounting criteria related to the consolidation of special-purpose entities, securitized transactions and the recognition and elimination of financial assets are applied prospectively and do not modify the effects of transactions performed prior to the application date (2008) and which are still current.

## 6. Cash and cash equivalents

At December 31, 2011 and 2010, cash and due from banks consisted of the following:

| | 2011 | 2010 |
|---|---|---|
| Cash | $ 34,674 | $ 35,794 |
| Banks | (21,929) | (14,042) |
| Restricted funds | 102,591 | 97,004 |
| Other quick funds | 64 | 86 |
| | $ 115,400 | $ 118,842 |

Banks include deposits in domestic and foreign banks in Mexican pesos and U.S. dollars, translated at the exchange rate published by *Banco de México* of $13.9476 and $12.3496 per U.S. dollar, as of December 31, 2011 and 2010, respectively, and are comprised as follows:

| | Mexican pesos | | U.S. Dollars (in Mexican pesos) | | Total | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Deposits with foreign credit institutions | $ - | $ - | $ 6,554 | $ 7,527 | $ 6,554 | $ 7,527 |
| Delivery foreign currency | (9) | - | (29,341) | (22,741) | (29,350) | (22,741) |
| Banco de México | | (1) | 43 | 330 | 43 | 329 |
| Domestic banks | 776 | 809 | 48 | 34 | 824 | 843 |
| | $ 767 | $ 808 | $ (22,696) | $ (14,850) | $ (21,929) | $ (14,042) |

Circular Telefax 30/2002 of *Banco de México* included instructions for the creation of a new monetary regulation deposit for all credit institutions, whose duration is indefinite with interest payable every 28 days, which began to accrue as of September 26, 2002, the date of the first deposit. Such Circular was repealed as of August 21, 2008 and Circular Telefax 30/2008 went into effect, retaining the same conditions as the previous one. As of December 31, 2011 and 2010, the monetary regulation deposits and interest of the Institution are $65,106 and $65,103, respectively, and are included in the balance of "Restricted funds".

As of December 31, 2011 and 2010, restricted funds available are composed as follows:

| | 2011 | 2010 |
|---|---|---|
| Monetary regulation deposits | $ 65,106 | $ 65,103 |
| Foreign exchange receivables | 25,219 | 27,183 |
| Call money interbank loans | 11,866 | 4,212 |
| Other restricted deposits | 400 | 506 |
| | $ 102,591 | $ 97,004 |

"Call money" operations represent interbank loan transactions agreed at a term shorter than or equal to three business days, respectively.

## 7. Margin call accounts

At December 31, 2011 and 2010, margin call accounts are composed as follows:

| | 2011 | 2010 |
|---|---|---|
| Derivatives margin in authorized markets ............................... | $ 3,544 | $ 3,047 |
| Margin of ADR´s .................................................................... | 2 | 431 |
| | $ 3,546 | $ 3,478 |

## 8. Securities

At December 31, 2011 and 2010, financial instruments were as follows:

a. ***Trading -***

| Instrument | 2011 Acquisition Cost | 2011 Accrued Interest | 2011 Increase (Decrease) due to Valuation | 2011 Book Value | 2010 Book Value |
|---|---|---|---|---|---|
| Equity instruments, net .................... | $ 11,335 | $ - | $ (696) | $ 10,639 | $ 8,150 |
| BPA's ( Saving protection bonds).... | 5,173 | 46 | - | 5,219 | 29,897 |
| Sovereign debt Eurobonds .............. | 6,027 | 84 | 178 | 6,289 | 3,496 |
| Investment funds............................. | 22 | - | - | 22 | 19 |
| Bonds.............................................. | 16,686 | 22 | 1 | 16,709 | 11,823 |
| Corporate Eurobonds ....................... | 3 | - | - | 3 | 35 |
| CETES............................................ | 3,743 | - | - | 3,743 | 3,842 |
| Notes with interest payable at maturity ...................................... | 9 | - | - | 9 | 2,010 |
| Stock marker certificates................. | 4,659 | 22 | (1) | 4,680 | 762 |
| Interchangeable stock market certificates (CBIC's).................... | 28 | - | - | 28 | 1 |
| Certificates of deposit ..................... | 521 | 1 | - | 522 | 1,779 |
| Fixed-rate bonds ............................. | 1,873 | 4 | 4 | 1,881 | 5,618 |
| Udibonos ........................................ | 1,023 | 1 | (1) | 1,023 | 34 |
| ADR's ............................................ | 7,812 | - | (93) | 7,719 | 155 |
| Comercial paper.............................. | - | - | - | - | 6,175 |
| Bank bonds ..................................... | 41 | - | - | 41 | - |
| Certificates of deposit ..................... | 987 | 2 | 13 | 1,002 | - |
| Entity comercial paper .................... | 528 | - | - | 528 | - |
| Total ............................................... | $ 60,470 | $ 182 | $ (595) | $ 60,057 | $ 73,796 |

During 2011 and 2010, valuation income and losses for net amounts of $786 and $(911) respectively, were recorded in results of the year.

At December 31, 2011, the remaining periods of these investments were as follows:

| Instrument | Within 1 Month | Between 1 y 3 Months | Over 3 Months | No fixed Term | Acquisition Cost |
|---|---|---|---|---|---|
| Equity instruments, net | $ - | $ - | $ - | $ 11,335 | $ 11,335 |
| BPA's (saving protection bonds) | - | - | 5,173 | - | 5,173 |
| Sovereign debt Eurobonds | 86 | - | 5,941 | - | 6,027 |
| Investment Funds | - | - | - | 22 | 22 |
| Bonds | 714 | - | 15,972 | - | 16,686 |
| Corporate Eurobonds | - | - | 3 | - | 3 |
| CETES | - | - | 3,743 | - | 3,743 |
| Notes with interest payable at maturity | 1 | - | 8 | - | 9 |
| Stock market certificates | 662 | - | 3,287 | 710 | 4,659 |
| Interchangeable stock market certificates (CBIC's) | - | - | 28 | - | 28 |
| Certificates of deposit | - | - | 521 | - | 521 |
| Fixed-rate bonds | - | - | 1,873 | - | 1,873 |
| Udibonos | - | - | 1,023 | - | 1,023 |
| ADR's | - | - | - | 7,812 | 7,812 |
| Bank bonds | - | - | 41 | - | 41 |
| Certificates of deposit | - | 987 | - | - | 987 |
| Entity comercial paper | 343 | - | 185 | - | 528 |
| Total | $ 1,806 | $ 987 | $ 37,798 | $ 19,879 | $ 60,470 |

The collateral granted as of December 31, 2011 and 2010 were composed as follows:

| | 2011 | | | | 2010 |
|---|---|---|---|---|---|
| | Acquisition Cost | Accrued Interest | Increase (Decrease) due to Valuation | Book Value | Book Value |
| Bonds | $ 7,559 | $ (4) | $ (8) | $ 7,547 | $ 540 |
| Fixed-rate bonds | - | - | - | - | 3,339 |
| BPA's (saving protection bonds) | 18,278 | 2 | 4 | 18,284 | 7,213 |
| Bonds guarantee to be received for security loans | 25,837 | (2) | (4) | 25,831 | 11,092 |
| Bonds | 61,525 | 6 | (9) | 61,522 | 27,671 |
| Fixed-rate bonds | 15,218 | 2 | 1 | 15,221 | 6,796 |
| CETES | 5,782 | 1 | - | 5,783 | 3,174 |
| Udibonos | 4,923 | - | (8) | 4,915 | 3,315 |
| Stock market certificates | 431 | - | - | 431 | 1,198 |
| Bank bonds | 1,032 | - | - | 1,032 | 583 |
| Interchangeable stock market certificates (CBIC's) | 4,199 | 1 | (16) | 4,184 | 1,140 |
| Comercial paper | 129 | - | - | 129 | 354 |
| BPA's (saving protection bonds) | 26,751 | 5 | 82 | 26,838 | 20,019 |
| Bonds guarantee to be received for repurchase agreements | 119,990 | 15 | 50 | 120,055 | 64,250 |
| Guarantee T BILLS receivable from derivatives | 7,811 | - | - | 7,811 | 7,045 |
| Bonds TF | 611 | (7) | (6) | 598 | - |
| Other guarantees | 8,422 | (7) | (6) | 8,409 | 7045 |
| Total Restrictions | $ 154,249 | $ 6 | $ 40 | $ 154,295 | $ 82,387 |

Value date purchases at December 31, 2011, and 2010, were composed as follows:

| | 2011 | | | | 2010 |
|---|---|---|---|---|---|
| | Costo de Adquisición | Interest Earned | Increase (Decrease) from Valuation | Book Value | Book Value |
| Fixed-rate bonds | $ 3,925 | $ 10 | $ (3) | $ 3,932 | $ 814 |
| CETES | - | - | - | - | 115 |
| ADR's | 41 | - | - | 41 | 4 |
| Stock market certificates | - | - | - | - | 10 |
| Interchangeable stock market certificates (CBIC's) | - | - | - | - | 51 |
| BPA's (saving protection bonds) | - | - | - | - | 105 |
| Udibonos | 367 | - | - | 367 | 120 |
| Equity securities | 528 | - | 1 | 529 | 500 |
| Total | $ 4,861 | $ 10 | $ (2) | $ 4,869 | $ 1,719 |

Value date sales at December 31, 2011, and 2011, were composed as follows:

| | 2011 | | | | 2010 |
|---|---|---|---|---|---|
| | Acquisition Cost | Interest Earned | Increase (Decrease) from Valuation | Book Value | Book Value |
| BPA's (saving protection bonds) | $ - | $ - | $ - | $ - | $ (50) |
| Fixed-rate bonds | (1,942) | (5) | - | (1,947) | (1,701) |
| CETES | (1,965) | - | - | (1,965) | (209) |
| Sovereign debt Eurobonds | - | - | - | - | (4) |
| Interchangeable stock market certificates (CBIC's) | - | - | - | - | (10) |
| Stock market certificates | - | - | - | - | (25) |
| ADR's | (41) | - | - | (41) | (4) |
| Udibonds | (729) | (1) | - | (730) | (847) |
| Bonds | (98) | - | - | (98) | - |
| Equity securities | (1,305) | - | (23) | (1,328) | (330) |
| Total | (6,080) | (6) | (23) | (6,109) | (3,180) |
| Total trading securities | $ 213,500 | $ 192 | $ (580) | $ 213,112 | $ 154,722 |

b. ***Available for sale -***

| | 2011 | | | | 2010 |
|---|---|---|---|---|---|
| Instrument | Acquisition Cost | Accrued Interest | Increase (Decrease) due to Valuation | Book Value | Book Value |
| Fixed-rate bonds | $ - | $ - | $ - | $ - | $ 44,687 |
| Sovereign debt Eurobonds | 2,688 | 55 | 17 | 2,760 | - |
| Stock market certificates | 907 | 3 | - | 910 | 1,199 |
| VISA Shares | - | - | - | - | 882 |
| ADR's | 16 | - | 102 | 118 | 945 |
| Equity securities | 4 | - | 1 | 5 | 5 |
| Certificates of deposit | - | - | - | - | 3,315 |
| Corporate Eurobonds | 148 | 6 | 4 | 158 | - |
| Comercial paper | 13,669 | 2 | 2 | 13,673 | - |
| Total | $ 17,432 | $ 66 | $ 126 | $ 17,624 | $ 51,033 |

At December 31, 2011, the remaining scheduled maturities of the above instruments were as follows:

| Instruments | Within 1 Month | Between 1 y 3 Months | Over 3 Months | No fixed Term | Total Acquisition Cost |
|---|---|---|---|---|---|
| Sovereign debt Eurobonds | $ - | $ - | $ 2,688 | $ - | $ 2,688 |
| Stock market certificates | - | - | 907 | - | 907 |
| Equity securities | - | - | - | 4 | 4 |
| ADR's | - | - | - | 16 | 16 |
| Corporate Eurobonds | - | - | 148 | - | 148 |
| Comercial paper | 13,669 | - | - | - | 13,669 |
| Total | $ 13,669 | $ - | $ 3,743 | $ 20 | $ 17,432 |

Collateral granted as of December 31, 2011 and 2010 were as follows:

| Instrument | 2011 Acquisition Cost | 2011 Accrued Interest | 2011 Increase due to Valuation | 2011 Book Value | 2010 Book Value |
|---|---|---|---|---|---|
| Fixed-rate bonds | $ 74,359 | $ (186) | $ 203 | $ 74,376 | $ 67,014 |
| Certificates of deposit | - | - | - | - | 620 |
| Stock market certificates | 4,479 | (15) | 441 | 4,905 | 4,088 |
| BPA's (saving protection bonds) | 410 | - | - | 410 | 2,004 |
| T-Bill in guarantees | 781 | - | - | 781 | - |
| Bonds | 6,984 | 1 | 1 | 6,986 | 999 |
| Bonds Ibrd | - | - | - | - | 214 |
| Total guarantees to be received for repurchase agreements | $ 87,013 | $ (200) | $ 645 | $ 87,458 | $ 74,939 |
| Total securities available for sale | $ 104,445 | $ (134) | $ 771 | $ 105,082 | $ 125,972 |

c. ***Held to maturity -***

*The following securities have medium and long-term maturities:*

| Instrument | 2011 Acquisition Cost | 2011 Accrued Interest | 2011 Book Value | 2010 Book Value |
|---|---|---|---|---|
| Government bonds- Mortgage debtor support program | $ 13,084 | $ - | $ 13,084 | $ 12,561 |
| Government bonds- State and Municipality debtor support program | 1,547 | - | 1,547 | 1,482 |
| U.S. Treasury securities | 40 | - | 40 | 267 |
| Certificate of deposit | - | - | - | 1 |
| Sovereign debt Eurobonds | - | - | - | 37 |
| Total | $ 14,671 | $ - | $ 14,671 | $ 14,348 |

For the years ended December 31, 2011 and 2010, the yields related to the overall held to maturity portfolio, recorded in the result of the year, amounted to $607 and $606, respectively.

## 9. Repurchase transactions

As of December 31, 2011 and 2010, repurchase transactions were composed as follows:

a. ***Repurchase agreement debtors*** -

*As repurchasing party:*

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Asset Side | Liability Side | | Asset Side | Liability Side | |
| **Instrument** | **Receivable under repurchase agreements** | **Collateral sold or delivered in guarantee** | **Debit balance** | **Receivable under repurchase agreements** | **Collateral sold or delivered in guarantee** | **Credit balance** |
| Bonds | $ 20,943 | $ 16,429 | $ 4,514 | $ 24,757 | $ 24,764 | $ (7) |
| Fixed-rate bonds | 4,560 | 4,558 | 2 | 16,332 | 16,337 | (5) |
| BPA's | 25,204 | 25,180 | 24 | 26,985 | 26,992 | (7) |
| CETES | - | - | - | 872 | 872 | - |
| Total | $ 50,707 | $ 46,167 | $ 4,540 | $ 68,946 | $ 68,965 | $ (19) |

b. ***Repurchase agreement creditors*** -

*As reselling party:*

| | 2011 | 2010 |
|---|---|---|
| | Liability Side | Liability Side |
| **Instruments** | **Payables under resale agreements** | **Payables under resale agreements** |
| Bonds | $ 68,590 | $ 28,707 |
| Fixed-rate bonds | 89,524 | 71,971 |
| BPA's (saving protection bonds) | 27,168 | 22,038 |
| CBIC's | 4,197 | 1,125 |
| CETES | 5,783 | 3,174 |
| CEDES | - | 621 |
| Udibonds | 4,922 | 3,315 |
| Stock market certificates | 10,571 | 6,720 |
| Secured commercial paper | 129 | 355 |
| Total | $ 210,884 | $ 138,026 |

c. ***Securities loan debtors and creditors:***

*Borrower:*

| Instrument | 2011 Memoranda accounts Collateral Received for Securities Loans | 2011 Memoranda accounts Collateral Received for Loans and Sold or Given in Guarantee | 2011 Liability portion Creditors from Collateral Sold or Given in Guarantee | 2010 Memoranda accounts Collateral Received for Securities Loans | 2010 Memoranda accounts Collateral Received for Loans Sold or Given in Guarantee | 2010 Liability portion Creditors from Collateral Sold or Given in Guarantee |
|---|---|---|---|---|---|---|
| Government securities | | | | | | |
| Equity securities....... | $ - | $ - | $ - | $ 203 | $ 203 | $ 203 |
| Fixed-rate bonds....... | 12,948 | 12,948 | 12,948 | 9,404 | 9,404 | 9,404 |
| Udibonds.................. | 309 | 309 | 309 | 152 | 152 | 152 |
| CETES..................... | 7,275 | 7,275 | 7,275 | 1,009 | 1,009 | 1,009 |
| CBIC'S.................... | 4,191 | 4,191 | 4,191 | - | - | - |
| Total......................... | $ 24,723 | $ 24,723 | $ 24,723 | $ 10,768 | $ 10,768 | $ 10,768 |

Premiums were recognized in the results of 2011 and 2010 for the amount of $44 and $30, respectively.

## 10. Derivatives

At December 31, 2011 and 2010, securities and derivative transactions were as follows:

a. ***Derivatives*** - The chart below shows the open derivative instrument transactions of the Institution as of December 31, 2011 and 2010. The currency position generated by these derivative instruments must be added to the position in the balance sheet in order to obtain the year-end position amount analyzed in Note 28.

*Trading:*

| Transaction | 2011 Notional Amount Asset | 2011 Notional Amount Liability | 2011 Balance Debtor | 2011 Balance Creditor |
|---|---|---|---|---|
| Futures long position ...... | $ 217,987 | $ 217,987 | $ - | $ - |
| Futures short position ..... | 26,233 | 26,233 | - | - |
| Forward long position ........................ | 209,920 | 208,754 | 4,542 | 3,379 |
| Forward short position ........................ | 212,996 | 215,430 | 2,500 | 4,931 |
| Options purchased .......... | 1,544 | - | 1,544 | - |
| Options sold.................... | - | 2,595 | - | 2,595 |
| Swaps.............................. | 583,540 | 589,709 | 55,047 | 61,216 |
| | $ 1,252,220 | $ 1,260,708 | $ 63,633 | $ 72,121 |

| Transaction | Notional Amount Asset (2010) | Notional Amount Liability (2010) | Balance Debtor (2010) | Balance Creditor (2010) |
|---|---|---|---|---|
| Futures long position | $ 152,499 | $ 152,499 | $ - | $ - |
| Futures short position | 48,873 | 48,873 | - | - |
| Forward long position | 162,410 | 165,628 | 814 | 4,026 |
| Forward short position | 161,595 | 158,215 | 4,319 | 945 |
| Options purchased | 3,955 | - | 3,454 | - |
| Options sold | - | 5,562 | - | 5,061 |
| Swaps | 523,605 | 530,494 | 46,011 | 52,900 |
| | $ 1,052,937 | $ 1,061,271 | $ 54,598 | $ 62,932 |

*Hedging:*

| Transaction | Notional Amount Asset (2011) | Notional Amount Liability (2011) | Balance, net Debtor (2011) | Balance, net Creditor (2011) |
|---|---|---|---|---|
| Forward short position | $ 747 | $ 771 | $ - | $ 24 |
| Swaps | 75,796 | 67,544 | 10,828 | 2,576 |
| | $ 76,543 | $ 68,315 | $ 10,828 | $ 2,600 |

| Transaction | Notional Amount Asset (2010) | Notional Amount Liability (2010) | Balance, net Debtor (2010) | Balance, net Creditor (2010) |
|---|---|---|---|---|
| Forward short position | $ 3,039 | $ 2,981 | $ 61 | $ 3 |
| Swaps | 32,183 | 29,005 | 4,594 | 1,416 |
| | $ 35,222 | $ 31,986 | $ 4,655 | $ 1,419 |

**a1.** ***Futures and forward contracts -*** For the year ended December 31, 2011, the Institution carried out transactions in recognized markets (Mexican Derivatives Market (Mex-Der) Chicago and ITAU), generating a US dollar futures income of $1,868, of which $75 is attributable to rate forwards, $1,054 is attributable to currency forwards, $721 is attributable to indeces and $18 corresponds to securities.

It also entered into forward contracts with the principal foreign currencies. At the close of the year the following contracts are open:

*Trading:*

| Type of Transaction | Underlying | Sales: Receivable | Sales: Contract Value | Purchases: Contract Value | Purchases: Deliverable | Book Balance |
|---|---|---|---|---|---|---|
| Futures | TIIE | $ 11,052 | $ 11,052 | $ 172,769 | $ 172,769 | $ - |
| | Euro Dollars | 3,836 | 3,836 | 683 | 683 | - |
| | M10 bond | 956 | 956 | 2,581 | 2,581 | - |
| | Index | 8,900 | 8,900 | 1,434 | 1,434 | - |
| | U.S. dollars | 1,099 | 1,099 | 29,053 | 29,053 | - |
| | CETES | - | - | 10,795 | 10,795 | - |
| | BMF | 374 | 374 | 672 | 672 | - |
| | Equity securities | 16 | 16 | - | - | - |
| | | $ 26,233 | $ 26,233 | $ 217,987 | $ 217,987 | $ - |
| Forwards | U.S. dollars | $ 201,530 | $ 204,011 | $ 194,416 | $ 192,303 | $ (368) |
| | Index | 1,309 | 1,332 | 13,494 | 14,435 | (964) |
| | Equity securities | 10,157 | 10,087 | 2,010 | 2,016 | 64 |
| | | $ 212,996 | $ 215,430 | $ 209,920 | $ 208,754 | $ (1,268) |

*Hedging:*

| Type of Transaction | Underlying | Sales: Receivable | Sales: Contract Value | Purchases: Contract Value | Purchases: Deliverable | Book Balance |
|---|---|---|---|---|---|---|
| Forwards | US dollar | $ 747 | $ 771 | $ - | $ - | $ (24) |

**a2.** ***Options*** - At December 31, 2011, option transactions were as follows:

*Trading:*

| Type of Transaction | | Underlying | Reference Amount | Fair Value |
|---|---|---|---|---|
| Purchases | OTC Options | Interest rates | $ 36,379 | $ 946 |
| | | Index | 23,941 | 283 |
| | | U.S. dollars | 24,409 | 296 |
| | | Energy commodities | 606 | 7 |
| | | Agricultural commodities | 103 | 8 |
| | Authorized market options | Equity securities and index | 66 | 4 |
| | | | | $ 1,544 |

| Type of Transaction | | Underlying | Reference Amount | Fair Value |
|---|---|---|---|---|
| Sales | OTC Options | Interest rates | $ 87,906 | $ 714 |
| | | Index | 35,034 | 1,718 |
| | | U.S. dollars | 24,069 | 139 |
| | | Energy commodities | 606 | 7 |
| | | Agricultural commodities | 103 | 8 |
| | Authorized market options | Equity securities and index | 200 | 9 |
| | | | | $ 2,595 |

**a3.** ***Swaps -*** At December 31, 2011, swap transactions were as follows:

*Trading:*

| Underlying | Denomination | Contract Value Receivable | Contract Value Deliverable | Receivable | Deliverable | Net Position |
|---|---|---|---|---|---|---|
| Currency | U.S. dollars | $ 139,292 | $ 157,997 | $ 158,406 | $ 176,326 | $ (17,920) |
| | Mexican pesos | 131,623 | 110,772 | 205,466 | 192,715 | 12,751 |
| | UDI | 58,832 | 66,195 | - | - | - |
| | Euro | 11,409 | 11,525 | 11,981 | 12,093 | (112) |
| | Yen | 3,787 | 3,787 | 3,928 | 3,928 | - |
| | Colombian peso | 5,989 | 4,242 | - | - | - |
| | CHF | 744 | 744 | 823 | 23 | - |
| | Peruvian nuevo sol | 302 | 154 | - | - | - |
| | | | | 380,604 | 385,885 | (5,281) |

| Underlying | Denomination | Contract Value Receivable | Contract Value Deliverable | Receivable | Deliverable | Net Position |
|---|---|---|---|---|---|---|
| Interest rates | Mexican pesos | | 735,454 | $ 171,974 | $ 174,893 | $ (2,919) |
| | U.S. dollars | | 452,137 | 27,093 | 26,229 | 864 |
| | Euro | | 592 | 3 | - | 3 |
| | | | | 199,070 | 201,122 | (2,052) |
| Equity securities | Mexican pesos | | $ 318 | $ 53 | $ 318 | $ (265) |
| | U.S. dollars | | 13,686 | 1,295 | - | 1,295 |
| | Euro | | 24,699 | 591 | 310 | 281 |
| | | | | 1,939 | 628 | 1,311 |
| CDS | U.S. dollars | | $ 1,604 | $ 184 | $ 163 | $ 21 |
| CRA | Mexican pesos | | | $ (59) | $ - | $ (59) |
| Commodities | | | | | | |
| Energeticos | U.S. dollars | | 624 | $ 517 | $ 517 | $ - |
| Authorized markets | Mexican pesos | | 2,663 | 1,285 | 1,394 | (109) |
| | | | | $ 583,540 | $ 589,709 | $ (6,169) |

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions, agreed to at annual rates ranging from 2.63% to 20.26%. At December 31, 2011, the reference amount of swaps was $735,454.

*Hedging:*

| Underlying | Currency | Contract Value Receivable | Contract Value Deliverable | Receivable | Deliverable | Net Position |
|---|---|---|---|---|---|---|
| Currency | Euro | $ 10,862 | $ 2,661 | $ 11,376 | $ 3,164 | $ 8,212 |
| | Mexican pesos | 2,526 | 19,528 | 2,752 | 21,120 | (18,368) |
| | U.S. dollars | 19,442 | - | 22,095 | - | 22,095 |
| | Yen | - | 7,382 | - | 7,609 | (7,609) |
| | | | | 36,223 | 31,893 | 4,330 |
| | | | Contract Value | | | |
| Interest rates | Mexican pesos | | $ 99,610 | $ 27,201 | $ 25,750 | $ 1,451 |
| | U.S. dollars | | 23,999 | 12,372 | 9,901 | 2,471 |
| | | | | 39,573 | 35,651 | 3,922 |
| | | | | $ 75,796 | $ 67,544 | $ 8,252 |

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions, agreed to at annual rates ranging from 4.79% to 10.97%. At December 31, 2011, the reference amount of swaps was $99,610.

Collateral received in OTC derivatives as of December 31, 2011 and 2010 is recorded under the heading of "Creditors for collateral received in cash" and is shown as follows:

| | 2011 | | | 2010 |
|---|---|---|---|---|
| **Cash Received as Guarantee of Derivatives** | **Acquisition Cost** | **Accrued Interests** | **Book Value** | **Book Value** |
| Credit Suisse Security | $ 6,258 | $ 2 | $ 6,260 | $ 4,486 |
| Goldman Sachs Paris | 1,324 | - | 1,324 | - |
| Credit Agricole CIB | 1,214 | - | 1,214 | 388 |
| BNP Paribas NY Branch | 599 | - | 599 | 52 |
| Societe Generale | 342 | - | 342 | 199 |
| Merrill Lynch Capital Services Inc | 170 | - | 170 | 216 |
| Banco Inbursa SA IBM | 158 | - | 158 | - |
| Standard Chartered | 63 | - | 63 | 22 |
| Bank of America National | 52 | - | 52 | - |
| BBVA Banco Continental | 5 | - | 5 | - |
| BBVA Servex | - | - | - | 2,238 |
| Docuformas S.A.P.I. C.V. | - | - | - | 4 |
| Total cash guarantees received | $ 10,185 | $ 2 | $ 10,187 | $ 7,605 |

## a4. *Transactions with embedded derivatives -*

*Trading:*

| | 2011 | | | |
|---|---|---|---|---|
| | Book Value | | Balance | |
| **Transaction Type** | **Asset** | **Liability** | **Debtor** | **Creditor** |
| Options acquired | $ 143 | $ - | $ 143 | $ - |
| Options sold | - | 32 | - | 32 |
| Swaps | 12,959 | 12,727 | 2,274 | 2,042 |
| | $ 13,102 | $ 12,759 | $ 2,417 | $ 2,074 |

| | 2010 | | | |
|---|---|---|---|---|
| | Book Value | | Balance | |
| **Transaction Type** | **Asset** | **Asset** | **Asset** | **Asset** |
| Options acquired | $ 7 | $ - | $ 7 | $ - |
| Options sold | - | 36 | - | 36 |
| Swaps | 6,211 | 6,295 | 153 | 237 |
| | $ 6,218 | $ 6,331 | $ 160 | $ 273 |

## a5. *Embedded (underlying) options -*

*Trading:*

| Type of Transaction | | Underlying | 2011 Nominal Amount | 2011 Fair Value |
|---|---|---|---|---|
| Purchases | OTC options | Interest rates | $ 288 | $ 1 |
| | | Index | 1 | - |
| | | US dollar | 4,724 | 142 |
| | | | $ 5,013 | $ 143 |
| Sales | OTC options | Interest rates | $ 101 | $ - |
| | | Index | 1 | 30 |
| | | US dollar | 5 | 2 |
| | | | $ 107 | $ 32 |

| Type of Transaction | | Underlying | 2010 Nominal Amount | 2010 Fair Value |
|---|---|---|---|---|
| Purchases | OTC options | Interest rates | $ 2,706 | $ 7 |
| Sales | OTC options | Interest rates | $ 168 | $ - |
| | | Index | 372 | 35 |
| | | US dollar | 1 | 1 |
| | | | $ 541 | $ 36 |

## a6. *Embedded (underlying) swaps-*

*Trading:*

| Underlying | Currency | 2011 Face Value To Be Received | 2011 Market Value To Be Received | 2011 Market Value To Be Delivered | 2011 Fair Value |
|---|---|---|---|---|---|
| Currency | Mexican peso | $ 4,941 | $ 4,950 | $ 5,655 | $ (705) |
| | US dollar | 5,620 | 7,929 | 6,952 | 977 |
| | | $ 10,561 | $ 12,879 | $ 12,607 | $ 272 |
| Interest rates | Mexican peso | $ 10,879 | $ 80 | $ 120 | $ (40) |

| Underlying | Currency | 2010 Face Value To Be Received | 2010 Market Value To Be Received | 2010 Market Value To Be Delivered | 2010 Fair Value |
|---|---|---|---|---|---|
| Currency | Mexican peso | $ 2,908 | $ 2,911 | $ 3,124 | $ (213) |
| | US dollar | 2,826 | 3,222 | 3,040 | 182 |
| | | $ 5,734 | $ 6,133 | $ 6,164 | $ (31) |
| Interest rates | Mexican peso | $ 10,696 | $ 78 | $ 131 | $ (53) |

## 11. Loan portfolio

Loans granted classified by type of loan at December 31, 2011 and 2010, were as follows:

| Type of loan | Performing portfolio 2011 | Performing portfolio 2010 | Non-performing portfolio 2011 | Non-performing portfolio 2010 | Total 2011 | Total 2010 |
|---|---|---|---|---|---|---|
| Commercial loans- | | | | | | |
| Denominated in Mexican pesos- | | | | | | |
| Commercial | $ 139,863 | $ 148,246 | $ 6,515 | $ 3,133 | $ 146,378 | $ 151,379 |
| Rediscounted portfolio | 6,621 | 6,236 | 77 | 69 | 6,698 | 6,305 |
| Lease portfolio | 1,224 | 1,368 | 23 | 27 | 1,247 | 1,395 |
| Denominated in U.S. dollars- | | | | | | |
| Commercial | 69,697 | 55,246 | 926 | 770 | 70,623 | 56,016 |
| Rediscounted portfolio | 1,035 | 711 | 14 | 30 | 1,049 | 741 |
| Lease portfolio | 96 | 134 | - | - | 96 | 134 |
| Total commercial loans | 218,536 | 211,941 | 7,555 | 4,029 | 226,091 | 215,970 |
| Financial entities | 7,425 | 8,540 | 1 | 5 | 7,426 | 8,545 |
| Government entities | 91,944 | 80,675 | - | - | 91,944 | 80,675 |
| Total trade loans | 317,905 | 301,156 | 7,556 | 4,034 | 325,461 | 305,190 |
| Consumer- | | | | | | |
| Credit card | 80,972 | 70,420 | 4,133 | 3,888 | 85,105 | 74,308 |
| Other consumer loans | 65,762 | 48,254 | 1,623 | 1,279 | 67,385 | 49,533 |
| Total consumer loans | 146,734 | 118,674 | 5,756 | 5,167 | 152,490 | 123,841 |
| Residential mortgage | 145,577 | 145,472 | 6,369 | 5,222 | 151,946 | 150,694 |
| Total loan | $ 610,216 | $ 565,302 | $ 19,681 | $ 14,423 | $ 629,897 | $ 579,725 |

Commercial loans are detailed below; the distressed and non-distressed current and overdue portfolios at December 31, 2011, are also identified. This portfolio does not include guarantees and interests collected ahead of time, which are shown as part of the commercial portfolio on the balance sheet:

| Portfolio | Distressed Current | Distressed Past due | Non-distressed Current | Non-distressed Past due | Total |
|---|---|---|---|---|---|
| Business or commercial activity | $ 91 | $ 2,959 | $ 205,692 | $ 4,750 | $ 213,492 |
| Loans to financial entities | 64 | - | 7,355 | 1 | 7,420 |
| Loans to government entities | - | - | 91,956 | - | 91,956 |
| Business TDC | - | 5 | 13,382 | 169 | 13,556 |
| Entity TDC | - | 1 | 73 | 2 | 76 |
| | $ 155 | $ 2,965 | $ 318,458 | $ 4,922 | $ 326,500 |

The restructured and renewed portfolio at December 31, 2011, was as follows:

| Restructured Portfolio | Current | Past due | Total |
|---|---|---|---|
| Business or commercial activity | $ 29,091 | $ 2,844 | $ 31,935 |
| Consumer loans | 1,886 | 945 | 2,831 |
| Residential mortgage loans | 28,025 | 4,838 | 32,863 |
| | $ 59,002 | $ 8,627 | $ 67,629 |

At December 31, 2011, the Institution has guarantees consisting of real property and securities for restructured commercial loans of $28,606 and $31,447, respectively.

As of December 31, 2011, aging of past due portfolio is as follows (in days):

| Portfolio | Period | | | |
|---|---|---|---|---|
| | 1 to 180 | 181 to 365 | 365 days to 2 years | Total |
| Business or commercial activity | $ 3,230 | $ 2,363 | $ 1,963 | $ 7,556 |
| Consumer loans | 5,520 | 236 | - | 5,756 |
| Residential mortgage loans | 2,694 | 2,823 | 852 | 6,369 |
| | $ 11,444 | $ 5,422 | $ 2,815 | $ 19,681 |

At December 31, 2011, unaccrued commissions for initially granting credit, by type and average payment period, are as follows:

| | By amortization period | | | |
|---|---|---|---|---|
| | 1 to 5 years | 15 years | More than 15 years | Total |
| Business or commercial activity | $ 482 | $ 138 | $ 64 | $ 684 |
| Residential mortgage loans | 4 | 219 | 315 | 538 |
| | $ 486 | $ 357 | $ 379 | $ 1,222 |

As of December 31, 2011 and 2010, the balances of overdue credit portfolio fully reserved and eliminated from the balance sheet were as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Credit card | $ 3,371 | $ 3,217 |
| Commercial | 3,251 | 2,426 |
| Consumer | 873 | 718 |
| Residential mortgage | 449 | 929 |
| Total | $ 7,944 | $ 7,290 |

As of December 31, 2011 and 2010, the amounts of portfolio sold were as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Credit card and consumer | $ 9,998 | $ 4,716 |
| Residential mortgage | 3,260 | 746 |
| Total | $ 13,258 | $ 5,462 |

As of December 31, 2011 and 2010, the amount of lines of credit and letters of credit recorded in memoranda accounts comes to $229,597 and $199,413, respectively.

Revenues from interest and commissions recorded in the financial margin, segmented by type of credit, are composed as follows:

| Type of loan | 2011 Interest | 2011 Commissions | 2011 Total | 2010 Total |
|---|---|---|---|---|
| Commercial loans- | | | | |
| Denominated in Mexican pesos- | | | | |
| Commercial | $ 13,176 | $ 760 | $ 13,936 | $ 14,004 |
| Rediscounted portfolio | 453 | - | 453 | 426 |
| Lease portfolio | 107 | - | 107 | 112 |
| Denominated in U.S. dollars- | | | | |
| Commercial | 1,856 | - | 1,856 | 1,651 |
| Rediscounted portfolio | 51 | - | 51 | 53 |
| Lease portfolio | 5 | - | 5 | 7 |
| Total commercial loans | 15,648 | 760 | 16,408 | 16,253 |
| Financial entities | 444 | - | 444 | 477 |
| Government entities | 5,040 | - | 5,040 | 4,568 |
| Total commercial loans | 21,132 | 760 | 21,892 | 21,298 |
| Consumer- | | | | |
| Credit card | 19,661 | - | 19,661 | 17,216 |
| Other consumer loans | 12,638 | 187 | 12,825 | 9,525 |
| Total consumer loans | 32,299 | 187 | 32,486 | 26,741 |
| Residential mortgage | 15,484 | 119 | 15,603 | 15,361 |
| | $ 68,915 | $ 1,066 | $ 69,981 | $ 63,400 |

As of December 31, 2011 and 2010, the amount of the recoveries of credit portfolio written off or eliminated were $488 and $488, respectively, recognized in the heading "Other operating income (expense)".

At December 31, 2011 and 2010, loans classified by economic sectors were as follows:

| | 2011 Amount | 2011 Concentration Percentage | 2010 Amount | 2010 Concentration Percentage |
|---|---|---|---|---|
| Foreign (non-Mexican entities) | $ 1,099 | 0.17% | $ 859 | 0.15% |
| Private (companies and individuals) | 226,085 | 35.90% | 215,964 | 37.25% |
| Financial | 6,327 | 1.00% | 7,686 | 1.33% |
| Credit card and consumer | 152,490 | 24.21% | 123,841 | 21.36% |
| Residential mortgage | 151,946 | 24.12% | 150,695 | 25.99% |
| Government entities | 91,944 | 14.60% | 80,675 | 13.92% |
| Other past-due loans | 6 | 0.00% | 5 | 0.00% |
| | $ 629,897 | 100.00% | $ 579,725 | 100.00% |

***Related-party loans -*** At December 31, 2011 and 2010, loans granted to related parties amounted to $33,494 and $28,369, respectively. The amount of related-party loans at December 31, 2011 and 2010 includes $6,061 and $7,918, respectively, of letters of credit, which are recorded in memorandum accounts.

***Credit support program -*** The Institution has participated in the following credit support programs establish by the Federal Government and the Mexican Banker's Association, A. C.:

– Debtor Credit Support Mortgage Program and Debtor Credit Benefits Agreement for Mortgage.

Furthermore, during December 1998, the Federal Government and the banks disseminated a new and definitive debtor support plan called, "Final Aid" which as of 1999 replaces the calculation of the benefits granted in support program for Housing Loan Debtors.

The "Final Aid" Program for mortgage borrowers defines the discounts on the outstanding balance of loans recorded at November 30, 1998, without considering interest in arrears.

The amount of discounts is recognized by the Federal Government and the Institution at different percentages, the part recognized by the Federal Government is recorded as an account receivable, which generates interest at the CETES 91-day rate carried to a 28-day curve, capitalized monthly, the percentage absorbed by the Institution is applied to the allowance for loan losses.

In 2011, due to the application of the Agreement to Eliminate the Support Programs for Housing Credit Debtors, the calculation of the discounts payable by the Federal Government in accordance with the discount program is no longer made, and is replaced by the calculation based on the advanced termination scheme.

Due to the results from the audits of the support programs, during 2010 the Federal Government confirmed compliance by the Institution with the regulations applicable for the recovery of the conditioned support relative to various programs. For this reason, in November 2011 the Institution received from the Federal Government payments related to the benefits due from the latter, the "Housing", in the amount of $983.

*Early termination of debtor support programs:*

On July 15, 2010, an agreement was signed between the Federal Government, through the Treasury Department (SHPC), and some Credit Institutions, with the participation of the Mexican Bankers' Association, to early terminate the debtor support programs (the Agreement).

The support programs in which the Institution participated, and which are the subject matter of this Agreement, are:

– Housing Loan Debtor Support Program

– Housing Loan Debtor Benefits Agreement

The amount of the obligations as of December 31, 2010 payable by the Federal Government under the Agreement is composed as follows:

| | | |
|---|---|---|
| Restructured credits under the Agreement: | $ | 4,098 |
| Overdue portfolio which showed payment compliance as of March 31, 2011 | | 37 |
| Total base mount | $ | 4,135 |

General conditions of payment obligations of Federal Government:

The payment obligations of the Federal Government will be fulfilled through installments of $827 a year, adjusted for accrued interest and any excess amount between the 7.5% and the average of the indicators of arrears at the close of each of the months of the year immediately before the payment, for a period of five years, in accordance with the following:

| **Annual payment** | **Payment date** |
|---|---|
| First | December 1, 2011 |
| Second | June 1, 2012 |
| Third | June 3, 2013 |
| Fourth | June 2, 2014 |
| Fifth | June 1, 2015 |

The interest earned will be at the rate resulting from the arithmetical average of the annual rates of return on the discount basis of 91-day CETES (Mexican Treasury Bills), carried to a 28-day yield curve.

As a result of clarifications between the Institution and Commission, the first annual charge was not paid on the date agreed, for which reason it will be paid during 2012.

*Housing loans:*

The effects of this transaction will be recognized by the Institution during the first quarter of 2011, considering the portfolio balances as of December 31, 2010, as follows:

| | |
|---|---|
| Opening balance of the sublevel "Unrestricted housing loans" | $ 14,062 |
| Loans not eligible for the benefit | $ (1,204) |
| Loans eligible for the benefit (performing loans) | 12,858 |
| Loan payable by the Federal Government | (4,135) |
| Application against "Allowance for loan losses" | (3,001) |
| Closing balance of sublevel "Unrestricted housing loans" (performing loans) | $ 5,722 |

Movements in the heading "Allowance for loans losses":

| | |
|---|---|
| Opening balance of the sublevel "Unrestricted housing loans" | $ 3,143 |
| Amount of reductions, discounts and/or debates granted on current or overdue loans | (3,001) |
| Closing balance of sublevel "Unrestricted housing loans" | $ 142 |

The maximum amount that the Institution must absorb for the debtors of the loans not included in the Early Termination Scheme under the terms of the Agreement is $306.

*Position in special Cetes and special "C" Cetes which the Institution keeps under the heading of "Securities held to maturity":*

As of December 31, 2011, the remnant of the special Cetes and special "C" Cetes is composed as follows:

| | Special Cetes | | | Special "C" Cetes | | |
|---|---|---|---|---|---|---|
| **Trust of Origin** | **No. of securities** | **Amount** | **Date of maturity** | **No. of securities** | **Amount** | **Date of maturity** |
| 421-5 | 18,511,119 | $ 1,512 | 13/07/2017 | 2,109,235 | $ 56 | 13/07/2017 |
| 422-9 | 128,738,261 | 10,522 | 07/07/2022 | - | - | |
| 423-9 | 10,656,993 | 871 | 01/07/2027 | 468,306 | 12 | 01/07/2027 |
| 424-6 | 383,470 | 31 | 20/07/2017 | 96,876 | 2 | 20/07/2017 |
| 431-2 | 964,363 | 78 | 04/08/2022 | 1,800 | - | 04/08/2022 |
| Total | | $ 13,014 | | | $ 70 | |

***Loan granting policies and procedures -*** The Institution's credit manual regulates the granting, control and recovery of loans. This manual was authorized by the Board of Directors and outlines the parameters to be followed by officers involved in the credit process, which are based on the Credit Institutions Law, the conservative credit rules established by the Commission and sound banking practices.

Credit authorization under the Board of Directors' responsibility is centralized in empowered committees and officers.

In the credit management function the general process from promotion to recovery is defined, specifying, by business unit, the policies, procedures and responsibilities of the officers involved, as well as the tools to be used in each step of the process.

The credit process is based on a thorough analysis of loan applications, in order to determine the comprehensive risk of each debtor. For most loans, debtors must at least have an alternate repayment source.

The principal policies and procedures to determine concentrations of credit risk and which form part of the credit manuals are:

*Common risk:*

– Establish the criteria for determining the individuals or corporations that represent common risk for the Institution.

– Establish the criteria for determining whether individuals and/or corporations act in unison and are integrated into the same business group or consortium, in order to identify potential accumulated risk and the maximum limit of financing to be granted.

*Maximum financing limit:*

– Make known the maximum legal credit rules issued by the authorities.

– Communicate the updated maximum credit limit for the Institution, as well as the handling of exceptions.

*Risk diversification:*

At December 31, 2011, the Institution disclosed that it maintains the following credit risk operations in compliance with the general risk diversification rules established in the Regulations and applicable to asset and liability transactions, as follows:

– At December 31, 2011, the Institution has no loans with debtors or groups of entities or individuals representing a joint risk in which the individual amount exceeds 13% of its basic capital.

– The amount of loans granted to the Institution's three major debtors or groups of individuals or entities constituting a joint risk is $34,259, thus representing 29% of its basic capital.

*Potential risk:*

– Loan applications must be sanctioned in terms of the amount of the risk.

– Avoid risk exposure above the legal limit and other institutional limits established.

Consumer loans, mortgage loans and loans to small and micro-sized companies are subject to automated evaluation and follow-up mechanisms that have been implemented, based on certain standard factors which, under the Institution's criteria, are used to make decisions, and allow greater efficiency in the handling of high volume of loan applications.

## 12. UDI-denominated restructured loans

At the close of December 2011, the amount of the restructured credits denominated in UDIS is $5,758.

## 13. Allowance for loan losses

The following table presents the results of basic loan ratings of the Institution made for the purpose of recording the loan loss allowance based on the requirements discussed in Note 4:

| Risk category | 2011 Total loans | 2011 Allowance | 2010 Total loans | 2010 Allowance |
|---|---|---|---|---|
| A | $ 416,344 | $ 2,606 | $ 429,571 | $ 2,526 |
| B | 181,980 | 8,827 | 128,703 | 6,308 |
| C | 17,424 | 5,659 | 12,925 | 4,458 |
| D | 4,482 | 3,273 | 8,079 | 6,007 |
| E | 1,669 | 1,573 | 1,488 | 1,500 |
| Subtotal | 621,899 | 21,938 | 580,766 | 20,799 |
| Loans exempt from classification | 25,270 | - | 16,513 | - |
| Additional | - | 2,935 | - | 4,329 |
| Allowance as of December 31 | $ 647,169 | $ 24,873 | $ 597,279 | $ 25,128 |

The total loan portfolio balance used for classification purposes includes amounts related to the irrevocable lines of credit granted, letters of credit and guarantees given, which are recorded in memorandum accounts.

The allowance for loan losses at December 31, 2011 and 2010, is determined based on the portfolio balance at those dates and includes 100% of past-due interest.

The amount of the allowance includes the classification of the credits granted in foreign currency valued at the exchange rate in effect on December 31, 2011.

The commercial portfolio with the D and E risk classification is $1,279 and $1,025 for 2011 and 2010, respectively.

As of December 31, 2011, the additional reserves are composed as follows:

| Item | 2011 |
|---|---|
| Mortgage portfolio | $ 2,451 |
| Commercial portfolio | 355 |
| Consumer portfolio | 119 |
| Credit card portfolio | 10 |
| Total | $ 2,935 |

At December 31, 2011 and 2010, the allowance for loan losses represents 126.38% and 174.22%, respectively, of the non-performing loan portfolio.

***Changes in the allowance for loan losses*** - Below is an analysis of the allowance for loan losses:

| | 2011 | 2010 |
|---|---|---|
| Balance at beginning of year | $ 25,128 | $ 26,991 |
| Allowances charged to income statement | 20,011 | 19,626 |
| Allowances charged to the result of prior years | 201 | - |
| Applications and write-offs for the period | (19,525) | (21,606) |
| Sale of portfolio | (1,195) | - |
| Exchange effect | 253 | 117 |
| Balance at end of year | $ 24,873 | $ 25,128 |

## 14. Securitization operations

***Mortgage portfolio securitizations -***

The Institution has issued securitization certificates (CB), which have generally been formalized through the following contracts:

– ***Transfer contract -***

This contract is entered into by and between BBVA Bancomer, S.A. ("Transferor"), Banco Invex, S.A. ("Transferee") and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative") for the purpose of assigning, on the part of the Transferor, current portfolio, to the Irrevocable Fiduciary Certificate Issuance Trust ("the Stock Market Certificates"), free of all encumbrance and without reservation or limitation of title, together with all related benefits, proceeds and accessories applicable. The Transferor is liable only for the declarations included in such contract, for which reason non-compliance with any of the declarations will only mean that the "Transferor" replacing one or more of the ineligible credits or reimbursing in cash the proportional part of the consideration; consequently, the Transferor does not assume any obligation regarding the mortgage loans. Furthermore, the consideration was fixed as the right to receive the total amount obtained in the placement of the SMCs, less the respective issuance costs.

– ***Irrevocable Fiduciary Stock Market Certificate Issuance Trust Contract -***

This contract is entered into by and between BBVA Bancomer, S.A. ("Trustor" and "First Beneficiary"), Banco Invex, S.A. ("Trustee"), and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative"), which stipulates that the objective of the Trust is the acquisition of mortgage loans, free of all encumbrance and without any reservation or limitation of title, in terms of the Assignment Contract, the issuance of SMCs, which will have such mortgage loans as a source of payment and the placement of the SMCs among small investors; while the Trustee will have all those powers and obligations considered necessary to achieve such purpose.

The same contract established the initial value of guarantees with respect to the loan that the certificate would have in relation to the total amount of the portfolio assigned, which amount is recorded for accounting purposes under "Benefits receivable from securitized transactions" for institution.

– ***Portfolio Management and Collection Contract -***

This contract is entered into by and between BBVA Bancomer, S.A. ("Administrator"), Banco Invex, S.A. ("Trustee") and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative"). Under this contract, the Trustee contracted the Administrator to carry out the management and collection solely and exclusively in relation to the mortgage loan and any "repossessed assets" that were transferred in the assignment contract. Accordingly, to enable the Administrator to fulfill its obligations, the Trustee will pay a management commission to the Administrator equivalent to the amount resulting from multiplying the unpaid balance of the principal of the mortgage loans by the percentage stipulated and divided by 12.

The specific characteristics of each issue are detailed below:

| Concept | Trusts 711 | 752 | 781 | 847 | 881 |
|---|---|---|---|---|---|
| Execution date of trust contract | 19-Dec-07 | 13-Mar-08 | 05-Aug-08 | 08-Dec-08 | 03-Aug-09 |
| Number of credits assigned | 2,943 | 1,587 | 9,071 | 18,766 | 15,101 |
| Amount of portfolio | $ 2,644 | $ 1,155 | $ 5,696 | $ 5,823 | $ 6,545 |
| SMCs issued CB emitidos | 25,404,498 | 11,143,185 | 11,955,854 | 55,090,141 | 59,101,116 |
| Face value per SMC | $ 100.00 | $ 100.00 | 100UDIS | $ 100.00 | $ 100.00 |
| Amount of issue of SMC | $ 2,540 | $ 1,114 | $ 4,830 | $ 5,509 | $ 5,910 |
| Series A1 | - | - | $ 2,415 | - | $ 562 |
| Series A2 | - | - | $ 2,415 | - | $ 1,732 |
| Series A3 | - | - | - | - | $ 3,616 |
| Gross annual interest rate | 9.05% | 8.85% | - | 9.91% | - |
| Series A1 | - | - | 4.61% | - | 6.14% |
| Series A2 | - | - | 5.53% | - | 8.04% |
| Series A3 | - | - | - | - | 10.48% |
| Effective duration of the SMC (years) | 20.5 | 20.42 | 24.84 | 22 | 20.08 |
| Value of certification | $ 103 | $ 40 | $ 866 | $ 314 | $ 635 |
| Value of guarantees with respect to the loan % | 3.9% | 3.5% | 15.2% | 5.4% | 9.7% |
| Total cash flow received for the assignment | $ 2,507 | $ 1,091 | $ 4,751 | $ 5,475 | $ 5,733 |

The third issue, which refers to Trust 781, was made in UDIs, and the exchange rate of the UDI used at the issue date is $4.039765.

As of December 31, 2011 19,010, the heading "Benefits to be received in securitization operations", which comes to $1,175 and $1,256, respectively, represents the amount of the fiduciary certifications of unconsolidated securitizations.

The relevant figures of the unconsolidated securitization trusts as of December 31, 2011 are shown below:

| No. of Trust | Assets | Liabilities | Stockholders' equity | Net result |
|---|---|---|---|---|
| 711 | $ 1,592 | $ 1,505 | $ 87 | $ 19 |
| 752 | $ 746 | $ 702 | $ 44 | $ 8 |
| 781 | $ 4,475 | $ 3,105 | $ 1,370 | $ 169 |
| 847 | $ 3,949 | $ 3,732 | $ 217 | $ 50 |

## 15. Receivables, sundry debtors and prepayments, net

The balance of other accounts receivable at December 31, 2011 and 2010 consists of the following:

| Item | 2011 | 2010 |
|---|---|---|
| Debtors from transaction settlement | $ 25,087 | $ 14,218 |
| Loans to officers and employees | 7,225 | 7,337 |
| Sundry debtors | 3,822 | 3,211 |
| Debtors from collateral provided through OTC derivatives. | 7,145 | 3,362 |
| Other | 1,263 | 1,219 |
| | 44,542 | 29,347 |
| Less – Allowance for uncollectible accounts | (354) | (403) |
| | $ 44,188 | $ 28,944 |

The debtors for settlement of transactions as of December 31, 2011 and 2010 are composed as follows:

| | 2011 | 2010 |
|---|---|---|
| Foreign currencies | $ 18,167 | $ 10,713 |
| Investments in securities | 6,433 | 3,333 |
| Derivatives | 487 | 172 |
| | $ 25,087 | $ 14,218 |

Debtors for collateral granted on OTC derivatives as of December 31, 2011 and 2010 is composed as follows:

| | 2011 | | | 2010 |
|---|---|---|---|---|
| Collateral provided through derivatives | Acquisition Cost | Accrued Interest | Book Value | Book Value |
| BBVA Servex | $ 4,184 | $ 4 | $ 4,188 | $ - |
| | | - | | |
| HSBC México, S. A. | 887 | - | 887 | 620 |
| Deutsche Bank | 574 | - | 574 | 1,199 |
| JP Morgan Chase BK NY | 473 | - | 473 | 235 |
| Banco Nacional de México | 355 | 2 | 357 | - |
| J. Aron and Company | 268 | - | 268 | 745 |
| Royal BK of Scotland | 172 | - | 172 | 80 |
| Morgan Stanley cap s | 156 | - | 156 | 242 |
| HSBC Bank USA NA NY | 64 | - | 64 | - |
| Barclays Bank PLC | 6 | - | 6 | 233 |
| Bank of America NA | - | - | - | 8 |
| | $ 7,139 | $ 6 | $ 7,145 | $ 3,362 |

## 16. Repossessed assets, net

Repossessed assets at December 31, 2011 and 2010 were as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Buildings | $ 3,542 | $ 2,753 |
| Land | 1,248 | 687 |
| Securities | 21 | 29 |
| | 4,811 | 3,469 |
| Less - Allowance for impairment of repossessed assets | (709) | (527) |
| | $ 4,102 | $ 2,942 |

## 17. Property, furniture and equipment, net

Property, furniture and equipment at December 31, 2011 and 2010 were as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Furniture and equipment | $ 5,743 | $ 4,660 |
| Office space | 10,187 | 10,109 |
| Installation costs | 5,562 | 5,055 |
| | 21,492 | 19,824 |
| Less- Accumulated depreciation and amortization | (8,585) | (7,389) |
| Land | 1,935 | 1,935 |
| Construction in progress | 2,244 | 954 |
| | $ 17,086 | $ 15,324 |

As part of the strategic real estate plan, the Institution is currently building the corporate headquarters of the Financial Group at an estimated cost of US $903 million, with an estimated termination date of 2013.

## 18. Equity investments

Investments in affiliates that were valued using the equity method were as follows:

| Item | Ownership Percentage | 2011 | 2010 |
|---|---|---|---|
| Siefores (Real y Protege) | Various | $ 1,853 | $ 1,695 |
| I + D México, S.A. de C.V. | 50.00% | 358 | 427 |
| Servicios Electrónicos Globales, S.A. de C.V. | 46.14% | 87 | 83 |
| Compañía Mexicana de Procesamiento, S.A. de C.V. | 50.00% | 93 | 78 |
| Seguridad y Protección Bancaria, S.A. de C.V. | 22.32% | 8 | 7 |
| Trans Unión de México, S.A. de C.V. | 16.28% | 63 | 49 |
| Others | Various | 129 | 115 |
| Total | | $ 2,591 | $ 2,454 |

The investment in shares of associated companies as of December 31, 2011 and 2010 was determined in some cases based on unaudited financial information, which is adjusted, if any differences arise, once the audited information becomes available.

As of December 31, 2011 2010, the equity in results of associated companies is $292 and $302, respectively.

## 19. Deferred taxes

The Institution has recognized a net deferred income tax asset resulting from temporary differences between the book and tax bases of assets and liabilities and tax loss carryforwards at December 31, 2011 and 2010, of $6,367 and $8,665, respectively, as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| Item | Temporary Difference | Deferred Income Taxes | Temporary Difference | Deferred Income Taxes |
| Temporary differences - assets: | | | | |
| Allowance for loan losses | $ 14,960 | $ 4,428 | $ 23,483 | $ 7,045 |
| Commissions and interest | 5,304 | 1,591 | 4,316 | 1,295 |
| Provisiones | 5,066 | 1,520 | 5,578 | 1,673 |
| Advance premium on swap | 1,297 | 389 | 1,297 | 389 |
| Other assets | 1,058 | 318 | 584 | 176 |
| Repossessed assets | 986 | 296 | 807 | 242 |
| Fair value adjustment of investments | 436 | 131 | 170 | 51 |
| Pension allowance | 234 | 70 | 1,203 | 361 |
| Allowance for debtors and creditors | 142 | 43 | 151 | 45 |
| Total assets | 29,483 | 8,786 | 37,589 | 11,277 |
| Temporary differences - liabilities: | | | | |
| Fair value valuation of investments | 6,614 | 1,984 | 7,513 | 2,254 |
| Advance premium on swap | 998 | 300 | 984 | 295 |
| Other liabilities | 450 | 135 | 210 | 63 |
| Total liabilities | 8,062 | 2,419 | 8,707 | 2,612 |
| Net deferred asset | $ 21,421 | $ 6,367 | $ 28,882 | $ 8,665 |

Based on financial projections, the deferred tax balance derived from the allowance for loan losses will be materialized in the medium-term.

## 20. Other assets

Other assets at December 31, 2011 and 2010, were as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Deferred charges, prepaid expenses and intangibles | $ 5,546 | $ 1,601 |
| Goodwill | 1,765 | 1,765 |
| Software | 6,574 | 4,822 |
| Amortization of Software | (3,285) | (2,486) |
| Total other assets | $ 10,600 | $ 5,702 |

As of December 31, 2011 and 2010, the amortization of software is determined based on cost or restated cost up to 2007, using the straight-line method, as of the month following that of its purchase, by applying the 20% rate.

## 21. Deposits

***Liquidity coefficient*** - The provisions of the Treatment for Admission of Liabilities and Investment for Foreign Currency Transactions, issued by *Banco de México* for credit institutions establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

Based on the above procedure, in 2011 and 2010 the Institution was subject to liquidity requirements of U.S.$24 million and U.S.$102 million, respectively, and maintained investments in liquid assets of U.S.$518 million and U.S.$758 million, reflecting liquidity excesses of U.S.$494 million and U.S.$656 million, respectively.

***Traditional deposits*** - The liabilities derived from traditional deposits are composed as follows:

| | 2011 | 2010 |
|---|---|---|
| Demand deposits: | | |
| Demand deposits | $ 437,498 | $ 402,528 |
| Saving deposits | 74 | 73 |
| Time deposits: | | |
| Notes with interest payable at maturity | 127,363 | 131,264 |
| Time deposits | 26,953 | 38,851 |
| Bank bonds | 53,548 | 44,619 |
| Total | $ 645,436 | $ 617,335 |

## 22. Interbank loans and loans from other entities

At December 31, 2011 and 2010, interbank loans and loans from other entities were as follows:

| | Mexican pesos | | U.S. dollars in Mexican pesos | | Total | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Bank loans | $ 953 | $ 47,136 | $ 9,938 | $ 4,636 | $ 10,891 | $ 51,772 |
| Loans from other entities | 7,990 | 7,496 | 1,425 | 1,157 | 9,415 | 8,653 |
| Total | $ 8,943 | $ 54,632 | $ 11,363 | $ 5,793 | $ 20,306 | $ 60,425 |

Interbank loans and loans from other entities in foreign currency were contracted by the Institution with terms ranging from three days to 9 years and annual rates ranging between 0.4% and 6.00%. Such loans are contracted with ten foreign financial institutions.

The Institution maintains liquidity available in the *Banco de México* up to the amount of the DRM, which balance is $64,911 (excluding interest) both for 2011 and 2010; the amount disposed from this line for 2011 and 2010 is $0 and $202, respectively, and the applicable amount on both dates is $64,911.

## 23. Labor liabilities

The Institution has liabilities from labor obligations related to severance payments, which will cover the pension, seniority premiums due upon retirement. The Institution also has a plan for integral medical services to pensionees and their economic dependents, as well as the payment of life insurance. The amount of such labor liabilities is determined based on calculations performed by independent actuaries using the projected unit credit method and in conformity with the methodology established in NIF D-3. The management of plan assets is made through an irrevocable trust.

As of January 1, 2007, following the execution of the employer substitution contract, all the Institution's employees (except the General Director) were transferred to the payroll of BBVA Bancomer Operadora, S. A. de C. V., a company belonging to the Financial Group. Employees retained all vested benefits and only personnel without vested benefits were transferred to a variable compensation scheme. Given the above, the Institution only has a labor obligation related to the retirees and only one active employee.

The Institution made the necessary adjustments in the profit and loss account as a result of the actuarial variations that are included in the amount recorded for the liabilities and assets using the assumptions as of the close of each year. For this reason it recorded a charge to results, in 2011 and 2010, for $41 and $244, respectively. Both effects were recognized in the headings of "Other operating income (expenses)".

***Pension plan and seniority premiums -***

At December 31, 2011 and 2010, obligations for defined benefits were composed as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Opening balance | $ 3,704 | $ 3,593 |
| Service cost | 7 | 7 |
| Financial cost | 305 | 310 |
| Actuarial losses and gains generated in the period | 51 | 236 |
| Benefits paid | (442) | (441) |
| Reductions | (2) | (1) |
| Obligations for defined benefits | $ 3,623 | $ 3,704 |
| Amount of obligations for benefit acquired | $ 3,512 | $ 3,598 |

At December 31, 2011 and 2010, plan assets were as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Opening balance | $ 3,678 | $ 3,098 |
| Expected returns on plan assets | 288 | 293 |
| Actuarial losses and gains generated in the period | 40 | 476 |
| Contributions made by the entity | 356 | 580 |
| Benefits paid | (442) | (441) |
| Transfer between plans | - | (328) |
| Plan assets | $ 3,920 | $ 3,678 |

At December 31, 2011 and 2010, the liability of the Institution was as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Defined benefit obligation | $ 3,623 | $ 3,704 |
| Plan assets | (3,920) | (3,678) |
| Current net (asset) liability derived from employee pensions | $ (297) | $ 26 |

For the years ended December 31, 2011 and 2010, the net cost (benefit) of the period was as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Labor cost of services for the year | $ 7 | $ 7 |
| Financial cost | 305 | 310 |
| (Return) on plan assets | (287) | (292) |
| Immediate recognition of actuarial losses (income) for the year | 9 | (242) |
| Net cost (benefit) of the period | $ 34 | $ (217) |

The nominal interest rates utilized in the actuarial calculations were:

| Item | 2011 | 2010 |
|---|---|---|
| Actual return on plan assets rate | 7.00% | 8.25% |
| Interest rate | 8.75% | 8.75% |
| Salary increase rate | 4.75% | 4.75% |
| Medical services increase rate | 6.75% | 6.75% |

***Integral medical services -***

At December 31, 2011 and 2010, the obligations for defined benefits were composed as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Opening balance | $ 4,450 | $ 3,670 |
| Financial cost | 376 | 329 |
| Actuarial losses and gains generated in the period | 134 | 752 |
| Paid benefits | (349) | (301) |
| Obligations for defined benefits | $ 4,611 | $ 4,450 |
| Amount of the benefit obligation acquired | $ 4,610 | $ 4,449 |

At December 31, 2011 and 2010, plan assets were composed as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Opening balance | $ 3,244 | $ 1,514 |
| Expected returns on plan assets | 260 | 235 |
| Actuarial losses and gains generated in the period. | 48 | 229 |
| Entity Contributions | 707 | 989 |
| Transfer between plans | - | 578 |
| Paid benefits | (349) | (301) |
| Plan assets | $ 3,910 | $ 3,244 |

As of December 31, 2011 and 2010, the projected net liabilities are composed as follows:

| | 2011 | 2010 |
|---|---|---|
| Defined benefit obligation | $ 4,611 | $ 4,450 |
| Plan assets | (3,910) | (3,244) |
| Projected net liabilities related to comprehensive medical services | $ 701 | $ 1,206 |

At December 31, 2011 and 2010, net cost of the period was composed as follows:

| | 2011 | 2010 |
|---|---|---|
| Financial cost | $ 376 | $ 329 |
| Return on the fund assets | (260) | (235) |
| Immediate recognition of actuarial losses for the year | 86 | 523 |
| Net cost of the period | $ 202 | $ 617 |

Below we present the effect of the 1% rate increase or decrease in the variation trend assumed for medical costs.

| Item | 2011 | |
|---|---|---|
| | +1% | -1% |
| In the net cost of the period | 44 | (37) |
| In the defined benefit obligations | 501 | (425) |

***Life insurance -***

At December 31, 2011 and 2010, the obligations for defined benefits were composed as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Opening balance | $ 726 | $ 654 |
| Financial cost | 61 | 59 |
| Actuarial losses and gains generated in the period | (36) | 18 |
| Paid Benefits | (5) | (5) |
| Obligations for defined benefits | $ 746 | $ 726 |
| Amount of the benefit obligation acquired | $ 744 | $ 724 |

At December 31, 2011 and 2010, plan assets are composed as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Opening balance | $ 747 | $ 753 |
| Expected returns on plan assets | 60 | 66 |
| Actuarial losses and gains generated in the period | 20 | 56 |
| Entity contributions | 87 | 127 |
| Transfer between plans | - | (250) |
| Paid Benefits | (5) | (5) |
| Plan assets | $ 909 | $ 747 |

As of December 31, 2011 and 2010, the amount of the projected net assets is composed as follows:

| | 2011 | 2010 |
|---|---|---|
| Defined benefit obligations | $ 746 | $ 726 |
| Plan assets | (909) | (747) |
| Projected net assets related to death benefit | $ (163) | $ (21) |

At December 31, 2011 and 2010, net benefit of the period was composed as follows:

| | 2011 | 2010 |
|---|---|---|
| Financial cost | $ 61 | $ 59 |
| Return on the fund assets | (60) | (66) |
| Immediate recognition of actuarial gains for the year | (55) | (38) |
| Net benefit of the period | $ (54) | $ (45) |

***Sports for retirees -***

At December 31, 2011 and 2010, the obligations for defined benefits were composed as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Opening balance | $ 11 | $ - |
| Financial cost | 1 | 1 |
| | (1) | - |
| Past services | - | 12 |
| Benefits paid | (1) | (2) |
| Obligations for defined benefits | $ 10 | $ 11 |
| Amount of the benefit obligation acquired | $ 10 | $ 12 |

At December 31, 2011 and 2010, the projected net liability is composed as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Unfunded liability | $ 10 | $ 11 |
| Projected net liability for the plan entitled Sports for retirees | $ 10 | $ 11 |

At December 31, 2011 and 2010, net cost of the period is composed as follows:

| | 2011 | 2010 |
|---|---|---|
| Financial cost | $ 1 | $ 1 |
| Recognition of past services | (1) | - |
| Amortization of transition liability | - | 12 |
| Net cost of the period | $ - | $ 13 |

***Severance payments -***

At December 31, 2011 and 2010, the obligations for defined benefits are composed as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Opening balance | $ 46 | $ 36 |
| Labor cost of the service | 6 | 5 |
| Financial cost | 4 | 3 |
| Actuarial losses and gains generated in the period | - | 1 |
| Past services | 3 | 3 |
| Paid benefits | (8) | (2) |
| Reduction on obligations | (8) | - |
| Obligations for defined benefits | $ 43 | $ 46 |
| Amount of obligations for benefits acquired | $ 2 | $ 4 |

At December 31, 2011 and 2010, the projected net liability was composed as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Unfunded liabilities | $ 43 | $ 46 |
| Unamortized items: | | |
| Actuarial losses and gains not recognized | (4) | (5) |
| Transition liability | - | (6) |
| Net projected liability for employee indemnities | $ 39 | $ 35 |

The amortization period of the unamortized items is five years.

At December 31, 2011 and 2010, the net cost of the period was as follows:

| Item | 2011 | 2010 |
|---|---|---|
| Service cost | $ 6 | $ 5 |
| Financial cost | 4 | 3 |
| Amortization of transition liability | 3 | 3 |
| Immediate recognition of actuarial (income) losses for the year | 2 | 2 |
| Effects of reductions and extinguishment | (3) | 1 |
| Net cost of the period | $ 12 | $ 14 |

As of the year 2010, the plan entitled sports for retirees is established, due to the right of employees to continue receiving the sports service once they retire. Under this scheme the Institution pays part of the dues and the employee the rest.

At December 31, 2011, the plans for indemnities and sports for retirees did not have assets to fund the obligations for defined benefits.

At December 31, 2011, the assets from the different plans were invested in government securities. Also, the expected return on plan assets as of December 31, 2011 was estimated at a profit of $606, but the actual return at the same date was a profit of $489.

## 24. Subordinated debt -

| Item | 2011 | 2010 |
|---|---|---|
| **Subordinated debentures-** | | |
| Bancomer 06 debentures at the TIIE rate (Balanced Interbank Interest Rate) + 0.30, interest payable every 28 days with maturity on September 18, 2014 | $ 2,500 | $ 2,500 |
| Subordinated debentures Bancomer 08-1 at TIIE + 0.60, interest payable every 28 days with maturity on July 16, 2018 | 1,200 | 1,200 |
| Subordinated debentures Bancomer 08-2 at TIIE + 0.65, interest payable every 28 days with maturity on September 24, 2018 | 3,000 | 3,000 |
| Bancomer 09 debentures at the TIIE rate + 1.30, interest payable every 28 days with maturity on June 7, 2019 | 2,729 | 2,729 |
| Subordinated debentures Bancomer 08-3 at TIIE + 1.00, interest payable every 28 days with maturity on November 26, 2020 | 2,859 | 2,859 |
| Non-preferred capitalization notes for US $500 million, issued in May 2007 at an interest rate of 6.0080 issued May 17, 2017, payable semiannually and LIBOR + 1.81 as of May 18, 2007, payable quarterly, and maturing on May 17, 2022 | 6,974 | 6,175 |
| Preferential subordinated notes for €600 million, issued in May 2007, at an interest rate of 4.7990 up to May 17, 2012, payable annually and EURIBOR + 1.45 as of May 18, 2012, payable quarterly, and maturing on May 17, 2017 | 10,862 | 9,938 |
| Non-preferred capitalization notes for USD 1,000 million, issued in April 2011, at an interest rate of 7.25 payable semiannually, beginning as of October 22, 2011, and maturing on April 22, 2020 | 13,948 | 12,350 |
| Preferred capitalization notes for USD 1,250 million, issued in March 2011, at an interest rate of 6.50 payable semiannually, starting at 10 of September 2011 and maturing on March 10, 2021. | 17,435 | - |
| Unpaid accrued interests | 943 | 536 |
| Total | $ 62,450 | $ 41,287 |

The debt issuance costs related to these issues are amortized using the straight-line method over the term of the debt.

On July 22, 2010, the Institution exercised the option for early redemption of the non-preferred capitalization notes, which were issued in July 2005 with a 10-year maturity, for the amount of US $500 million.

## 25. Related parties

Balances and transactions with related parties, as established in Bulletin C-3 Related Parties, issued by the Commission, are as follows:

*Banco Bilbao Vizcaya Argentaria, S. A. -*

| | 2011 | 2010 |
|---|---|---|
| Derivative financial instruments | $ (3,977) | $ 2,531 |
| Creditors from repurchase agreements | $ 4,250 | $ - |

*BBVA Bancomer Operadora, S. A. de C. V. -*

| | 2011 | 2010 |
|---|---|---|
| Fees paid for administrative services | $ 11,324 | $ 12,075 |
| Account payable | $ 1,961 | $ 3,490 |

*BBVA Bancomer Servicios Administrativos, S. A. de C. V. -*

| | 2011 | 2010 |
|---|---|---|
| Fees paid for administrative services | $ 2,608 | $ 1,749 |

*Seguros BBVA Bancomer, S. A. de C. V. -*

| | 2011 | 2010 |
|---|---|---|
| Commissions income | $ 1,190 | $ 1,105 |
| Insurance premiums paid | $ 744 | $ 136 |

*BBVA Bancomer Gestión, S. A. de C. V. -*

| | 2011 | 2010 |
|---|---|---|
| Commissions income | $ 2,590 | $ 2,516 |

## 26. Income taxes

The Institution is subject to ISR and IETU.

***ISR -*** The ISR rate is 30% for 2010 through 2012; it will be 29% for 2013 and 28% for 2014.

***IETU -*** Revenues, as well as deductions and certain tax credits, are determined based on cash flows of each fiscal year. The Business Flat Tax Law (LIETU) establishes that the tax will be incurred at the rate of 17.5% for 2010 and 2011. Also, with the enactment of this Law the Asset Tax Law was eliminated, but taxpayers may request the refund or crediting of asset tax paid in the last 10 years, with a limit of up to 10% a year of the balance at the close of the year 2007, subject to certain rules.

Income tax incurred will be the higher of ISR and IETU.

Based on its financial projections and according to INIF 8, *Effects of the Business Flat Tax*, the Institution determined that it will basically pay ISR. Therefore, it only recognizes deferred ISR.

***Taxable income -*** The principal items that contributed to the determination of the Institution's tax result were deduction of allowances for loan losses without exceeding 2.5% of the annual average of the loan portfolio and the valuation of financial instruments.

The reconciliation of the statutory ISR rate and the effective rate, expressed as a percentage of income before income taxes, which is the tax incurred by the Institution, is as follows:

| | 2011 | 2010 |
|---|---|---|
| Statutory rate | 30% | 30% |
| Add (deduct) - | | |
| Effect of nondeductible items | 0.48% | 0.93% |
| Annual adjustment for inflation | (5.49%) | (3.24%) |
| Other effects | (2.03%) | (3.15%) |
| Effective rate | 22.96% | 24.54% |

***Recoverable IMPAC -*** As of December 31, 2011, the Institution has recoverable IMPAC of $1,152.

***Employee statutory profit sharing –*** The Institution determines employee statutory profit sharing benefits in accordance with the criteria established in Mexican law.

## 27. Stockholders' equity

***Capital stock -*** The capital stock of the Institution at December 31, 2011 and 2010, was as follows:

| | Number of shares at Par Value of $0.28 per share | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Authorized | Unsubscribed | Paid-in | Authorized | Unsubscribed | Paid-in |
| Series "F" | 9,107,142,859 | (1,378,926,692) | 7,728,216,167 | 9,107,142,859 | (1,378,926,692) | 7,728,216,167 |
| Series "B" | 8,749,999,999 | (1,324,851,134) | 7,425,148,865 | 8,749,999,999 | (1,324,851,134) | 7,425,148,865 |
| Total | 17,857,142,858 | (2,703,777,826) | 15,153,365,032 | 17,857,142,858 | (2,703,777,826) | 15,153,365,032 |

| | (Historical Amount) | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Authorized | Unsubscribed | Paid-in | Authorized | Unsubscribed | Paid-in |
| Series "F" | $ 2,550 | $ (386) | $ 2,164 | $ 2,550 | $ (386) | $ 2,164 |
| Series "B" | 2,450 | (371) | 2,079 | 2,450 | (371) | 2,079 |
| Subtotal | $ 5,000 | $ (757) | 4,243 | $ 5,000 | $ (757) | 4,243 |
| Capitalization of restatement | | | 10,971 | | | 10,971 |
| Restatement to Mexican pesos of December 2007 | | | 8,924 | | | 8,924 |
| Total | | | $ 24,138 | | | $ 24,138 |

At a Stockholders' Ordinary General Meeting on February 24, 2011, the Institution declared a cash dividend of $15,564, taken from the account named "Results of prior years" which was distributed on the basis of

$0.256774649840693 pesos per share, which were paid to the shareholders in four quarters: On March 29, 2011, on June 29, 2011; on September 28, 2011 and on December 19, 2011.

At a Stockholders' Ordinary General Meeting of Afore Bancomer on June 1, 2011, a cash dividend of $944 was declared, taken from the account named "Results of prior years", of which 75% corresponds to the Institution due to its participation in Afore Bancomer. Such dividend was distributed and paid to the shareholders on June 3, 2011.

***Restrictions on income -*** Stockholders' equity, except for restated amounts of paid-in capital and tax retained earnings, will incur ISR on dividends payable by the Institution at the current rate, at the time of distribution. The tax paid on such distribution can be credited against ISR of the year and the respective provisional payments during the year in which tax is paid on dividends and the next two years.

The annual net income of BBVA Bancomer is subject to the legal requirement that 10% of profitabilities be transferred to a legal reserve each year until the reserve equals paid-in capital. This reserve may not be distributed to stockholders during the existence of the Institution, except in the form of a stock dividend.

***Capitalization index -*** Current regulations establish requirements for specific net capital levels, as a percentage of risk assets, for both market and credit purposes. However, in order to determine net capital, deferred taxes represent a maximum of 10% of basic capital.

Based on the standard method, the transactions are classified in eight different groups depending on the counterparty, and must be weighted based on the degree of risk applicable to the respective credit classification assigned by one of the Ratings Agencies.

Furthermore, under this method a higher weighting factor is assigned to the overdue portfolio (125%) and the mortgage credits will now have a factor of between 50% and 100%, depending on the level of down payment and the related guarantees provided.

*Capitalization for operating risk:*

To calculate the capital requirement for exposure to operating risk, BBVA Bancomer must use:

– Basic indicator method, which must cover minimum capital equivalent to 15% of the average of the last 36 months of the financial or intermediation margin.

– Standard, alternative standard or other methods determined by the Commission.

The basic-method capital requirement should be built up within three years, and must be within the ranges of between five and 15% of the average sum of credit and market risk requirements over the last 36 months.

On April 9, 2010, the Mexican Treasury Department (SHCP) published modifications to the "Rules for capitalization requirements of full-service banks, national credit institutions, development banks". The main changes are as follows:

*Capitalization due to market risk:*

The Institution may make the calculation of Caps and Floors options, defined as a series of purchase or sale options based on the same underlying interest rate, with the same notional amount, with consecutive maturities and equivalent terms between one and the next, in the same purchase or sale direction, and with the same counterparty, as a cash flow exchange transaction ("swap"), in which a variable interest rate is received and a fixed interest rate is delivered, or vice versa, according to the Caps or Floors options packages in question, in accordance with section VI of this article, as well as subsections a) and b) of section I of article 2 Bis 102 of these provisions, by considering the respective maturity of the options based on the maturity date of each swap flow.

The capitalization index of the Institution as of December 31, 2011 was 15.84% of the total risk (market, credit and operational) and 26.67% of credit risk, which are 7.84 and 18.67 points above the required minimums.

The net capital, divided into basic capital and complementary capital, is detailed as follows (the amounts shown in this note may differ in presentation from the basic financial statements):

– *Basic capital:*

| Item | Amount |
|---|---|
| Stockholders' equity | $ 115,422 |
| Capital notes | 15,462 |
| Deductions of subordinated debt instruments related to securitization schemes | (884) |
| Deductions of investments in shares of financial entities | (6,269) |
| Deductions of investments in shares of non-financial entities | (481) |
| Organization expenses, other intangible assets | (4,709) |
| Total | $ 118,541 |

The main characteristics of debt and capital notes were as follows:

| Item | Appraised Amount | Maturity Date | Calculation | Weighted Average Amount |
|---|---|---|---|---|
| Non-convertible debt considered as basic capital: | | | | |
| Eligible capital notes | $ 6,974 | 17/05/2022 | 100% | $ 6,974 |
| Eligible capital notes | 13,948 | 22/04/2020 | 100% | 13,948 |
| | $ 20,922 | | | $ 20,922 |

– *Complementary capital:*

| Item | Amount |
|---|---|
| Obligations and capitalization instruments | $ 45,045 |
| Allowance for loan losses | 2,890 |
| Subordinated debt instruments, related to securitizations | (884) |
| Total | $ 47,051 |

| | |
|---|---|
| - *Net capital:* | $ 165,592 |

The main characteristics of debt and capital notes were as follows:

| Item | Appraised Amount | Maturity Date | Calculation | Weighted Average Amount |
|---|---|---|---|---|
| Non-convertible debt considered as complementary capital: | | | | |
| Bancomer-06 | $ 2,500 | 18/09/2014 | 60% | $ 1,500 |
| Bancomer-08 | 1,200 | 16/07/2018 | 100% | 1,200 |
| Bancomer-08-2 | 3,000 | 24/09/2018 | 100% | 3,000 |
| Bancomer-08-3 | 2,859 | 26/11/2020 | 100% | 2,859 |
| Bancomer-09 | 2,729 | 07/06/2019 | 100% | 2,729 |
| Eligible capital notes | 17,435 | 10/03/2021 | 100% | 17,435 |
| Eligible capital notes | 10,862 | 17/05/2017 | 100% | 10,862 |
| | $ 40,585 | | | $ 39,585 |

Assets at risk are as follows:

– *Assets subject to market risk:*

| Item | Risk-Weighted Positions | Capital Requirements |
|---|---|---|
| Transactions in Mexican pesos with a nominal rate | $ 201,425 | $ 16,114 |
| Transactions in Mexican pesos with real rate or rate denominated in UDIs | 13,480 | 1,078 |
| Rate of return based on the General Minimum Wage | 19,687 | 1,575 |
| Interest rate transactions in foreign currency with a nominal rate | 10,756 | 860 |
| Positions in UDIs and Mexican pesos with yield linked to NCPI | 34,611 | 2,769 |
| Positions in currencies with yield indexed to exchange rates | 3,309 | 265 |
| Positions in shares or with yield indexed to the price of a share or group of shares | 213 | 17 |
| Transactions based on the General Minimum Wage | 29 | 2 |
| Surtax | 18,712 | 1,497 |
| Total market risk | $ 302,222 | $ 24,177 |

– *Assets subject to credit risk:*

| Item | Risk-Weighted Assets | Capital Requirements |
|---|---|---|
| Weighted at 10% | $ 1,033 | $ 83 |
| Weighted at 11.5% | 697 | 56 |
| Weighted at 20% | 33,921 | 2,714 |
| Weighted at 23% | 8,658 | 693 |
| Weighted at 50% | 9,587 | 767 |
| Weighted at 100% | 429,836 | 34,387 |
| Weighted at 115% | 14,752 | 1,180 |
| Weighted at 125% | 11,322 | 906 |
| Weighted at 150% | 843 | 67 |
| Internal methodology TDC | 110,226 | 8,818 |
| Total credit risk | $ 620,875 | $ 49,671 |
| Total credit risk | $ 122,175 | $ 9,774 |

## 28. Position in foreign currency

At December 31, 2011 and 2010, the exchange rate determined by *Banco de México* and used by the Institution to value its assets and liabilities in foreign currency (translated to U.S. dollars) was $13.9476 and $12.3496 per U.S. dollar, respectively, and the position in foreign currency was as follows:

| | Millions of U.S. Dollars | |
|---|---|---|
| | 2011 | 2010 |
| Assets | 9,830 | 41,959 |
| Liabilities | (9,869) | (42,066) |
| Net liability position in U.S. dollars | (39) | (107) |
| Net liability position in Mexican pesos (nominal value) | $ (544) | $ (1,327) |

As of February 15, 2012, the foreign currency position (unaudited) is similar to that of the close of the year and the exchange rate as of that date is MX $12.7658 per US $1.00.

The Institution performs transactions in foreign currency, primarily in US dollars, Euros and Japanese yen. The Institution does not disclose its position in currencies other than the US dollar, as it is largely immaterial. The parity of other currencies with the Mexican peso is referenced to the US dollar and is in compliance with bank of Mexico regulations. Consequently, the Institution's position in all foreign currencies is consolidated in US dollars at each monthly close.

The foreign currency position of the other subsidiaries is immaterial.

## 29. UDI position

At December 31, 2011 and 2010, the Institution had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of $4.691316 and $4.526308 per UDI, respectively, as follows:

| | Thousands of UDIs | |
|---|---|---|
| | **2011** | **2010** |
| Assets | 6,154 | 15,143 |
| Liabilities | (4,764) | (10,654) |
| Net liability position in UDIs | 1,390 | 4,489 |
| Net liability position in Mexican pesos (nominal value) | $ 6,524 | $ 20,319 |

As of February 15, 2012 the position in UDIS (unaudited) is similar to that of the close of the year and the exchange rate as of that date is MX $ 4.747916 per UDI.

## 30. Preventive and saving protection mechanism

During 2011 and 2010, contributions made by the Institution to IPAB were $2,753 and $2,513, respectively.

## 31. Financial margin

At December 31, 2011 and 2010, the main items composing the financial margin were as follows:

| | 2011 | | |
|---|---|---|---|
| | | Amount valued | |
| | **Mexican pesos** | **Dollars** | **Total** |
| Interest income: | | | |
| Loan portfolio interest and returns | $ 66,913 | 2,002 | $ 68,915 |
| Securities interest and returns | 4,227 | 388 | 4,615 |
| Quick asset interest | 3,376 | 52 | 3,428 |
| Repurchase agreement and security loan interest and premiums | 13,963 | - | 13,963 |
| Margin call accounts interest | 100 | - | 100 |
| Commissions collected to initially grant credit | 1,066 | - | 1,066 |
| Others | 2,340 | 20 | 2,360 |
| Total interest income | 91,985 | 2,462 | 94,447 |

| | 2011 | | |
|---|---|---|---|
| | | Amount valued | |
| | Mexican pesos | Dollars | Total |
| Interest expenses: | | | |
| Deposits interest | (12,864) | (440) | (13,304) |
| Interest on loans with banks and other entities | (780) | (33) | (813) |
| Debenture interest | (692) | (2,568) | (3,260) |
| Repurchase agreement and security loan interest and premiums | (12,970) | - | (12,970) |
| Others | (576) | (58) | (634) |
| Total interest expenses | (27,882) | (3,099) | (30,981) |
| Financial margin | $ 64,103 | (637) | $ 63,466 |

| | 2010 | | |
|---|---|---|---|
| | Mexican pesos | US dollars (equivalent in Mexican pesos) | Total |
| Interest income: | | | |
| Loan portfolio interest and returns | $ 60,613 | 1,805 | $ 62,418 |
| Securities interest and returns | 3,477 | 451 | 3,928 |
| Quick asset interest | 3,319 | 101 | 3,420 |
| Repurchase agreement and security loan interest and premiums | 14,984 | - | 14,984 |
| Margin call accounts interest | 101 | 3 | 104 |
| Commissions collected to initially grant credit | 982 | - | 982 |
| Others | 2,928 | - | 2,928 |
| Total interest income | 86,404 | 2,360 | 88,764 |
| Interest expenses: | | | |
| Deposits interest | (12,225) | (46) | (12,271) |
| Interest on loans with banks and other entities | (913) | (25) | (938) |
| Debenture interest | (754) | (1,650) | (2,404) |
| Repurchase agreement and security loan interest and premiums | (12,467) | - | (12,467) |
| Others | (538) | - | (538) |
| Total interest expenses | (26,897) | (1,721) | (28,618) |
| Financial margin | $ 59,507 | 639 | $ 60,146 |

## 32. Commissions and fee income

At December 31, 2011 and 2010, the main items for which the Institution recorded commissions and fee income in the statement of income were as follows:

| Concept | 2011 | 2010 |
|---|---|---|
| Credit and debit cards | $ 11,292 | $ 9,959 |
| Bank commissions | 6,509 | 7,347 |
| Afore, Pension Funds and SAR | 2,976 | 2,795 |
| Investment funds | 2,590 | 2,516 |
| Insurance | 1,190 | 1,118 |
| Others | 3,627 | 3,304 |
| Total commissions and fee income | $ 28,184 | $ 27,039 |

## 33. Trading income

At December 31, 2011 and 2010, the main items composing the trading income were as follows:

| | 2011 | 2010 |
|---|---|---|
| Valuation result: | | |
| Derivatives | $ (1,670) | $ 612 |
| Foreign currency | (496) | 822 |
| Securities investments | (595) | (2,142) |
| | (2,761) | (708) |
| Purchase-sale result: | | |
| Derivatives | 2,804 | (3,815) |
| Foreign currency | 1,642 | 1,653 |
| Securities investments | 2,682 | 7,734 |
| | 7,128 | 5,572 |
| Total | $ 4,367 | $ 4,864 |

## 34. Segment information

The Institution and its subsidiaries take part in different activities of the financial system, such as credit operations, treasury operations, transfer of funds from abroad, distribution and administration of investment funds, administration of retirement funds, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Institution's business units, more than the legal entities in which the results generated are recorded.

Below we present the revenues obtained during the years 2011 and 2010, which show the difference segments as indicated in the preceding paragraph:

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Total revenues for the Operation of the Financial Group | | | | | |
| Concepto | Total | Commercial bank | Corporate and Government Banking | Market Operation | Management of pension funds | Other Segments |
| Total revenue | | | | | | |
| Financial margin | $ 63,466 | $ 48,316 | $ 10,917 | $ (169) | $ 96 | $ 4,306 |
| Provision for loan losses | (20,011) | (18,287) | (1,724) | - | - | - |
| Net interest income after provision for loan losses | 43,455 | 30,029 | 9,193 | (169) | 96 | 4,306 |
| Commissions and fees, net | 20,551 | 13,879 | 3,048 | 342 | 2,969 | 313 |
| Trading income | 4,367 | 1,025 | 282 | 2,929 | - | 131 |
| Other operating income (expenses) | 1,289 | 163 | (36) | (2) | 187 | 977 |
| Net operating revenues | 69,662 | $ 45,096 | $ 12,487 | $ 3,100 | $ 3,252 | $ 5,727 |
| Administration and promotion costs | (39,132) | | | | | |
| Net operating revenues | 30,530 | | | | | |
| Share in net income of unconsolidated subsidiaries and affiliates | 292 | | | | | |
| Income before income taxes | 30,822 | | | | | |
| Current income tax | (5,052) | | | | | |
| Deferred income tax | (1,957) | | | | | |
| Income before non-controlling interest | 23,813 | | | | | |
| Non-controlling interest | (346) | | | | | |
| Net income | $ 23,467 | | | | | |

| Concepto | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Total revenues for the Operation of the Financial Group | | | | | |
| | Total | Commercial bank | Corporate and Government Banking | Market Operation | Management of pension funds | Other Segments |
| Total revenue | | | | | | |
| Financial margin | $60,146 | $40,505 | $ 7,545 | $ 2,595 | $ 77 | $ 9,424 |
| Provision for loan losses | 19,626 | (17,660) | (1,966) | - | - | - |
| Net interest income after provision for loan losses | 40,520 | 22,845 | 5,579 | 2,595 | 77 | 9,424 |
| Commissions and fees, net | 20,598 | 14,352 | 3,113 | 360 | 2,788 | (15) |
| Trading income | 4,864 | 691 | 526 | 856 | - | 2,791 |
| Other operating income (expenses) | 596 | 279 | (13) | (17) | 120 | 227 |
| Net operating revenues | 66,578 | $38,167 | $ 9,205 | $ 3,794 | $ 2,985 | $ 12,427 |
| Administration and promotion costs | (36,687) | | | | | |
| Net operating revenues | 29,891 | | | | | |
| Share in net income of unconsolidated subsidiaries and affiliates | 302 | | | | | |
| Income before income taxes | 30,193 | | | | | |
| Current income tax | (9,612) | | | | | |
| Deferred income tax | 2,277 | | | | | |
| Income before non-controlling interest | 22,858 | | | | | |
| Non-controlling interest | (317) | | | | | |
| Net income | $22,541 | | | | | |

Other segments include the results related to management of the credit portfolio assigned to the recovery area.

## 35. Risk management and derivatives Unaudited figures)

Considering the Commission's regulatory requirements relative to the disclosure of the policies and procedures established by credit institutions for comprehensive risk management, below are the measures implemented by management for this purpose, as well as the respective quantitative information:

The "Regulations", issued by the Commission, were implemented through the recognition of basic rules for efficient risk management, evaluating risks as quantifiable (credit, market and liquidity) and non-quantifiable (operational and legal), so the basic identification, measurement, monitoring, limitation, control and disclosure processes are satisfied. To summarize, the following is performed:

– *Participation of the governing bodies:*

  The Board of Directors is responsible for establishing the objectives of risk exposure and fixing capital related limits, as well as authorizing the policies and procedures manuals related to risks.

  The Risk Committee is responsible for monitoring the position and compliance with the risk limits to which the Institution is exposed, and for ensuring adherence to Board of Directors' resolutions.

– *Policies and procedures:*

  Risk manuals with standard contents, including strategy, organization and operating, technological and methodological frameworks, and regulatory processes. Specific manual for legal risks, including related methodologies.

  Defined and limited third-party responsibilities, risk training programs and communication of policies and procedures.

– *Tactic decision making:*

  Independence of the Comprehensive Risk Management Unit.

  Interaction of this unit with operating committees.

  Establishment of monitoring processes and daily and monthly reports.

  Limits structure in terms of economic capital for each business unit and type of risk.

  Establishment, by the Risk Committee, of the authorization and ratification of process for new products and/or services involving risk for the Institution.

– *Tools and analyses:*

  Continuous measurement of credit, market and liquidity risks under consistent methodologies and parameters.

  Indicators of diversification levels (correlations).

  Establishment of periodic analyses of sensitivity, testing under extreme conditions and review and improvement of models.

  Install monitoring and operational and legal risk control methodologies in conformity with international standards.

  Risk integration by defining capital requirements to absorb them.

– *Information:*

Periodic reports to the Risk Committee, Board of Directors, risk taking units, finance and senior management.

– *Technological platform:*

Comprehensive review of all source and calculation systems for risk quantification, projects for the improvement, quality and sufficiency of data and automation.

– *Audit and comptrollership:*

Participation of internal audit regarding compliance with Regulations on Comprehensive Risk Management and implementation of compliance plans by type and area of risk.

Performance of audits in compliance with Regulations on Comprehensive Risk Management by a firm of independent experts, concluding that risk measurement models, systems, methodologies, assumptions, parameters and procedures comply with their functionality based on the characteristics of the risk operations, instruments, portfolios and exposures of the Institution.

The Institution believes that at this date it fully complies with the provisions of Regulations on Comprehensive Risk Management, while projects continue to improve measurements and limitations, automation of processes and methodological refinements.

***Methodological framework - Techniques for valuation, measurement and description of risks***

For risk purposes, the Institution's balance sheet is envisioned as follows:

– *Market risk:*

Operations and investment portfolios- Investments in trading securities and securities available for sale securities, ledger of repurchase transactions and related derivative transactions.

Structural balance sheet- Other assets, including securities held to maturity and derivatives for the management of interest rate risk.

– *Credit risk:*

Domestic and foreign financial institutions, companies and corporate- Traditional loan portfolio, including small and medium companies, and exposures from investments in issues, and counterparts in derivative financial instruments.

Retail/consumer loans- Credit cards, financing plans and mortgage portfolio.

With respect to the risk market measurement process and the operations and investment portfolios, the daily measurement of market risk is done through statistical techniques of the Value at Risk (VaR), the core measurement. As an example, VaR consists of the following:

a. To define the sensitive level in the valuation of positions facing changes in prices, rates or indexes.

b. To estimate the "reasonably" expected change for a determined timeframe in such prices, rates or indexes, considering the level under which such factors can move as a whole.

c. To revalue the portfolio under such expected changes as a whole and determine the potential "maximum" loss in terms of value.

The VaR has been set based on the consideration that, in a day's transactions, 99% of the time losses will not exceed the calculated amount.

Also, different types of VaR calculations are performed, based on groups defined by risk factor: interest rate VaR, variable income VaR, volatility VaR (vega VaR) and exchange rate VaR.

With regard to the structural interest risk, categories are defined for each balance sheet heading based on their financial characteristics and the Economic Value and Financial Margin sensitivities are calculated using the methodology authorized by the Risk Committee. A red flag and limits system is in place for these sensitivities, whereby follow-up is provided each month in the Risk Committee and is presented quarterly to the Board of Directors.

With regard to liquidity risk, follow-up and information mechanisms have been established and approved by the Risk Committee, both for the management of short-term liquidity and of liquidity risk in the balance sheet. There is also a liquidity risk contingency plan, as well as a red flag system for quantitative and qualitative risk with different levels of risk. The short-term liquidity red flag system monitors the dynamic of the principal financing sources of the Treasury, and its distribution based on maturity deadlines. By the same token, the medium-term liquidity system monitors the optimal management of the Structural Balance Sheet resources based on the growth projections of the banking business.

The Assets and Liabilities Committee is the executive body responsible for managing the structural interest risk and liquidity risk.

In relation to the measurement of credit risks, the Risk Exposure (Exposure) is determined using two methodologies: the risk from batch positions is determined based on the Monte Carlo simulation, which means that the valuation formulas and risk factors used are consistent with those used for the market risk calculations, and incorporate the effect of the credit risk mitigation techniques (netting and collateral), and the term effect correctly, because the future value of each position is calculated in each tranche, resulting in a lower consumption of credit risk and therefore a better utilization of the limits. Also, for online determination, Potential Risk Factors (FRP's) are used, which estimate the maximum expected increase for the positive market value of the transaction with a given level of confidence. Such FRP's will be applied based on the type of product, duration, currency and the amount involved.

***Quantitative information (unaudited) in thousands of Mexican pesos -***

– Operation and investment portfolio:

| | VaR 1 día | |
|---|---|---|
| **Portfolio** | **December 31, 2011** | **Average of the last quarter of 2011** |
| Interest rate | $ 67 | $ 212 |
| Variable income | $ 36 | $ 116 |
| Foreign exchange | $ 10 | $ 36 |
| Volatility | $ 14 | $ 44 |
| Weighted | $ 75 | $ 234 |

– Total Credit Risk exposure in derivatives as of December 2010:

| Portfolio | December 31, 2011 |
|---|---|
| Counterparty Risk Exposure | $ 5,943 |

During 2011 and 2010, the Institution recognized losses due to operating risks (fraud, casualties, fines and penalties) for the amount of $348 and $621, respectively.

***Derivative transactions -***

Trading derivative instruments that are issued or acquired by the Treasury of the Institution are mainly intended to offer hedging solutions and investment alternatives to meet client needs. Furthermore, the Institution's treasury also acquires derivatives for the purpose of managing the risk from transactions with customers.

***Valuation methods -***

To determine the portfolio value, two procedures are used depending whether they are instruments listed in recognized markets or traded in "over-the-counter" markets. In the first case, the price information from the official price supplier is used, and in the second, internal methodologies have been developed with the support of independent experts and the Mexican Central Bank itself, using variables provided in turn by the price supplier.

***Internal control procedures to manage market risks -***

To control the market risk incurred by the Institution's treasury, the Risk Management Department establishes a structure of VaR limits depending on the level of risk set by the Institution. In accordance with current regulations and international standards, such control is applied daily and is reported directly to the Institution's senior management. Following is a summary of the principal market risk limits:

| Limit | |
|---|---|
| VaR (one-day horizon) | $ 335 |
| Annual loss | $ 698 |
| Monthly loss | $ 279 |

***Control of measures additional to VaR -***

Apart from follow-up on the implicit VaR level in the trading positions of the operating and investment portfolios, the Risk Department establishes a series of limits related to the sensitivity of the positions to minimum movements of the risk factors (sensitivities). A control is applied daily to the use of the interest rate sensitivity limit (Delta).

***Coherence between VaR limits and sensitivity limits -***

To ensure that the VaR limits maintain a coherent relationship compared to the sensitivity limits, the Global Risk Management Unit in Market Areas (UAGRAM) prepares an annual coherence study based on random sensitivity scenarios and maximum restrictions, depending on the risk factor and its duration. The VaR calculation derived from these scenarios is used to determine a global VaR level both for the entire Treasury and for its different constituent desks.

***Embedded derivatives -***

Under the Structured Bank Bonds issuance programs of the Institution, there are foreign currency, index and interest rate options recorded, equivalent to $5,120; also, there are interest rate and foreign currency swaps recorded for an amount of $21,440.

***Sensitivity of interest to derivatives -***

Below is a table showing the detail of the sensitivity of interest derivatives, grouped by type of instrument:

| **Sensitivity** | **Delta Interest Rate 1bp** | **Delta Exchange Rate 1%** |
|---|---|---|
| Peso swaps | $ - | $ 5 |
| Interest-rate options | (1) | 10 |
| | $ (1) | $ 15 |

***Hedge derivatives -***

*Fair value:*

The Institution has fair value hedge derivatives intended to reduce the volatility of its results due to changes in the market value. The prospective effectiveness is measured by using the VaR, and the retrospective effectiveness by comparing the result from changes in the fair value against changes in the fair value of the primary position.

*Cash flows:*

The Institution maintains cash flow hedge derivatives to reduce exposure to variations in interest rates, by changing such rates to a fixed rate in order to reduce the volatility of the financial margin. The method for evaluating the prospective effectiveness is through a sensitivity analysis; the retrospective effectiveness is measured by comparing the change in the present value of the flows from the hedge instrument against the changes in the present value of the flows of the hedged position.

The profit from cash flow hedge derivatives recognized in equity at December 31, 2011 is $1,805.

*Documentation of hedges:*

Each hedge is supported by a file that includes:

– A general hedge document, describing the type of hedge, the risk to be covered, the strategy and purpose of performing the transaction, the primary position, the hedging derivative and the method to evaluate the prospective and retrospective effectiveness.

– The primary position contract.

– The inventory of the derivative.

– The inventory of the primary position.

– The prospective and retrospective effectiveness test of each period.

## 36. Rating

At December 31, 2011, the ratings assigned to the Institution are as follows:

| | Global Scale ME | | National Scale | | |
|---|---|---|---|---|---|
| Ratings Agency | Long Term | Short Term | Long Term | Short Term | Perspective |
| Standard & Poor´s | BBB | A-3 | mxAAA | mxA-1+ | Stable/ Stable |
| Moody´s | Baa1 | P-2 | Aaa.mx | MX-1 | Stable/ Stable |
| Fitch | A- | F1 | AAA (mex) | F1+(mex) | Stable/ Stable |

## 37. Reclassifications of the financial statements

The financial statements at December 31, 2010 were reclassified in certain accounts to make them comparable with the presentation used for the financial statements at December 31, 2011.

## 38. Contingencies

As of December 31, 2011, there are claims filed against the Institution in ordinary civil and commercial lawsuits, as well as payment requests issued by the tax authorities. However, according to its attorneys, the claims filed are considered invalid and, in the event of adverse rulings, its financial position would not be significantly affected. For such purpose, the Institution has weighted the impact of each one and has recorded a reserve for $351 in these cases.

## 39. New accounting principles

*NIF issued by the CINIF:*

As part of its efforts to make Mexican standards converge with international standards, in 2011, the Mexican Board for Research and Development of Financial Information Standards ("CINIF") issued the following Mexican Financial Reporting Standards (NIFs), Interpretations to Financial Information Standards (INIFs) and improvements to NIFs, which will become effective as of January 1, 2012:

B-3, Statement of Comprehensive Income (Loss)
B-4, Statement of Changes in Stockholders' Equity
C-6, Property, Plant and Equipment
Improvements to Mexican Financial Reporting Standards 2012

Some of the most important changes established by these standards are:

*NIF B-3, Estado de resultado integral* - Provides the options of presenting a) a single statement containing the items that make up net income (loss), as well as other comprehensive income (OCI)) and equity in OCI of other entities and be named statement of comprehensive income (loss), or b) two statements: the statement of income (loss), which should include only items that make up net income (loss) and the statement of other comprehensive income (loss), which should start from net income (loss) and immediately present OCI items and equity in OCI of other entities. In addition, establishes that items should not be separately presented as non-ordinary in the financial statement or the notes to the financial statements.

*NIF B-4, Statement of Changes in Stockholders' Equity* - establishes the general rules for the presentation and structure of the statement of changes in stockholders' equity, such as showing retroactive adjustments due to accounting changes and correction of errors that affect the beginning balances of stockholders' equity and presenting comprehensive income (loss) in a single line item, providing a detail of all items making it up, according to the NIF B-3.

*NIF C-6, Property, Plant and Equipment* - establishes the obligation to depreciate components that are representative of an item of property, plant and equipment, regardless of depreciating the rest of the item, as if it were a single component.

*Improvements to Mexican Financial Reporting Standards 2012* - The main improvements that generate accounting changes that should be recognized retroactively in fiscal years beginning on January 1, 2012 are:

*Bulletin B-14, Earnings per share* - states that diluted earnings per share should be calculated and disclosed when the result from continuing operations is a loss, regardless of whether net income is reported.

*NIF C-1, Cash and Cash equivalents* - requires that cash and restricted cash equivalents be presented in the balance sheet at short term, provided such restriction expires within 12 months from the balance sheet date; if the restriction expires at a later date, this line item should be presented under long-term assets.

*Bulletin C-11, Stockholders' equity* - eliminates the rule to record donations received by an entity, as part of capital contributions, which, according to NIF B-3, Statement of Income, should be recorded as revenue in the statement of income.

*Bulletin C-15, Accounting for Impairment and Disposal of Long-lived Assets* - eliminates: a) the restriction that an asset be not in use to classify it as available-for-sale, and b) the reversal of goodwill impairment losses. It also establishes that impairment losses in the value of long-lived assets be presented in the statement of income under the corresponding cost and expense line items and not under other income and expenses, or as a special item.

*NIF D-3, Employee Benefits* - requires that current and deferred PTU be presented in the statement of income under the corresponding cost and expense line items and not under other income and expenses.

Also, other Improvements to Mexican Financial Reporting Standards 2012 were issued that do not generate accounting changes and which require further disclosures about key assumptions used in the estimates and valuation of assets and liabilities at fair value, that might give rise to significant adjustments to such values in the next accounting period.

At the date of issuance of these financial statements, the Company has not fully assessed the effects of adopting these new standards on its financial information.

* * * * * *

**Report on the Review of Interim Financial Information to the Board of Directors and Stockholders of BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer**

We have reviewed the unaudited condensed consolidated interim balance sheet of BBVA BANCOMER, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BBVA BANCOMER AND SUBSIDIARIES (the "Institution") as of June 30, 2012, and the related unaudited condensed consolidated interim statements of income for the three-month and six-month periods ended June 30, 2012 and 2011, and of changes in stockholders' equity and cash flows for the six-month periods ended June 30, 2012 and 2011. The Institution's management is responsible for the preparation and reasonable presentation of this interim financial information in accordance with the accounting criteria established by the National Banking and Securities Commission (the "Commission"). It is our responsibility to express an opinion on this interim financial information based on our reviews. The condensed consolidated balance sheet as of December 31, 2011 is presented only for comparative purposes.

We conducted our reviews in accordance with Standard on Review Services 9020, Review of the Interim Financial Information by the Entity's Independent Auditor, issued by the Mexican Institute of Public Accountants. A review of interim financial information consists of making inquiries, principally with the personnel responsible for financial and accounting issues, and applying analytical procedures and other review procedures. A review is substantially smaller in scope than an audit conducted in conformity with auditing standards generally accepted in Mexico and, consequently, might not reveal material issues that might be identified in an audit. Consequently, we do not express an audit opinion.

Based on our reviews, nothing came to our attention that caused us to believe that the accompanying interim financial information does not present fairly, in all material respects, the consolidated financial position of BBVA BANCOMER, S. A., INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BBVA BANCOMER AND SUBSIDIARIES as of June 30, 2012, and the results of their operations for the three-month and six-month periods ended June 30, 2012 and 2011, and changes in their stockholders' equity and their cash flows for the six-month periods ended June 30, 2012 and 2011, in conformity with the accounting criteria prescribed by the Commission.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

CPC Jorge Tapia del Barrio

September 21, 2012

**BBVA BANCOMER, S. A.,**
**INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BBVA BANCOMER**

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (UNAUDITED)**
**OF THE INSTITUTION AND ITS SUBSIDIARIES AT JUNE 30, 2012 AND AT DECEMBER 31, 2011**
**(In Millions of Mexican Pesos)**

| **Assets** | **June 30, 2012** | **December 31, 2011** |
|---|---|---|
| Cash and cash equivalents | $ 85,984 | $ 115,400 |
| Margin call accounts | 4,273 | 3,546 |
| Securities: | | |
| Trading | 224,140 | 213,112 |
| Available for sale | 107,312 | 105,082 |
| Held to maturity | 14,987 | 14,671 |
| | 346,439 | 332,865 |
| Debtors from repurchase agreements | 63 | 4,540 |
| Derivatives: | | |
| Trading | 71,757 | 63,633 |
| Hedging transactions | 5,294 | 10,828 |
| | 77,051 | 74,461 |
| Valuation adjustments derived from hedges of financial assets | 3,059 | 969 |
| Performing loans: | | |
| Commercial loans | | |
| Business or commercial activity | 220,975 | 218,536 |
| Financial entities | 8,962 | 7,425 |
| Government entities | 92,241 | 91,944 |
| | 322,178 | 317,905 |
| Consumer | 155,455 | 146,734 |
| Mortgage | 149,026 | 145,577 |
| Total performing loans | 626,659 | 610,216 |
| Non-performing loans: | | |
| Commercial loans: | | |
| Business or commercial activity | 7,767 | 7,555 |
| Financial entities | 8 | 1 |
| Government entities | 163 | - |
| Consumer | 6,538 | 5,756 |
| Mortgage | 7,851 | 6,369 |
| Total non-performing loans | 22,327 | 19,681 |
| Total loans | 648,986 | 629,897 |
| Allowance for loan losses | (27,245) | (24,873) |
| Total loans, net | 621,741 | 605,024 |
| Benefits receivable from securitization transactions | 1,175 | 1,175 |
| Receivables, sundry debtors and prepayments, net | 69,946 | 44,188 |
| Repossessed assets, net | 4,910 | 4,102 |
| Property, furniture and equipment, net | 17,590 | 17,086 |
| Equity investments | 2,671 | 2,591 |
| Deferred taxes, net | 4,593 | 6,367 |
| Other assets: | | |
| Deferred charges, prepaid expenses and intangibles | 11,043 | 10,600 |
| Total assets | $ 1,250,538 | $ 1,222,914 |

**BBVA BANCOMER, S. A.,**
**INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BBVA BANCOMER**

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (UNAUDITED)**
**OF THE INSTITUTION AND ITS SUBSIDIARIES AT JUNE 30, 2012 AND AT DECEMBER 31, 2011**
**(In Millions of Mexican Pesos)**

| **Liabilities** | **June 30, 2012** | **December 31, 2011** |
|---|---|---|
| Deposits: | | |
| Demand deposits | $ 468,014 | $ 437,572 |
| Time deposits: | | |
| The general public | 128,618 | 138,861 |
| Money market | 15,975 | 15,455 |
| | 144,593 | 154,316 |
| Bank bonds | 55,683 | 53,548 |
| | 668,290 | 645,436 |
| Interbank loans and loans from other entities: | | |
| Payable on demand | 2,856 | 4,179 |
| Short-term | 7,501 | 11,052 |
| Long-term | 5,135 | 5,075 |
| | 15,492 | 20,306 |
| Creditors from repurchase agreements | 217,285 | 210,884 |
| Security loans | 3 | 1 |
| Collateral sold or delivered in guarantee: | | |
| Security loans | 40,578 | 24,723 |
| | 40,578 | 24,723 |
| Derivatives: | | |
| Trading | 73,796 | 72,121 |
| Hedge transactions | 4,000 | 2,600 |
| | 77,796 | 74,721 |
| Valuation adjustments derived from hedges of financial liabilities | 4,041 | 3,134 |
| Other payables: | | |
| Employee profit sharing (PTU) payable | 10 | 33 |
| Transaction settlement creditors | 21,147 | 24,404 |
| Creditors for collateral received in cash | 10,721 | 10,187 |
| Accrued liabilities and other | 22,114 | 24,771 |
| | 53,992 | 59,395 |
| Subordinated debt | 49,756 | 62,450 |
| Deferred credits and advanced collections | 6,499 | 5,487 |
| Total liabilities | 1,133,732 | 1,106,537 |
| **Stockholders' equity** | | |
| Subscribed capital: | | |
| Paid-in capital | 24,138 | 24,138 |
| Share premium | 15,726 | 15,726 |
| Earned capital | | |
| Capital reserves | 6,881 | 6,881 |
| Results of prior years | 53,441 | 41,385 |
| Unrealized gain on available-for-sale securities | 2,653 | 2,412 |
| Result from valuation of cash flow hedging instruments | 1,371 | 1,255 |
| Result from conversion of foreign subsidiaries | 150 | 171 |
| Net income | 11,613 | 23,467 |
| | 115,973 | 115,435 |
| Noncontrolling interest in consolidated subsidiaries | 833 | 942 |
| Total stockholders' equity | 116,806 | 116,377 |
| Total liabilities and stockholders' equity | $ 1,250,538 | $ 1,222,914 |

**Memorandum accounts**

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Contingent assets and liabilities | $ 31 | $ 82 |
| Credit commitments | 240,585 | 229,597 |
| Assets in trust or under mandate | | |
| In trust | 325,908 | 307,500 |
| Under mandate | 687,599 | 567,539 |
| | 1,013,507 | 875,039 |
| Assets in custody or under administration | 255,753 | 248,434 |
| Collateral received by the Institution | 65,775 | 75,381 |
| Collateral received and sold or pledged as collateral by the Institution | 65,659 | 70,881 |
| Investment banking transactions on behalf of third parties, net | 40,259 | 32,360 |
| Accrued interest on non-performing loans | 5,443 | 4,997 |
| Other memorandum accounts | 1,560,922 | 1,442,476 |
| | $ 3,247,934 | $ 2,979,247 |
| Historical paid-in capital | $ 4,243 | $ 4,243 |

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

**BBVA BANCOMER, S. A.**
**INSTITUCIÓN DE BANCA MÚLTIPLE,**
**GRUPO FINANCIERO BBVA BANCOMER**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (UNAUDITED)**
**OF THE INSTITUTION AND ITS SUBSIDIARIES FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011**
**(In millions of Mexican pesos)**

| | Three-Months Ended June 30, | | Six-Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Interest income | $ 25,295 | $ 23,160 | $ 49,966 | $ 46,122 |
| Interest expense | (7,947) | (7,743) | (15,776) | (15,314) |
| Net interest income | 17,348 | 15,417 | 34,190 | 30,808 |
| Provision for loan losses | (5,414) | (5,171) | (10,238) | (9,789) |
| Net interest income after provision for loan losses | 11,934 | 10,246 | 23,952 | 21,019 |
| Commission and fee income | 7,346 | 6,848 | 14,542 | 13,528 |
| Commission and fee expense | (2,166) | (1,768) | (4,247) | (3,505) |
| Trading income | 397 | 1,956 | 1,356 | 3,437 |
| Other operating income | 335 | 146 | 503 | 402 |
| Administrative and promotional expenses | (10,634) | (9,619) | (21,179) | (19,331) |
| Net operating income | 7,212 | 7,809 | 14,927 | 15,550 |
| Share in net income of unconsolidated subsidiaries and affiliates | 146 | 88 | 233 | 95 |
| Income before income taxes | 7,358 | 7,897 | 15,160 | 15,645 |
| Current income tax | (1,525) | (1,468) | (1,706) | (2,377) |
| Deferred income tax | (19) | (316) | (1,646) | (1,372) |
| Income before noncontrolling interest | 5,814 | 6,113 | 11,808 | 11,896 |
| Noncontrolling interest in consolidated subsidiaries | (103) | (90) | (195) | (155) |
| Net income | $ 5,711 | $ 6,023 | $ 11,613 | $ 11,741 |

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

## BBVA BANCOMER, S. A.,
## INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BBVA BANCOMER

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED) OF THE INSTITUTION AND ITS SUBSIDIARIES FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011
### (In millions of Mexican pesos)

| | Subscribed Capital | | Earned Capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Paid in Capital | Share Premium | Capital Reserves | Results of Prior Years | Unrealized Gain on Available for Sale Securities | Result from Valuation of Cash Flow Hedging Instruments | Result from Conversion of Foreign Subsidiaries | Net Income | Noncontrolling Interest in Consolidated Subsidiaries | Total Stockholders' Equity |
| Balances at December 31, 2010 | $ 24,138 | $ 15,726 | $ 6,881 | $ 34,572 | $ 2,662 | $ 1,954 | $ 107 | $ 22,541 | $ 831 | $ 109,412 |
| Changes due to stockholders' decisions- | | | | | | | | | | |
| Transfer of 2010 net income | - | - | - | 22,541 | - | - | - | (22,541) | - | - |
| Cash dividends paid | - | - | - | (7,782) | - | - | - | - | - | (7,782) |
| Dividends paid by Administradora de Fondos para el Reitro Bancomer S.A. de C.V. | - | - | - | - | - | - | - | - | (237) | (237) |
| Total | - | - | - | 14,759 | - | - | - | (22,541) | (237) | (8,019) |
| Comprehensive income | | | | | | | | | | |
| Net income for the year | - | - | - | - | - | - | - | 11,741 | 155 | 11,896 |
| Result from valuation of securities available for sale | - | - | - | - | (933) | - | - | - | - | (933) |
| Result from valuation of cash flow hedging instruments | - | - | - | - | - | (30) | - | - | - | (30) |
| Recognition in the allowance for portfolio loan losses due to changes in the rating methodology | - | - | - | (114) | - | - | - | - | - | (114) |
| Adjustment for valuation of subsidiary companies | - | - | - | (10) | - | - | - | - | - | (9) |
| Result from conversion of foreign subsidiaries | - | - | - | - | - | - | (38) | - | - | (38) |
| Total | - | - | - | (124) | (933) | (30) | (38) | 11,741 | 156 | 10,772 |
| Balances at June 30, 2011 | $ 24,138 | $ 15,726 | $ 6,881 | $ 49,207 | $ 1,729 | $ 1,924 | $ 69 | $ 11,741 | $ 750 | $ 112,165 |
| Balances at December 31, 2011 | $ 24,138 | $ 15,726 | $ 6,881 | $ 41,385 | $ 2,412 | $ 1,255 | $ 171 | $ 23,467 | $ 942 | $ 116,377 |
| Changes due to stockholders' decisions- | | | | | | | | | | |
| Transfer of 2010 net income | - | - | - | 23,467 | - | - | - | (23,467) | - | - |
| Cash dividends paid | - | - | - | (11,411) | - | - | - | - | - | (11,411) |
| Dividends paid by Administradora de Fondos para el Retiro Bancomer, S. A. de C. V. | - | - | - | - | - | - | - | - | (303) | (303) |
| Total | - | - | - | 12,056 | - | - | - | (23,467) | (303) | (11,714) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Comprehensive income | | | | | | | | | | |
| Net income for the year | - | - | - | - | - | - | - | 11,613 | 195 | 11,808 |
| Result from valuation of securities available for sale | - | - | - | - | 241 | - | - | - | - | 241 |
| Result from valuation of cash flow hedging instruments | - | - | - | - | - | 116 | - | - | - | 116 |
| Recognition in the allowance for portfolio loan losses due to changes in the rating methodology | - | - | - | - | - | - | - | - | (1) | (1) |
| Result from conversion of foreign subsidiaries | - | - | - | - | - | - | (21) | - | - | (21) |
| Total | - | - | - | - | 241 | 116 | (21) | 11,613 | 194 | 12,143 |
| Balances at June 30, 2012 | $ 24,138 | $ 15,726 | $ 6,881 | $ 53,441 | $ 2,653 | $ 1,371 | $ 150 | $ 11,613 | $ 833 | $ 116,806 |

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

**BBVA BANCOMER, S. A.,**
**INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BBVA BANCOMER**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) OF THE INSTITUTION AND ITS SUBSIDIARIES FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011**
**(In millions of Mexican pesos)**

| | June 30, 2012 | June 30, 2011 |
|---|---|---|
| Net income | $ 11,613 | $ 11,741 |
| Adjustments derived from items not involving cash flows: | | |
| Profit or loss derived from the valuation of investment and financing activities | (9) | (38) |
| Depreciation of property, furniture and equipment | 683 | 603 |
| Amortization of intangible asset | 585 | 446 |
| Provisions | 1,866 | (1,216) |
| Current and deferred income taxes | 3,352 | 3,749 |
| Share in net income of unconsolidated subsidiaries and affiliates | (233) | (95) |
| Noncontrolling interest | 195 | 155 |
| | 18,052 | 15,345 |
| Operating activities: | | |
| Change in margin call accounts | (786) | 465 |
| Change in investments in securities | (13,988) | (25,230) |
| Change in debtors from repurchase agreement | 4,477 | (14) |
| Change in derivatives (assets) | (8,124) | 619 |
| Change in loan portfolio (net) | (19,263) | (6,070) |
| Change in benefits receivable from securitized transactions | 1 | 53 |
| Change in repossessed assets (net) | (808) | (12) |
| Change in other operating assets (net) | (27,711) | (12,934) |
| Change in deposits | 24,980 | (5,604) |
| Change in interbank loans and other loans from other entities | (4,590) | (41,758) |
| Change in creditors from repurchase agreements | 6,401 | 50,293 |
| Change in security loans | 2 | - |
| Change in collaterals sold or delivered in guarantee | 15,855 | 2,354 |
| Change in derivatives | 1,675 | (1,780) |
| Change in subordinated debt | (11,573) | 15,465 |
| Change in other operating liabilities | (5,883) | 3,546 |
| Change in hedging instruments (of hedged items related to operating activities) | 6,406 | 225 |
| Payment of income taxes | (883) | (5,248) |
| Net cash used in operating activities | (33,812) | (25,630) |
| Investing activities: | | |
| Proceeds from the disposal of property, furniture and fixtures | 12 | 26 |
| Payments for the acquisition of property, furniture and fixtures | (1,200) | (933) |
| Proceeds from the disposal of equity investments | 18 | 6 |
| Payments for the acquisition of equity investments | (69) | (39) |
| Cash dividends received | 192 | 203 |
| Payments for the acquisition of intangible assets | (433) | (488) |
| Net cash used in investing activities | (1,480) | (1,225) |
| Financing activities: | | |
| Cash dividends paid | (11,412) | (7,781) |
| Cash dividends paid to minority interest of Afore Bancomer | (303) | (237) |
| Net cash used in financing activities | (11,715) | (8,018) |
| Net decrease in cash and cash equivalents | (28,955) | (19,528) |
| Cash flow adjustments from exchange rate fluctuations | (461) | 75 |
| Cash and cash equivalents at the beginning of the period | 115,400 | 118,842 |
| Cash and cash equivalents at the end of the period | $ 85,984 | $ 99,389 |

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

**BBVA Bancomer, S. A.,**
**Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer**

# Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

**Of the Institution and its Subsidiaries at June 30, 2012 (unaudited) and at December 31, 2011**
**(In millions of Mexican pesos)**

## 1. Explanation added for translation into English

The accompanying condensed consolidated financial statements have been translated from the original statements prepared in Spanish into English for use outside of Mexico. The accounting criteria to prepare the accompanying financial statements used by BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries (the "Institution") conform with the financial reporting requirements prescribed by the Mexican National Banking and Securities Commission (the "Commission") but do not conform with Mexican Financial Reporting Standards ("MFRS"), and may differ in certain significant respects from the financial reporting standards accepted in the country of use.

## 2. Operations and regulatory environment

BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer (the "Institution") is a subsidiary of Grupo Financiero BBVA Bancomer, S. A. de C. V. (the "Financial Group") and is regulated, among others, by the Mexican Credit Institutions Law and general purpose regulations issued by the Commission and by Banco de México. The Institution and its subsidiaries engage in full service banking activities, carried out in accordance with such laws, which activities mainly include receiving funds, accepting loans, granting credits, trading securities and derivatives and executing trust fund agreements. Also, Administradora de Fondos para el Retiro Bancomer, S. A. de C. V. (the "Afore Bancomer"), the principal subsidiary of the Institution, is regulated by the Mexican National Commission for Retirement Savings.

The Commission, as regulator of financial institutions, is empowered to review the financial information of the Institution and can request changes thereto.

The main regulatory provisions require credit institutions to maintain a minimum capital ratio in relation to the credit and market risks of their operations, comply with certain limits with respect to deposit acceptance, debentures and other kinds of funding, which may be denominated in foreign currency, and establish minimum limits for paid-in capital and capital reserves, which the Institution complies with satisfactorily.

The Institution has no employees, except for the General Director; it is managed by BBVA Bancomer Operadora, S. A. de C. V. and BBVA Bancomer Servicios Administrativos, S. A. de C. V., (related parties) which provide management advisory and personnel services, under the contract signed by the parties.

## 3. Basis of preparation of the financial statements

***Interim financial information***- The accompanying condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2012 and 2011 have not been audited. According to the Institution's management, all necessary adjustments (which mainly include normal, recurring adjustments) are included for a reasonable presentation of the accompanying condensed preliminary financial statements. The results of the periods are not necessarily representative of the results for the full year. These financial statements should be read in conjunction with the Institution's audited financial statements and their respective notes for the years ended December 31, 2011 and 2010.

***Monetary unit of the financial statements -*** The financial statements and the notes as of June 30, 2012 and December 31, 2011 and for the three-month and six-month periods then ended of June 30, 2012 and 2011, include balances and transactions in Mexican pesos of different purchasing power.

***Consolidation of financial statements -*** The accompanying condensed consolidated financial statements include the financial statements of the Institution, those of its subsidiaries in which control is exercised, and its securitized transactions trust. Equity investments in mutual funds are measured according to the equity method, in conformity with the accounting criteria prescribed by the Commission. All significant intercompany balances and transactions have been eliminated in consolidation.

As of June 30, 2012 and December 31, 2011, the consolidated subsidiaries of the Institution are as follows:

| Company | Participation | Activity |
|---|---|---|
| BBVA Bancomer USA, Inc. (before BBVA Bancomer Financial Holdings, Inc.) | 100.00% | Holder of companies engaged in the sale of notes denominated in U.S. dollars and other foreign currencies, as well as bank operations |
| Opción Volcán, S. A. de C. V. | 99.99% | Real estate leasing |
| Desitel, Tecnología y Sistemas, S. A. de C. V. | 99.99% | Provider of computer data transfer services |
| Afore Bancomer | 75.00% | Pension fund management |
| Fideicomiso No. 29764-8 Socio Liquidador de Operaciones Financieras | 100.00% | Offset and settle exclusively futures contracts on behalf of third parties |
| Fideicomiso No. 29763-0 Socio Liquidador de Operaciones Financieras | 99.99% | Offset and settle exclusively futures contracts on behalf of group companies |
| Adquira México, S. A. de C. V. | 50.00% | Build, administer, market and operate a shopping club, as well as markets by economic means (As of 2011) |
| Visacom, S. A. de C. V. | 99.99% | Holder of companies engaged in marketing and data communication activities between companies |
| Financiera Ayudamos, S. A. de C. V. | 99.99% | Granting of credit in accordance with the terms of article 87-B of the General Law on Credit Organizations and Auxiliary Activities |
| Unidad de Avalúos México, S. A. de C. V. | 99.99% | Appraisal services |
| Fideicomiso Irrevocable Número 881 | 100.00% | Issuance of bonds through the Mexican Stock Market backed by mortgage loans |

The operations of the foreign subsidiary are adjusted in the recording currency to be presented in accordance with the Commission's accounting criteria. The financial statements are converted to Mexican pesos and the effects from conversion are recorded in stockholders' equity.

The accompanying condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2012 and 2011 have been prepared using the same accounting policies than those used for the preparation of the audited financial statements as of December 31, 2011.

## 4. Significant accounting policies

The accounting policies of the Institution, which are in conformity with the accounting criteria of the General Regulations Applicable to Credit Institutions (the "Regulations") prescribed by the Commission, require that management make certain estimates and use certain assumptions to determine the valuation of some of the items included in the financial statements and make the required disclosures to be included therein. While the estimates and assumptions used may differ from their final effect, management believes they were adequate under the circumstances.

In accordance with accounting criterion A-1 of the Commission, the accounting criteria applied by credit institutions will be adjusted to MFRS, as established by the Mexican Board for the Research and Development of Financial Reporting Standards ("CINIF"), except when, in the judgment of the Commission, a specific accounting provision or standard must be applied to properly reflect the specialized operations carried out by financial institutions.

## 5. Margin call accounts

At June 30, 2012 and December 31, 2011, margin call accounts are composed as follows:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Derivatives margin in authorized markets | $ 4,271 | $ 3,544 |
| Margin of ADR´s | 2 | 2 |
| | $ 4,273 | $ 3,546 |

## 6. Securities

At June 30, 2012 and December 31, 2011, financial instruments were as follows:

a. ***Trading –***

| Instrument | June 30, 2012 Acquisition Cost | Accrued Interest | (Decrease) due to Valuation | Book Value | December 31, 2011 Book Value |
|---|---|---|---|---|---|
| Equity instruments, net | $ 6,166 | $ - | $ (165) | $ 6,001 | $ 10,639 |
| BPA's ( Saving protection bonds) | 7,804 | 113 | 2 | 7,919 | 5,219 |
| Sovereign debt Eurobonds | 7,211 | 95 | 297 | 7,603 | 6,289 |
| Investment funds | 33 | - | - | 33 | 22 |
| Bonds | 1,510 | 1 | - | 1,511 | 16,709 |
| Corporate Eurobonds | 44 | 1 | - | 45 | 3 |
| CETES | 87 | - | 1 | 88 | 3,743 |
| Notes with interest payable at maturity | 8 | - | - | 8 | 9 |
| Stock marker certificates | 1,942 | 8 | 3 | 1,953 | 4,680 |
| Interchangeable stock market certificates (CBIC's) | 543 | 8 | 7 | 558 | 28 |
| Certificates of deposit | 691 | 1 | - | 692 | 522 |
| Fixed-rate bonds | 10,826 | 35 | 30 | 10,891 | 1,881 |
| Udibonos | 346 | 5 | 24 | 375 | 1,023 |
| ADR's | 323 | - | 4 | 327 | 7,719 |
| Bank bonds | - | - | - | - | 41 |
| Cetetrc | 399 | - | 8 | 407 | - |
| Certificates of deposit | 1,000 | - | - | 1,000 | 1,002 |
| Entity comercial paper | 316 | - | - | 316 | 528 |
| Total | $ 39,249 | $ 267 | $ 211 | $ 39,727 | $ 60,057 |

Value date sales at June 30, 2012 and December 31, 2011, were composed as follows:

| Instrument | June 30, 2012 Acquisition Cost | June 30, 2012 Interest Earned | June 30, 2012 Increase (Decrease) from Valuation | June 30, 2012 Book Value | December 31, 2011 Book Value |
|---|---|---|---|---|---|
| Warranty bonds to be received for securities loan | $ 43,194 | $ (97) | $ (41) | $ 43,056 | $ 25,831 |
| Warranty bonds | 132,948 | (30) | 460 | 133,378 | 120,055 |
| Other guarantees | 7,375 | 5 | 3 | 7,383 | 8,409 |
| Total Restrictions | $ 183,517 | $ (122) | $ 422 | $ 183,817 | $ 154,295 |
| Value date purchases | 19,050 | 27 | 60 | 19,137 | 4,869 |
| Value date sales | (18,430) | (31) | (80) | (18,541) | (6,109) |
| Total securities trading | $ 223,386 | $ 141 | $ 613 | $ 224,140 | $ 213,112 |

During the three-month periods ended June 30, 2012 and 2011, net valuation income (losses) of $1,513 and $(199), respectively, were recorded in results of the period. For the six-month periods ended June 30, 2012 and 2011, net valuation income (losses) of $1,651 and $(716), respectively, were recorded in results of the period.

b. ***Available for sale –***

| Instrument | June 30, 2012 Acquisition Cost | June 30, 2012 Accrued Interest | June 30, 2012 Increase (Decrease) due to Valuation | June 30, 2012 Book Value | December 31,2011 Book Value |
|---|---|---|---|---|---|
| Sovereign debt Eurobonds | $ 4,419 | $ 147 | $ 184 | $ 4,750 | $ 2,760 |
| Stock market certificates | 1,001 | 57 | 185 | 1,243 | 910 |
| ADR's | 9 | - | 122 | 131 | 118 |
| Equity securities | 4 | - | 2 | 6 | 5 |
| Corporate Eurobonds | 1,328 | 47 | 19 | 1,394 | 158 |
| Bank bonds | 484 | 7 | 2 | 493 | - |
| Bonds | 1,594 | 3 | 2 | 1,599 | - |
| Commercial Paper | 13,140 | 1 | - | 13,141 | 13,673 |
| Total | 21,979 | 262 | 516 | 22,757 | 17,624 |
| Total warranties to be received for repurchase agreements | 84,502 | (366) | 419 | 84,555 | 87,458 |
| Total securities available for sale | $ 106,481 | $ (104) | $ 935 | $ 107,312 | $ 105,082 |

c. ***Held to maturity -***

The following securities have medium and long-term maturities:

| Instrument | June 30, 2012 Acquisition Cost | June 30, 2012 Accrued Interest | June 30, 2012 Book Value | December 31,2011 Book Value |
|---|---|---|---|---|
| Government bonds- Mortgage debtor support program........... | $ 13,366 | $ - | $ 13,366 | $ 13,084 |
| Government bonds- State and Municipality debtor support program ................................. | 1,581 | - | 1,581 | 1,547 |
| U.S. Treasury securities ............. | 40 | - | 40 | 40 |
| Total ............................ | $ 14,987 | $ - | $ 14,987 | $ 14,671 |

For the three-month periods ended June 30, 2012 and 2011, the yields related to the held to maturity portfolio amounted to $160 and $153, respectively. For the six-month periods ended June 30, 2012 and 2011, the yields related to the held to maturity portfolio amounted to $318 and $299, respectively.

## 7. Repurchase transactions

As of June 30, 2012 and December 31, 2011, repurchase transactions were composed as follows:

a. ***Repurchase agreement debtors*** -

*As repurchasing party:*

| | June 30, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Asset Side | Liability Side | | Asset Side | Liability Side | |
| Instrument | Receivable Under repurchase agreements | Collateral sold or delivered in guarantee | Debit balance | Receivable under repurchase agreements | Collateral sold or delivered in guarantee | Debit balance |
| Bonds........................... | $ 2,566 | $ 2,567 | $ (1) | $ 20,943 | $ 16,429 | $ 4,514 |
| Fixed-rate bonds.......... | 15,502 | 15,501 | 1 | 4,560 | 4,558 | 2 |
| BPA's .......................... | 6,511 | 6,448 | 63 | 25,204 | 25,180 | 24 |
| CETES......................... | 502 | 502 | - | - | - | - |
| Total ............................ | $ 25,081 | $ 25,018 | $ 63 | $ 50,707 | $ 46,167 | $ 4,540 |

b. ***Repurchase agreement creditors* -**

As reselling party:

| Instrument | June 30, 2012 Liability Side Payables under resale agreements | December 31, 2011 Liability Side Payables under resale Agreements |
|---|---|---|
| Bonds | $ 50,031 | $ 68,590 |
| Fixed-rate bonds | 101,370 | 89,524 |
| BPA's (savings protection bonds) | 19,180 | 27,168 |
| CBIC'S | 7,909 | 4,197 |
| CETES | 17,266 | 5,783 |
| CEDES | - | - |
| Udibonds | 12,575 | 4,922 |
| Stock market certificates | 8,775 | 10,571 |
| Secured commercial paper | 179 | 129 |
| Total | $ 217,285 | $ 210,884 |

c. ***Securities loan debtors and creditors: -***

Borrower:

| | June 30, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Memoranda accounts | | Liability portion | Memoranda accounts | | Liability portion |
| Instrument | Collateral Received for Securities Loans | Collateral Received for Loans and Sold or Given in Guarantee | Creditors from Collateral Sold or Given in Guarantee | Collateral Received for Securities Loans | Collateral Received for Loans Sold or Given in Guarantee | Creditors from Collateral Sold or Given in Guarantee |
| **Government Securities** | | | | | | |
| Equity instruments | $ 14 | $ 14 | $ 14 | $ - | $ - | $ - |
| Fixed-rate bonds | 26,285 | 26,285 | 26,285 | 12,948 | 12,948 | 12,948 |
| Udibonds | 1,652 | 1,652 | 1,652 | 309 | 309 | 309 |
| CETES | 4,081 | 4,081 | 4,081 | 7,275 | 7,275 | 7,275 |
| CBIC'S | 8,546 | 8,546 | 8,546 | 4,191 | 4,191 | 4,191 |
| Total | $ 40,578 | $ 40,578 | $ 40,578 | $ 24,723 | $ 24,723 | $ 24,723 |

Premiums recognized in results for the three-month periods ended June 30, 2012 and 2011 amounted to $768 and $116, respectively. Premiums recognized in results for the six-month periods ended June 30, 2012 and 2011 amounted to $784 and $126, respectively.

## 8. Derivatives

At June 30, 2012 and December 31, 2011, securities and derivative transactions were as follows:

a. ***Derivatives*** - The chart below shows the open derivative instrument transactions of the Institution as of June 30, 2012 and December 31, 2011:

Trading:

| | June 30, 2012 | | | |
|---|---|---|---|---|
| | Notional Amount | | Balance | |
| Transaction | Asset | Liability | Debtor | Creditor |
| Futures long position | $ 196,329 | $ 196,329 | $ - | $ - |
| Futures short position | 22,702 | 22,702 | - | - |
| Forward long position | 173,204 | 179,266 | 1,560 | 7,635 |
| Forward short position | 175,125 | 172,094 | 4,620 | 1,576 |
| Options purchased | 1,515 | - | 1,515 | - |
| Options sold | - | 3,256 | - | 3,256 |
| Swaps | 630,454 | 627,721 | 64,062 | 61,329 |
| | $ 1,199,329 | $ 1,201,368 | $ 71,757 | $ 73,796 |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Notional Amount | | Balance | |
| Transaction | Asset | Liability | Debtor | Creditor |
| Futures long position | $ 217,987 | $ 217,987 | $ - | $ - |
| Futures short position | 26,233 | 26,233 | - | - |
| Forward long position | 209,920 | 208,754 | 4,542 | 3,379 |
| Forward short position | 212,996 | 215,430 | 2,500 | 4,931 |
| Options purchased | 1,544 | - | 1,544 | - |
| Options sold | - | 2,595 | - | 2,595 |
| Swaps | 583,540 | 589,709 | 55,047 | 61,216 |
| | $ 1,252,220 | $ 1,260,708 | $ 63,633 | $ 72,121 |

Hedging:

| Transaction | Notional Amount | | Balance | |
|---|---|---|---|---|
| | June 30, 2012 | | | |
| | Asset | Liability | Debtor | Creditor |
| Forward long position | $ 15 | $- | $ 15 | $ - |
| Forward short position | 702 | 702 | - | - |
| Swaps | 54,588 | 53,309 | 5,279 | 4,000 |
| | $ 55,305 | $ 54,011 | $ 5,294 | $ 4,000 |

| Transaction | Notional Amount | | Balance | |
|---|---|---|---|---|
| | June 30, 2012 | | | |
| | Asset | Liability | Debtor | Creditor |
| Forward short position | $ 747 | $ 771 | $ - | $ 24 |
| Swaps | 75,796 | 67,544 | 10,828 | 2,576 |
| | $ 76,543 | $ 68,315 | $ 10,828 | $ 2,600 |

## 9. Loan portfolio

Loans granted classified by type of loan at June 30, 2012 and December 31, 2011 were as follows:

| Type of loan | Performing portfolio | | Non-performing portfolio | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Commercial loans- | | | | | | |
| Denominated in Mexican pesos- | | | | | | |
| Commercial | $ 143,165 | $ 139,863 | $ 6,596 | $ 6,515 | $ 149,761 | $ 146,378 |
| Rediscounted portfolio | 7,367 | 6,621 | 105 | 77 | 7,472 | 6,698 |
| Lease portfolio | 1,112 | 1,224 | 31 | 23 | 1,143 | 1,247 |
| Denominated in U.S. dollars- | | | | | | |
| Commercial | 68,201 | 69,697 | 1,004 | 926 | 69,205 | 70,623 |
| Rediscounted portfolio | 1,051 | 1,035 | 31 | 14 | 1,082 | 1,049 |
| Lease portfolio | 79 | 96 | - | - | 79 | 96 |
| Total commercial loans | 220,975 | 218,536 | 7,767 | 7,555 | 228,742 | 226,091 |
| Financial entities | 8,962 | 7,425 | 8 | 1 | 8,970 | 7,426 |
| Government entities | 92,241 | 91,944 | 163 | - | 92,404 | 91,944 |
| Total trade loans | 322,178 | 317,905 | 7,938 | 7,556 | 330,116 | 325,461 |
| Consumer- | | | | | | |
| Credit card | 83,644 | 80,972 | 4,346 | 4,133 | 87,990 | 85,105 |
| Other consumer loans | 71,811 | 65,762 | 2,192 | 1,623 | 74,003 | 67,385 |
| Total consumer loans | 155,455 | 146,734 | 6,538 | 5,756 | 161,993 | 152,490 |
| Residential mortgage | 149,026 | 145,577 | 7,851 | 6,369 | 156,877 | 151,946 |
| Total loan ...................... | $ 626,659 | $ 610,216 | $ 22,327 | $ 19,681 | $ 648,986 | $ 629,897 |

As of June 30, 2012 and December 31, 2011, the lines of credit and letters of credit recorded in memoranda accounts amount to $240,585 and $229,597, respectively.

Revenues from interest and commissions recorded in the financial margin, segmented by type of credit, are composed for the three-month periods ended June 30, 2012 and 2011 as follows:

| Type of loan | June 30, 2012 Interest | June 30, 2012 Commissions | June 30, 2012 Total | June 30, 2011 Total |
|---|---|---|---|---|
| Commercial loans- | | | | |
| Denominated in Mexican pesos- | | | | |
| Commercial | $ 3,352 | $ 185 | $ 3,537 | $ 3,524 |
| Rediscounted portfolio | 122 | - | 122 | 107 |
| Lease portfolio | 23 | - | 23 | 27 |
| Denominated in U.S. dollars- | | - | | |
| Commercial | 554 | - | 554 | 451 |
| Rediscounted portfolio | 17 | - | 17 | 11 |
| Lease portfolio | 1 | - | 1 | 1 |
| Total commercial loans | 4,069 | 185 | 4,254 | 4,121 |
| Financial entities | 102 | - | 102 | 106 |
| Government entities | 1,378 | - | 1,378 | 1,265 |
| Total commercial loans | 5,549 | 185 | 5,734 | 5,492 |
| Consumer- | | | | |
| Credit card | 5,290 | - | 5,290 | 4,859 |
| Other consumer loans | 3,974 | 47 | 4,021 | 3,056 |
| Total consumer loans | 9,264 | 47 | 9,311 | 7,915 |
| Residential mortgage | 4,037 | 26 | 4,063 | 3,864 |
| | $ 18,850 | $ 258 | $ 19,108 | $ 17,271 |

Revenues from interest and commissions recorded in the financial margin, segmented by type of credit, are composed for the six-month periods ended June 30, 2012 and 2011 as follows:

| Type of loan | June 30, 2012 Interest | June 30, 2012 Commissions | June 30, 2012 Total | June 30, 2011 Total |
|---|---|---|---|---|
| Commercial loans- | | | | |
| Denominated in Mexican pesos- | | | | |
| Commercial | $ 6,608 | $ 333 | $ 6,941 | $ 7,086 |
| Rediscounted portfolio | 236 | - | 236 | 212 |
| Lease portfolio | 48 | 1 | 49 | 55 |
| Denominated in U.S. dollars- | | | | |
| Commercial | 1,050 | - | 1,050 | 906 |
| Rediscounted portfolio | 31 | - | 31 | 23 |
| Lease portfolio | 2 | - | 2 | 3 |
| Total commercial loans | 7,975 | 334 | 8,309 | 8,285 |
| Financial entities | 206 | - | 206 | 234 |
| Government entities | 2,772 | - | 2,772 | 2,563 |
| Total commercial loans | 10,953 | 334 | 11,287 | 11,082 |
| Consumer- | | | | |
| Credit card | 10,393 | - | 10,393 | 9,544 |
| Other consumer loans | 7,884 | 92 | 7,976 | 5,905 |
| Total consumer loans | 18,277 | 92 | 18,369 | 15,449 |
| Residential mortgage | 7,932 | 54 | 7,986 | 7,716 |
| | $ 37,162 | $ 480 | $ 37,642 | $ 34,247 |

At June 30, 2012 and December 31, 2011, loans classified by economic sectors were as follows:

| | June 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Amount | Concentration Percentage | Amount | Concentration Percentage |
| External (foreign financial entities) | $ 1,729 | 0.27% | $ 1,099 | 0.17% |
| Private (companies and individuals) | 228,737 | 35.25% | 226,085 | 35.90% |
| Finance | 7,241 | 1.12% | 6,327 | 1.00% |
| Credit card and consumer | 161,993 | 24.96% | 152,490 | 24.21% |
| Residential | 156,877 | 24.17% | 151,946 | 24.12% |
| Loans to governmental entities | 92,404 | 14.23% | 91,944 | 14.60% |
| Other expired loans | 5 | - | 6 | - |
| | $ 648,986 | 100.00% | $ 629,897 | 100.00% |

***Related-party loans -*** At June 30, 2012 and December 31, 2011, loans granted to related parties amounted to $33,588 and $33,494, respectively. The amount of related-party loans at June 30, 2012 and December 31, 2011 includes $7,589 and $6,061, respectively, of letters of credit, which are recorded in memorandum accounts.

## 10. Allowance for loan losses

The following table presents the results of basic loan ratings of the Institution made for the purpose of recording the loan loss allowance:

| | June 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| Risk category | Total loans | Allowance | Total loans | Allowance |
| A | $ 423,736 | $ 2,476 | $ 416,344 | $ 2,606 |
| B | 193,646 | 8,983 | 181,980 | 8,827 |
| C | 20,273 | 6,727 | 17,424 | 5,659 |
| D | 5,118 | 3,776 | 4,482 | 3,273 |
| E | 1,694 | 1,741 | 1,669 | 1,573 |
| Subtotal | 644,467 | 23,703 | 621,899 | 21,938 |
| Loans exempt from classification | 24,398 | - | 25,270 | - |
| Additional | - | 3,542 | - | 2,935 |
| Total | $ 668,865 | $ 27,245 | $ 647,169 | $ 24,873 |

The total loan portfolio balance used for classification purposes includes amounts related to the irrevocable lines of credit granted, letters of credit and guarantees given, which are recorded in memorandum accounts.

The allowances for loan losses at June 30, 2012 and December 31, 2011, are determined based on the portfolio balance at those dates.

The global allowances for loan losses include the reserves which cover 100% of the overdue interest as of June 30, 2012 and December 31, 2011.

The amount of the allowance includes the classification of the loans granted in foreign currency valued at the exchange rate in effect on June 30, 2012 and December 31, 2011.

As of June 30, 2012 and December 31, 2011, the additional reserves are composed as follows:

| Item | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Mortgage portfolio | $ 3,034 | $ 2,451 |
| Commercial portfolio | 451 | 355 |
| Consumer portfolio | 50 | 119 |
| Credit card portfolio | 7 | 10 |
| Total | $ 3,542 | $ 2,935 |

At June 30, 2012 and December 31, 2011, the allowance for loan losses represents 122.03% and 126.38%, respectively, of the non-performing loan portfolio.

***Changes in the allowance for loan losses*** - Below is an analysis of the allowance for loan losses:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Balance at beginning of period | $ 24,873 | $ 25,128 |
| Allowances charged to income statement | 10,238 | 20,011 |
| Allowances charged to the result of prior years | - | 201 |
| Applications and write-offs for the period | (7,768) | (19,525) |
| Sale of portfolio | (43) | (1,195) |
| Exchange effect | (55) | 253 |
| Balance at end of period | $ 27,245 | $ 24,873 |

## 11. Equity investments

Investments in affiliates that were valued using the equity method were as follows:

| Item | Ownership Percentage | June 30, 2012 | December 31, 2011 |
|---|---|---|---|
| Siefores | Various | $ 2,050 | $ 1,853 |
| I + D México, S.A. de C.V. | 50.00% | 261 | 358 |
| Servicios Electrónicos Globales, S.A. de C.V. | 46.14% | 82 | 87 |
| Compañía Mexicana de Procesamiento, S.A. de C.V. | 50.00% | 110 | 93 |
| Seguridad y Protección Bancarias, S.A. de C.V. | 22.32% | 8 | 8 |
| Trans Unión de México, S.A. de C.V. | 16.28% | 41 | 63 |
| Others | Varius | 119 | 129 |
| Total | | $ 2,671 | $ 2,591 |

The investment in shares of associated companies as of June 30, 2012 and December 31, 2011 was determined in some cases based on unaudited financial information, which is adjusted, if any differences arise, once the audited information becomes available.

For the three-month periods ended June 30, 2012 and 2011, the equity in results of associated companies is $146 and $88, respectively. For the six-month periods ended June 30, 2012 and 2011, the equity in results of associated companies is $233 and $95, respectively.

## 12. Deposits

***Liquidity coefficient*** - The provisions of the Treatment for Admission of Liabilities and Investment for Foreign Currency Transactions, issued by Banco de México for credit institutions establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

Based on the above procedure, in 2012 and 2011 the Institution was subject to liquidity requirements of U.S.$43 million and U.S.$24 million, respectively, and maintained investments in liquid assets of U.S.$701 million and U.S.$518 million, reflecting liquidity excesses of U.S.$658 million and U.S.$494 million, respectively.

***Traditional deposits*** - The liabilities derived from traditional deposits are composed as follows:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Demand deposits: | | |
| Demand deposits | $ 467,940 | $ 437,498 |
| Saving deposits | 74 | 74 |
| Time deposits: | | |
| Notes with interest payable at maturity | 115,956 | 127,363 |
| Time deposits | 28,637 | 26,953 |
| Bank bonds | 55,683 | 53,548 |
| Total | $ 668,290 | $ 645,436 |

## 13. Interbank loans and loans from other entities

At June 30, 2012 and December 31, 2011, interbank loans and loans from other entities were as follows:

| | Mexican pesos | | U.S. dollars in Mexican pesos | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Bank loans | $ 130 | $ 953 | $ 5,078 | $ 9,938 | $ 5,208 | $ 10,891 |
| Loans from other entities | 8,874 | 7,990 | 1,410 | 1,425 | 10,284 | 9,415 |
| Total | $ 9,004 | $ 8,943 | $ 6,488 | $ 11,363 | $ 15,492 | $ 20,306 |

Interbank loans and loans from other entities in foreign currency were contracted by the Institution with terms ranging from 18 days to 9 years and annual rates ranging between 0.47% and 6.48%. Such loans are contracted with ten foreign financial institutions.

## 14. Subordinated debt

| Item | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Bancomer 06 debentures at the TIIE rate (Balanced Interbank Interest Rate) + 0.30, interest payable every 28 days with maturity on September 18, 2014 | $ 2,500 | $ 2,500 |
| Subordinated debentures Bancomer 08-1 at TIIE + 0.60, interest payable every 28 days with maturity on July 16, 2018 | 1,200 | 1,200 |
| Subordinated debentures Bancomer 08-2 at TIIE + 0.65, interest payable every 28 days with maturity on September 24, 2018 | 3,000 | 3,000 |
| Bancomer 09 debentures at the TIIE rate + 1.30, interest payable every 28 days with maturity on June 7, 2019 | 2,729 | 2,729 |
| Subordinated debentures Bancomer 08-3 at TIIE + 1.00, interest payable every 28 days with maturity on November 26, 2020 | 2,859 | 2,859 |
| Non-preferred capitalization notes for US $500 million, issued in May 2007 at an interest rate of 6.0080 issued May 17, 2017, payable semiannually and LIBOR + 1.81 as of May 18, 2007, payable quarterly, and maturing on May 17, 2022 | 6,704 | 6,974 |
| Preferential subordinated notes for €600 million, issued in May 2007, at an interest rate of 4.7990 up to May 17, 2012, payable annually and EURIBOR + 1.45 as of May 18, 2012, payable quarterly, and maturing on May 17, 2017 | - | 10,862 |
| Non-preferred capitalization notes for USD 1,000 million, issued in April 2011, at an interest rate of 7.25 payable semiannually, beginning as of October 22, 2011, and maturing on April 22, 2020 | 13,408 | 13,948 |
| Preferred capitalization notes for USD 1,250 million, issued in March 2011, at an interest rate of 6.50 payable semiannually, starting at 10 of September 2011 and maturing on March 10, 2021. | 16,761 | 17,435 |
| Unpaid accrued interest | 595 | 943 |
| Total | $ 49,756 | $ 62,450 |

The debt issuance costs related to these issues are amortized using the straight-line method over the term of the debt.

## 15. Related parties

Balances and transactions with related parties, as established in Bulletin C-3, Related Parties, issued by the Commission, are as follows:

*Banco Bilbao Vizcaya Argentaria, S. A.*

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Derivative financial instruments | $ (6,257) | $ (3,977) |
| Creditors from repurchase agreements | $ 900 | $ 4,250 |

*BBVA Bancomer Operadora, S. A. de C. V.*

| | For the three-month period ended June 30, 2012 | For the three-month period ended June 30, 2011 |
|---|---|---|
| Fees paid for administrative services | $ 2,881 | $ 2,901 |

| | For the six-month period ended June 30, 2012 | For the six-month period ended June 30, 2011 |
|---|---|---|
| Fees paid for administrative services | $ 5,842 | $ 5,859 |

*BBVA Bancomer Servicios Administrativos, S. A. de C. V.*

| | For the three-month period ended June 30, 2012 | For the three-month period ended June 30, 2011 |
|---|---|---|
| Fees paid for administrative services | $ 973 | $ 574 |

| | For the six-month period ended June 30, 2012 | For the six-month period ended June 30, 2011 |
|---|---|---|
| Fees paid for administrative services | $ 1,934 | $ 1,225 |

*Seguros BBVA Bancomer, S. A. de C. V.*

| | For the three-month period ended June 30, 2012 | For the three-month period ended June 30, 2011 |
|---|---|---|
| Commissions income | $ (311) | $ (291) |
| Insurance premiums paid | $ 204 | $ 187 |

| | For the six-month period ended June 30, 2012 | For the six-month period ended June 30, 2011 |
|---|---|---|
| Commissions income | $ (665) | $ (624) |
| Insurance premiums paid | $ 397 | $ 392 |

| | For the three-month period ended June 30, 2012 | For the three-month period ended June 30, 2011 |
|---|---|---|
| Commissions income | $ 662 | $ 635 |

| | For the six-month period ended June 30, 2012 | For the six-month period ended June 30, 2011 |
|---|---|---|
| Commissions income | $ 1,325 | $ 1,269 |

## 16. Stockholders' equity

***Capital stock -*** The capital stock of the Institution at June 30, 2012 and December 31, was as follows:

| | Number of shares at Par Value of $0.28 per share | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | Authorized | Unsubscribed | Paid-in | Authorized | Unsubscribed | Paid-in |
| Serie "F" | 9,107,142,859 | (1,378,926,692) | 7,728,216,167 | 9,107,142,859 | (1,378,926,692) | 7,728,216,167 |
| Serie "B" | 8,749,999,999 | (1,324,851,134) | 7,425,148,865 | 8,749,999,999 | (1,324,851,134) | 7,425,148,865 |
| Total | 17,857,142,858 | (2,703,777,826) | 15,153,365,032 | 17,857,142,858 | (2,703,777,826) | 15,153,365,032 |

| | (Historical Amount) | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | Authorized | Unsubscribed | Paid-in | Authorized | Unsubscribed | Paid-in |
| Serie "F" | $ 2,550 | $ (386) | $ 2,164 | $ 2,550 | $ (386) | $ 2,164 |
| Serie "B" | 2,450 | (371) | 2,079 | 2,450 | (371) | 2,079 |
| Subtotal | $ 5,000 | $ (757) | 4,243 | $ 5,000 | $ (757) | 4,243 |
| Capitalization of restatement | | | 10,971 | | | 10,971 |
| Restatement to Mexican pesos of December 2007 | | | 8,924 | | | 8,924 |
| Total | | | $ 24,138 | | | $ 24,138 |

At a Stockholders' Ordinary General Meeting on February 17, 2012, the Institution declared a cash dividend of $21,111, taken from the account named "Results of prior years", which is payable to the shareholders over four quarters: The first of these dividends was paid on March 27, 2012, distributed on the basis $0.433034179942493 pesos per share, the second of these dividends was paid on June 26, 2012, distributed on the basis of $0.320029576913052 pesos per share, with the remaining dividends to be paid during the following two quarters.

At a Stockholders' Ordinary General Meeting of Afore Bancomer on February 27, 2012, a cash dividend of $1,215 was declared, taken from the account named "Results of prior years", of which 75% corresponds to the Institution due to its participation in Afore Bancomer. Such dividend was distributed and paid to the shareholders on March 27, 2012.

***Restrictions on income -*** Stockholders' equity, except for restated amounts of paid-in capital and tax retained earnings, will incur ISR on dividends payable by the Institution at the current rate, at the time of distribution. The tax paid on such distribution can be credited against ISR of the year and the respective provisional payments during the year in which tax is paid on dividends and the next two years.

The annual net income of BBVA Bancomer is subject to the legal requirement that 10% of profits be transferred to a legal reserve each year until the reserve equals paid-in capital. This reserve may not be distributed to stockholders during the existence of the Institution, except in the form of a stock dividend.

## 17. Segment information

The Institution and its subsidiaries take part in different activities of the financial system, such as credit operations, treasury operations, transfer of funds from abroad, distribution and administration of investment funds, administration of retirement funds, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Institution's business units, more than the legal entities in which the results generated are recorded.

Below we present the segment income obtained during the three-month and six-month periods ended June 30, 2012 and 2011:

**For the three-month period ended June 30, 2012**

| Item | Total | Commercial bank | Government Banking | Market Operation | Management of pension funds | Other Segments |
|---|---|---|---|---|---|---|
| Total revenue | | | | | | |
| Net interest income | $ 17,348 | $ 13,257 | $ 2,589 | $ 842 | $ 18 | $ 642 |
| Provision for loan losses | (5,414) | (5,199) | (215) | - | - | - |
| Net interest income after provision for loan losses | 11,934 | 8,058 | 2,374 | 842 | 18 | 642 |
| Commissions and fees, net | 5,180 | 3,759 | 780 | 194 | 769 | (322) |
| Trading income | 397 | 257 | 88 | (66) | - | 118 |
| Other operating income (expenses) | 335 | 213 | 55 | - | 42 | 25 |
| Net operating income | 17,846 | $ 12,287 | $ 3,297 | $ 970 | $ 829 | $ 463 |
| Administration and promotion costs | (10,634) | | | | | |
| Net operating revenues | 7,212 | | | | | |
| Share in net income of unconsolidated subsidiaries and affiliates | 146 | | | | | |
| Income before income taxes | 7,358 | | | | | |
| Current income tax | (1,525) | | | | | |
| Deferred income tax | (19) | | | | | |
| Income before non-controlling interest | 5,814 | | | | | |
| Non-controlling interest | (103) | | | | | |
| Net income | $ 5,711 | | | | | |

**For the three-month period ended June 30, 2011**

| Item | Total | Commercial bank | Government Banking | Market Operation | Management of pension funds | Other Segments |
|---|---|---|---|---|---|---|
| Total revenue | | | | | | |
| Net interest income | $ 15,417 | $ 11,535 | $ 2,582 | $ 305 | $ 26 | $ 969 |
| Provision for loan losses | (5,171) | (4,893) | (278) | - | - | - |
| Net interest income after provision for loan losses | 10,246 | 6,642 | 2,304 | 305 | 26 | 969 |
| Commissions and fees, net | 5,080 | 3,410 | 754 | 135 | 820 | (39) |
| Trading income | 1,956 | 249 | 155 | 431 | - | 1,431 |
| Other operating income (expenses) | 146 | 51 | 73 | - | (74) | 96 |
| Net operating income | 17,428 | $ 10,352 | $ 2,976 | $ 871 | $ 772 | $ 2,457 |
| Administration and promotion costs | (9,619) | | | | | |
| Net operating revenues | 7,809 | | | | | |
| Share in net income of unconsolidated subsidiaries and affiliates | 88 | | | | | |
| Income before income taxes | 7,897 | | | | | |
| Current income tax | (1,468) | | | | | |
| Deferred income tax | (316) | | | | | |
| Income before non-controlling interest | 6,113 | | | | | |
| Non-controlling interest | (90) | | | | | |
| Net income | $ 6,023 | | | | | |

Other segments include the results related to management of the credit portfolio assigned to the recovery area.

**For the six-month period ended June 30, 2012**

| Item | Total | Commercial bank | Government Banking | Market Operation | Management of pension funds | Other Segments |
|---|---|---|---|---|---|---|
| Total revenue | | | | | | |
| Net interest income | $ 34,190 | $ 25,865 | $ 5,170 | $ 1,694 | $ 41 | $ 1,420 |
| Provision for loan losses | (10,238) | (10,043) | (195) | - | - | - |
| Net interest income after provision for loan losses | 23,952 | 15,822 | 4,975 | 1,694 | 41 | 1,420 |
| Commissions and fees, net | 10,295 | 7,450 | 1,656 | 346 | 1,508 | (665) |
| Trading income | 1,356 | 778 | 113 | 505 | - | (40) |
| Other operating income (expenses) | 503 | 289 | 49 | - | 82 | 83 |
| Net operating income | 36,106 | $ 24,339 | $ 6,793 | $ 2,545 | $ 1,631 | $ 798 |
| Administration and promotion costs | (21,179) | | | | | |
| Net operating revenues | 14,927 | | | | | |
| Share in net income of unconsolidated subsidiaries and affiliates | 233 | | | | | |
| Income before income taxes | 15,160 | | | | | |
| Current income tax | (1,706) | | | | | |
| Deferred income tax | (1,646) | | | | | |
| Income before non-controlling interest | 11,808 | | | | | |
| Non-controlling interest | (195) | | | | | |
| Net income | $ 11,613 | | | | | |

**For the six-month period ended June 30, 2011**

| Item | Total | Commercial bank | Government Banking | Market Operation | Management of pension funds | Other Segments |
|---|---|---|---|---|---|---|
| Total revenue | | | | | | |
| Net interest income | $ 30,808 | $ 23,213 | $ 5,156 | $ 758 | $ 50 | $ 1,631 |
| Provision for loan losses | (9,789) | (9,163) | (626) | - | - | - |
| Net interest income after provision for loan losses | 21,019 | 14,050 | 4,530 | 758 | 50 | 1,631 |
| Commissions and fees, net | 10,023 | 6,809 | 1,430 | 238 | 1,498 | 48 |
| Trading income | 3,437 | 673 | 90 | 615 | - | 2,059 |
| Other operating income (expenses) | 402 | 98 | 79 | - | (17) | 242 |
| Net operating income | 34,881 | $ 21,630 | $ 6,129 | $ 1,611 | $ 1,531 | $ 3,980 |
| Administration and promotion costs | (19,331) | | | | | |
| Net operating revenues | 15,550 | | | | | |
| Share in net income of unconsolidated subsidiaries and affiliates | 95 | | | | | |
| Income before income taxes | 15,645 | | | | | |
| Current income tax | (2,377) | | | | | |
| Deferred income tax | (1,372) | | | | | |
| Income before non-controlling interest | 11,896 | | | | | |
| Non-controlling interest | (155) | | | | | |
| Net income | $ 11,741 | | | | | |

Other segments include the results related to management of the credit portfolio assigned to the recovery area.

## 18. Contingencies

As of June 30, 2012, there are claims filed against the Institution in ordinary civil and commercial lawsuits, as well as payment requests issued by the tax authorities. However, according to its attorneys, the claims filed are considered invalid and, in the event of adverse rulings, its financial position would not be significantly affected. For such purpose, the Institution has evaluated the impact of each matter and has recorded a total provision of $340.

* * * * * *

## ANNEX A

### SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking Accounting Criteria ("Mexican Banking GAAP") as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for Banks as issued by the CNBV and, to the extent that such accounting rules do not address a given accounting topic, Mexican Financial Reporting Standards ("MFRS") prescribed by the Mexican Board for the Research and Development of Financial Information Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* ("CINIF")). Mexican Banking GAAP differs in certain significant respects from U.S. GAAP. Such differences might be material to the financial information contained in this offering memorandum. A summary of certain differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this offering memorandum. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this offering memorandum a reconciliation of our Mexican Banking GAAP financial statements to U.S. GAAP.

**Loan loss reserve**

On December 2, 2005, "General Regulations Applicable to Credit Institutions" issued by the CNBV became effective (amended through December 24, 2009) which include the methodology for determining loan loss reserves. These provisions require the creation of allowances for loan losses for each type of loan, providing for the assignment of a rating based on risk (i.e., country, financial and industry sector), payment history and the value of guarantees for each borrower balance that exceeds 4,000,000 UDIS. The remaining loans are classified parametrically based on the number of months elapsed as of the first default. The ratings are used, among other things, to estimate a loan loss reserve. However, as in our case, the new provisions continue to allow the loan rating and creation of loan loss reserves based on internal methodologies previously authorized by the CNBV. Also, CNBV permits recognition of additional discretional reserves based on preventive criteria.

We assign an individual risk category to each commercial loan based on the borrower's financial and operating risk level, its credit experience and the nature and value of the loans' collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolios, the risk rating procedure and the establishment of loan reserves considers the period of time a loan is delinquent, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

Past-due loans are classified as non-performing under the following circumstances: (1) all loans are classified as non-performing when there is evidence that the customer has declared bankruptcy; (2) loans with a single payment of principal and interest at maturity are classified as non-performing 30 calendar days after the maturity date; (3) loans with a single payment of principal at maturity and with scheduled interest payments are classified as non-performing 30 calendar days after principal becomes past-due and 90 calendar days after interest becomes past-due; (4) loans requiring payment of principal and interest in accordance with scheduled payments are classified as non-performing 90 days after the first installment is past due; (5) revolving lines of credit are considered non-performing when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 calendar days following maturity, and (6) overdrafts are reported as non-performing loans at the time the overdraft occurs.

Under U.S. GAAP, estimated loan losses should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated.

Specific loss reserves are calculated for large non-homogeneous loans and for groups of smaller-balance homogeneous loans when it is determined that it is probable that a bank will not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms. Estimated losses are measured at the present value of expected future cash flows discounted at the loan's effective rate, or at the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent.

To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, loan provisions are estimated based on historical experience.

Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. On the other hand, for U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

**Non-performing loans**

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans are classified as non-performing based on the criteria established by the CNBV.

Under U.S. GAAP, the accrual of interest income is generally discontinued to the extent that such amounts are not expected to be recovered.

**Fair value of financial instruments**

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, U.S. GAAP establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company's financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

**Securitized transactions and the consolidation of special-purpose entities**

Under Mexican Banking GAAP, as of January 1, 2009, securitized transactions must fulfill the requirements established in accounting criterion C-1 "Recognition and Derecognition of Financial Assets" in order to be considered a sale and transfer of assets. If such requirements are not met, the assets must remain on the balance sheet, together with the respective debt issuances. Furthermore, a company must consolidate a special-purpose entity (SPE) when the economic basis of the relationship between both entities shows that the SPE is controlled by the former. Also, all securitized transactions made before the effective date of criterion C-1, are not consolidated since this criterion was issued considering a prospective implementation.

Under U.S. GAAP, the guidance surrounding derecognition financial assets is focused on an evaluation of control. In a transfer of financial assets (e.g. a securitization), an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

- The transferred assets have been isolated from the transferor (beyond the reach of the transferor and its creditors), even in bankruptcy.
- Each transferee (or, if the transferee is a qualifying special-purpose entity (SPE), each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- The transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

**Business combinations**

Upon Mexican Banking GAAP, the purchase consideration in a business combination is allocated to the fair values of separately identifiable assets acquired and liabilities assumed. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired. Negative goodwill, which is the excess of the fair value of net assets acquired over purchase consideration paid, is allocated to the value of net assets until such amount is reduced to zero.

Under U.S. GAAP, an acquirer in a business combination recognizes assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date. The excess of fair value of net assets acquired over purchase consideration paid is recognized as a bargain purchase gain in earnings.

**Employee retirement obligations**

Effective January 1, 2005 Mexican Banking GAAP requires the recognition of a severance indemnity liability calculated based on actuarial computations. Mexican Banking GAAP allows companies to recognize an asset equal to the amount liability recognized for these benefits, which is amortized over the expected service life of the employees.

U.S. GAAP, companies have always been required to recognize a pension liability for severance indemnity liabilities. Accordingly, under U.S. GAAP, companies are not allowed the option of recognizing the transitional asset that is permitted under Mexican Banking GAAP.

In addition, under U.S. GAAP, requires recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, recognizing changes in that funded status in the year in which the changes occur through other comprehensive income. Accordingly, certain deferred costs, which are recognized as a reduction of the pension liability under Mexican Banking GAAP, are included as part of the employee benefit liability under U.S. GAAP.

**Guarantees**

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For U.S. GAAP purposes, an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee.

**Equity method investees**

Under Mexican Banking GAAP, investments in associated companies in which we have more than a 10% ownership, are accounted for by the equity method.

For U.S. GAAP purposes, the equity method is applied for equity investments in which we have a 20 to 50% ownership.

**Retained earnings adjustments**

Where specific approval is given by the CNBV, certain adjustments and provisions which are created during the year may be charged to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, when adjustments which relate to correction of errors in the prior year occur, the prior period financial statements are required to be restated. Under U.S. GAAP, loss provisions or other operating and non-operating expenses are recognized as a charge to income.

**Deferred Income Tax**

Mexican Banking GAAP is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under Mexican Banking GAAP, deferred tax assets must be reduced by a valuation allowance if it is "highly probable" that all or a portion of the deferred tax assets will not be realized. The determination of the need for a valuation allowance must consider future taxable income and the reversal of temporary taxable differences. Net deferred income tax assets or liabilities are presented within long-term assets or liabilities.

For Mexican Banking GAAP purposes, based on projections of taxable income, companies must determine whether they will be subject to regular income tax or IETU in the future and, accordingly, must recognize deferred taxes based on the tax they expect to pay. Therefore, deferred taxes are calculated by scheduling the reversal of temporary differences under each tax regime and applying either the income tax or IETU rate to such temporary differences. If a company determines, based on its projections, that it will be both subject to IETU and ISR in the future, the company is required to schedule out the reversal of temporary differences under each tax regime and record the amount that represents the larger liability or the smaller benefit.

Under U.S. GAAP, a valuation allowance is recognized if, based on the weight of all positive and negative available evidence, it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if the company has experienced recurring losses, little weight, if any, may be placed on future taxable income as objective evidence to support the recoverability of a deferred income tax asset. U.S. GAAP requires that deferred tax assets and liabilities be classified as current or long-term depending on the classification of the asset or liability to which the deferred relates.

In addition, with respect to IETU, similar to Mexican Banking GAAP, companies must determine whether they will be subject to regular income tax or IETU in the future based on company projections, and accordingly recognize deferred taxes based on the tax they expect to pay in each period. However, if a company's projections indicate that it will be subject to both IETU and ISR in the future, it is required to record deferred taxes based on what they expect to pay in each future year, which could potentially result in the recognition of a deferred tax asset or liability that includes both income tax and IETU effects.

**Consolidation**

Under Mexican FRS, an entity is required to consolidate subsidiaries over which it is has established control, despite not holding a majority of the voting common stock of the subsidiary. Determining whether an entity has control is based on an analysis of corporate governance and economic risk and benefits.

Under U.S. GAAP, when a company has a controlling financial interest (either through a majority voting interest or through the existence of other control factors) in an entity, such entity's financial statements should be consolidated, irrespective of whether the activities of the subsidiary are non-homogeneous with those of the parent.

Entities over which a controlling financial interest is achieved through means other than voting rights are known as variable-interest entities ("VIEs"). Generally, VIEs are to be consolidated by the primary beneficiary which is the entity that has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

**Effects of inflation**

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant Mexican pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an "inflationary environment", in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a "non-inflationary environment', in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items unless the company operates in a hyperinflationary economy. A hyperinflationary economy is generally defined as one in which the cumulative three year inflation rate exceeds 100%.

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