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

Consolidated Financial Statements

December 31, 2011 and 2010

(With Independent Auditor’s Report thereon)

(Free Translation from Spanish Language Original)

Independent Auditors' Report

(Free translation from Spanish language original)

The Board of Directors and Stockholders
Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple,
Grupo Financiero Scotiabank Inverlat:

We have examined the consolidated balance sheets of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries ("the Bank") as of December 31, 2011 and 2010 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As described in note 2(a) to the consolidated financial statements, the Bank is required to prepare and present its consolidated financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Banking Commission") for credit institutions in Mexico, which in general conform to Mexican Financial Reporting Standards (FRS) issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera or CINIF). These accounting criteria include particular rules, which in certain respects differ from such standards. The accounting criteria include particular rules, the application of which, in certain cases, differs from the aforementioned standards as explained in paragraph (ac) of note 2 to the consolidated financial statements.

During 2011 changes were made to the accounting criteria and presentation applicable to credit institutions in Mexico issued by the Banking Commission, mentioned in note 3 to the consolidated financial statements, accordingly, the consolidated financial statements at December 31, 2010 and for the year then ended, were reclassified to conform to the presentation of the consolidated financial statements at December 31, 2011 and for the year then ended. Further, entered into force changes to the general provisions applicable to credit institutions, establishing new methodologies for the determination of allowance for loan losses of non-revolving consumer loans, residential mortgage and states and municipalities loans, whose adoption had a (unfavorable) favorable effect on the year's results of operations of ($316), $388 and $8, respectively, in accordance with the established provisions.

(Continued)

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries as of December 31, 2011 and 2010, and the results of its operation, the changes in its stockholders' equity and its cash flows for the years then ended, in conformity with the accounting criteria established by the Banking Commission for credit institutions in Mexico.

KPMG CARDENAS DOSAL, S. C.

Jorge Orendain Villacampa

February 15, 2012.

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

Consolidated Balance Sheets

December 31, 2011 and 2010

(Pesos in millions)

Assets	2011	2010
Cash and cash equivalents (note 5)	$ 19,382	20,684
Margin accounts	60	149
Investment securities (note 6):		
Trading	13,126	17,936
Available-for-sale	6,557	4,516
Held-to-maturity	1,977	1,895
	21,660	24,347
Debtors under repurchase/resell agreements (debtor balance) (note 7)	4,957	15,154
Derivatives (note 8):		
Trading purposes	2,514	2,037
Hedging purposes	41	81
	2,555	2,118
Valuation adjustment from hedging of financial assets (note 9f)	150	245
Current loan portfolio (note 9):		
Commercial loans:		
Business or commercial activity	41,841	34,799
Financial entities	3,466	2,258
Government entities	6,863	8,982
	52,170	46,039
Consumer loans	16,098	15,704
Residential mortgages	43,147	40,492
Total current loan portfolio	111,415	102,235
Past due loan portfolio (note 9):		
commercial loans:		
Business or commercial activity	346	331
Financial entities	32	-
	378	331
Past due consumer loans	581	894
Past due residential mortgages	2,151	2,563
Total past due loan portfolio	3,110	3,788
Total loan portfolio	114,525	106,023
Less:		
Allowance for loan losses (note 9g)	3,576	3,913
Loan portfolio, net	110,949	102,110
Benefits receivable from securitization transactions (note 10b)	205	205
Other accounts receivable, net (note 10)	11,417	9,036
Foreclosed assets, net (note 11)	17	22
Premises, furniture and equipment, net (note 12)	3,871	3,579
Permanent investments (note 13)	80	78
Deferred taxes and deferred employee statutory profit sharing, net (note 17)	773	908
Other assets:		
Deferred charges, prepaid expenses and intangibles	895	685
Other short and long term assets	684	596
	1,579	1,281
Total assets	$ 177,655	179,916

Liabilities and Stockholders' Equity	2011	2010
Deposit funding (note 14):		
Demand deposits	$ 69,613	61,919
Time deposits:		
General public	47,239	48,402
Money market	-	9,312
Credit securities issued	6,221	6,220
	123,073	125,853
Bank and other borrowings (note 15):		
Short-term	3,145	2,758
Long-term	2,460	1,846
	5,605	4,604
Creditors under repurchase/resell agreements (note 7)	9,842	11,992
Assigned securities to be settled (note 6)	731	39
Derivatives (note 8):		
Trading purposes	2,727	2,243
Hedging purposes	395	406
	3,122	2,649
Other accounts payable:		
Income tax payable (note 17)	2	137
Employee statutory profit sharing payable (note 17)	210	225
Creditors pending settlement	1,535	342
Creditors for collateral received in cash	-	45
Sundry creditors and other accounts payable (note 18b)	5,452	5,800
	7,199	6,549
Deferred credits and prepayments	795	669
Total liabilities	150,367	152,355
Stockholders' equity (note 18):		
Paid-in capital:		
Capital stock	7,451	7,451
Additional paid-in capital	473	473
	7,924	7,924
Earned capital:		
Statutory reserves	2,687	2,425
Retained earnings	13,658	14,401
Unrealized gain from valuation of available-for-sale securities	204	142
Gain from valuation of cash flow hedge instruments (note 8)	(57)	50
Net income	2,872	2,619
	19,364	19,637
Total stockholders' equity	27,288	27,561
Commitments and contingencies (note 22)		
Total liabilities and stockholders' equity	$ 177,655	179,916

(Continued)

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

Consolidated Balance Sheets, Continued

December 31, 2011 and 2010

(Pesos in millions)

Memorandum accounts (notes 7, 9a, 9f and 20)

	2011		2010	
Contingent assets and liabilities		$ 71		$ 71
Loan commitments		338,005		289,194
Assets in trust or under mandate:				
Trusts	$ 127,943		$ 114,507	
Mandate	26,833	154,776	26,823	141,330
Assets in custody or under management		$ 482,236		$ 444,845
Collateral received by the entity		48,364		85,090
Collateral received and sold or pledged by the entity		20,780		19,947
Investments on behalf of customers, net		63,934		68,375
Interest earned but not collected arising from past due loan portfolio		165		214
Other accounts		512,734		478,824

"The historical capital stock amounts to $6,200 at December 31, 2011 and 2010."

See accompanying notes to consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated balance sheets were approved by the Board of Directors under the responsibility of the following officers."

Nicole Reich de Polignac General Director	Diego M. Pisinger Alter General Director Deputy Finance and Business Intelligence	Agustín Corona Gahbler Executive Director Audit Group	H. Valerio Bustos Quiroz Director of Finance

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

Consolidated Statements of Income

Years ended December 31, 2011 and 2010

(Pesos in millions)

		2011	2010
Interest income (note 21)	$	14,538	13,857
Interest expense (note 21)		(4,778)	(3,650)
Financial margin		9,760	10,207
Allowance for loan losses (note 9g)		(2,047)	(2,536)
Financial margin adjusted for allowance for loan losses		7,713	7,671
Commission and fee income (note 21)		2,210	2,198
Commission and fee expense		(380)	(333)
Financial intermediation income (note 21)		823	105
Other operating income (note 21)		3,102	2,700
Administrative and promotional expenses		(9,851)	(9,031)
		(4,096)	(4,361)
Net operating income		3,617	3,310
Equity in the results of operations of associated companies (note 13)		2	2
Income before income taxes		3,619	3,312
Current income taxes (note 17)		(641)	(887)
Deferred income taxes, net (note 17)		(106)	194
		(747)	(693)
Net income	$	2,872	2,619

See accompanying notes to consolidated financial statements.

"These consolidated statements of income were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the revenues and disbursements relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of income were approved by the Board of Directors under the responsibility of the following officers."

Nicole Reich de Polignac
General Director

Diego M. Pisinger Alter
General Director Deputy Finance
and Business Intelligence

Agustín Corona Gahbler
Executive Director Audit Group

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

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2011 and 2010

(Pesos in millions)

	Paid-in capital		Earned capital					
	Capital stock	Additional paid-in capital	Statutory reserves	Retained earnings	Unrealized gain from valuation of available-for-sale securities	Gain from valuation of cash flow hedge instruments	Net income	Total stockholders' equity
Balances as of December 31, 2009	$ 7,451	473	2,221	12,567	162	147	2,038	25,059
Changes resulting from stockholder resolutions:								
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2010 – Appropriation of 2009 net income	–	–	204	1,834	–	–	(2,038)	–
Changes related to the recognition of comprehensive income (note 18c):								
Net income	–	–	–	–	–	–	2,619	2,619
Valuation effects, of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $84 and $29, respectively (note 8)	–	–	–	–	(20)	(97)	–	(117)
Total comprehensive income	–	–	–	–	(20)	(97)	2,619	2,502
Balances as of December 31, 2010	7,451	473	2,425	14,401	142	50	2,619	27,561
Changes resulting from stockholder resolutions:								
Resolution passed at the Ordinary General Stockholders' Meeting of November 25, 2011 – Appropriation of 2010 net income	–	–	262	2,357	–	–	(2,619)	–
Dividends declared (note 18b)								
Ordinary Annual General Stockholders´ Meeting:								
April 28, 2011	–	–	–	(1,300)	–	–	–	(1,300)
November 25, 2011	–	–	–	(1,800)	–	–	–	(1,800)
	–	–	262	(743)	–	–	(2,619)	(3,100)
Changes related to the recognition of comprehensive income (note 18c):								
Net income	–	–	–	–	–	–	2,872	2,872
Valuation effects, of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $7 and $2, respectively (note 8)	–	–	–	–	62	(107)	–	(45)
Total comprehensive income	–	–	–	–	62	(107)	2,872	2,827
Balances as of December 31, 2011	$ 7,451	473	2,687	13,658	204	(57)	2,872	27,288

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of changes in stockholders' equity were approved by the Board of Directors under the responsibility of the following officers."

Nicole Reich de Polignac General Director	Diego M. Pisinger Alter General Director Deputy Finance and Business Intelligence	Agustín Corona Gahbler Executive Director Audit Group	H. Valerio Bustos Quiroz Director of Finance

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

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010

(Pesos in millions)

		2011	**2010**
Net income	$	2,872	2,619
Items not requiring (providing) cash flow:			
Impairment losses or impairment reversal in investing and financing activities		(27)	141
Depreciation of premises, furniture and equipment		293	280
Amortization of intangible assets		5	2
Provisions		2,625	2,790
Current and deferred income taxes		747	693
Equity in the income of unconsolidated subsidiaries and associated companies		(2)	(2)
Other		5	66
Subtotal		6,518	6,589
Operating activities:			
Change in margin accounts		89	15
Change in investment securities		3,514	(1,461)
Change in debtors under repurchase / resell agreements		10,197	(14,156)
Change in derivatives (asset)		(579)	(238)
Change in loan portfolio, (net)		(10,887)	(8,907)
Change in benefits receivable securitization transactions		23	-
Change in foreclosed assets, (net)		5	1
Change in other operating assets, (net)		(2,277)	1,851
Change in deposit funding		(2,780)	11,440
Change in bank and other borrowings		1,001	602
Change in creditors under repurchase / resell agreements		(2,150)	2,267
Change in derivatives (liabilities)		534	447
Change in other operating liabilities		(156)	13
Changes in hedging instruments (of hedged items related to operating activities)		(11)	-
Payments of income taxes		(908)	(815)
Net cash flows from operating activities		2,133	(2,352)
Investing activities:			
Payments for acquisition of premises, furniture and equipment		(584)	(574)
Payments for acquisition of subsidiary and associated companies		-	(1)
Payments for acquisition of intangible assets		(141)	(79)
Net cash flows from investing activities		(725)	(654)
Net cash flows from financing activities for payment of dividends		(2,710)	(1,101)
Net decrease in cash and cash equivalents		(1,302)	(4,107)
Cash and cash equivalents at beginning of year		20,684	24,791
Cash and cash equivalents at end of year	$	19,382	20,684

See accompanying notes to consolidated financial statements.

"These consolidated statements of cash flows were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the cash in flows and cash out flows relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of cash flows were approved by the Board of Directors under the responsibility of the following officers."

Nicole Reich de Polignac
General Director

Diego M. Pisinger Alter
General Director Deputy Finance
and Business Intelligence

Agustín Corona Gahbler
Executive Director Audit Group

H. Valerio Bustos Quiroz
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These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign/English-speaking readers.

(1) Description of business and significant transactions-

Description of business-

Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat ("the Bank") is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Group") which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia ("BNS"), which owns 97.3% of its capital stock. In accordance with the Credit Institutions Law, the Bank is authorized to carry out multiple-service banking transactions such as accepting deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services, among others. The consolidated financial statements of the Bank and subsidiaries include those of the wholly-owned subsidiaries, Inmobiliaria Scotia Inverlat, S. A. de C. V. (Inmobiliaria) operation of bank premises, Servicios Complementarios y Resguardo, S. A. de C. V. (SECORESA) which provides maintenance and security services, Scotia Servicios de Apoyo, S. A. de C. V. (Scotia Servicios) which supports the management of the credit card acquisition business, Scotia Inverlat Derivados, S. A. de C. V. (Scotia Derivados) which acts as trading member for futures and options contracts listed on the MexDer Mercado Mexicano de Derivados, S. A. de C. V. (MexDer) and two trusts named, Fideicomiso Socio Liquidador Posición Propia Número 101667 and Fideicomiso Socio Liquidador Posición de Terceros Número 101776 (MexDer Trusts), created for the purpose of entering into futures and options contracts for the Bank's own account and on behalf of third parties, respectively.

2011 Significant transactions-

(a) Acquisition of collection rights-

On December 19, 2011, the Bank entered into an agreement for acquiring, through a promissory note, collection rights of a personal loans portfolio related to a private securitization through a trust whose principal asset is the portfolio itself amounting to $1,500, bearing interest at an annual fixed interest rate of 28 days TIIE plus a spread of 1.00% maturing in June, 2015 (see note 10a).

On January 28, 2011, the Bank entered into an agreement for acquiring, through a promissory note, collection rights of an automotive portfolio related to a private securitization through a trust whose principal asset is the portfolio itself amounting to $1,500, bearing interest at an annual fixed interest rate of 28 days TIIE plus 175 basis points maturing in February, 2016 (see note 10a).

(b) Increased acquisition of receivables-

During fiscal year 2011 the Bank acquired new receivables on automotive portfolio by $2,828 through a trust that the Bank restructured in June 2010, maturing in June 2017. The acquisitions were part of the same conditions described in the contract restructured (see note 10a).

2010 Significant transactions-

(a) Placement of stock certificates-

On October 13 and 14, 2010, the Bank placed debt certificates totaling $358 and $2,312 with a 7 and 5-year maturity term, respectively. Additionally, on November 28, 2010, the Bank restarted placement of 5-year debt certificates in the amount of $830. All such placements are part of a revolving certificate program amounting to $15,000 (see note 14).

(b) Acquisition of collection rights-

On May 5, 2010, the Bank entered into an agreement for acquiring, through a promissory note, collection rights of an automotive portfolio related to a private securitization through a trust whose principal asset is the automotive portfolio itself amounting to $3,330, bearing interest at an annual fixed interest rate of 7.64% and 5 years maturity term (see note 10a).

(c) Restructuring of collection rights-

On June 26, 2010, the Bank received a prepayment of $3,569. This amount represented the total balance of two agreements entered into on September 2007 and August 2008, for acquisition of collection rights on a securitized automotive portfolio, which contractually were originally to mature in September 2014 and May 2016, respectively. The agreement originally maturing in 2014 was revised to mature in June 2017, bearing interest at the 28-day TIIE (Inter-bank interest rate of equilibrium), plus 250 basis points, with option for new acquisition amounting to $2,930. The other agreement was cancelled (see note 10a).

On the same date, the Bank acquired new collection rights of $3,070 from a non-revolving automotive loan portfolio, maturing on June 2015, bearing interest at the 28-day TIIE, plus 250 basis points (see note 10a).

(Continued)

(Pesos in millions)

(d) Support programs for natural disasters-

Through official documents number 100/042/2010 and 100/047/2010 issued on July 14, 2010 and September 24, 2010, respectively, the National Banking and Securities Commission (the Banking Commission) authorized the credit institutions pertaining to the Asociación de Bancos de México, A. C., to apply a special accounting criteria in order to support debtors who were affected by natural disasters occurred in different of localities in the country.

In the specific case of hurricane "Alex" support programs were authorized for debtors in the states of Nuevo León, Coahuila, Tamaulipas, San Luis Potosí and Oaxaca. As for hurricane "Karl" and the tropical storm "Frank" support programs were authorized for the states of Veracruz, Tabasco, Oaxaca and Guerrero.

Such support consisted of the deferral of up to three (3) monthly payments on the various products included in the program, and is intended to foster the economic recovery of the affected zones.

Following are products and amounts subject to deferral of up to 3 monthly payments (thousands of pesos) are as follows:

Product	Number of cases	Deferred amount	Total amount of credit
Mortgage loans	72	$ 1,770	$ 104,061
Car loans	20	103	1,542
Personal and payroll loans	6	2	443
Credit cards	18	9	59
Total	116	$ 1,884	$ 106,105

Similarly, the products related to Pymes and agricultural loans were subject to the program. However there were no debtors eligible for the support.

Therefore, the decrease in the current portfolio for the transfer to past-due portfolio would have amounted to $6 had the support not been applied.

(Continued)

As for the impact of loan impairment changes on the result of operations, the implementation of these measures prevented setting up allowances for loan losses amounting to approximately $7.

(e) Anticipated termination of mortgage program and Udis Trust-

On July 15, 2010, the Bank entered into an agreement to early extinguish the support programs for housing loan debtors related to the "Agreement for Benefits to Housing Loan Debtors" executed between the Federal Government and various Full-Service Banking Institutions. Such programs consisted of discounts granted to debtors, with the discounts generally being borne proportionately by the Federal Government and the Bank in accordance with the terms of each program, which the Bank applied through December 31, 2010 (note 9(d)). Under the agreement, the loans eligible to participate as of December 31, 2010 (cut-off date), are to receive the discount benefits of both the portion borne by the Federal Government and the portion borne by the Bank, establishing a 5-year loan annually payable by the Federal Government for its corresponding discount portion, bearing interest at the 91-day Cete futures interest rate.

Furthermore, on July 26, 2010 the General Provisions applicable to the early termination of the aforementioned programs were published in the Federal Official Gazette, which among other things established the requirements for eligibility of the loans, as mentioned in the note 9(e).

The effects of the discount amounts so granted and the effects from the early termination of the support programs are reported in the note 9(d) and (e).

(f) Loyalty program termination-

For the year ended December 31, 2010, the Bank recognized in the result of operations a charge of $171 related to the contractual termination of the loyalty program for granting rewards to the Bank's cardholders, celebrated with a hotel company whereby a minimum quantity of points would be acquired to be granted to such customers within a year. The payment for such points was fully amortized in 2010. Additionally, in October 2010 a new customer loyalty points program was launched under which the cost and delivery of rewards are borne by the Bank.

(Continued)

(2) Summary of significant accounting policies-

(a) Financial statement authorization, presentation and disclosure-

On February 15, 2012, Nicole Reich de Polignac (General Director), Diego M. Pisinger Alter (General Director Deputy Finance and Business Intelligence), Agustín Corona Gahbler (Executive Director Group Audit) and H. Valerio Bustos Quiroz (Deputy Director Finance) authorized the issuance of the accompanying audited consolidated financial statements and related notes.

The Stockholders and the Banking Commission are empowered to modify the consolidated financial statements after issuance. The accompanying 2011 consolidated financial statements will be submitted to the next Stockholders' Meeting for approval.

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

The consolidated financial statements at December 31, 2010 and for the year then ended were reclassified to conform them with the presentation used at December 31, 2011 and for the year then ended.

In general, the accounting criteria established by the Banking Commission conform to Mexican Financial Reporting Standards (FRS), issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF), and include particular rules relating to accounting, valuation, presentation and disclosure, which depart from these standards (see paragraph (ac) of this note).

The accounting criteria provide that the Banking Commission will issue particular rules for specialized operations and that in the absence of an express accounting criterion of the Banking Commission for credit institutions, and in a wider context the FRS, the suppletory process as established by FRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by FRS A-8 do not resolve the accounting treatment, the suppletory application of an accounting standard pertaining to other regulatory framework may be opted for, providing all the requirements set out by the FRS are met by the standard. The suppletory application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and any other formal and recognized accounting standard, provided it complies with the requirements of criterion A-4 of the Banking Commission.

(Continued)

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The major items subject to such estimates and assumptions include the valuation of financial instruments, allowance for loan losses and deferred taxes. The actual results may differ from those estimates and assumptions.

For purposes of disclosure in the notes to the consolidated financial statements, “pesos” or “$” refers to Pesos in millions, and when reference is made to “dollars” or “USD”, it means millions of dollars of the United States of America.

Assets and liabilities related to the purchase and sale of foreign currencies, investment in securities, securities repurchase/resell agreements and derivative financial instruments are recognized in the consolidated financial statements on the day the transactions are entered into, regardless of the settlement date.

(b) Recognition of the effects of inflation-

The accompanying consolidated financial statements include the recognition of inflation up to December 31, 2007.

The year ended December 31, 2011 is considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in FRS B-10 "Effects of Inflation”, consequently the effects of inflation on the Bank's financial information are not recognized. The accumulated inflation rate of the three preceding years and the indexes used to recognize inflation, are as follows:

		Inflation	
December 31,	**UDI**	**Annual**	**Accumulated**
2011	$ 4.691316	3.65%	12.12%
2010	4.526308	4.29%	15.09%
2009	4.340166	3.72%	14.55%

(c) Cash and cash equivalents-

Cash and cash equivalents consist of cash in hand, precious metals (coins), deposits with banks in pesos and dollars, 24 and 48-hour foreign currency purchase and sale transactions, bank borrowings with original maturities of up to three days (“Call Money”), and deposits in Banco de Mexico (Central Bank); which include the regulation monetary deposits that the Bank is required to maintain in conformity with the provisions issued by the Central Bank, for the purpose of regulating liquidity in the financial market, the deposits lack term and bear interest at the average funding rate, and are recognized as restricted cash. The cash and cash equivalents are recognized at nominal value.

Overdrafts of checking accounts and outright notes receivable – When these documents are not collected within the following time limits:

– Transactions with Mexican entities: 2 business days after the transaction took place.

– Transactions with foreign entities: 5 business days after the transaction took place.

The foreign exchange acquired in purchase transactions to 24 and 48 hours, are recognized as restricted cash (foreign currency for received), while the currency sold is recorded as cash outflow (foreign currency for delivery). The rights and obligations for the sales and purchases of foreign exchange at 24 and 48 hours are recorded in "Other accounts receivable, net" and "Sundry creditors and other accounts payable”, respectively.

(d) Margin accounts-

The margin accounts relate to transactions with derivative financial instruments executed in recognized markets and stock exchanges, in which cash is deposited to ensure performance of corresponding obligations. The amount of the deposits relates to the initial margin and the subsequent contributions or withdrawals made over the term of the derivative financial instruments contract. Cash accounts are recognized at nominal value and are reported under “Margin Accounts”. Returns and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in result of operations for the year under “Interest income” and “Commission and fee expense”, respectively.

(Continued)

(e) Investment securities-

Investment securities consist of equities, government securities, bank promissory notes, and other debt securities, which are classified using the categories shown below, based on the intention and ability of management on their holdings.

Trading securities-

Those for trading in the market. Securities are accounted for at fair value, transaction costs for the acquisition of securities are recognized in income on the acquisition date, subsequently valued at fair value provided by an independent price vendor. When the securities are sold, the difference between purchase price and the sale price determines the result for sale, shall cancel the result of valuation that has been previously recognized in the income statement.

Interest earned from debt securities and the gain or loss derived from securities investments denominated in foreign currency are recognized in the year's income under "Interest income" or "Interest expense", as applicable. Dividends from net equity instruments are recognized in the year's income when the right to receive payment thereof arises. Valuation effects are recognized in the year's income within the caption of "Financial intermediation income".

Available-for-sale securities-

Those not classified as trading securities and where the entity does not have the intention or capacity to hold to maturity. These securities are valued in the same manner as trading securities, recognizing the effect of valuation in stockholders' equity under "Unrealized gain from valuation of available-for-sale securities”, net of deferred taxes, which is cancelled for its recognition in income at the time of sale. Accrued interest is recognized under the effective interest method under "Interest income or expense".

(Continued)

Held-to-maturity securities-

Are those debt securities with fixed or determinable payments and with fixed maturity, regarding which the entity has the intention and capacity to hold to maturity. These securities are initially recognized at fair value; and later are valued at amortized cost, which implies that the amortization of the premium or discount as well as the transaction costs form part of interest earned recognized in income under “Interest income”. Interest is recognized in income as earned and when the securities are sold, the sales gain or loss is recognized for the difference between the net realizable value and the book value of the securities within the caption of "Financial intermediation income".

Impairment in value of a security-

Where sufficient objective evidence exists that a security available for sale or held to maturity has been impaired, the carrying amount of the security is modified and the loss is recognized in income under “Financial intermediation income”.

Value date transactions-

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities, while securities sold are recognized as securities to be delivered, and are deducted from investments securities. The counter entry is a credit or debit to a settlement account, as applicable. Where the amount of securities to be delivered exceeds the balance of own securities of the same type in position (government, bank, equity and other debt securities), this is reflected as a liability under “Assigned securities to be settled”.

Transfers between categories-

Only transfers from held-to-maturity to available-for-sale securities are possible, provided it is not intended to hold them until maturity. Valuation adjustments at the date of the transfer are recognized in stockholders' equity. In the case of reclassifications of securities to the category held to maturity, or of securities from trading to available for sale, this is only permissible with the express authorization of the Banking Commission.

(Continued)

(f) Repurchase/resell agreements-

At the trade date of the repurchase/resell agreement transaction, the Bank acting as repurchase recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as repurchase recognizes either the cash outflow or a credit clearing account, as well as an account receivable. Both the account receivable and the account payable are initially stated at the agreed-upon price, representing the obligation to repay or the right to recover the cash, respectively.

Over the term of the repo, the account receivable and the account payable are valued at the amortized cost, recognizing the interest on repos in the result of operations for the year as earned, in accordance with the effective interest method. The interest is recognized under the financial statement caption "Interest income" or "Interest expense", as appropriate. The account receivable and the account payable, as well as the interest earned are reported in the financial statement caption "Debtors under repurchase/resell agreements" and "Creditors under repurchase/resell agreements", respectively.

The Bank acting as repurchasee recognizes the received collateral in memorandum accounts in accordance with accounting criterion B-9 "Assets in custody and under management", whereas when acting as repurchaser, the financial asset is reclassified on the consolidated balance sheet, reporting it as a restricted asset.

Should the Bank, acting as repurchasee sell or pledge the collateral, the transaction proceeds and an account payable is recorded for the obligation to return the collateral to the repurchaser, which is valued, in the case of sale at fair value, or if pledged in another sale and repurchase agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when the Bank acts as repurchaser and the debit or credit balance is presented in the financial statement caption "Debtors under repurchase/resell agreements" or in "Collateral sold or pledged", as applicable.

(g) Transactions with derivative financial instruments-

Transactions with derivative financial instruments comprise those that are carried out for trading or hedging purposes. Irrespective of their purpose, these instruments are recognized at fair value.

The valuation effect of financial instruments for trading purposes is shown in the consolidated balance sheet and statement of income under "Derivatives" and "Financial intermediation income", respectively.

(Continued)

The effective portion of the valuation adjustments of hedges designated for cash flow purposes is recognized in stockholders' equity, while the ineffective portion of the change in fair value is recognized under "Financial intermediation income". These valuation effects are presented in the consolidated balance sheet under “Derivatives”. The gain or loss associated with the coverage of the forecasted transaction that has been recognized in stockholders’ equity, is reclassified to the consolidated statement of income within the same caption that presents the result of valuation of hedged party attributable to the hedged risk, in the same period during which the hedged forecasted cash flows affect the year’s results of operations.

If the cash flow hedge instrument reaches maturity, is exercised, terminated or the hedge does not meet the requirements to be deemed effective, the hedge designation is de-designated, while the valuation of the cash flow hedge instrument within stockholders' equity remains in this caption and is recognized in income when the forecast transaction occurs, in the same caption which presents the gain or loss of the valuation attributable to the hedged risk.

The gain or loss arising from valuing the fair value hedge instrument is recognized in the consolidated balance sheet under “Derivatives” and in the consolidated statement of income in “Interest income” and “Financial intermediation income”, since they correspond to interest rate hedges of loan portfolio and investments securities classified as available-for-sale, respectively. The result of valuation of the item attributable to the hedged risk is recognized on the consolidated balance sheet under “Valuation adjustments from hedging of financial assets” and recognized in the year’s income in the case of loan portfolio, in “Interest income”, while for investments securities classified as available-for-sale, in “Financial intermediation income”.

(h) Settlement clearing accounts-

Amounts receivable or payable for investment securities, securities repurchase/resell agreements, securities lending and/or derivative financial instruments, which have expired but have not been settled at the balance sheet date, including the amounts receivable or payable for purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

The balances of clearing accounts, credit and debit are offset as long as it has the contractual right to offset amounts recognized, there is an intention to settle on a net basis, come from the same kind of operation and are settled on the same maturity date. The clearing accounts are shown under the financial statement caption “Other accounts receivable, net” or “Other accounts payable”, as appropriate.

(i) Loan portfolio-

Represents the balance of the total or partial dispositions of the credit lines provided to clients plus uncollected accrued interest, less interest collected in advance. The allowance for loan losses is presented deducting the loan portfolio balances.

Undrawn credit lines are recorded in suspense accounts, under "Loan commitments".

At the time of contracting, transactions with letters of credit are recorded in suspense accounts under "Loan commitments" which, upon being used by the client or its counterparty are transferred to the loan portfolio.

Past due loans and interest-

Outstanding loans and interest balances are classified as past due according to the following criteria:

Commercial loans with one principal amortization and interest payment – 30 or more days after due date.

Commercial and residential mortgages where the repayment of principal and interest thereon was agreed in partial periodic payments – When the payment of principal and interest thereon have not been collected and are 90 or more calendar days past due.

Commercial loans with one principal amortization and periodic interest payments – 30 or more days after due date in the case of the principal payment and 90 or more days after due date in the case of interest payments.

Revolving credits and credit cards – When unpaid for two normal billing cycles or when 60 or more days past due.

In addition, a loan is classified as past due when the debtor files for bankruptcy protection.

Whenever a loan is transferred to the past-due portfolio, accrual of interest is discontinued and record thereof is kept in memorandum accounts. Once collected, such interest is recognized directly in income statement under "Interest income". Recognition in income statement of interest income resumes when the portfolio ceases to be past due, which occurs upon the settlement of the unpaid balances, which include the principal amount, interest and any other outstanding items.

(Continued)

An allowance is created for an amount equal to the total of uncollected accrued interest corresponding to loans deemed past due at the time the loan is transferred to the past due portfolio.

Past due loans are reclassified as current when the past due principal and interest has been fully paid by the debtor, except for restructured loans or renewals, which are transferred to current portfolio when three timely consecutive payments have been made (sustained payment).

Renewed loans where the borrower has not timely paid accrued interest or when at least 25% of the original loan amount is deemed past due, while there is no evidence of sustained payments.

Unless there is evidence of sustained payments, past due loans restructured shall remain within the past due portfolio.

Loans over one year with a single payment of principal and interest at maturity being restructured during the term of the loan shall be considered as past due.

The Bank periodically evaluates if a past due loan should remain in the consolidated balance sheet or be written down, provided a provision has been created for 100% of the loan amounts. Such write down is made by cancelling the unpaid loan balance against the allowance for loan losses previously created for each loan.

(j) Allowance for loan losses-

Allowance for loan losses represents management’s best estimate of probable losses inherent in the loan portfolio as well as guarantees issued and irrevocable loan commitments. The allowance is described as follows:

Commercial loans – The allowances for the commercial loans are based on the individual assessment of the credit risk of borrowers and their classification, in accordance with the General Regulations applicable to the methodology for rating of the loan portfolio of credit institutions (the “Provisions”), established by the Banking Commission. For these effects there are no allowance for the guaranteed portfolio by the Federal Government, the Central Bank and the Mexican Institute for Bank Savings Protection (IPAB) in accordance with the rules for rating the loan portfolio of full-service banks, of the Ministry of Finance and Public Credit (SHCP).

(Pesos in millions)

Internal credit rating models authorized by the Banking Commission are used for the loan portfolio of legal entities and individuals carrying out business activities, which are considered in assessing the following risk factors: (i) country risk; (ii) financial performance; (iii) financial hedging; (iv) debtor's management; (v) overall strength (customer's relation with the environment, competitiveness, strengths and weaknesses); (vi) account management; (vii) industry conditions; and (viii) repayment history. Of this portfolio, the segment corresponding to debtors with total loans not exceeding 2 million of UDIS is not rated individually by applying the "Parametric Methodology" described in Exhibit 17 of the Provisions.

On October 5, 2011, the Banking Commission published in the Official Gazette a Resolution amending the methodology for creating allowances for losses of commercial loans granted to Mexican states and municipalities, going from an incurred loss to an expected loss model (see note 3 III).

The allowance percentages are determined based on the risk levels, according to the following table:

Grade of risk	Ranges of allowance percentages
A1	0 – 0.50 %
A2	0.51 – 0.99 %
B1	1 – 4.99 %
B2	5 – 9.99 %
B3	10 – 19.99 %
C1	20 – 39.99 %
C2	40 – 59.99 %
D	60 – 89.99 %
E	90 – 100 %

Mortgage loans – Allowance for mortgage loans losses until February 28, 2011, were assessed for the impairment of the credits collectively calculating the losses based in the percentages set forth by the Provisions.

(Continued)

(Pesos in millions)

On October 25, 2010, the Banking Commission published in the Official Gazette a Resolution that, as of March 1, 2011 modified the calculation of the reserve for housing loans using the balances corresponding to the last day of each month. Furthermore, factors such as the following are taken into consideration: (i) amount payable; (ii) payment made; (iii) house value; (iv) outstanding loan balance; (v) days of delinquency; (vi) loan denomination; and (vii) file documentation the Bank uses. The total amount to reserve for each assessed loan is the result of multiplying the likelihood of default by the severity of the loss and the exposure to default. (See note 3 II).

In determining the severity of the loss the loan recovery rate component, which is affected if the loan has a guarantee trust or stipulation, classifying by regions the states in which such courts reside.

The allowances were determined in accordance with the degree of risk and the allowance for loan loss percentages shown below:

Risk level	Ranges of allowance percentages
A	0 – 0.99 %
B	1 – 19.99 %
C	20 – 59.99 %
D	60 – 89.99 %
E	90 – 100 %

Consumer loans – Allowances for non-revolving consumer loans and other revolving loans until February 28, 2011, were assessed for credit impairment by calculating the provisions based on percentages set forth by the Provisions. On October 25, 2010, the Banking Commission published in the Official Gazette a Resolution for amending the calculation of the reserve for such loans and other revolving loans as of March 1, 2011. (See note 3 II).

Consumer loans are segregated into two groups: a) Non-revolving consumer loans; and b) consumer loans relating to credit card transactions and other revolving loans. The methodology followed for both groups is described in articles 91 and 92 of the Provisions, respectively. The total reserve amount for each loan is the result of multiplying the likelihood of default by the severity of the loss and the exposure to default.

(Pesos in millions)

The allowances for non-revolving consumer loans were determined in accordance with the degree of risk and the allowance for loan loss percentages shown below:

Risk level	Ranges of allowance percentages
A	0 – 0.9 %
B	1 – 19.99 %
C	20 – 59.99 %
D	60 – 89.99 %
E	90 – 100 %

The allowances for revolving consumer loans were determined in accordance with the degree of risk and the allowance for loan loss percentages shown below:

Risk level	Ranges of allowance percentages
A	0 – 0.99 %
B1	1 – 2.5 %
B2	2.51 – 19.99 %
C	20 – 59.99 %
D	60 – 89.99 %
E	90 – 100 %

The allowances are classified as follows:

General reserves – According to the Provisions, general reserves are the allowances created for commercial loans with A-1 and A-2 risk ratings; allowances created for consumer loans that do not include credit card operations and for mortgage loans with A risk rating and, in dealing with allowances created for consumer loans that relate to credit card operations with A and B-1 risk rating.

Specific reserves – This classification includes the allowances created for commercial loans with B-1 risk rating and over; the allowances created for consumer loans that do not include credit card operations for housing mortgage loans with B risk rating and over; and allowances created for the credit card portfolio with B-2 risk rating and over.

(Continued)

Impaired loan portfolio – For financial statement disclosure purposes, commercial loans rated as having risk levels C, D and E are regarded as impaired loans, without giving consideration to improvements in risk levels resulting from the secured portion of the loan, as are loans that, although current, result from negotiations in which a forgiveness, reduction or settlement was authorized at the end of the agreed-upon term, and loans payable by individuals classified as undesirable customers.

Additional identified reserves – are established for those loans, which in management's opinion, may give cause for concern in the future given the particular situation of the customer, the industry or the economy. Furthermore, it includes estimates for items such as normal interest earned but not collected and other items which realization management estimates may result in a loss to the Bank, as well as reserves maintained as prescribed by regulations.

Loans considered unrecoverable are written off against the allowance when their collection is determined to be practically impossible. Any amount recovered from previously written-off loans is recognized in income.

(k) Collection rights-

Collection rights arising from the acquisition of financial instruments issued on a non-serial basis are recognized by the interest method whereby a return arrived at by multiplying the interest rate agreed upon with the counterparty by the outstanding balance is recorded monthly.

Cash flows are evaluated semiannually to verify they are highly effective, if not, the interest method is discontinued and such rights are then recognized under the cost recovery method, in accordance with criterion B-11 "Collection rights" issued by the Banking Commission.

The Bank estimates monthly based on the behavior of expected cash flows, whether an allowance for losses on collection rights is to be set up.

Collection rights are reported under the consolidated balance sheet caption "Other accounts receivables, net", and the interest thereon is reported under "Other operating income" on the consolidated statement of income.

(Continued)

(l) Credit card loyalty program-

The Bank has applied, based on paragraph 3 of criterion A-4 "Suppletory Application of Accounting Criteria", issued by the Banking Commission, the International Financial Reporting Interpretations Committee (IFRIC) 13 "Customer loyalty program" of IFRS for recording credit card transactions related to the loyalty program. Revenue from exchange fees are deferred until the obligation to redeem the rewards to which customers are entitled is incurred.

(m) Other accounts receivable-

Loans to officers and employees, collection rights and accounts receivable relating to identified debtors over 90 calendar days past due are assessed by Bank´s management to determine the estimated recovery value and, as required, to create the corresponding reserves. Irrespective of the likelihood of recovery, the balances of debtors are reserved and charged to income 90 days after their initial recording (60 days if the balances are unidentified), except for tax-related (VAT included) balances.

In cases where the amount receivable is not realized within 90 calendar days following the date at which they were booked in clearing accounts, they are recorded as past due and a provision is booked for the total amount.

(n) Securitization transactions-

The benefits on the remnant in securitization transactions are recognized in "Benefits receivable on securitization transactions" and are marked to market; valuation adjustments are recognized in income under "Other operating income".

(o) Foreclosed assets or assets received in lieu of payment and leased foreclosed assets-

Foreclosed assets are stated at the lower of cost or fair value less strictly necessary costs and expenses incurred for foreclosure. When the value of the asset originating the foreclosure, net of allowances, exceeds the value of the foreclosed asset, the difference is recognized in consolidated income statement caption “Other operating income”. Otherwise, the value of the foreclosed asset is adjusted to the net value of the asset. The value of the asset originating the foreclosure and the relevant loan loss allowance set up as of that date are derecognized from the consolidated balance sheet.

Assets received in lieu of payment are recorded on the date the deed of dation, or that on which the transfer of title to the asset is formally executed.

Foreclosed assets and assets promised for sale are restricted to their carrying value; collections received on account of the asset are recorded as a liability. On the date of sale the resulting gain or loss is recognized in the consolidated income statement caption "Other operating income".

Reductions in the value of foreclosed assets are valued according to the type of asset concerned, recording such valuation in the consolidated income statement caption “Other operating income” The Bank creates additional provisions that acknowledge signs of impairment from potential value losses over time in foreclosed assets in the year’s results of operations under “Other operating income”, which are determined by multiplying the percentage by the value of the foreclosed assets, collection derivatives and investment securities, based on the loan portfolio rating methodology, as shown on the table appearing on the next page.

(Continued)

(Pesos in millions)

Months elapsed from the date of foreclosure or received in lieu of payment		Reserve percentage	
		Real property	Chattels, receivables and investment securities
Over:	6	0%	10%
	12	10%	20%
	18	10%	45%
	24	15%	60%
	30	25%	100%
	36	30%	100%
	42	35%	100%
	48	40%	100%
	54	50%	100%
	60	100%	100%

(p) Premises, furniture and equipment-

Property, plant and equipment and installation expenses are recorded at acquisition cost. Those assets acquired through December 31, 2007 were adjusted by using factors based on the UDI value as of that date, which recognition of the effects of inflation on the financial information was suspended. Property acquired in foreign currency is recorded at the historical exchange rate, that is, the exchange rates in force on the date the asset was acquired.

Depreciation and amortization are computed using the straight-line method, based on the estimated useful lives for the Bank's management of the corresponding assets.

The Bank evaluates periodically the values of premises, furniture and equipment and installation expenses, to determine whether there is an indication of potential impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated net revenues, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

The depreciable amount of property is determined after reducing from the residual value the acquisition cost. Inmobiliaria periodically evaluates the residual value to determine the depreciable amount of such properties.

(q) Permanent investments-

Investments in associated companies are valued by the equity method. A company is regarded as an associated company when significant influence is exercised, which is assumed to exist when holding 10% of potential voting power for listed issuers, or 25% for unlisted issuers.

The investments where no significant influence exists are classified as other investments, which are recorded at acquisition cost. Dividends, if any, received from these investments are recognized in consolidated statement of income caption "Other operating income".

(r) Other assets-

This caption includes initial loan origination costs and expenses, which are recognized as a deferred charge and are amortized against consolidated income statement caption "Interest expense" over the average term of the loans, except for those incurred for revolving loans which are amortized over a 12-month term.

Likewise, is included in this caption the intangible assets that relate to internally developed software, which costs are capitalized and amortized against the results of operations for the year in which the software is ready to operate, by the straight-line method over the estimated useful life as determined by the Bank.

In case of any indication of impairment, the potential impairment loss is determined, and if the net carrying value exceeds the recoverable amount the asset value is written down and the impairment loss is recognized in the results of operations for the year.

Furthermore, the projected net assets of the defined benefit plan are recorded under "Other assets", and are recognized in accordance with the provisions of FRS D-3 "Employee benefits".

(s) Income taxes (income tax (IT) and flat rate business tax (IETU)) and employee statutory profit sharing (ESPS)-

IT or IETU and ESPS payable for the year are determined in conformity with the applicable tax provisions.

(Continued)

Deferred IT or IETU and ESPS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred ESPS and taxes assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred ESPS and taxes assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

To determine whether deferred IT or deferred IETU should be recorded, the tax base on which the differences that give rise to deferred taxes will be amortized in the future must be identified, and the likelihood of payment or recoverability of each tax is evaluated.

(t) Deposit funding-

This caption comprises demand and time deposits of the general public, including money market funding and the placement of debt certificates and bank bonds. Interest is charged to expense on an accruals basis under "Interest expense". For instruments sold at a value different to their face value, the difference is recognized as a deferred charge or credit and amortized on a straight-line basis over the term of the respective instrument.

(u) Other accounts payable-

Based on management's estimates, the Bank recognizes accruals for present obligations where the transfer of assets or the rendering of services is probable and arises as a consequence of past events, principally services received payable.

(v) Bank and other loans-

Bank and other loans comprise short and long-term loans from domestic and foreign banks, loans obtained through credit auctions with the Central Bank and development fund financing. In addition, this caption includes discounted loans with agencies specializing in financing economic, production or development activities. Interest is recognized on an accruals basis under "Interest expense".

(Continued)

(w) Employee benefits-

The Bank has a defined contribution pension plan, where the amounts contributed by the Bank are recognized directly as expenses in the consolidated statement of income under "Administrative and promotional expenses" (see note 16).

Additionally, there is a plan of defined benefits in place that covers the pensions for retirement, the seniority premiums and legal compensation to which employees are entitled in accordance with the Federal Labor Law, and obligations related to corresponding to plans medical benefits, food coupons and life insurance for retirees.

Irrevocable trusts have been established for all plans to manage the respective plan funds and assets, except for severance compensation.

The net periodic cost related to the defined benefit plans, the termination benefits and termination of employment for reasons other than restructuring are charged to operations for each year, based on independent actuarial computations in accordance with generally accepted actuarial procedures and principles, and the provisions of FRS D-3 “Employee benefits”. The methodology used for calculating the obligations is the projected unit credit, based on actuarial hypotheses reflecting the present value, salary increase and benefit payment probability.

At the date of adoption of FRS D-3, items pending amortization and relating to past services are amortized over the lower of a maximum of five years or the remaining average working life. Past services arising on a date subsequent to the coming into force of FRS D-3 are amortized over the remaining average working life. Items pending amortization and relating to past services of termination benefits are immediately recognized in income.

The balance of actuarial gains or losses at the beginning of each period that exceed 10% of the greater amount between the defined benefit obligation and the plan assets should be amortized considering the remaining average working life of the employees expected to be eligible for the plan benefits. Actuarial gains or losses of termination benefits are immediately recognized in income.

The determination of deferred ESPS is made using the asset and liability method of accounting as explained in note 2(s).

(x) Revenue recognition-

Interest on loans granted including the interbank loans fixed to a term less than or equal to three business days, is recorded in income as earned. Interest on loans past due loans is not recognized in income until collected.

Interest, commissions collected in advance and credit card annual fees are recorded net of related costs and expenses within “Other assets” or in “Deferred credits and prepayments”, depending on their debit or credit nature and applied to the year’s results of operations in “Interest income” and “Commission and fee income”, respectively, as earned.

Fees on trust transactions are recognized in income as earned in “Commission and fee income”. Such revenues are not accrued when fees are 90 or more calendar days past due, and are recorded in memorandum accounts. When accrued revenues are collected, they are reported directly in income for the year.

The commissions from assets in custody or under management are recognized in income as earned in “Commission and fee income”.

(y) Foreign currency transactions-

Foreign currency transactions are recorded at the exchange rate prevailing on the date of execution and settlement, for consolidated financial statement presentation purposes, currencies other than dollars are translated to dollars at the exchange rates as established by the Banking Commission, and the dollar equivalent, together with dollar balances, are then translated into Mexican pesos using the exchange rate determined by the Central Bank. Foreign exchange gains and losses are reflected in results of operations for the year.

(z) UDI Trusts-

The provisions published in the Federal Official Gazette dated July 26, 2010 were followed to for purposes of the process for early termination of the mortgage programs.

(Continued)

(aa) Contributions to IPAB-

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective.

According to the Law, IPAB guarantees depositors' accounts up to 400,000 UDIS.

Contributions to IPAB are recognized in income as earned under the caption "Administrative and promotional expenses".

(ab) Contingencies-

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings or assets are not recognized until their realization is virtually assured.

(ac) Consolidated statement of income-

The Bank presents the consolidated statement of income in accordance with accounting criteria for credit institutions in Mexico. The FRS requires the presentation of the consolidated statement of income classifying income, costs and expenses as ordinary and non-ordinary.

(ad) Capital leases-

Capital lease transactions are recorded as an asset and an account payable by the lower value equal to the present value of minimum payments and the market value of the leased asset. The difference between the nominal value of minimum payments and account payable as mentioned previously is recorded as financial cost to implement the results during the lease period, under the caption "Deferred charges, prepaid expenses and intangibles" and " Other operating income", respectively. The asset is depreciated in the same way as other assets held in property when it exist assurance that once the contract will transfer ownership of the leased asset, otherwise is depreciated over the duration of the contract.

(Continued)

(3) Accounting changes and reclassifications-

Accounting changes-

I. Changes in accounting criteria for credit institutions issued by the Commission Banking 2011

On January 27, 2011, the resolution revising the regulations generally applicable to credit institutions was published in the Federal Official Gazette, which supersedes accounting criteria for credit institutions and became effective beginning on the next day after publication.

The accounting changes established, among others, did not generate a significant impact on the consolidated financial statements of the Bank, are listed below:

(a) **Criterion A-2 *"Application of particular standards"* -** It provides that the following items are to be reported as part of other operating income (expenses):

- Interest on loans made to officers and employees
- Lease income for the lesser
- The effect of expiration of the original lease, resulting from a sublease. Item "other related costs" is added to comprehensive financial result subject to capitalization in convergence with FRS D-6.

(b) **Criterion A-3 *"Application of general standards"* –** It provides, among other things, for the following:

- Operating assets that are not liquidated on the same day are added to restricted assets. For cash margin accounts adherence to criterion B-5 is required.
- Accounting treatment is set forth for overdue outstanding transactions (liability) of clearing accounts up to settlement.
- Evaluation of whether the holding of trust certificates carries significant control or influence for consolidation or recognition by the equity method is required.

- The concept of relative importance is clarified focusing on that established in FRS for improved precision in application (professional judgment).

(c) **Criterion A-4 *"Suppletory application of accounting criteria"*-** It revises and clarifies the scope and elements constituting the US GAAP for suppletory application purposes.

(d) **Criterion B-2 *"Investment securities"*-** It provides that own assets derived from securitization transactions representing benefits on the assignors' remainder are not included in this criterion (criterion C-2). Additionally, the restriction preventing recognition of security impairment arising from expected losses on future events is eliminated.

(e) **Criterion B-5 *"Derivative financial instruments and hedging activities"* –** It provides for the following:

- Definition of collateral (security on OTC market derivatives) is included.

- Recognition in other items of comprehensive income of the component excluded from evaluation of the effectiveness associated with the hedged item according to the nature for cash flow hedging is eliminated, in convergence with IFRS.

- The accounting standard for cash margin accounts, non-cash margin accounts, cash collaterals and non-cash collaterals is expanded and thoroughly explained.

- In case of strippable hybrid securities, the host contract and the embedded derivative are to be reported separately. Formerly, both were required to be jointly reported.

- Standards for reporting collaterals received/posted for OTC transactions are specified.

- Disclosure of the terms and conditions for both collaterals and margin accounts is required.

(Continued)

- Equalization of paragraph AG23 subparagraphs d) ii and iii with IFRS to regard embedded derivatives under non-financial contracts as closely related and non-strippable financial instruments.

(f) **Criterion B-6 *"Credit portfolio"* –** Changes are added as follows:

- Payroll loans as regarded as consumer loans.

- Loan restructuring fees are regarded as loan origination fees, subject to deferral over the term of the restructured loan.

- Loans exceeding one (1) year with single payment of principal and interest at maturity, renewable at any time are to be regarded as past-due loans.

- Fees charged on credit granted and annual credit card fees pending recognition must be reported net of costs and expenses, either as "other assets" or "deferred credits and "prepayments".

On August 3 and October 5, 2011, resolutions amending the general provisions applicable to credit institutions were published in the Official Gazette, which provide that Institutions shall continue to adjust, as applicable, to the criteria for the transfer of restructured loans to past due loans, set forth in paragraphs 53 and 54 of criterion B-6, to the accounting standards applicable prior to January 27, 2011, through February 29, 2012.

(g) **Criterion B-7 *"Foreclosed assets"* –** Impairment losses on real property are to be estimated according to the rating methodology for the credit portfolio, as there is no difference with respect to the FRS, since consideration is given to impairment due to passage of time.

(h) **Criterion B-11 *"Collection rights"*-** It is specified that they are not within the scope of this criterion:

- The definition of collection rights includes the explanation that collection rights are those to which the provisions of criterion B-2 are not applicable and additionally have not been issued on a serial or mass basis.

- Revenue from collection rights and the allowance for doubtful accounts or bad debts are reported in "Other operating income (expense)".

(i) **Criterion C-2 *"Securitization transactions"*-** It provides that the following items must be reported as "Other operating income (expense)":

- Valuation of benefits receivable and the assets or liabilities from management of transferred assets.

- Collections or recoveries in excess of the amount recorded as benefits receivable.

- Losses arising from the difference between the collections or recoveries and the amount recorded as benefits receivable.

(j) **Criterion C-3 *"Related parties"* –** It provides for the following:

- The term "relationship" is replaced with the term "close relative" in convergence with FRS, specifying that the applicable legislation must also be abided by.

- "Close relatives of any individual" rather than the "spouses or the persons related to the individuals" are deemed to be related parties.

- Individuals "regarded as close relatives" rather than "those with a relationship occurring by blood, legal ties or law up to fourth degree, the spouse and common-law wife/husband" are deemed to be within the power of command.

(k) **Criterion D-1 *"Balance sheet"*-** It provides for the following:

- The loan portfolio must be reported based on the loan in question, net of interest collected in advance and deferred credits for unearned financial income on capital lease agreements.

(Continued)

- Debtors on cash collaterals posted are to be reported under "Other accounts receivables, net".

- Creditors on cash collaterals received are to be reported as part of "Other accounts payables".

- Interest prepayment, loan origination fees and annual credit card fees are eliminated from "Deferred credits and prepayments".

(l) **Criterion D-2 *"Statement of income"* –** The statement of income is entirely restructured for convergence with FRS and IFRS.

- Reporting of minimum items related to the following is eliminated from the statement of income:

  – Total operating income (expenses).

  – Income before equity in results of operations of non-consolidated subsidiaries and associated companies.

- Item "Administrative and promotion expenses" is grouped after financial margin adjusted for credit risks together with all other items (commissions and rates collected and paid, financial intermediation income and other operating income (expense)).

- Upon elimination of "other income (expenses), items making up this caption are regrouped under "Other operating income (expense)".

- Equity in results of operations of non-consolidated subsidiaries and associated companies is reported after "net operating income" and prior to "income before income tax".

- The term "non-controlling interest" was changed to "Consolidated Statement of Income". The segregated portion of the net income attributable to the non-controlling interest is reported in this caption when the consolidated statement of income is presented.

(m) **Criterion D-4 *"Statement of cash flows"* –** The term "Cash" was changed to "cash and cash equivalents" in convergence with FRS.

- The term "adjustment to cash flow for foreign exchange rate and inflation rate fluctuations" was changed to "effects of cash and cash equivalent value fluctuations".

- The effects of fair value valuation on cash balances are included in this caption.
- Changes in operating items are to be reported net of the estimate, in accordance with the indirect method (portfolio, collection rights and foreclosed assets).
- The accounting treatment for conversion of cash flows from foreign operation located in an inflationary economic environment is included.
- Cash flows between all the entities belonging to the consolidating economic entity must be eliminated for preparing the consolidated statement of cash flows.
- Same disclosures are included as those required by FRS B-2.

II. ***Change of methodology for non-revolving and mortgage loans–***

On October 25, 2010, the resolution revising the regulations generally applicable to credit institutions was published in the Federal Official Gazette, concerning the estimate of the loan loss reserves, which will become effective beginning on March 1, 2011, for the purpose of replacing the current model for setting up loan reserves based on losses incurred with a model based on expected losses, for consumer loan and housing mortgage loan portfolios as follows:

a. **Rating of consumer loan portfolio** – The consumer loan portfolio must be divided into two groups: a) non-revolving consumer loans and b) credit card and other revolving loans. In the specific case of the latter group, the methodology followed for calculate, is subject to the change established in the resolution dated August 22, 2009, the only change is the addition of credit portfolio in others revolving credit.

In the case of the non-revolving consumer loan portfolio, the loan loss reserve will be computed based on the figures as of the last day of each month, irrespective of whether payments are made on a weekly, semi-monthly or monthly basis. Additionally, consideration is given to factors such as: i) due amount, ii) payment made, iii) days of default, iv) total term, v) remaining term, vi) original loan amount, vii) original asset value, viii) outstanding loan balance and ix) type of loan. The total amount of the reserve to be set up for each loan is arrived at by multiplying the likelihood of default by the severity of the loss and the exposure to default.

Following the adoption of this methodology, the Bank recognized an adverse effect on the income statement of $316.

b. **Rating of housing loan portfolio –** The reserve is to be set up based on the figures as of the last day of each month. Additionally, factors such as the following are taken into consideration: i) due amount, ii) payment made, iii) house value, iv) outstanding loan balance, v) days of default, vi) loan denomination and vii) record. The total amount of the reserve to be set up for each loan is arrived at by multiplying the likelihood of default by the severity of the loss and the exposure to default.

   The severity of the loss the loan recovery rate component, which is affected if the loan has a guarantee trust or stipulation, classifying by regions the states in which such courts reside.

On December 28, 2011 was published in the Federal Official Gazette the resolution amending the general provisions applicable to credit institutions concerning the allowance for the loans losses, which consists mainly of the amendment to the regions to be considered, according to the federal entity in which each housing loan was granted, as well as considered the region in case that credits have a model of coverage to first losses.

Following the adoption of this methodology, the Bank recognized a favorable effect on the income statement of $388.

Furthermore, internal methodologies authorized by the Banking Commission may be used for both consumer and housing mortgage loan portfolios.

(Continued)

III. ***Change of methodology rating for commercial loan granted to states and municipalities-***

On October 5, 2011, was published on the Federal Official Gazette the resolution amending the general provisions applicable to credit institutions in Mexico in terms of allowance for loan losses for commercial loans granted to states and municipalities.

Therefore the current model was modified for losses incurred by model should expected loss model, where estimated losses for the next 12 months have to be considered; the expected loss consider the probability of default, loss severity and exposure to default, and classifying the portfolio granted to states and municipalities in different groups, and provide different variables to estimate the probability of default.

The Bank decided to apply of the methodology from December 31, 2011.

Following the adoption of this methodology, the Bank recognized at December 31, 2011 a favorable effect on the income statement of $8.

2011 FRS Changes

The CINIF had issued the FRS and amendments listed below, that had no effect on the consolidated financial statements of the Bank:

FRS B-5 *"Segment financial information"*- effective beginning January 1, 2011, with retrospective effects. The principal changes as compared to superseded Bulletin B-5 "Segment financial information" include the following:

- The information to be disclosed by operating segment is that regularly used by top management and does not require segmentation into primary and secondary information or into segments identified based on products or services (economic segments), geographical areas, and homogeneous customer groups. Additionally, disclosure by the entity as a whole of information on its products or services, geographical areas and principal customers and suppliers is required.

- FRS B-5 does not require that the entity's business areas be subject to different risks to qualify as operating segments.

- Business areas in pre-operating stage may be classified as operating segments.

- FRS B-5 requires disclosing by segment and separately, interest income and expenses, as well as all other components of comprehensive financial results (CFR). In specific situations, net interest income may be disclosed.

- Disclosure of the liability amounts included in the usual operating segment information normally used by top management for the entity's operational decision-making is required.

FRS B-9 *"Interim financial reporting"* - effective beginning January 1, 2011, with retrospective effects. The principal changes as compared to superseded Bulletin B-9 "Interim financial reporting" include the following:

- Requires that the interim financial information, in addition to the balance sheet and income statement, include a comparative and condensed statement of stockholders' equity and statement of cash flows, and, for non-profit entities, the presentation of the statement of activities is expressly required.

- Provides that the financial information reported at the end of the interim period should be presented comparatively with the equivalent interim period of the immediately preceding year and, in the case of the balance sheet, compared also to such financial statement as of the date of the immediately preceding fiscal year-end.

- New technology is included and defined.

FRS C-5 "Prepayments"- effective beginning January 1, 2011, with retrospective effects. Supersedes Bulletin C-5, and includes primarily the following changes:

- Advances for purchase of property and equipment and intangibles (non-current), among others, must be reported under prepayments provided the benefits and risks inherent in the assets to be acquired or the services to be received have not yet been transferred to the entity. Furthermore, prepayments must be reported based on the destination item, either under current assets or non-current assets.

- When an impairment loss on the value of prepayments occurs, the unrecoverable amount must be carried to the income statement. Additionally, if the necessary conditions exist, the impairment effect may be reversed and recorded on the income statement for the related period.

- Among other things, the following must be disclosed in notes to financial statements: breakdown of prepayments, policies for accounting recognition and impairment losses, as well as relevant reversal.

FRS C-6 "Property, plant and equipment" - The principal changes with respect to the superseded Bulletin C-6 "Property, Machinery and Equipment" include the following:

- The accounting treatment for exchange of assets based on the economic substance is included.
- The bases for determination of residual value of a component are set forth.
- The requirement to assign an appraised value to property, plant and equipment acquired at no cost or at an inadequate cost is eliminated, recognizing a donated surplus.
- Depreciation for components representative of a property, plant and equipment item is mandatory, independently of the depreciation of the rest of the item as if it were a single component.
- Depreciation of idle components must continue, unless depreciation is determined based on the activity.

2011 FRS Revisions-

In December 2010, the CINIF issued the document referred to as "2011 FRS Revisions", which contains precise amendments to some FRS. The amendments that bring about accounting changes are listed in the next page.

Bulletin C-3 "Accounts receivable" – Recognition of accrued interest income on accounts receivable is required, provided the relevant amount is reliably valued and likely to recover. Furthermore, it is provided that interest income on accounts receivable unlikely to recover must not be recognized. These revisions are effective beginning January 1, 2011 and are retrospectively applicable.

FRS C-10 "Derivative financial instruments and hedging activities" – The revisions to this new FRS are effective beginning January 1, 2011, with retrospective application. The principal revisions include the following:

- Certain effects of the hedge effectiveness may be excluded.
- A forecast intragroup transaction may be recognized as hedging only when the functional currencies of the related parties are different from each other.

(Pesos in millions)

- Reporting of the effect of the hedged interest rate risk is required, when a portfolio portion is the hedged position.

- Margin accounts must be reported separately.

- In a hedge relationship, a proportion of the total amount of the hedging instrument may be designated as the hedging instrument. The impossibility of designating a hedge relationship for a portion of the term of the hedging instrument is specified.

Bulletin D-5 "Leases" – The discount rate to be used on capital leases is established, disclosures related to such leases are added, and the timing for recognition of the gain or loss on a sale and leaseback deal is revised. Application is on a prospective basis, except for the changes in disclosures, which must be retrospectively recognized and are effective beginning January 1, 2011.

Reclassifications-

In accordance with the accounting changes set forth in criterion D-1 "Balance Sheet", D-2 "Statement of Income" and D-4 "Statement of Cash Flows" referred to in this note, the consolidated financial statements as of and for the year ended December 31, 2010 were reclassified to make them comparable to the presentation as of and for the year ended December 31, 2011, as shown below:

Consolidated balance sheet		Balances originally presented	Reclassifications	Reclassified balances
Investment securities	$	24,540	(193)	24,347
Debtors under repurchase/resell agreements		14,555	599	15,154
Other accounts receivable, net		9,092	(56)	9,036
Deferred charges, prepaid expenses and intangibles		967	(282)	685
Creditors under repurchase/resell agreements		(13,545)	1,553	(11,992)
Other accounts payable		(4,646)	(1,903)	(6,549)
Deferred credits and prepayments		(951)	282	(669)

(Continued)

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Consolidated statement of income		**Balances originally presented**	**Reclassifications**	**Reclassified Balances**
Interest income	$	(13,963)	106	(13,857)
Interest expense		3,561	89	3,650
Commission and fee income		(2,176)	(22)	(2,198)
Financial intermediation income		67	(172)	(105)
Other operating income		(779)	(1,921)	(2,700)
Administrative and promotional expenses (financial margin)		–	9,031	9,031
Administrative and promotional expenses		9,031	(9,031)	–
Other income		(2,151)	2,151	–
Other expense		219	(219)	–
Current income taxes		899	(12)	887
Consolidated statement of cash flows				
Items not requiring cash flow	$	6,568	21	6,589
Net cash flows from operating activities		(2,410)	58	(2,352)
Net cash flows from investing activities		(575)	(79)	(654)

(4) Foreign currency position-

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital computed as of the third immediately preceding month. The Bank has been authorized by the Central Bank to maintain a larger long or short position, which includes a hedge of capital, of up to 50 million dollars in 2011 and 2010. Therefore, as of December 31, 2011 and 2010, the Bank's position is within the authorized limits.

The consolidated foreign currency position stated in millions of dollars is analyzed as follows:

		2011	**2010**
Assets	USD	1,840	2,250
Liabilities		(1,847)	(2,246)
Long (short) position	USD	(7)	4

At December 31, 2011, the short (large in 2010) in foreign currency position consists of 78% in US dollars (72% in 2010), and 22% in other foreign currencies (28% in 2010).

(Continued)

(Pesos in millions)

At December 31, 2011 and 2010, the exchange rate of the peso to the dollar was $13.9476 and $12.3496, respectively, and on February 15, 2012, the date on which the issuance of the consolidated financial statements was authorized, it was $12.7658.

(5) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2011 and 2010 are analyzed as follows:

	2011	2010
Cash in hand	$ 2,890	2,484
Banks:		
Domestic	209	24
Foreign	1,269	1,725
Three-day interbank call money	1,646	3,510
24 and 48-hour foreign currency sales	(1,680)	(426)
Other funds available	54	71
Restricted funds:		
Deposits with the Central Bank	12,827	12,837
24 and 48-hour foreign currency purchase	1,812	221
Compensation fund to operate derivatives	355	238
	$ 19,382	20,684

At December 31, 2011 and 2010, the deposits with the Central Bank relate to deposits for monetary regulation amounting to $12,787 in both years, bearing interest at the average bank funding rate, with no maturity.

For the years ended December 31, 2011 and 2010, the Bank maintains an asset (liability) balance in its settlement account in connection with its currency purchase and sale transactions of $1,118 ($1,249) and $287 ($78), respectively, which were recognized in settlement accounts within “Other accounts receivable, net” and “Creditors pending settlement”, as appropriate.

At December 31, 2011 and 2010, the Bank had the following three-day interbank loans (“Call money”):

	2011			2010		
Institution	Amount	Rate	Term	Amount	Rate	Term
HSBC México, S.A.	$ 1,646	4.50%	3 days	$ –	–	–
Banco Nacional de Obras y Servicios Públicos, S. N. C.	–	–	–	1,500	4.55%	3 days
Banco Nacional de México, S. A.	–	–	–	2,000	4.40%	3 days
Nacional Financiera, S. N. C.	–	–	–	10	4.50%	3 days
	$ 1,646			3,510		

(Continued)

(Pesos in millions)

At December 31, 2011 and 2010, foreign currency receivable and deliverable in connection with the purchases and sales to be settled within 24 and 48 hours are analyzed as follows:

	Receivable		Deliverable	
	2011	**2010**	**2011**	**2010**
Dollar	$ 1,581	193	1,390	391
Other currencies	231	28	290	35
	$ 1,812	221	1,680	426

(6) Investment securities-

(a) Composition-

At December 31, 2011 and 2010, the Bank's investment securities are as follows:

	2011	**2010**
Trading:		
Debt securities:		
Government securities	$ 11,019	11,994
Bank promissory notes	1,975	5,830
Others	122	92
Shares	10	20
	13,126	17,936
Available-for-sale:		
Debt securities:		
Government securities	5,241	3,026
Bank promissory notes	609	610
Others	704	829
Shares	3	51
	6,557	4,516
Held-to-maturity:		
Special CETES of the UDI Trust:		
Residential mortgages	1,977	1,895
Total investment securities	$ 21,660	24,347

(Continued)

(Pesos in millions)

During the year ended December 31, 2010, the Bank recognized in income for the period an impairment loss of $150, for debt securities classified as "Available for sale".

(b) At December 31, 2011 and 2010, the securities classified as trading and available-for-sale, are analyzed as follows:

		2011	**2010**
Trading:			
Debt securities:			
Government securities (unrestricted):			
CETES	$	49	519
IP BPAS		–	606
		49	1,125
Value date sales:			
BONOS M		(532)	(1,033)
BI CETES		(28)	–
S UDIBONO		(60)	(100)
IS BPA		–	(30)
CEMEA77		–	(1)
BONOS M0		(104)	–
UDIBONO S0		(56)	–
		(780)	(1,164)
(Assigned securities to be settled unrestricted securities)	$	(731)	(39)

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		2011	2010
Trading securities (continued):			
Titles unrestricted BONDES D	$	–	22
Restricted securities:			
Under repurchase/resell agreements:			
CETES	$	1,092	2,457
BPAS		1,613	69
BPA		663	479
BPAT		751	1,135
BONDESD		4,291	4,489
BONOS M		2,131	1,821
BONOS M0		158	924
UDIBONO		60	321
UDIBONO S0		29	–
		10,788	11,695
Value date purchases:			
BONOS M		180	201
UDIBONO		51	60
BI CETES		–	15
CEMEA 77		–	1
		231	277
Total government securities	$	11,019	11,994
Under repurchase/resell agreements:			
Others:			
CBUR	$	72	92
CBPC		50	–
	$	122	92
Bank promissory notes:			
INBURSA	$	–	2,461
NAFIN		–	1,604
BANORTE		1,962	–
Subtotal bank notes, to the next page	$	1,962	4,065

(Continued)

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		2011	2010
Subtotal bank notes, previous page	$	1,962	4,065
Trading securities (continued):			
Restricted securities:			
Under repurchase/resell agreements:			
NAFIN	$	–	3
BANOBRA:			
CEDES		–	1,736
PRLV		13	26
		13	1,765
Total bank promissory notes	$	1,975	5,830
Shares	$	10	20
Available-for-sale:			
Debt securities:			
Domestic government securities:			
MMVCB	$	798	1,860
MEXF54		–	721
LDBONDESD		899	–
IBPAS		993	–
MEXK40		206	–
MEXQ10		256	–
MEXX60		406	–
MEX449		430	–
MEX932		212	–
BONOS M		301	–
BONOS M0		73	75
		4,574	2,656
Foreign government securities:			
BRAZT75		–	356
BRAZY60		–	14
BRAZY87		609	–
		609	370
Value date purchases (restricted securities):			
MEXMH932		58	–
Total government securities	$	5,241	3,026

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		2011	2010
Trading securities (continued):			
Bank promissory notes:			
Own position:			
BANOB	$	609	610
Others:			
Own position:			
VIPESA	$	448	397
MOLYMET		91	192
CINMOBI		5	7
CASITA		43	–
MONTP10		99	50
PATRIMO		18	122
CITIGROUP		–	61
Total others	$	704	829
Shares	$	3	51

For the years ended December 31, 2011 and 2010, the Bank maintains an asset (liability) balance for transactions with securities settled on a date subsequent to the agreed-upon date of $809 ($240) and $1,165 (264), respectively, which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors pending settlement", as appropriate.

During 2011, the Bank held 3,761,849 due debt instruments with a value of $35 per instrument, for which impairment was recognized during 2010, thus reducing the value of the instruments by $7.40 each to a carrying amount of $28. On June 28, 2011, the issuer undertook a restructure and exchanged of 1,316,647 instruments for a par value of $43.9 each. The Bank's management recognized the instruments at a value of $21.14 each, this being its best recoverability estimate, writing off due instruments and recognizing the latter in available-for-sale securities, leaving the position at $28. The position is market to market and the valuation gain (loss) of the instruments was recognized in "Unrealized gain from valuation of available for sale securities" in stockholders' equity for $14.

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

At December 31, 2011 and 2010, the investments in the same non-government issuer of debt securities over 5% of the Bank's net capital are analyzed as follows:

	2011				2010			
	Issue	Amount	Term*	Rate**	Issue	Amount	Term*	Rate**
INBURSA	–	–	–	–	Various	$ 2,461	90	4.63%
BANOBRA	–	–	–	–	Various	1,762	7	4.50%
NAFIN	–	–	–	–	Various	1,604	32	4.59%
BANORTE	Various	$ 1,962	86	4.38%	–	–	–	–

* weighted average term (days)
** weighted average rate

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(7) Securities under repurchase/resell agreements-

At December 31, 2011 and 2010, the "Debtors under repurchase/resell agreements" balances in which the Bank acts as repurchasee, are analyzed as follows:

	Debtors under repurchase/resell agreements		Creditors under repurchase/resell agreements	
	2011	**2010**	**2011**	**2010**
BPAS	$ –	954	–	(69)
BPAT	2,196	6,220	–	(1,134)
IS BPA 182	270	4,771	–	–
BONOS M	2,001	10,794	(2,289)	(1,818)
BONOS M0	–	1,700	–	(924)
BI CETES	350	4,019	(121)	–
LD BONDESD	8,360	6,607	–	–
CEDE	–	–	–	(1,736)
CEBUR	–	–	(72)	(92)
CETIM	–	–	–	(903)
IPAS	–	–	–	(478)
LBON	–	–	(4,233)	(4,488)
PRLV	–	–	(13)	(28)
UDIB	–	–	(89)	(322)
IPABONO	9,934	–	(2,975)	–
CBIC	500	–	–	–
CBPC	800	–	(50)	–
	24,411	35,065	(9,842)	(11,992)
Collateral sold or pledged:				
LD BONDESD	(7,020)	(6,105)		
BONOS M	(2,001)	(3,168)		
BONOS M0	–	(1,700)		
BPA 182	–	(2,466)		
BI CETES	–	(3,386)		
IT BPAT	–	(2,582)		
BPAS	–	(504)		
CBIC	(500)	–		
IPABONO	(9,933)	–		
	(19,454)	(19,911)		
Debtors (creditors) repurchase/resell agreements	$ 4,957	15,154	(9,842)	(11,992)

(Continued)

(Pesos in millions)

At December 31, 2011 and 2010, maturities of sale and repurchase agreements vary between 3 and 91 days in both years, with weighted rates of 4.53% acting as repurchasee, and 4.25% acting as repurchaser (4.22% and 4.58% in 2010, respectively).

During the years ended December 31, 2011 and 2010, interest or premiums collected amounted to $1,536 and $1,002, respectively; interest or premiums paid amounted to $1,731 and $669, respectively, and are included in the consolidated statements of income caption under "Interest income" and "Interest expense", respectively (see note 21 (b)).

At December 31, 2011 and 2010, the Bank received government securities as guarantee for over 3-day repurchase agreements, which was included and recorded in memorandum accounts and are analyzed as follows:

2011:

Issuer	Series	Number of certificates	Market value
Guarantees received:			
BI Cetes	120503	816,538	$ 8
IS Bpa 182	150917	545,655	55
LD Bondes D	140320	291,493	29
LD Bondes D	120607	81,861	8
LD Bondes D	130327	95,817	10
Total guarantees received			$ 110

2010:

Issuer	Series	Number of certificates	Market value
Guarantees received:			
IP Bpas	110714	27,525	$ 2
IP Bpas	131003	113,777	11
IS Bpa 182	171005	300,591	30
BI Cetes	111117	576,338	6
LD Bondes D	140320	2,771,506	276
LD Bondes D	140123	47,795	5
Total guarantees received			$ 330
Guareantees delivered:			
BI Cetes	110728	1,496,241	$ 15

(Continued)

(Pesos in millions)

(8) Derivatives-

At December 31, 2011 and 2010, the valuation of derivative financial instruments for trading and hedging purposes, recognized under “Derivatives”, is analyzed as follows:

		2011		2010	
		Assets	**Liabilities**	**Assets**	**Liabilities**
Trading purposes:					
Foreign exchange currency forward contracts	$	151	160	84	145
Futures		3	4	3	1
Options (sharing and indexes)		334	335	8	8
Interest rate swaps		2,026	2,228	1,942	2,089
		2,514	2,727	2,037	2,243
Hedging purposes:					
Fair value hedges		16	183	-	279
Cash flow hedges		25	212	81	127
		41	395	81	406
	$	2,555	3,122	2,118	2,649

For the year ended December 31, 2011 and 2010, the amount of losses recognized in results of operations arising from the (impairment) reversion of financial instruments for trading and hedging purposes amounted to ($13) and $20 and hedging for ($1) and ($10), respectively.

As for instruments used for cash-flow hedging purposes, the net income for the year ended December 31, 2011 and 2010, derived from their ineffectiveness of $4 and $1, respectively, that is included in the results of operations under the caption "Financial intermediation income", while the effect from the valuation relating to the effective hedge portion at December 31, 2011 and 2010, which amounts to $156 ($107 net of the deferred tax effect) and $194 ($97 net of the deferred tax effect), respectively, is presented in stockholders' equity.

At December 31, 2011 and 2010, the gain (loss) of cash flow hedge instruments that were reclassified from stockholders’ equity to the year’s results of operations within “Interest income” and “Interest expense” was $143 and ($114) and $132 and ($89), respectively.

The net estimated effect of gains and losses arising from derivative transactions presented under stockholders' equity at December 31, 2011 and 2010, which are expected to be reclassified to income within the following twelve months amounts to ($58) and $20, respectively.

(Continued)

(Pesos in millions)

For the years ended December 31, 2011 and 2010, the caption of "Financial intermediation income" includes a gain (loss) of $2 and ($8), respectively and a gain (loss) of $39 and ($17), respectively, relating to the valuation of derivatives for fair value hedging and trading purposes.

At December 31, 2011 and 2010, the Bank did not have hedge positions arising from forecasted future transactions.

For the years ended December 31, 2011 and 2010, the Bank maintained an asset (liability) balance on derivatives transactions settled on a date subsequent to the agreed-upon date of ($18) and $1, respectively, which were recognized in settlement accounts within "Other accounts receivable" and "Creditors pending settlement", as appropriate.

Notional amounts:

The following notional amounts of contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts of the derivative financial instruments at December 31, 2011 and 2010 are analyzed as follows:

		2011		
Type of instrument		**Hedging purposes**	**Trading purposes**	**Total**
Interest rate:				
Bought:				
Futures:				
TIIE	$	–	22,131	22,131
Cetes		–	900	900
Bonds		–	21	21
Swap MexDer		–	163	163
Options(shares $915 and indexes $2,375)		–	3,290	3,290
Swaps		7,752	60,107	67,859
Forward contracts		–	9,800	9,800
	$	7,752	96,412	104,164
Sold:				
Futures:				
TIIE	$	–	9,170	9,170
Cetes		–	600	600
Bonds		–	270	270
Options(shares $915 and indexes $2,375)		–	3,290	3,290
Swaps		5,950	60,184	66,134
	$	5,950	73,514	79,464

(Continued)

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	2011		
Type of instrument	**Hedging purposes**	**Trading purposes**	**Total**
Bought:			
Swaps (in millions of dollars)	–	121	121
Sold:			
Swaps (in millions of dollars)	198	251	449
Foreign exchange (in millions of dollars):			
Bought:			
Forward contracts	–	352	352
Options	–	3	3
	–	355	355
Sold:			
Forward contracts	–	449	449
Options	–	3	3
Forward contracts (gold ounce)	–	3	3
	–	455	455
Sold:			
Swaps (in millions of euros)	37	–	37

		2010		
Type of instrument		**Hedging purposes**	**Trading purposes**	**Total**
Interest rate:				
Bought:				
Futures:				
TIIE	$	–	12,810	12,810
Cetes		–	3,950	3,950
Bonds		–	155	155
Options (shares $86 and indexes $4)		–	90	90
Swaps		7,620	57,704	65,324
	$	7,620	74,709	82,329

(Continued)

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Type of instrument		2010 Hedging purposes	2010 Trading purposes	2010 Total
Sold:				
Futures:				
TIIE	$	–	14,023	14,023
Cetes		–	2,850	2,850
Bonds		–	39	39
Options (shares $86 and indexes $4)		–	90	90
Swaps		9,127	59,527	68,654
	$	9,127	76,529	85,656
Bought:				
Swaps (in millions of dollars)		–	267	267
Sold:				
Swaps (in millions of dollars)		197	266	463
Foreign exchange (in millions of dollars):				
Bought:				
Forward contracts		–	1,088	1,088
Sold:				
Forward contracts		–	208	208
Options		–	2	2
		–	210	210
Foreign exchange (in millions of euros):				
Bougth:				
Forward contracts		–	1	1
Sold:				
Forward contracts		–	1	1

(Continued)

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

At December 31, 2011, of all operations, there are $37 (48 in 2010) totaling $9,670 ($11,740 in 2010) and are converting liabilities, assets in securities and 28 days loans classified as hedges under the cash flow methodology, the remainder relates to hedges of credit and bonds for $7,461 ($7,443 in 2010) and for value hedges are classified as covered under the fair value methodology.

The Bank uses derivative financial instruments with the purpose of properly dealing with interest rate and exchange rate risks inherent to loan, deposit and investment transactions, all of which are characteristic of commercial banking. The most widely used instruments are interest rate and currency swaps, whereby floating rate instruments are transformed into fixed rate instruments and vice versa or assets denominated in foreign currency are translated into domestic currency or vice versa. Derivatives may be used for hedging cash flows or the economic value of various Bank assets and liabilities. There are defined control policies for the designation and continuous follow up of the effectiveness of such hedges.

(Pesos in millions)

(9) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2011 and 2010, the classification of loans into current and past due by currency, which includes the restructured portfolio in UDI Trusts, is analyzed as follows:

	2011		2010	
	Current	**Past due**	**Current**	**Past due**
In assets:				
Pesos:				
Business or commercial activity	$ 31,948	300	27,896	308
Financial institutions	3,297	32	2,017	–
Government entities	4,768	–	7,745	–
Consumer loans	16,098	581	15,704	894
Residential mortgages	42,953	2,110	40,294	2,552
	99,064	3,023	93,656	3,754
Foreign currency:				
Business or commercial activity	9,893	46	6,903	23
Financial institutions	169	–	241	–
Government entities	2,095	–	1,237	–
Residential mortgages	194	41	198	11
	12,351	87	8,579	34
	$ 111,415	3,110	102,235	3,788
	114,525		106,023	
In memorandum accounts:				
Loan commitments	4,267		2,665	
	$ 118,792		108,688	

For the years ended December 31, 2011 and 2010, the Bank has no restricted portfolio, so that the entire portfolio is unrestricted.

(Continued)

(Pesos in millions)

(b) Classification of loan portfolio by economic sector-

At December 31, 2011 and 2010, credit risk (including loans, guarantees and loan commitments, see note 20) classified by economic sector and the percentage of concentration are analyzed as follows:

	2011		2010	
	Amount	**%**	**Amount**	**%**
Community, social and personal services, mainly government entities	$ 11,468	10	$ 12,974	12
Construction and housing	51,573	43	48,596	45
Financial, insurance and real estate services	8,309	7	5,323	5
Manufacturing	10,370	9	7,804	7
Commerce and tourism	12,897	11	11,813	11
Consumer loans and credit cards	16,679	14	16,598	15
Agriculture, forestry and fishing	3,765	3	3,227	3
Transportation, warehousing and communication	1,027	1	1,092	1
Other	2,704	2	1,261	1
	$ 118,792	100	$ 108,688	100

(c) Acquisition of consumer loans-

On April 11, 2006, the Bank acquired consumer (automobile) loans from a non-bank bank (SOFOL) with a contractual value of $3,219 for an agreed-upon price consisting of two portions: the first fixed portion of $3,076 paid on the acquisition date and a second portion consisting of an amount determinable based on a comparison between monthly and projected collections but which may not exceed $360. The difference between the contractual value and the first portion of the agreed price was recognized as a deferred premium of $143, which is being amortized over a period equal to the remaining term of the loans. The liabilities for the second portion of the payment were settled in February 2010, since the contract expired on January 31, 2010.

On March 31, 2011, the Bank wrote off from the balance sheet the amount not recovered of portfolio acquired, mentioned in the preceding paragraph for $88, which it applied against the allowance created.

At December 31, 2011, there is no amount to recover regarding this portfolio ($88 in 2010).

(Continued)

(Pesos in millions)

(d) Loans to government entities-

At December 31, 2011 and 2010, loans granted to government entities are analyzed as follows:

		2011	2010
Autonomous entity loan	$	2,096	2,333
Receivables under financial support programs		266	439
Governments, municipalities and state secretariats		4,501	6,210
Total loans to government entities	$	6,863	8,982

Debtor support programs:

As a result of the economic crisis in 1995, the Mexican government and the Mexican Bankers' Association (Asociación de Banqueros de México, A. C.) established loan support programs and agreements, to assist debtors of credit institutions in meeting their obligations. The programs and agreements established were as follows:

- Immediate Support Program for Bank Debtors (ADE).
- Credit Support Program for the Domestic Productive Plant (PACPPN).
- Financial Support and Promotion for Micro, Small and Medium-sized Companies (FOPYME).
- Financial Support to the Agricultural, Cattle-raising and Fishery Sector (FINAPE).
- Additional Benefits to Housing Loan Debtors (BADCV).
- Additional Benefits to Housing Loan Debtors FOVI type (BACVF).

Subsequently, other programs were established such as the Benefits for Bank Debtors of the Agricultural, Cattle-raising and Fishery Sector, the Benefits for Corporate Loan Debtors and the Agreement for Benefits to Housing Loan Debtors ("Punto Final").

(Continued)

(Pesos in millions)

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Mexican government and the Bank, in accordance with the terms of each program. Certain discounts are conditional subject to the net cash flows contributed by the Bank to the specific economic sector. The amounts receivable from the Federal Government on discounts granted in connection with the BADCV and BADCVF programs, at December 31, 2010, amounted to $439. Derived from the agreement to terminate early support programs for borrowers of mortgage loans, the discount amount by the Federal Government is $178, included in the discount of 2010.

The Bank's cost associated with the various debtor support programs and agreements for the year ended December 31, 2010 amount to $32 and it is related to the housing program. Derived from the agreement referred to in the preceding paragraph, the amount charged to the Bank for the early termination of mortgage programs is $16, which is included in the discount of 2010.

(e) UDI Trusts restructured loans-

The Bank participated in several loan-restructuring programs established between the Mexican government and the Mexican banks. The Bank underwrote restructuring programs that consisted mainly of changing peso-denominated loans to UDIS through trusts created with funding provided by the Central Bank. The balance (before application of discounts) of the restructured debts which were transferred to the Bank resulting from early termination of mortgage programs and UDI trusts, which is described in the following paragraph, to December 31, 2010, are analyzed as follows:

		Loan portfolio		Average annual
		Current	**Past due**	**interest rate**
2010				
Residential mortgages	$	394	113	9.01%

At December 31, 2011, the Bank does not have any credit within UDIs Trusts.

(Continued)

Early termination of mortgage programs-

On July 15 and 26, 2010, the relevant agreement was executed and the Federal Official Gazette published the General Provisions applicable to the early termination of the support programs for housing loan debtors, which included the requirements for the loans eligible to participate, as listed below:

(i) Loans that have been restructured or granted in UDIS under the UDIS programs irrespective of whether or not they are entitled to the discount program benefits,

(ii) domestic currency-denominated loans entitled to the discount program benefits,

(iii) loans that as of December 31, 2010 (cut-off date) are current and,

(iv) past-due loans that were restructured or to which a debt relief, discount or allowance was applied no later than December 31, 2010, and for which evidence substantiating payment for at least three consecutive amortizations no later than March 31, 2011 exists.

As a result of the foregoing, the amounts of the discounts granted and the effects of the early termination on the Bank's financial information are as follows:

- The amount of the conditional discount portion payable by the Federal Government in connection with the mortgage programs related to the UDI trusts and own UDI-denominated loans, for the current loan portfolio is $81 and $74, respectively.

- In May 2011, $7 was recorded in accounting, thus reducing the loan due by the Federal Government, which was charged to the allowance for loan losses, due to the default of 29 borrowers, under the Agreement to prove "Fulfillment of payment" by March 31, 2011.

- The amount of the discounts applied prior to the signing of the Discount Program is $178.

For the discounts payable by the Federal Government, a 5-year loan payable on an annual basis was recognized under "Commercial loans – Government Entities", being part of the current loan portfolio. The general terms of the loan payable by the Federal Government is shown on the next page.

(Continued)

(Pesos in millions)

Annuity	Payment date
First	December 1, 2011
Second	June 1, 2012
Third	June 3, 2013
Fourth	June 2, 2014
Fifth	June 1, 2015

A financial cost charged monthly to the loan payable by the Federal Government by calculating for January 2011 the arithmetic average rates of annual return of 91-day CETES issued in December 2010, and for subsequent months, the interest rates of 91-day CETES futures for the immediately preceding month, as published by Proveedor Integral de Precios, S. A. (PIP) the business day immediately following the cut-off date, or the interest rate of the month closer to such publication, as appropriate, on 28-day yield curves, by dividing the resulting rate by 360 days and multiplying the result by the number of days actually elapsed during the interest-bearing period, with capitalization on a monthly basis. The Federal Government's payment obligations will be subject to the agreement provisions.

On December 1, 2011, the Bank received payment of the first annual installment on the discounts due by the Federal Government under the Agreement for $66 and $14, of capital and interest thereon, respectively.

At December 31, 2011, the Bank did not aplly any amount to the remaining balance of the trust liability payable by the Bank and that should be charged to the allowance for credit risks.

The Special Cetes currently recorded by the Bank at December 31, 2011 under "Investment securities – Held-to-Maturity securities" on the consolidated balance sheet are as follows:

	Titles	Amount	Maturity date
Special Cetes B4 170713	8,867,241	$ 725	July 13, 2017
Special Cetes B4 220707	3,961,831	324	July 7, 2022
Special Cetes B4 220804	21,792	1	August 4, 2022
Special Cetes B4 270701	11,209,686	916	July 1, 2027
Special Cetes BC 170713	404,851	11	July 13, 2017
Special Cetes BC 220804	3,115	–	August 4, 2022
Special Cetes BV 270701	6	–	July 1, 2027
Total special Cetes	24,468,522	$ 1,977	

(Continued)

(Pesos in millions)

There are no significant amounts in the captions of other assets and liabilities arising from trust termination.

Through December 2010, the Bank applied the discounts related to the Discount Program for as long as the program continued to be carried out until that date.

(f) Additional loan portfolio information-

Annual weighted lending rates:

Annual weighted loan interest rates during 2011 and 2010 were as follows:

	2011	**2010**
Commercial loans*	6.50%	7.23%
Personal loans	16.18%	15.82%
Credit cards	28.49%	28.05%
Residential mortgages	11.81%	11.82%

* Includes commercial, financial and government entities loans.

Loans rediscounted with recourse:

The Mexican Government has established certain funds to promote the development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera S. N. C. (NAFIN), Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en relación con la Agricultura (FIRA) by rediscounting loans with recourse. At December 31, 2011 and 2010, the amount of loans granted under these programs totaled $4,819 and $4,361, respectively, and the related liability is included in “Bank and other borrowings” (see note 15).

(Pesos in millions)

Support programs for natural disasters-

Through official letter number 100/002/2011 issued on March 4, 2011, the Banking Commission authorized credit institutions that are members of the Asociación de Bancos de México, A. C. to apply the special accounting criteria with to support the borrowers included in its agricultural loan portfolio in the Mexican States of Chihuahua, Durango, Sinaloa, Sonora, Veracruz and Zacatecas, who were affected by the frost from February 1 to 5, 2011. However, none of the Bank's customers required such support aid.

Restructured loans:

At December 31, 2011 and 2010, restructured and renewed loans are analyzed as follows:

	Current loans	Past due loans	Total	
2011				
Comercial loans	$ 2,759	152	2,911	(1)
Residential mortgages	4,750	494	5,244	(2)
Personal loans	121	84	205	
	$ 7,630	730	8,360	
2010				
Comercial loans	$ 1,943	246	2,189	(1)
Residential mortgages	4,551	624	5,175	(2)
Personal loans	150	130	280	
	$ 6,644	1,000	7,644	

(1) In 2011, a commercial loan was restructured, with additional estate guarantees amounting to $7 ($131 in 2010).

(2) From the total balance of restructured and renewed residential mortgage loans as of December 31, 2011 and 2010, there were no additional guaranties obtained.

(Pesos in millions)

During the years 2011 and 2010, capitalization of interest was held for $19 and $7, respectively.

Risk concentration:

At December 31, 2011 and 2010, there were no balances due from one individual debtor that exceeded 10% of the Bank's basic capital. The balance of the loans granted to the three largest debtors as of December 31, 2011 and 2010, amount to $5,545 and $4,275, respectively.

Past due loan portfolio:

An analysis of past due loans at December 31, 2011 and 2010, from the date the loans went past due, are summarized below:

		90 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
2011						
Commercial*	$	157	32	118	71	378
Consumer		533	45	3	–	581
Residential mortgages		1,231	564	190	166	2,151
	$	1,921	641	311	237	3,110
2010						
Commercial*	$	150	90	12	79	331
Consumer		730	86	36	42	894
Residential mortgages		1,177	810	313	263	2,563
	$	2,057	986	361	384	3,788

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

The movement in the past due loan portfolio for the years ended December 31, 2011 and 2010 is summarized below:

		2011	2010
Balance at beginning of year	$	3,788	3,938
Settlements		(22)	(35)
Write-offs and debt forgiveness		(2,440)	(2,670)
Net increase		1,773	2,544
Foreign exchange fluctuation		11	11
	$	3,110	3,788

(Continued)

Nominal interest on the past due loan portfolio not recognized in results of operations for the year ended December 31, 2011 amounted to $165 ($214 in 2010).

For the years ended December 31, 2011 and 2010, the Bank opted for eliminating from assets those past due loans that had been reserved in full for $2,267 and $2,382, respectively. In both years there was no application of reserves for related loans.

For the years ended December 31, 2011 and 2010, the Bank obtained recoveries of loans for $502 and $399, respectively.

Impaired loans:

The balance of impaired commercial loans as of December 31, 2011 and 2010 is $1,489 and $1,228, respectively, from which $1,110 and $897 are recorded in current loans, and $378 and $331 are recorded in past due loans, respectively.

Letters of credit

At December 31, 2011 and 2010, the Bank has letters of credit for $4,267 and $2,665, respectively.

The amount of provisions created at December 31, 2011 and 2010 for letters of credit amounts to $40 and $19, respectively and is included within the allowance for loan losses.

Adjustment for valuation of financial asset hedging:

The adjustment to the carrying value of the loan portfolio by the gain or loss in results of operations for the year is presented under the caption “Valuation adjustment from hedging of financial assets" in the consolidated balance sheet.

(Continued)

(Pesos in millions)

(g) Allowance for loan losses-

As explained in notes 2(j) and 23(c), the Bank categorizes its loan portfolio and an allowance is established to provide for the credit risks associated with the collection of the loan portfolio.

At December 31, 2011 and 2010, the allowance for loan losses classified between general reserves and specific reserves according to the criteria mentioned in note 2(j), is as follows;

	2011		2010	
	General	**Specific**	**General**	**Specific**
Commercial *	$ 298	1,132	261	1,003
Personal loans	213	1,079	147	948
Residential mortgages	77	493	133	1,234
	$ 588	2,704	541	3,185
	$ 3,292		3,726	

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

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At December 31, 2011, the graded loan portfolio and the allowance for loan losses are classified as follows:

Degree of risk		Commercial*	Consumer	Residential mortgages	Total
Graded loan portfolio					
A and A-1	$	30,898	2,853	40,750	74,501
A-2		16,377	–	–	16,377
B and B-1		7,543	9,104	3,453	20,100
B-2		241	3,634	–	3,875
B-3		184	–	–	184
C and C-1		802	594	789	2,185
C2		52	–	–	52
D		24	391	2	417
E		429	103	304	836
Total graded portfolio	$	56,550	16,679	45,298	118,527
Allowance for loan losses					
A and A-1	$	140	14	77	231
A-2		158	–	–	158
B and B-1		359	397	141	897
B-2		14	298	–	312
B-3		25	–	–	25
C and C-1		274	221	246	741
C2		21	–	–	21
D		15	280	1	296
E		424	82	105	611
Allowance for graded loans	$	1,430	1,292	570	3,292
Additional reserves for residential mortgages past due loans					230
Operational risk reserve					22
Additional reserve for past due interest					32
Total allowance for loan losses				$	3,576

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

(Continued)

(Pesos in millions)

At December 31, 2010, the graded loan portfolio and the allowance for loan losses, are classified as follows:

Degree of risk	Commercial*	Consumer	Residential Residential mortgages	Total
Graded loan portfolio				
A and A-1	$ 23,896	11,960	37,938	73,794
A-2	14,988	–	–	14,988
B and B-1	8,221	1,285	3,279	12,785
B-2	468	2,240	–	2,708
B-3	149	–	–	149
C and C-1	440	361	452	1,253
D	22	539	1,300	1,861
E	412	213	86	711
Total graded portfolio	$ 48,596	16,598	43,055	108,249
Allowance for loan losses				
A and A-1	$ 121	64	133	318
A-2	140	–	–	140
B and B-1	375	109	119	603
B-2	39	177	–	216
B-3	23	–	–	23
C and C-1	142	151	146	439
D	16	401	886	1,303
E	408	194	82	684
Allowance for graded loans	$ 1,264	1,096	1,366	3,726
Additional reserves for residential mortgages past due loans				104
Operational risk reserve				18
Additional reserve for past due interest				65
Total allowance for loan losses				$ 3,913

* Includes commercial, financial institutions and government entities loans.

(Continued)

(Pesos in millions)

The new methodology for reserves of the mortgage and personal loan portfolios published by the Banking Commission was applied to the allowance for loan losses at March 2011, resulting in a favorable effect of $72, recognized in the year's income.

As a result of the implementation of the new model for creating the allowance for loan losses to Mexican states and their municipalities, the favorable effect that the Bank recognized in income at December 31, 2011 was $8.

As a result of the change in the method for rating mortgage loans, as to the region that should be considered for each Mexican state, as well as the region that should be assigned for loans having a first losses hedge scheme, a favorable effect of $79 was recognized in income at December 31, 2011.

The movement in the allowance for loan losses for the years ended December 31, 2011 and 2010 is summarized below:

		2011	**2010**
Balance at beginning of year	$	3,913	4,079
Provisions charged to results of operations		2,047	2,536
Applications, waivers and penalties		(2,361)	(2,659)
Awards		(53)	(43)
Exchange rate fluctuations		30	–
Balance at end of year	$	3,576	3,913

A reconciliation between the total graded portfolio and total credit risk, including that recognized in memorandum accounts as of December 31, 2011 and 2010 is analyzed as follows:

		2011	**2010**
Total graded portfolio	$	118,527	108,249
Portfolio not including creditors under support programs		265	439
Total of credit risks	$	118,792	108,688

(Continued)

(Pesos in millions)

(10) Collection rights and mortgage portfolio securitization-

(a) Collection rights-

As of December 31, 2011 and 2010, the Bank has recorded under the caption "Accounts receivable" on the consolidated balance sheet, collection rights of private securitization to acquire a trust credit portfolio in a trust through a unique issuance of securities entered into with different of non-bank financial institutions (Sociedades Financieras de Objeto Limitado or Sofoles). The acquisitions, collection and balances related to the collection rights are as follows:

			2011			
	Amount Dec 31, 2010	Acquisition	Collection	Prepayment	Amount Dec-31,2011	Maturity date
Trust 242896 (Restructured)	$ 1,110	2,828	(1,088)	–	2,850	June 2017 *
Trust 959	1,969	–	(1,653)	–	316	June 2015
Trust 1364	1,837	–	(1,142)	–	695	September 2015
Trust 1439	–	1,500	–	–	1,500	February 2016 **
Trust 1178	–	1,500	–	–	1,500	June 2015***
	4,916	5,828	(3,883)	–	6,861	
Accrued interest for commission to Credit line unused and restructuring	25	27	(25)	–	27	
	$ 4,941	5,855	(3,908)	–	6,888	

			2010			
	Amount Dec 31, 2009	Acquisition	Collection	Prepayment	Amount Dec 31, 2010	Maturity date
Trust 242896	$ 3,337	–	(1,316)	(2,021)	–	September 2014 *
Trust 254118	2,438	–	(890)	(1,548)	–	–
	5,775	–	(2,206)	(3,569)	–	
Trust 242896(Restructured)	–	1,225	(115)	–	1,110	June 2017 *
Trust 959	–	3,070	(1,101)	–	1,969	June 2015 **
Trust 1364	–	3,330	(1,493)	–	1,837	September 2015 ***
	–	7,625	(2,709)	–	4,916	
Accrued interest for commission to Credit line unused and restructuring	39	25	(39)	–	25	
	$ 5,814	7,650	(4,954)	(3,569)	4,941	

* During 2011, the Bank acquired new collection rights for $2,828 over a trust restructured in June 2010, which matures in June, 2017 (See note 1).

** On February 28, 2011, and through a promissory note the Bank acquired the collection rights of $1,500 over a trust, supported by the automotive portfolio, maturing in February 2016 (See note 1).

*** On December 19, 2011, and through a promissory note, the Bank acquired the collection rights over a trust supported by credit assets in the amount of $1,500. The promissory note matures in June 2015 (See note 1).

(Continued)

For the years ended December 31, 2011 and 2010, the Bank recognized in the results of year $400 and $413, respectively by accrued interest concept, which are included in the consolidated income statement under the caption "Other operating income (expense)".

According to the interest method, used for recording the promissory notes, the expected cash flows are deemed highly effective when compared to actual cash flows; furthermore, it has not been necessary to create a preventive reserve for collection rights at December 31, 2011 and 2010 being that there have been no events that modify the expected cash flow amounts. The totality of the collections made was in cash.

The expected cash flows were calculated using the net present value of projections, using a market discount rate.

(b) Mortgage portfolio securitization-

On March 13, 2008, the Bank realized a securitization of a mortgage portfolio, through of a trust that issued debt securities for $2,500 with maturity in 20 years and a rate of 9.15%. At December 31, 2011 and 2010, the amount of the portfolio assigned receivable amounted to $1,595 and $1,858 respectively, and the amount payable on the debt securities amounted to $1,334 and $1,632, respectively.

(Continued)

(Pesos in millions)

As part of the agreed-upon consideration for the securitization, the Bank received a trust certificate, the value of which as of December 31, 2011 and 2010 is $205 in both years. The certificate is reported under the caption “Benefits receivable on securitization transactions” on the consolidated balance sheet, and is recorded at fair value, which was determined based on the expectations for recovery of the trust estate and the remaining cash flows once all obligations to bondholders are met. The fair value of benefits receivable on securitization transactions, that for the years ended December 31, 2011 and 2010 were $23 and ($13) respectively, was recognized in "Other operating income" in the consolidated statement of income. During the year ended December 31, 2011, the Bank received $23 as payment for a remnant, which was applied directly to reduce benefits receivable.

The transferred portfolio as of December 31, 2011 and 2010 received prepayments of $184 and $175, respectively.

The Bank receives servicing fees from the trust, which are recognized in earnings when are accrues, which for the year ended December 31, 2011 and 2010 the income from this source were $16 and $19, respectively.

The trust is not consolidated in accordance with the provisions of paragraph 21 in the transitional section of the C-5 issued by the Banking Commission on September 19, 2008.

(11) Foreclosed assets-

At December 31, 2011 and 2010, foreclosed assets are analyzed as follows:

		2011	2010
Premises	$	33	100
Asset under enforceable promise to sell		1	1
		34	101
Allowance for impairment		(17)	(79)
	$	17	22

(Continued)

(Pesos in millions)

The movement of the allowance for impairment for the years ended December 31, 2011 and 2010 is analyzed as follows:

		2011	2010
Balance at beginning of year	$	(79)	(83)
Additional provisions due to aging, charged to operations for the year		(1)	(3)
Credit to income on sale of assets		63	7
Balance at end of year	$	(17)	(79)

(12) Premises, furniture and equipment-

Premises, furniture and equipment and leasehold improvements at December 31, 2011 and 2010 are analyzed as follows:

		2011	2010	Annual depreciation and amortization rate
Office premises	$	2,070	2,022	Various
Office furniture and equipment		1,211	1,105	10%
Works of art		2	2	N/A
Computer equipment		1,019	879	30%
Computer equipment an capital lease		82	82	20%
Transportation equipment		65	56	25%
Telecommunications equipment		272	242	10%
Leasehold improvements		1,870	1,658	Various
Construction in progress		83	69	–
		6,674	6,115	
Accumulated depreciation and amortization		(2,803)	(2,536)	
	$	3,871	3,579	

Depreciation and amortization charged to results of operations for the years ended December 31, 2011 and 2010 amounted to $298 and $282, respectively.

According to the studies conducted by Inmobiliaria, at December 31, 2011 the residual value of property is zero.

(Continued)

(Pesos in millions)

(13) Permanent investments-

At December 31, 2011 and 2010, permanent investments in shares, classified by activity, are analyzed as follows:

		2011	2010
Others banking related services	$	45	45
Mutual funds		24	24
Derivatives market operators		10	8
Security and protection *		1	1
	$	80	78

* At December 31, 2010, the Bank maintains a reserve for the totality of the shares of a company engaged in the armored car services.

For the years ended December 31, 2011 and 2010, the participation percentage which the Bank has in the equity of its subsidiaries is between 99.99% and 100% and their associated between 0.0064% and 19.7340%.

In November 2010, 4,198,500 shares representing the capital stock of an entity classified as other permanent investment were sold being that there was neither control nor significant influence. At the time of sale, the value of the shares had been 100% impaired. In exchange, a consideration of $93 was received, of which $15 were withheld by the purchaser and recognized as an account receivable due to the fact that their refund was conditioned to compliance of contractual events. Therefore, such amount was 100% reserved as uncollectible. The net amount of $78 was recognized in “Other operating income” in the consolidated statement of income. During the year ended December 31, 2011, $3 was received as a refund of the amount withheld, which were recognized in “Other operating income”.

(14) Deposit funding-

The average weighted interest rates on deposit balances during the years ended December 31, 2011 and 2010 are as follows:

	2011 Rates		2010 Rates	
	Pesos	Dollars	Pesos	Dollars
Demand deposits	1.01%	0.05%	1.02%	0.07%
Savings deposits	0.55%	–	0.55%	–
Time deposits of the public	3.76%	0.18%	3.88%	0.30%
Money market	–	0.65%	–	0.51%

(Continued)

As a result of the debt securities issuance program authorized by the Banking Commission of up to $10,000, at December 31, 2011 the Bank had placed $2,000 of 5-year debt securities that pay interest every 28 days at a variable 28-day TIIE rate less 0.09%; $400 of 10-year debt securities that pay interest every six months at a fixed rate of 9.89% and $300 of 13-year certificates that pay interest at a fixed rate of 9.75%.

Additionally, in October 2010, the Banking Commission approved another debt securities issuance program for an amount of $15,000; at 31 December 2011, the Bank has placed $3,142 of 5 years certificates that pay interest every 28 days at a variable-rate 28-day TIIE rate plus 0.40% and $358 of 7 years certificates that pay interest every 28 days at a variable 28 days TIIE rate plus 0.49% (see note 1).

Accrued interest payable at December 31, 2011 and 2010, is $20 and $30, respectively.

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(15) Bank and other borrowings-

At December 31, 2011 and 2010, bank and other borrowings are analyzed as follows:

	2011	2010
Short-term:		
Pesos:		
Development banks [1]	$ 2,112	1,929
Development agencies [1]	882	814
Accrued interest	27	15
	3,021	2,758
Denominated in dollars, translated into pesos:		
Development agencies [1]	117	–
Development banks [1]	7	–
	124	–
Total short term	3,145	2,758
Long-term:		
Pesos:		
Development banks [1]	6	17
Development agencies [1]	1,624	1,459
FOVI	248	370
	1,878	1,846
Denominated in dollars, translated into pesos:		
Development agencies [1]	23	–
Private domestic banks	559	–
	582	–
Total long-term	2,460	1,846
Total bank and other borrowings	$ 5,605	4,604

[1] Development funds (see note 9(f)).

(Continued)

(Pesos in millions)

Due to the operating characteristics of the interbank loans that the Bank maintains, such as access to funds via auctions, loans regulated by the Central Bank with no pre-established limit, loans subject to availability of funds of the lenders' budget with no limit to the Bank, loans whose limit is agreed to daily by the lender, at December 31, 2011 and 2010, the Bank has no significant interbank lines of credit with authorized amounts that have not been drawn down.

At December 31, 2011 and 2010, bank and other loans average annual interest rates are as follows:

	2011 Rates		**2010 Rates**	
	Pesos	**Foreign currency**	**Pesos**	**Foreign currency**
Private domestic banks	4.43%	–	4.45%	–
Central Bank	4.53%	–	–	–
Development banks	6.12%	4.39%	7.46%	–
Development agencies	5.06%	1.48%	5.57%	–

(16) Employee benefits-

The Bank has in place a defined contribution plan for pensions and post-retirement benefits that covers all employees joining the Bank beginning on April 1, 2006. The plan is optional for those employees who joined the Bank at an earlier date. The plan provides for established contributions by both the Bank and employees, which may be fully withdrawn by employees when aged 55.

For the years ended December 31, 2011 and 2010, the charge to operations for the Bank's contributions to the defined contribution pension plan amounted to $56 and $60, respectively.

The Bank has also a defined benefit pension plan to which employees make no contributions. All employees are entitled to this plan when aged 60 years, with five 5 years of service, or 55 years of age, with 35 years of service, as provided for by the collective bargaining agreement.

The costs, obligations and assets of the defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees benefit plans were determined based on computations prepared by independent actuaries as of December 31, 2011 and 2010.

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The components of the net periodic cost (income) for the years ended December 31, 2011 and 2010 are as follows:

		Pensions			Seniority premium			Medical expenses, food coupons. life insurance
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
2011								
Service cost	$	27	2	29	3	5	8	94
Interest cost		168	4	172	4	4	8	216
Return on plan assets		(155)	(4)	(159)	(4)	(6)	(10)	(213)
Amortization of prior service:								
Transition asset		–	–	–	–	–	–	(8)
Plan modifications		4	–	4	–	–	–	(3)
Actuarial loss (gain), net		2	–	2	–	–	–	33
Net periodic cost		46	2	48	3	3	6	119
Cost (income) recognition of actuarial gains generated in the year		–	(5)	(5)	–	5	5	–
Total cost (income)	$	46	(3)	43	3	8	11	119
2010								
Service cost	$	30	1	31	2	5	7	62
Interest cost		164	3	167	4	5	9	174
Return on plan assets		(155)	(4)	(159)	(5)	(6)	(11)	(196)
Amortization of prior service:								
Transition asset		–	–	–	–	–	–	(8)
Plan modifications		4	–	4	–	–	–	(3)
Actuarial loss (gain), net		3	–	3	–	–	–	20
Net periodic cost		46	–	46	1	4	5	49
Income entitlements		(3)	–	(3)	–	–	–	–
Cost (income) recognition of actuarial gains generated in the year		–	1	1	–	(17)	(17)	–
Total cost (income)	$	43	1	44	1	(13)	(12)	49

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Below is a reconciliation of the opening and final balances, and detail on the present value of the pension, seniority premium, medical expenses, food coupons and life insurance benefit obligations as of December 31, 2011:

		Pensions			Seniority premium			Medical expenses, food coupons, life insurance
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Defined benefit obligations (DBO) as of December 31, 2010	$	(2,005)	(44)	(2,049)	(55)	(46)	(101)	(2,516)
Current service cost		(27)	(2)	(29)	(3)	(5)	(8)	(94)
Interest cost		(168)	(4)	(172)	(4)	(4)	(8)	(216)
Paid benefits		177	1	178	4	7	11	93
Actuarial gain (loss)		28	8	36	(5)	–	(5)	112
DBO as of December 31, 2011		(1,995)	(41)	(2,036)	(63)	(48)	(111)	(2,621)
Plan assets at fair value		1,733	48	1,781	55	68	123	2,480
Financial situation of the fund		(262)	7	(255)	(8)	20	12	(141)
Past service for:								
Transition asset		–	–	–	–	–	–	(8)
Plan improvements		39	–	39	1	–	1	(36)
Cumulative actuarial gains		318	–	318	11	–	11	732
Projected asset, net as of December 31, 2011	$	95	7	102	4	20	24	547

A reconciliation of the net projected (liability) asset as of December 31, 2011 is analyzed as follows:

		Pensions			Seniority premium			Medical, expenses food coupons, life insurance,
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Projected (liability) asset, net as of December 31, 2010	$	49	–	49	4	24	28	507
Net cost for fiscal year		(46)	(2)	(48)	(3)	(3)	(6)	(119)
Contributions to fund during 2011		92	4	96	3	3	6	159
Immediate recognition of gains and losses		–	5	5	–	(4)	(4)	–
Projected asset, net as of December 31, 2011	$	95	7	102	4	20	24	547

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Details of the present value of the defined pension, seniority premium, medical expenses, food coupons and life insurance benefit obligations as of December 31, 2010 is analyzed as follows:

		Pensions			Seniority premium			Medical expenses, food coupons, life insurance
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Defined benefit obligations (DBO) as of December 31, 2009	$	(1,857)	(38)	(1,895)	(41)	(57)	(98)	(1,982)
Current service cost		(30)	(1)	(31)	(2)	(5)	(7)	(62)
Interest cost		(164)	(3)	(167)	(4)	(5)	(9)	(174)
Improvement Plan (IP)		(43)	–	(43)	–	–	–	–
Immediate recognition of IP		3	–	3	–	–	–	–
Paid benefits		159	1	160	–	6	6	66
Actuarial gain (loss)		(73)	(3)	(76)	(8)	15	7	(364)
DBO as of December 31, 2010		(2,005)	(44)	(2,049)	(55)	(46)	(101)	(2,516)
Plan assets at fair value		1,783	44	1,827	55	70	125	2,346
Financial situation of the fund		(222)	–	(222)	–	24	24	(170)
Past service for:								
Transition asset		–	–	–	–	–	–	(16)
Plan improvements		42	–	42	–	–	–	(39)
Cumulative actuarial gains		229	–	229	4	–	4	732
Projected asset, net as of December 31, 2010	$	49	–	49	4	24	28	507

A reconciliation of the net projected (liability) asset as of December 31, 2010 is analyzed as follows:

		Pensions			Seniority premium			Medical, expenses food coupons, life insurance,
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Projected (liability) asset, net as of December 31, 2009	$	(2)	1	(1)	4	7	11	428
Net cost for fiscal year		(43)	(1)	(44)	(1)	(4)	(5)	(49)
Contributions to fund during 2010		94	1	95	1	4	5	128
Immediate recognition of gains and losses		–	(1)	(1)	–	17	17	–
Projected asset, net as of December 31, 2010	$	49	–	49	4	24	28	507

(Continued)

(Pesos in millions)

Detail of acquired benefit obligations (ABO) as of December 31, 2011 and 2010 follows:

		Pensions			Seniority premium			Medical expenses food coupons life insurance,
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
2011								
ABO	$	(1,436)	–	(1,436)	(7)	(43)	(50)	(1,073)
2010								
ABO	$	((1,445)	–	(1,445)	(4)	(41)	(45)	(946)

Below is an analysis of movements of the plan assets required for covering the employee benefit obligations for the years ended December 31, 2011 and 2010:

		2011	2010
Fair value of the assets at beginning of year	$	4,298	3,767
Plan contributions during the year		260	228
Return on plan assets		108	537
Payments from the fund during the year		(283)	(234)
Fair value of the assets at end of year	$	4,383	4,298

During the years ended 2011 and 2010, the expected return on the plan assets are $383 and $366, respectively.

During the year 2012, contributions to the fund in the amount of $178 are expected to cover the employee benefit obligations.

In the next page is shown a reconciliation of opening and final balances, and detail on the present value of statutory severance compensation obligations as of December 31, 2011 and 2010.

(Pesos in millions)

		2011	2010
Acquired benefit obligations (ABO)	$	(243)	(235)
DBO at beginning of year	$	(235)	(281)
Current service cost		(15)	(17)
Interest cost		(19)	(23)
Benefits paid		74	49
Actuarial (loss) gain		(48)	37
DBO at December 31		(243)	(235)
Plan assets		–	–
Fund financial situation		(243)	(235)
Prior service:			
Transition liability		30	60
Projected liability, net	$	(213)	(175)

The net cost of statutory compensation benefits for the years ended December 31, 2011 and 2010, amounted to $112 and $33, respectively.

The nominal rates as of December 31, 2011 and 2010 used in actuarial projections are as follows:

	2011	2010
Return on plan assets	9.75%	9.00%
Discount rate	9.25%	8.75%
Rate of compensation increase	5.00%	5.00%
Rate of increase in medical expenses	6.50%	6.50%
Estimated inflation rate	4.00%	4.00%

The expected return rate on the plan assets was determined using the expected long-term performance on assets of the portfolio of Banks' funds.

(Continued)

(Pesos in millions)

The plan assets covering the pension, seniority premium, medical expense, food coupons, and life insurance for retirees benefit plans consist of 60% equity instruments and 40% debt instruments subject to a trust and managed by a Bank-designated committee.

The effect from an increase or decrease by a percentage point in the rate of increase in medical expenses used for the actuarial projections is shown below:

	Rate	DBO medical expenses for retirees
Without modification	6.5%	$ 2,020
1% increase in medical inflation rate	7.5%	2,442
1% decrease in medical inflation rate	5.5%	1,689

A summary of the amount of employee benefits related to DBO, plan assets and projected benefit obligation over (under) plan assets and experience adjustments, for the years ended December 31, 2009, 2008 and 2007 follows:

	Pensions		
	2009	2008	2007
DBO	$ (1,895)	(1,737)	(1,683)
Plan assets	1,660	1,394	1,619
Financial situation of the fund	$ (235)	(343)	(64)
Variances in assumptions and experience adjustments	$ 232	335	(59)

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		Seniority premiums		
		2009	**2008**	**2007**
DBO	$	(98)	(90)	(90)
Plan assets		110	94	105
Financial situation of the fund	$	12	4	15
Variances in assumptions and experience adjustments	$	(3)	8	(7)

		Medical expenses, food coupons and life insurance		
		2009	**2008**	**2007**
DBO	$	(1,982)	(1,820)	(1,946)
Plan assets		1,997	1,511	1,479
Financial situation of the fund	$	15	(309)	(467)
Variances in assumptions and experience adjustments	$	480	(195)	813

		Statutory severance compensation		
		2009	**2008**	**2007**
DBO	$	(281)	(270)	(263)
DBO losses	$	–	3	21

As of December 31, 2011, the amortization periods in years for unrecognized items related to defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees and statutory severance compensation benefits are shown in the next page.

(Continued)

(Pesos in millions)

	Pensions		Seniority premium		Medical expenses, food coupons, life insurance,	Statutory severance
	Retirement	Disability	Retirement	Termination	for retirees	compensation
Prior service – transition (asset) liability	N/A	N/A	N/A	N/A	1.0	1.0
Prior service –plan improvements	10.5	1.0	11.2	1.0	10.5	N/A
Actuarial loss (gain), net	13.9	Immediate	13.3	Immediate	15.7	Immediate

(17) Income taxes (Income Tax (IT), flat rate business tax (IETU)), and employee statutory profit sharing (ESPS)-

Under the current tax legislation, companies must pay the greater of their IT or IETU. If IETU is payable, the payment will be considered final i.e. not subject to recovery in subsequent years. The IT Law in effect as of December 31, 2011 and 2010 provides for an IT rate of 30%, while in accordance with the tax reforms effective, the IT rate for fiscal year 2012 is 30%, for 2013 the rate shall be 29% and for 2014 and thereafter, the rate is 28%. The IETU rate is l7.5% for 2011 and 2010.

Owing to the fact that, according to Bank's estimates, the tax payable in future years will be IT, deferred tax effects as of December 31, 2011 and 2010 have been determined on an IT basis.

On May 19, 2004, the Bank obtained a favorable resolution from the Federal Judiciary relating to articles 16 and last paragraph of 17, of the Income Tax Law in force in 2002. Accordingly, the Bank is thus authorized to equalize the amount of the tax base used for ESPS determination and that used for IT purposes.

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

	2011		2010	
	IT	ESPS	IT	ESPS
Current:				
Bank	$ 622	210	869	225
Real Estate	17	–	17	–
Service entities	1	–	1	–
Derivative market entities	1	–	–	–
MexDer Trusts	–	–	–	–
Deferred	106	38	(194)	(62)
	$ 747	248	693	163
	===	===	===	===

(Continued)

(Pesos in millions)

Deferred IT and ESPS:

The deferred tax asset (liability) at December 31, 2011 and 2010 comprises the following:

		2011		2010	
		IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:					
Trading	$	85	28	92	31
Available-for-sale		(103)	(34)	(73)	(24)
Cash flow hedge swaps		58	19	21	7
Expense accruals and others		224	74	278	91
Premises, furniture and equipment		(106)	50	(102)	54
Unearned fees collected		295	99	285	95
Pension plan		(201)	(68)	(175)	(58)
Foreclosed assets		114	38	139	46
Allowance in excess		148	53	148	53
		514	259	613	295
	$	773		908	

Deferred IT and ESPS credits (charges) to results of operations and stockholders' equity, for the years ended December 31, 2011 and 2010 are presented below:

		2011		2010	
		IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:					
Trading	$	(7)	(3)	77	27
Available-for-sale		(30)	(10)	10	3
Cash flow hedge swaps		37	12	74	26
Expense accruals and others		(54)	(17)	157	51
Premises, furniture and equipment		(4)	(4)	(1)	(3)
Unearned fees collected		10	4	4	1
Pension plan		(26)	(10)	(44)	(14)
Foreclosed assets		(25)	(8)	1	–
		(99)	(36)	278	91
	$	(135)		369	

[(1)] Net of valuation allowance

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	2011		2010	
	IT	**ESPS**	**IT**	**ESPS**
Deferred tax:				
In results of operations	$ (106)	(38)	194	62
In stockholders' equity:				
Valuation in available-for-sale securities	(30)	(10)	10	3
Valuation of cash flow hedge swaps	37	12	74	26
	(99)	(36)	278	91
	$ (135)		369	

The following is an analysis of the effective tax rate of the Bank as an individual contributor for the fiscal years ended at December 31, 2011 and 2010:

	IT			ESPS
	Tax Base	**Tax at 30%**	**Effective rate**	**at 10%**
December 31, 2011				
Income before IT and equity in the results of associated companies	$ 3,480	(1,044)	(30%)	(348)
Allocation to current tax:				
Adjustment for effects of inflation	(716)	215	6%	71
Mark to market of investment securities	6	(2)	–	(1)
Depreciation and amortization	(103)	31	1%	10
Non-deductibles expenses	166	(50)	(1%)	(17)
Deduction for provision for loan losses	(693)	208	6%	69
Current and deferred ESPS	245	(74)	(2%)	(25)
Deduction ESPS paid in the year	(199)	60	2%	20
Tax recoveries and others, net	(112)	34	1%	11
Current tax	2,074	(622)	(17%)	(210)
Allocation to deferred tax: (30% tax)				
Mark to market of investment securities	25	(8)	–	(3)
Provisions and others	173	(52)	(1%)	(17)
Premises, furniture and equipment	44	(13)	–	(4)
Pension plan	87	(26)	(1%)	(9)
Foreclosed assets	84	(25)	(1%)	(9)
Unearned fees collected	(35)	11	–	4
Deferred tax	378	(113)	(3%)	(38)
Income tax	$ 2,452	(735)	(20%)	(248)

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	IT			ESPS
	Tax Base	**Tax at 28%**	**Effective rate**	**at 10%**
December 31, 2010				
Income before IT and equity in the results of associated companies	$ 3,188	(956)	(30%)	(319)
Allocation to current tax:				
Adjustment for effects of inflation	(817)	245	8%	82
Mark to market of investment securities	216	(65)	(2%)	(22)
Depreciation and amortization	(135)	41	1%	14
Non-deductibles expenses	239	(72)	(2%)	(24)
Deduction for provision for loan losses	(4)	1	–	-
Current and deferred ESPS	163	(49)	(2%)	(17)
Deduction ESPS paid in the year	(215)	64	2%	21
Tax recoveries and others, net	261	(78)	(2%)	40
Current tax	2,896	(869)	(27%)	(225)
Allocation to deferred tax: (30% tax)				
Mark to market of investment securities	(257)	77	2%	26
Provisions and others	(520)	156	5%	52
Premises, furniture and equipment	27	(8)	–	(3)
Pension plan	147	(44)	(1%)	(15)
Foreclosed assets	(3)	2	–	–
Unearned fees collected	(13)	4	–	2
Deferred tax	(619)	187	6%	62
Income tax	$ 2,277	(682)	(21%)	(163)

(Continued)

Other considerations:

According to the IT Law, tax losses, restated for inflation, may be carried forward to offset the taxable income against the ten following years. At December 31, 2011, there are tax loss carryforwards which originated from 1996 through 1999. However, as a result of the agreement between The Bank of Nova Scotia ("BNS") and IPAB, the Bank shall not benefit from tax losses sustained in the fiscal years between June 30, 1996 and December 31, 1999 without the prior written consent of the IPAB. Should the Bank derive any economic benefit from the carryforwards of such tax losses, the IPAB will be paid an amount similar to the economic benefit received.

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

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

(18) Stockholders' equity-

(a) Structure of capital stock-

At December 31, 2011 and 2010, the nominal subscribed and paid capital stock totals $6,200 represented by 6,200,000,000 registered shares with a par value of one peso per share, divided into 6,199,999,916 Series "F" shares and 84 Series "B" shares.

(b) Dividends declared-

(i) At the Ordinary Annual General Stockholders' Meeting held on March 27, 2009, a resolution was passed to declare the dividend payment as follows:

- A maximum payment of dividends in cash amounting to $2,000, charged to Retained Earnings at a rate of $0.32258 pesos per share for the 6,200,000,000 registered series "F" and "B" shares as of that date. Periodic dividend payments approved by the Board of Directors, take into account the quarterly results of the Bank's operations ranging between 0% and 100% of net income for the quarter.

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Derived from the declaration of dividends referred to in the preceding paragraph, for the years ended at December 31, 2011 and 2010, the cash payments made, are detailed below:

Payment date		Amount
Dividends paid since 2009	$	289
March 5, 2010		260
May 28, 2010		299
August 31, 2010		243
November 26, 2010		299
Dividends paid during 2010		1,101
March 18, 2011		439
May 27, 2011		171
Dividends paid during 2011	$	610

(ii) At the Ordinary Annual General Stockholders' Meeting held on April 28, 2011, a resolution was passed to declare the dividend payment as follows:

- Declared a cash dividend for $1,300 at the rate of $0.20967 pesos per share, comprising the 6,200,000,000 registered Series "F" and "B" shares. Partial dividend payments are determined by the Board of Directors on the basis of the Bank's quarterly results and considering between 0% and 100% of net income earned in such quarters.

Derived from declaration of dividends referred to in the preceding paragraph, the cash payments that were made in 2011 are detailed below:

Payment date		Amount
May 27, 2011	$	288
August 26, 2011		477
November 30, 2011		535
Dividends paid during 2011	$	1,300

(Continued)

(Pesos in millions)

(iii) At the General Stockholders' meeting held on November 25, 2011, it was agreed to:

- Declare a cash dividend for $1,800 at the rate of $0.29032 pesos per share, comprising the 6,200,000,000 registered Series "F" and "B" shares. Partial dividend payments are determined by the Board of Directors on the basis of the Bank's quarterly results and considering between 0% and 100% of net income earned in such quarters.

Derived from declaration of dividends referred to in the preceding paragraph, the cash payments that were made in 2011 are detailed below:

Payment date		Amount
November 30, 2011	$	800
Dividends paid during 2011	$	800

As of 31 December 2011 and 2010, the balance of dividends declared but not yet paid of $1,000 and $610, respectively, are presented in the consolidated balance sheet under "Sundry creditors and other accounts payable" (see note 19).

(c) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the total performance of the Bank and subsidiaries during the year, and includes the net income, plus the result of the valuation of available-for-sale securities and cash flow hedge transactions.

(d) Restrictions on stockholders' equity-

No individual or entity may acquire direct or indirect control of Series "B" shares in excess of 5% of the Bank's paid-in capital, through one or more simultaneous or successive transactions of any kind. If deemed appropriate, the SHCP may authorize the acquisition of a higher percentage, provided that it does not exceed 20% of the capital stock.

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

(Continued)

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The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax bases are subject to income tax. At December 31, 2011 the capital contribution account (CUCA) and the tax basis retained earnings account (CUFIN) of the Bank amount to $7,362 and $3,137, respectively.

The retained earnings of subsidiaries may not be distributed to the Bank's stockholders until these are received by way of dividends from the subsidiaries.

(e) Capitalization-

At December 31, 2011 and 2010, the Bank maintained a capitalization index in excess of 10%; accordingly, it is classified as Category I in both years in accordance with article 220 of the Provisions, which is determined by applying certain percentages according to the risk assigned pursuant to the rules established by the Central Bank. Below is the Bank's capitalization information (unaudited information).

Capital as of December 31:

	2011	2010
Stockholders' equity	$ 27,287.4	27,560.4
Investments in financial services entities and their holding companies	(659.6)	(472.4)
Investments in other companies	(77.7)	(68.6)
Deferred tax deduction	(201.4)	(201.4)
Deferred assets classed as basic	201.4	201.4
Intangible assets and deferred taxes	(2,285.4)	(2,153.4)
Basic capital (Tier 1)	24,264.7	24,866.0
General allowance for loan loss – Supplementary capital (Tier 2)	390.1	457.3
Net capital (Tier 1 + Tier 2)	$ 24,654.8	25,323.3

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Assets at risk as of December 31, 2011:

	Risk weighted assets	Capital requirement
Market risk:		
Transactions in Mexican pesos at nominal interest rates	$ 14,431.5	1,154.5
Transactions with debt securities in pesos with premium and adjustable rates	967.9	77.4
Transactions in Mexican pesos at real interest rates or denominated in UDIS	1,308.0	104.6
Positions in UDIS or with returns linked to the INPC	5.2	0.4
Foreign currency transactions at nominal interest rates	1,101.4	88.1
Foreign currency positions or with exchange rate indexed returns	158.5	12.7
Equity positions or with returns indexed to the price of a single share or group of shares	951.4	76.1
Total market risk	18,923.9	1,513.8
Riesgo de crédito:		
Group III (weighted at 20%)	1,858.1	148.6
Group III (weighted at 23%)	515.4	41.2
Group III (weighted at 50%)	17.0	1.4
Group III (weighted at 57.5%)	71.9	5.7
Group III (weighted at 100%)	2.9	0.2
Group IV (weighted at 20%)	422.1	33.8
Group V (weighted at 20%)	597.3	47.8
Group V (weighted at 50%)	336.8	26.9
Group V (weighted at 150%)	1,268.1	101.4
Group VI (weighted at 50%)	12,171.1	973.7
Group VI (weighted at 75%)	11,740.7	939.3
Group VI (weighted at 100%)	18,088.4	1,447.1
Group VII-A (weighted at 20%)	512.9	41.0
Group VII-A (weighted at 23%)	107.9	8.6
Group VII-A (weighted at 100%)	43,655.9	3,492.5
Group VII-A (weighted at 115%)	8.7	0.7
Group VII-A (weighted at 150%)	120.7	9.7
Group VIII (weighted at 125%)	2,303.4	184.3
Group IX (weighted at 100%)	24,709.6	1,976.8
Total credit risk	118,508.9	9,480.7
Total operational risk	19,540.0	1,563.2
Total market, credit and operational risk	$ 156,972.8	12,557.7

(Continued)

(Pesos in millions)

Capitalization indices as of December 31:

	2011	**2010**
Capital to credit risk assets:		
Basic capital (Tier 1)	20.47%	23.23%
Supplementary capital (Tier 2)	0.33%	0.42%
Net capital (Tier 1 + Tier 2)	20.80%	23.65%
Capital to market credit and operational risk assets:		
Basic capital (Tier 1)	15.46%	17.49%
Supplementary capital (Tier 2)	0.25%	0.32%
Net capital (Tier 1 + Tier 2)	15.71%	17.81%

Capital adequacy is monitored by the Risk Area through capitalization index projections which consider the various established operating limits vis-à-vis the net capital, with a view to avoiding any possible capital shortfalls and taking any necessary measures to ensure that the capital is maintained at an adequate and sound level.

At December 31, 2011, the net capital structure of $24,654.8 dropped 2.64% from $25,323.2 in 2010 due to dividends declared in the amount of $3,100, an increase in the valuation of securities of $61.2, a $105.8 decrease in the valuation of hedge instruments, the increase in deductions to basic capital of $328.2 and a decrease of $67.3 in general reserves computed as supplementary capital, that income generated in the year for $2,871.6 was unable to offset.

At December 31, 2011, the Bank raised the ratings of the following rating agencies:

National scale (Caval)	**Long term**	**Short term**	**Perspective**
Fitch Ratings	AAA(mex)	F1+(mex)	Stable
Moody’s	Aaa.mx	MX-1	Stable
Standard & Poor´s	mxAAA	mxA-1+	Stable

(Continued)

(Pesos in millions)

(19) Related-party transactions-

During the normal course of business, the Bank carries out transactions with related parties such as loans, investments, deposit funding, services, etc., causing income and expenses between companies. Transactions and balances incurred by consolidated companies were eliminated and persistence of those who do not consolidate. According to the Bank's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices.

The main transactions carried out with related parties for the years ended December 31, 2011 and 2010, are analyzed as follows:

		2011	2010
Income:			
Premiums and interest collected on securities purchased under agreements to resell:	$	381	154
Others:			
Commissions, rentals and other		301	263
Financial intermediation income		11	-
Financial advisory		32	29
		344	292
	$	725	446
Expenses:			
Interest paid	$	1	2
Premiums on repurchase / resell agreements:		223	313
Others:			
Financial advisory		280	25
Commissions, rentals and others		8	50
		288	75
	$	512	390

(Continued)

(Pesos in millions)

Balances receivable from and payable to related parties as of December 31, 2011 and 2010 are as follows:

	2011	2010
Receivable:		
Derivatives	$ 159	43
Commercial loans	6	10
Co-distribution	25	22
Other accounts receivable	13	5
Debtor under repurchase/resell agreements	3,274	3,714
	$ 3,477	3,794
Payable:		
Demand deposits	$ 36	28
Derivatives	183	11
Other accounts payables	1,033	640
Creditors under repurchase/resell agreements	5,430	5,651
	$ 6,682	6,330

For the years ended December 31, 2011 and 2010 there were no changes in the existing conditions of balances receivable from and payable to related parties, there were no items that are deemed irrecoverable or difficult collection and no reserve was required for non-collectability.

In accordance with Article 73bis of the Credit Institutions Law, the total amount of transactions with related parties is not to exceed 50% of the basic portion of the net capital. The loans granted by the Bank to related parties as of December 31, 2011 and 2010 amount to $2,715 and $2,209, respectively. The deposits made by related parties as of December 31, 2011 and 2010 amount to $1,957 and $171, respectively.

For the years ended December 31, 2011 and 2010, the benefits granted to senior management amounted to $136 and $113, respectively.

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(Pesos in millions)

(20) Memorandum accounts-

(a) Loan commitments -

Lines of credit:
At December 31, 2011 and 2010, the balance of lines of credit amounted to $333,738 and $286,529, respectively.

Letters of credit:
At December 31, 2011 and 2010, the Bank has letters of credit for $4,267 and $2,665, respectively.

(b) Assets in trust or under mandate-

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2011 and 2010, is analyzed as follows:

	2011	2010
Trust:		
Administrative	$ 122,662	109,421
Guarantee	4,394	4,298
Investment	887	788
	127,943	114,507
Mandates	26,833	26,823
	$ 154,776	141,330

Trust revenue accrued for the years ended December 31, 2011 and 2010 amounted $201 and $187, respectively and were recorded in the caption "Commission and fee income".

(c) Assets in custody or under management-

In this account, the Bank records property and securities received in custody, guarantee or under management. As of December 31, 2011 and 2010, the assets in custody are analyzed on the next page.

(Pesos in millions)

		2011	2010
Securities in custody:			
Securities	$	162	454
General		298	826
Investment		1,059	1,081
Securities management		9,525	9,525
Other		1,013	893
		12,057	12,779
Securities under management:			
Securities		41,446	42,854
Other		1,773	1,773
		43,219	44,627
Transactions with derivative financial instruments on behalf of third parties:			
Futures		426,816	390,248
Options		144	1,191
		426,960	391,439
	$	482,236	448,845

Income arising from securities in custody for the years ended December 31, 2011 and 2010 amounts to $4 and $1, respectively.

(d) Collaterals received by the entity and collaterals received and sold or pledged by the entity-

Collaterals received by the Bank and collaterals sold or delivered by the Bank at December 31, 2011 and 2010 are analyzed on the next page.

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		2011	2010
Collaterals received by the entity:			
Repurchase / resell agreements:			
IPABONOS	$	9,924	–
BPAS		–	969
LD BONDES		8,395	6,406
IT BPAT		2,196	6,227
IS BPA 182		324	4,821
BONOS M		2,000	10,605
BONOS MO		–	1,700
BI CETES		358	3,948
PRLV		800	–
CBIC		500	–
		24,497	34,676
Guarantees received for credit operations		23,867	50,414
Total collateral received by the entity	$	48,364	85,090

		2011	2010
Collaterals received and sold or pledged by the entity:			
LD BONDESD	$	7,134	6,126
IPABONO		9,974	–
BONOS M		2,000	3,175
BONOS MO		–	1,700
BPA 182		–	2,470
BI CETES		1,172	3,386
IT BPAT		–	2,585
BPAS		–	505
CBIC		500	–
	$	20,780	19,947

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(e) Investments on behalf of customers-

As of December 31, 2011 and 2010 funds managed by the Bank following customer instructions for investment in different instruments of the Mexican financial system are recorded in memorandum accounts and are analyzed as follows:

		2011	2010
Equities and others	$	4,042	4,339
Government securities		29,833	34,396
Mutual funds		28,006	23,780
Bank securities not issued by the Bank		2,053	5,860
	$	63,394	68,375

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

(21) Additional information on operations and segments-

(a) Segment information-

The Bank's operations are classified in the following segments: credit and services (acceptance of deposits, granting of loans, trusts and other income in subsidiaries) and treasury and trading (securities, derivatives and currency transactions). For the years ended December 31, 2011 and 2010, income by segment is analyzed as follows:

		Credit and services	Trading and Treasury	Total
December 31, 2011				
Interest income, net	$	9,208	552	9,760
Commissions and fees, net result from trading and other operating income (expenses)		4,932	823	5,755
Net operating revenues		14,140	1,375	15,515
Allowance for loan losses		(2,047)	–	(2,047)
Administrative and promotional expenses		(9,334)	(517)	(9,851)
Income before current and deferred income taxes	$	2,759	858	3,617
Current and deferred income taxes, net				(747)
Equity in the results of operations of associated companies				2
Net income				$ 2,872

(Continued)

(Pesos in millions)

		Credit and services	Trading and Treasury		Total
December 31, 2010					
Interest income, net	$	8,957	1,250		10,207
Commissions and fees, net result from trading and other operating income (expenses)		4,565	105		4,670
Net operating revenues		13,522	1,355		14,877
Allowance for loan losses		(2,536)	–		(2,536)
Administrative and promotional expenses		(8,510)	(521)		(9,031)
Income before current and deferred income taxes	$	2,476	834		3,310
Current and deferred income taxes, net					(693)
Equity in the results of operations of associated companies					2
Net income				$	2,619

(b) Financial margin-

For the years ended December 31, 2011 and 2010, the financial margin in the consolidated statement of income consists of the following elements:

Interest income:

Interest income for the years ended December 31, 2011 and 2010 is comprised as follows:

		Credit and services	Trading and treasury	Total
December 31, 2011				
Cash and cash equivalents	$	–	786	786
Margin accounts		–	6	6
Investment securities		–	555	555
Securities under repurchase/resell agreements		–	1,536	1,536
Current loan portfolio		11,295	–	11,295
Past due loan portfolio		27	–	27
Loan origination fees		313	–	313
Increase in interest income update		–	20	20
	$	11,635	2,903	14,538

(Continued)

(Pesos in millions)

December 31, 2010		Credit and services	Trading and treasury	Total
Cash and cash equivalents	$	–	824	824
Margin accounts		–	6	6
Investment securities		–	671	671
Securities under repurchase/resell agreements		–	1,002	1,002
Current loan portfolio		10,912	–	10,912
Past due loan portfolio		49	–	49
Loan origination fees		393	–	393
	$	11,354	2,503	13,857

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2011 and 2010:

		2011		2010	
		Current	Past due	Current	Past due
Commercial	$	2,875	10	2,650	7
Financial institutions		198	3	264	–
Consumer		3,090	11	3,242	31
Residential mortgages		5,020	3	4,798	11
Government entities		515	–	351	–
	$	11,608	27	11,305	49
		$ 11,635		11,354	

For the years ended December 31, 2011 and 2010, within total interest income from commercial, consumer and residential loans commissions are recorded that represent a yield adjustment of 0.20%, 1.17% and 0.24% for 2011, as well as 0.44%, 1.19% and 0.22% for 2010, respectively.

For the years ended December 31, 2011 and 2010, total interest income includes interest denominated in foreign currency amounting to 22 and 21 million dollars, respectively.

Loan origination fees for the years ended December 31, 2011 and 2010 are comprised as shown on the next page.

(Continued)

(Pesos in millions)

		2011	2010
Commercial	$	104	184
Consumer		112	126
Residential mortgages		97	83
	$	313	393

Amortization periods for the fees are from 12 to 204 months.

Interest expense:

Interest expense for the years ended December 31, 2011 and 2010 is comprised of the following:

		Credit and Services	Trading and Treasury	Total
December 31, 2011				
Demand deposits	$	(528)	–	(528)
Time deposits		(1,801)	–	(1,801)
Credit securities issued		–	(351)	(351)
Bank and other loans		–	(264)	(264)
Securities under repurchase/resell agreements		–	(1,731)	(1,731)
Valuation loss		–	(5)	(5)
Residential mortgages loan origination fees and expenses		(98)	–	(98)
	$	(2,427)	(2,351)	(4,778)
December 31, 2010				
Demand deposits	$	(494)	–	(494)
Time deposits		(1,840)	–	(1,840)
Credit securities issued		–	(270)	(270)
Bank and other loans		–	(284)	(284)
Securities under repurchase/resell agreements		–	(669)	(669)
Valuation loss		–	(30)	(30)
Residential mortgages loan origination fees and expenses		(63)	–	(63)
	$	(2,397)	(1,253)	(3,650)

(Continued)

(Pesos in millions)

For the years ended December 31, 2011 and 2010, total interest expense includes interest denominated in foreign currency amounting to 4 and 3 million dollars, respectively.

(c) Commission and fee income-

For the years ended December 31, 2011 and 2010, the commission and fee income are analyzed as follows:

		2011	**2010**
Letters of credit with no refinancing	$	45	30
Account handling		164	215
Trust activities		201	187
Fund transfers		59	57
Electronic banking services		110	202
Credit transactions		491	486
Other fees and commissions collected		1,140	1,021
	$	2,210	2,198

(d) Financial intermediation income-

For the years ended December 31, 2011 and 2010, financial intermediation income is analyzed as follows:

		2011	**2010**
Unrealized:			
Investment securities	$	37	(158)
Derivatives:			
Trading		39	(17)
Hedging		2	(8)
Securities available for sale in hedge		2	–
Foreign currencies and precious metals		(124)	(65)
		(44)	(248)
Realized:			
Investment securities		478	(90)
Derivatives:			
Trading		(175)	(153)
Foreign currencies and precious metals		564	596
		867	353
	$	823	105

(Continued)

(Pesos in millions)

(e) Other operating income-

For the years ended December 31, 2011 and 2010, other operating income is analyzed as follows:

	2011	2010
Recoveries of loan portfolio	$ 502	642
Dividends	20	26
Donations	(16)	(18)
Income on sale of foreclosed assets	291	133
Income from securitization	23	–
Taxation	118	6
Income from the purchase of securities in trust (note 10)	400	413
Other recoveries	282	68
Income from credit insurance	680	613
Transfer of securities	102	92
Distribution of shares of mutual funds	282	249
Loans to employees	76	73
Food stamps	160	119
Write-offs and losses	(394)	(198)
Others	576	482
	$ 3,102	2,700

(Pesos in millions)

(f) Financial ratios-

The following are the main quarterly financial ratios of the Bank as of and for the years ended December 31, 2011 and 2010:

	2011			
	Fourth	**Third**	**Second**	**First**
Past due loan portfolio / Total loan portfolio	2.7%	2.6%	2.9%	3.3%
Allowance for loan losses / Past due loan portfolio	115.0%	116.6%	113.2%	105.6%
Operating efficiency (*administrative and promotional expenses / average total assets*)	5.9%	5.6%	5.0%	5.1%
ROE (*annualized net income for the quarter / average stockholders' equity*)	10.9%	9.8%	8.4%	12.0%
ROA (*annualized net income for the quarter / average total assets*)	1.7%	1.5%	1.3%	1.8%
Net capital / Assets at credit risk	20.80%	21.70%	22.51%	23.71%
Net capital / Assets at credit, market and operational	15.71%	16.30%	16.86%	17.44%
Liquidity (*liquid assets / liquid liabilities*)	53.7%	59.4%	66.0%	59.99%
Financial margin after allowance for loan losses / Average earning assets	4.7%	4.7%	5.0%	4.8%

	2010			
	Fourth	**Third**	**Second**	**First**
Past due loan portfolio / Total loan portfolio	3.6%	3.9%	4.0%	4.0%
Allowance for loan losses / Past due loan portfolio	103.3%	102.0%	99.7%	101.6%
Operating efficiency (*administrative and promotional expenses / average total assets*)	5.3%	5.3%	5.3%	5.0%
ROE (*annualized net income for the quarter / average stockholders' equity*)	11.9%	7.7%	8.3%	12.0%
ROA (*annualized net income for the quarter / average total assets*)	1.8%	1.2%	1.3%	1.8%
Net capital / Assets at credit risk	23.66%	22.94%	22.51%	22.66%
Net capital / Assets at credit, market and operational	17.81%	17.35%	17.19%	17.41%
Liquidity (*liquid assets / liquid liabilities*)	66.7%	86.2%	72.9%	75.8%
Financial margin after allowance for loan losses / Average earning assets	4.8%	5.1%	5.1%	4.9%

(Continued)

(22) Commitments and contingencies-

(a) Leases-

Leases provide for periodic rental adjustments based on changes in various economic factors. Total rental expense for the years ended December 31, 2011 and 2010, was $784 and $741 respectively. Certain premises and equipment are taken on lease from a subsidiary company and caused costs as of December 31, 2011 and 2010 for $120 and $109, respectively, which were eliminated during consolidation.

(b) Litigation-

The Bank is involved in a number of lawsuits and claims arising in the normal course of business. It is not expected that the final outcome of these matters will have a significant adverse effect on the Bank's financial position and future results of operations. Certain cases are covered by an indemnity clause in the agreement with the IPAB.

(23) Risk management-

The purpose of the comprehensive risk management function is to identify and measure risks, monitor the impact that these risks may have on the operations and control their effects on income and shareholder value by applying the best mitigating strategies available, and the incorporation of a risk culture in daily transactions.

The ultimate purpose of the Bank is to generate shareholder value by maintaining the organization's stability and creditworthiness. Sound financial management increases the profitability of performing assets, helps maintain appropriate liquidity levels and provides control over exposure to losses.

(Continued)

In compliance with the provisions issued by the Banking Commission and the guidelines established by BNS, the Bank continues to implement a series of initiatives designed to strengthen the comprehensive risk management function and thus identify and measure, monitor, transfer and control the credit, liquidity and market risk exposures and other risks arising from day-to-day transactions, including compliance with regulatory requirements and other legal matters.

The Board of Directors is responsible for establishing the Bank's risk management policies as well as the overall risk level to which the Bank is exposed and for approving related policies and procedures, at least once a year. The Board of Directors is also responsible for establishing the structure of limits for the various types of risks; such limits may be based on value-at-risk, volumetric or notional amounts and are established in relation to the Bank's stockholders' equity. Furthermore, pursuant to the policies in force, the Board of Directors entrusts the implementation of the procedures designed to measure, manage and control risks to the Risk Management Committee and the Comprehensive Risk Management Unit (UAIR).

In turn, the Risk Management Committee assigns responsibility for monitoring compliance with the policies and procedures on market and liquidity risks to the Asset-Liability Committee (CAPA). Furthermore, the UAIR has policies in place for reporting and correcting any deviations from the specified limits. Such deviations must be reported to the Risk Management Committee and the Board of Directors.

(a) Market risk-

The purpose of the market risk management function is to identify, measure, monitor, and control risks arising from interest and exchange rate and market price fluctuations and other risk factors that are present in the money, foreign exchange, capital and derivative instruments markets, in which the Bank maintains positions for its own account.

The CAPA performs reviews of the various activities that represent market risks for the Bank every two weeks, focusing on the management of asset and liability positions reported in the consolidated balance sheet, in connection with credit, funding and investing, as well as securities trading activities.

Derivative instruments are valuable risk management tools for the Bank and its customers. The Bank uses derivative instruments to control the market risk originating from its funding and investing activities, as well as to reduce funding-related costs. To control interest rate risks inherent in fixed-rate loans, the Bank enters into interest rate swaps, forward and futures contracts. Forward foreign exchange contracts are also used to control exchange rate risks. The Bank trades derivative instruments on behalf of its customers and also maintains positions for its own account.

Market risk management in securities trading activities- The Bank's securities trading activities are directed primarily to providing service to its customers. Accordingly, to meet its customers' demands, the Bank maintains positions in financial instruments and holds an inventory of financial instruments for trading purposes. Access to market liquidity is available through offers to buy from and sell to other intermediaries. Even though these two activities represent transactions the Bank carries out for its own account, they are essential to allow customers access to markets and financial instruments at competitive prices. In addition, the Bank has treasury positions invested in the money and capital markets so that surplus cash generates the maximum yields in the Bank's income. In general, trading positions are taken in liquid markets, which avoid high costs at the time such positions are liquidated. The trading securities portfolio (fixed and variable income and derivative instruments) is marked to market on a daily basis.

The Bank applies a series of techniques designed to assess and control the market risks to which it is exposed in the normal course of its activities. The Risk Management Committees, both of the Bank in Mexico and of BNS in Toronto and the Board of Directors authorize individual limit structures for each of the financial instruments traded in the markets and by business unit. The limit structure considers mainly volumetric or notional amounts for value at risk, stop loss, sensitivity, concentration, stress, term and other limits.

The value at risk (VaR) is an estimate of the potential loss of value within a specific level of statistical confidence that might arise from maintaining a specific position during a specific period of time (the holding period) under normal market conditions. VaR is calculated daily on all of the Bank's risk-exposed financial instruments and portfolios using the Risk Watch methodology developed by Algorithmics.

VaR is calculated using the historical simulation method (with a 300-working day time span). In order to conform to the measurement methodologies used by BNS, the Bank calculates VaR considering a 99% confidence level and a 1 day holding period, in order to make the measurement methodology consistent with BNS.

(Continued)

(Pesos in millions)

Since VaR is used to estimate potential losses under normal market conditions, stress testing is performed quarterly assuming extreme conditions, with the purpose of determining risk exposure under unusually large market price fluctuations (volatility changes and the correlation among risk factors). The Management Committee has approved stress limits.

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

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

The notional average values and VaR of the market risk exposure of portfolio trading for the period October to December 2011, are as follows (unaudited):

	Position			VaR	
Product	**Average**	**Maximum**	**Limit**	**Average**	**Limit**
Bank	$ 192,710.7	254,216.9	–	4.17	52.5
Pesos:					
Money market	$ 23,045.1	28,757.9	105,000.0	8.26	
Interest rate swaps	127,894.0	176,551.1	207,000.0	1.90	
Interest rate futures[1]	–	–	–	5.33	
Forwards of CETES[2]	9,800.0	9,800.0	10,000.0	0.01	
Interest rate market and rate derivates	$ 160,739.1	215,109.0	322,000.0	4.06	50.0
Shares	16.9	24.2	206.0	0.66	10.0
IPC futures	–	–	2,880.0		
Share portfolio	16.9	24.2	3,086.0	0.66	10.0

[1] The position and limit the number of contracts traded in MexDer.
[2] Special position of the Treasury.

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		Position			VaR	
		Average	**Maximum**	**Limit**	**Average**	**Limit**
Product						
Dollars:						
Forwards and futures foreign exchange contracts [1] [2]	$	1,392.4	2,694.9	4,000.0	0.15	
Foreign exchange market [1] [2]		0.5	1.7	55.0	0.11	
Foreign currency options [2]		14.9	49.7	800.0	–	
Foreign currency futures [3]						
Foreign currency swaps [2]		224.3	230.0	1,500.0	0.03	
Forwards of precious metals [2]		7.6	15.08	100.0	0.17	
Options of precious metals [2]		0.5	3.35	200.0	–	
Spot of precious metals [2]		0.3	3.37	–	0.27	
Foreign exchange and foreign currency derivatives and precios metals	$	1,640.5	2,998.10	6,655.0	0.73	10.0

(1) The Forwards position is a gross position (long + short) and Foreign Exchange position is net (long - short).
(2) Figures expressed in millions of dollars.
(3) Position and limit on the number of contracts traded in MexDer.
(4) Special position of the Treasury.

As an example, the average value at risk for the Bank in the money and interest-rate derivatives markets is $4.06, which means that under normal conditions and during a holding period of 1 day there is a 1% probability of losing more than such amount, under the assumption that the behavior over the past 300 trading days is representative for estimating the loss (unaudited information).

The Bank's average 1 day global VaR during the fourth quarter of 2011 was $4.17 and the global VaR at December 30, 2011 was $2.77.

For interpreting VaR and by way of example, the average one-day value at risk for the Bank in the money market is $4.06. This means that, under normal conditions, the maximum potential loss in 99 out of 100 days may be up to $4.06.

During the fourth quarter of 2011, the Bank traded interest rate futures contracts on the Mexican Derivatives Exchange known as MexDer entering into interest rate future contracts. During the quarter, the Bank opted not to trade not participate in dollar futures contracts. At the quarter's close, the Bank had no positions in the IPC index futures contracts (unaudited information).

(Continued)

(Pesos in millions)

Below are the positions in number of contracts traded (unaudited information).

Underlying asset	Average	Maximum	Limit
28-day TIIE futures	207,035	333,784	945,000
91-day Cetes futures	12,468	24,000	90,000
M bond futures[1]	2,568	6,627	37,550
Swaps futures	198	450	1,000
Total interest rate futures[2]	222,269	364,861	1,073,550
Total dollar futures[2]	-	-	10,000

[1] The limit of M Bond futures contracts include 15,000 future contracts of M20 Bonds, 20,000 future contracts of Bonds M1, 300 future contracts of M3 Bond, 750 futures contracts of M5 Bonds and 1,500 contracts of M30 Bonds.
[2] The relevant position and limit are stated in number of contracts traded in MexDer.

"Stress testing" as of December 31, 2011 was $170.6, which compared to the $1,500 limit is inside acceptable parameters. The hypothetical scenarios used for stress testing are the crises of 94 and 98.

For achieving effective risk management, backtesting is performed monthly for comparing actual losses and gains noted in the 1-day VaR calculation and, accordingly, to calibrate models. The model's efficiency level is based on the BIS approach.

As for back testing, during the fourth quarter of 2011, there were new excesses in the P&L with regard to the VaR of IPC Futures, Rate Swaps, M Bond Futures, Global Casa de Bolsa owing to the high volatility in the interest rate, capitals and currency markets.

In case where excesses to the established limits occur, there are policies and procedures in place for immediately reporting and correcting these excesses. Furthermore, these excesses are informed to CAPA every two weeks and monthly to the Risk Committee and the Board of Directors.

Sensitivities

Qualitative information on sensitivities

The Bank has a specialized Trading Risk Analysis area which maintains continuous and methodical supervision of valuation, risk measurement and sensitivity analysis processes. This area is in constant contact with those responsible for the various markets.

Daily, the risk area calculates the market risk sensitivities for each portfolio to which the entity is exposed. During the quarter no changes were made to the assumptions, methods or parameters used for this analysis.

Below is a description of the methods, parameters and assumptions used for the portfolio of stock, currencies, interest rates and derivative products.

Interest rate portfolio

Sensitivity measures for fixed-income instruments (bonds) are based on estimating the behavior of the portfolio's value when faced by a change in the market interest rates. In referring to market interest rates, reference is made to the yield curve (not zero-coupon curves) because these are the yield curves which are listed on the market and better explain the behavior of gains and losses.

The sensitivities of the fixed-income instrument portfolio are based on the durations and convexities depending on the type of instrument. In any event, 2 types of measurements are calculated; i) the expected change in the value of the portfolio when faced with a 1 basis point (0.01%) change in the yield curve; and ii) the expected change in the value of the portfolio when faced with a 100 basis points (1%) change in the yield curve. For the purposes of this disclosure, only a 1 basis point change is reported.

The values estimated based on the duration and convexity methodology are a good approximation of the values obtained using the complete or "full-valuation" methodology.

For floating rate bonds two types of sensitivities are calculated: the free risk rate and the spread sensitivity.

In the case of zero coupon bonds, the calculation of the sensitivity of non-coupon instruments, uses their term to maturity as the duration, expressed in years.

(Continued)

Interest rate derivatives

The following is a brief explanation on sensitivity modeling for the Bank's interest rate derivatives.

TIIE and CETE futures: These types of derivative instruments are modeled in order to calculate sensitivities for zero coupon rate futures and, therefore, their duration is considered as part of estimating the sensitivity.

M bond futures: The sensitivity considers the duration and convexity of the bonds deliverable in connection with these contracts.

Interest rate swaps: For the purposes of determining the sensitivity of changes in the yield curve of TIIE swaps, a 1 basis point change is made in each of the relevant point on the yield curve, in addition to a 1 basis point and 100 basis points change (in parallel), valuing the portfolio using the various curves and computing the change in the value of the portfolio with each of these changes. In this case, the 1 basis point sensitivity is reported.

Stock and IPC index derivatives portfolio

Stock

For the purposes of the stock position, the sensitivity is obtained by calculating the issued Delta within the portfolio. Delta is defined as the change in the portfolio's value when the underlying changes by 1%.

Capital derivatives

Currently, the Bank has opted to carry out stock derivative transactions through IPC index futures listed on MexDer. Their sensitivity is calculated using the Delta. This portfolio is limited using notionals.

Delta is defined as the change in value of a derivative with respect to changes in the underlying. Delta risk is defined as the change in the value of the option when there is a change of predetermined magnitude in the value of the underlying (for example 1%). It is calculated by valuing the option with different underlying levels (one original and one with a +1% shock), and holding all other parameters constant.

(Continued)

For futures, the calculation of the sensitivity is the Delta, defined as the change of value of a derivative with respect to changes in the underlying. Furthermore, Rho is defined as the sensitivity to changes in the interest rate. In the case of futures contracts, this sensitivity may be estimated based on the available market information. The Bank defines Rho as the change in the portfolio's value before a change of 100 basis points (parallel) in the reference interest rates.

In the case of non-linear products such as warrants and options, delta and the so called "Greeks" are the sensitivity measures. The calculation of sensitivities is based on the valuation model of options on futures, known as Black's 1976 option pricing formula.

Gamma is complementary to delta risk and is another sensitivity measure of the value of an option with respect to the value of the underlying. Gamma measures the rate of change of the delta against a change in the level of the underlying, similar to the calculation of Delta, it can be interpreted analytically, as the second derivative of the Black & Scholes function with respect to the underlying.

Rho is the sensitivity measure of an options portfolio to changes in interest rates. Mathematically, Rho is the first derivative of the Black and Scholes function with respect to interest rates. Rho is defined as the change in value of an options portfolio against an increase of 100 basis points (+1%) in interest rates. Overall, the sensitivity of an options portfolio to the interest rate is less compared with the sensitivity of the price of the underlying (Delta) or of implied volatilities (Vega).

Theta is the sensitivity measure of an options portfolio that indicates the change in the value of a portfolio with the passage of time. Theta is defined as the change in the value of a derivative product with the passage of time. Theta is calculated solely for informative purposes and for gain/loss analyses as it does not actually represents a market risk but a concrete, predictable and quantifiable event.

Vega is the name of the sensitivity measure of the value of an options portfolio against changes in the market volatility of the underlying. In general, a long position in options benefits from an increase in the volatility of an underlying and a short position has the opposite effect, except for certain exceptions as in the case of binary options.

(Continued)

Dividend Risk. The valuation of options on indices or on stock implies a known continuous compound rate. However, dividends are an estimate and, therefore an unknown variable, representing a risk factor for valuation purposes and the resulting gain/loss analyses of transactions with options.

There is no Greek letter assigned to the sensitivity of dividend risk and, in the case of options on indices or stock of the Bank, the measure is made by increasing the dividend rate by 1% (i.e. from 1% to 1.01%).

Currency portfolio and currency derivatives

Currency

The portfolio comprises various currencies the Exchange Desk operates for trading purposes. Sensitivity is calculated using Delta by currency, as the change in value of the portfolio in the event of a 1% change in the value of the underlying.

Currency derivatives

Currency Forwards and Futures: For this portfolio, sensitivity to interest rate movements is calculated for each currency as well as the present value in the event of a parallel change of 1 basis point along the respective yield curves, with all other factors remaining constant. Also, a non-parallel change is applied to the yield curves for time gaps, all other factors remaining constant.

Currency options: For currency options, the Bank calculates sensitivities of the Greek letters Delta, Gamma, Theta and Rho.

Cross Currency Interest Rate Swap (CCIRS): For purposes of determining the sensitivity to changes in the yield curve a 1 basis point change is made along the respective yield curves, valuing the portfolio with the various curves and calculating the change in the portfolio's value as a result of these changes. Also, an analysis is conducted of a parallel movement of one hundred basis points. Furthermore, a non-parallel change of one base point is made to the yield curves for time gaps, maintaining all other factors constant. For the purposes of reporting¸ only the sensitivity of 1 basis point is presented.

(Continued)

(Pesos in millions)

Quantitative information on sensitivities.

Quantitative information of interest rate sensitivities

Below are the sensitivities to 1 basis point as of September 30, 2011 and December 31, 2011 (unaudited information):

Sensitivity 1bp	**September 2011**	**December 2011**
Fixed rate	1.005	0.495
Revisable rate	0.028	0.055
Subtotal interest rate	1.033	0.550
Futures	(0.552)	0.119
Swaps	(0.249)	(0.162)
Subtotal interest rate derivatives	(0.801)	(0.043)
Total	0.232	0.507

At December 31, 2011, the Bank presents sensitivity in its interest rate portfolios of $0.507, which indicates that for each basis point the interest rate decreases, the Group would earn a profit of $0.507.

Compared with the preceding quarter, there was an increase in long positions, udibonos, swaps, TIIE futures and M bond futures portfolio and sensitivity was increased to $0.507.

Should the sensitivity scenario of the above table occur, the losses would be directly recorded in the Bank's results of operations.

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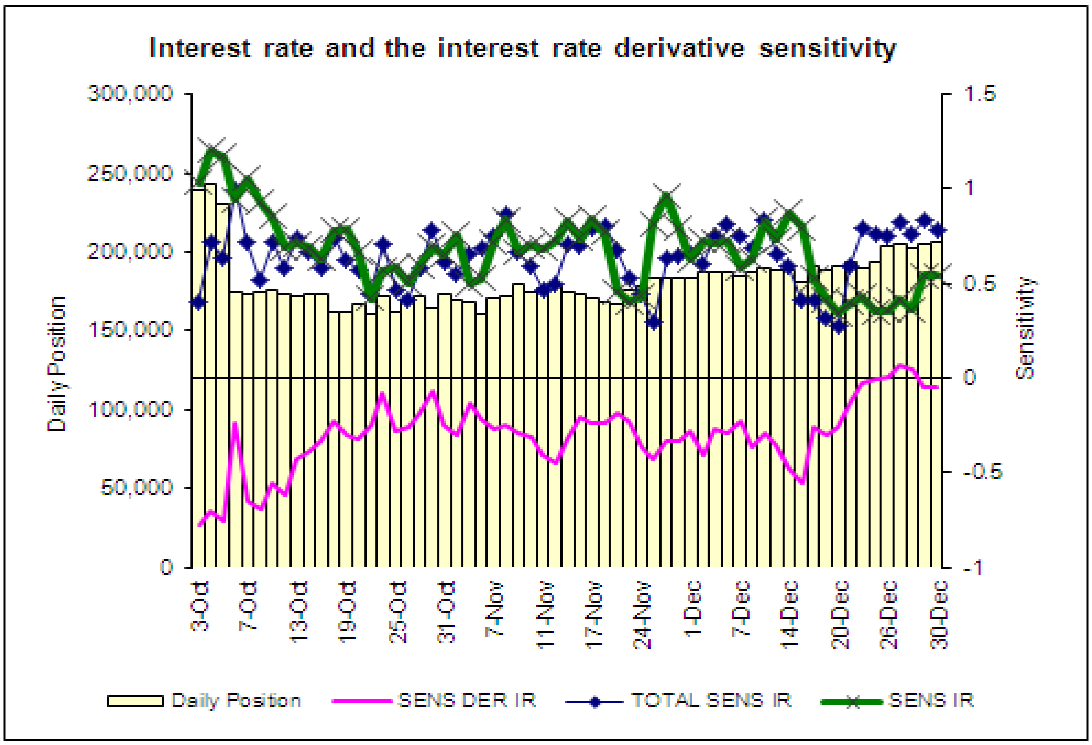
Bellow is a chart showing the trend of the sensitivity to interest rates and interest rate derivatives as the net effect of the portfolio, the total daily position for the period of October to December 2011 (unaudited information).



The graph shows that at the 2011 fourth quarter's close, the daily sensitivity for interest rates is negative and increases compared to the preceding quarter, equivalent to $0.507.

The following table shows statistics for the fourth quarter of 2011, maximum, minimum and average. On average, the sensitivity was $0.376.

Sensitivities 1 bp		**Average**	**Maximum**	**Minimum**
Interest rate	$	0.676	1.201	0.338
Rates derivatives		(0.300)	0.073	(0.772)
Total	$	0.376	1.274	(0.434)
		=====	=====	=====

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Sensitivities for the shares portfolio and IPC derivatives.

Below are presented the sensitivities at September 30 and December 31, 2011 (unaudited information):

	September 2011	December 2011
Shares	0.225	0.130
Subtotal	0.225	0.130
IPC futures	–	–
Subtotal	–	–
Total	0.225	0.130

During the quarter, the Capital desk continued with its strategy of conducting intraday transactions. Compared with the preceding quarter, it registered a decrease in the position, the most relevant is RIMM N (Research in Motion Limited: Canadian company).

Should the sensitivity scenario of the above table occur, the losses would be directly recorded in the Bank's results of operations.

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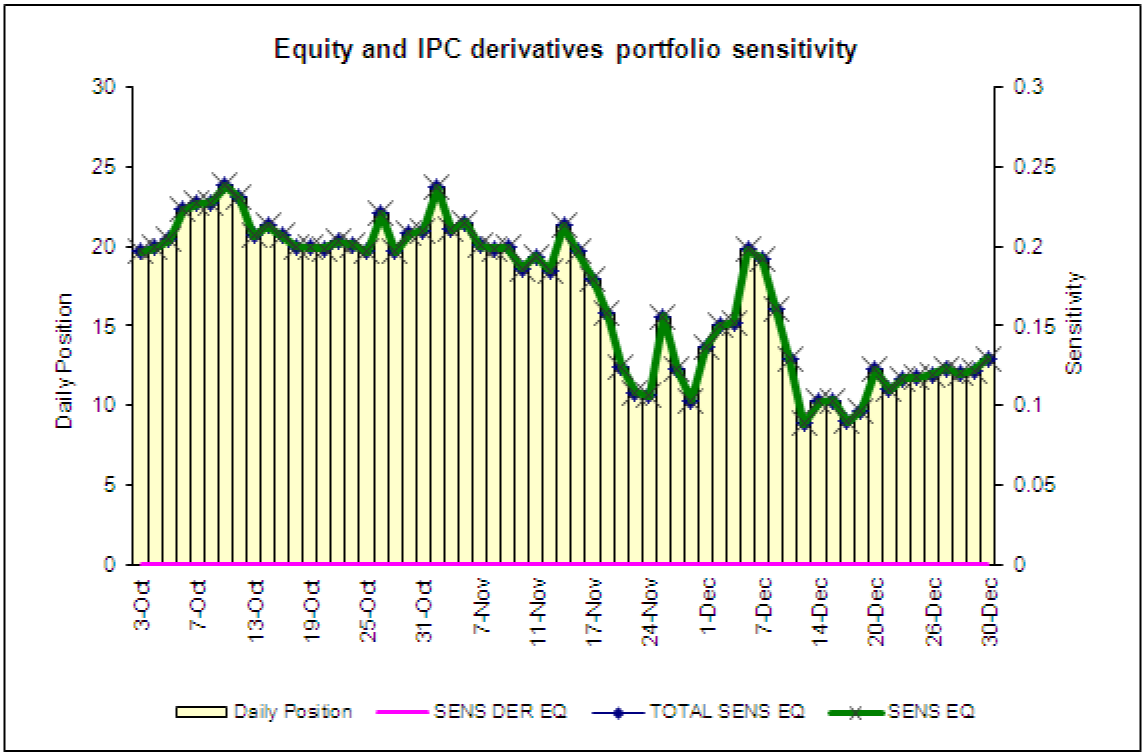
The following graph shows the daily trend of the sensitivity to the stock portfolio. It also shows the daily position of the stock portfolio (unaudited information).



The Bank's capital portfolio is only comprised of stock; it does not have a position in IPC index derivatives. The sensitivity is positive and for the fourth quarter of 2011 was $0.170 (unaudited information).

Sensitivities		**Average**	**Maximum**	**Minimum**
Shares	$	0.170	0.238	0.089

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(Pesos in millions)

Sensitivities for exchange rates and exchange rates derivatives portfolios

Below are the sensitivities as of September 30 and December 31, 2011 (unaudited information):

Exchange rate	**September 2011**	**December 2011**
USD	0.016	0.025
CAD	0.001	(0.014)
EUR	0.026	(0.022)
Other	0.066	0.040
Subtotal	0.109	0.029
Forwards and DEUA futures	0.00019	0.00015
Swaps	(0.00005)	(0.00004)
Subtotal	0.00014	0.00011
Total	0.10914	0.02911

During the fourth quarter of 2011 the exchange rate sensitivity decreased to $0.029. Dollar forwards and futures had a positive marginal sensitivity with a net short position. For CCIRS, the sensitivity was greatly reduced. At present, the Bank participates in the OTC market of peso-dollar exchange rate options for hedging purposes and for servicing its customers. The exchange (spot/forward) desk does not record material exposures (unaudited information).

Should the sensitivity scenario of the above table occur, the losses would directly impact the Bank's results of operations.

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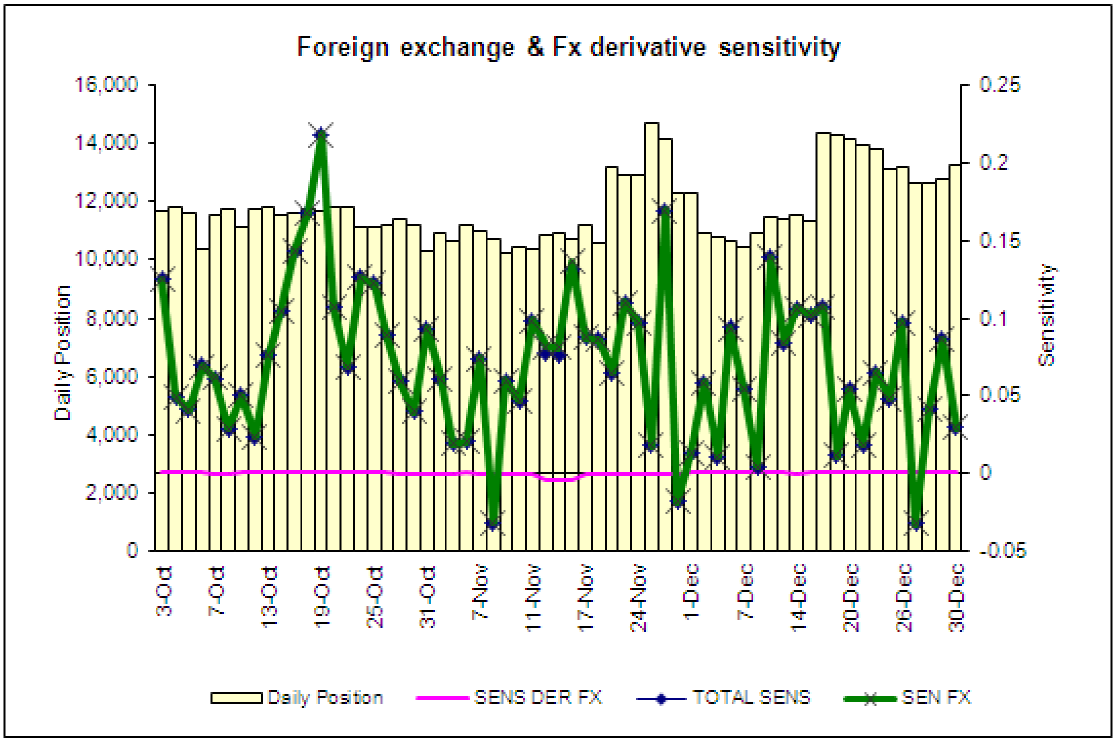
The following is the daily trend of the sensitivities for this portfolio (unaudited information):



The currency portfolio position decreased as a result of the coming into force of the new legislation on currency purchases and sales.

On average, the quarterly sensitivity of the currency and currency derivatives portfolio was $0.0706 (unaudited information).

Sensitivities	**Average**	**Maximum**	**Minimum**
Currency	0.0707	0.2182	(0.0327)
Currency derivatives	(0.0002)	0.0003	(0.0046)
Total	0.0705	0.2185	(0.0373)

(Continued)

(Pesos in millions)

Sensitivities for pesos-dollar currency options, "Greeks".

As of December 31, 2011, the position and the sensitivities of the currency options portfolio is zero. During the period October 2011 to December 2011 the average exposure of Delta is negative for MXN 0.00 MM, because the net position (long-short) of the currency options are zero (unaudited information).

Market risk treatment in available-for-sale securities- At December 31, 2011, the position of the Bank's available-for-sale securities amounts to $6,557.2. Available-for-sale securities are considered part of the Bank's structural position and repricing gaps, economic value sensitivity and margin sensitivity to interest rate are considered in order to measure their risk.

Sensitivities for available-for-sale and held-to-maturity securities-

As of December 31, 2011, the sensitivity of investment securities classified as available-for-sale and held-to-maturity represent 0.03% and 0.05%, respectively, of the book value. The sensitivity was realized for all of the non-impaired securities (unaudited information).

	Available for sale	Held to maturity
Exposure	$ 6,557.2	1,977.3
Sensitivity ($)	$ 2.0	1.0
Sensitivity (%)	0.03%	0.05%

For comparative purposes below are the sensitivities at the end of September 2011 (unaudited information).

	Available for sale	Held to maturity
Exposure	$ 3,638.0	1,956.1
Sensitivity ($)	$ 0.4	1.4
Sensitivity (%)	0.01%	0.07%

(Pesos in millions)

Market risk management in lending and borrowing activities- The interest rate risk originating from lending and borrowing activities is assessed weekly through analysis of the interest rate gaps derived from funding and investing activities. This weekly supervision function is supported by a risk assessment process, which includes simulation models and sensitivity analysis. The main measurements for interest rate risk management are shown below (unaudited information):

Description		**2011**	**2010**
a) Variation in economic value (Impact on economic value of 100 bp. parallel changes in rates)	$	573	703
b) Variation in financial income - 12 months (Impact on margin of 100 bp. parallel changes in rates)		300	288

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

Accumulated repricing gaps – Mexican pesos + UDIS		**Exposure 2011-Q4**	**Exposure 2010-Q4**
3 months	$	19,054	11,831
6 months		19,419	12,564
12 months		26,633	17,762
2 years		3,280	3,414
3 years		(5,655)	(4,206)
5 years		285	3,802
10 years		15,544	17,161
15 years		19,050	20,259
20 years		19,070	20,273
30 years		19,070	20,273

(Pesos in millions)

Accumulated repricing gaps – Dollars	Exposure 2011-Q4 (Millions of dollars)	Exposure 2010-Q4 (Millions of dollars)
3 months	581	466
6 months	600	548
12 months	582	540
2 years	230	128
3 years	89	(43)
5 years	73	(14)
10 years	77	(21)
30 years	82	(13)

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

(b) Liquidity risk-

The Bank's liquidity risks result from funding, borrowing and securities trading transactions, such as demand deposits, maturities of time deposits, drawings against credit lines, settlement of transactions involving securities, derivative instruments, and operating expenses. The liquidity risk is reduced to the extent that the Bank is able to obtain funds from alternate financing sources at an acceptable cost.

Among the factors that are implicit in the strategy applied to liquidity risk management are assessing and anticipating commitments payable in cash, controlling asset and liability maturity gaps, diversifying sources of funding, establishing prudent limits and assuring immediate access to liquid assets.

The liquidity risk is monitored and controlled by the aggregate currency through accumulated liquidity gaps and minimum liquid asset requirements. Below is the Bank's average exposure for 2-week accumulated gaps and average liquid assets for the last quarter of 2011 and 2010, (unaudited information):

Description	2011	2010
Two-week accumulated gap (Mexican pesos + UDIs)	$ (6,372)	(3,285)
Liquid assets	5,193	5,115
	====	====

(Pesos in millions)

The two-week accumulated gap indicates the Bank's cash commitments in that period while liquid assets serve as funding for meeting these commitments in the event of an inability to access other sources of funding.

Liquidity gaps for investment securities

The liquidity risk of investment securities results from difficulty or the impossibility of conducting securities transactions, resulting in unusual sale discounts. Below is the information on maturities corresponding to the December and September 2011 close (unaudited information):

Maturity (years)		Held to maturity	Available for sale	Trading	Total for maturity period	Concentration
December 2011						
0.5	$	–	632.3	3,806.9	4,439.2	20.5%
1		–	970.4	1,162.3	2,132.7	9.8%
2		–	1,026.8	322.2	1,349.0	6.2%
3		–	1,655.4	2,452.9	4,108.3	19.0%
4		–	1,420.3	1,190.4	2,610.7	12.1%
5		1,977.3	344.1	4,180.9	6,502.3	30.0%
Maturity		–	508.0	10.3	518.3	2.4%
	$	1,977.3	6,557.3	13,125.9	21,660.5	100%
Concentration		9.1%	30.3 %	60.60%	100%	
September 2011						
0.5	$	–	707.8	6,116.8	6,824.6	40.6%
1		–	1,116.1	2,411.3	3,527.4	21.0%
2		–	874.8	657.9	1,532.7	9.1%
3		–	225.5	682.3	907.8	5.4%
4		–	90.5	364.4	454.9	2.7%
5		1,956.1	118.1	973.1	3,047.3	18.1%
Maturity		–	505.2	20.0	525.2	3.1%
	$	1,956.1	3,638.0	11,225.8	16,819.9	100%
Concentration		11.63%	21.63%	66.74%	100%	

Trading includes value date sales.

Bank information not considering consolidation effects of subsidiaries.

(Continued)

(Pesos in millions)

Derivative cash flows

Below are the periods where cash flows are expected to occur and affect results in cash flow hedge transactions at December 31, 2011 (unaudited information):

Assets cash flows (Pesos)		**Liabilities cash flows (Pesos)**	
Date	**Amount**	**Date**	**Amount**
10-01-12	$ 4,200,000,000	02-01-12	$ 280,000,000
13-01-12	200,000,000	03-01-12	30,000,000
16-01-12	500,000,000	04-01-12	80,000,000
19-01-12	200,000,000	05-01-12	50,000,000
25-01-12	500,000,000	06-01-12	150,000,000
26-01-12	50,000,000	09-01-12	100,000,000
27-01-12	300,000,000	12-01-12	50,000,000
–	–	16-01-12	100,000,000
–	–	18-01-12	100,000,000
–	–	19-01-12	300,000,000
–	–	20-01-12	1,220,000,000
–	–	23-01-12	200,000,000
–	–	24-01-12	250,000,000
–	–	25-01-12	30,000,000
–	–	26-01-12	780,000,000
Total	$ 5,950,000,000	Total	$ 3,720,000,000

(c) Credit risk-

Transactions with customers create credit risk exposure. This exposure is recorded in both the consolidated balance sheet and memorandum accounts. Exposure to credit risk recorded in the consolidated balance sheet consists primarily of loans granted, while that recorded in memorandum accounts includes guarantees issued, as well as any other financial instrument whereby credit is extended to a third party.

The Bank has developed policies and procedures to manage its loan portfolio risk level and composition, with the purpose of quantifying and managing the loan portfolio-related credit risks and reducing the risk of loss resulting from a customer’s failure to comply with the agreed terms.

Policies and procedures for granting, controlling and collecting loans, as well as evaluating and monitoring credit risk and the methods used to identify current or past due impaired commercial loans- The Bank's credit risk management is based on the application of well-defined strategies to control this type of risk. Among these are the centralization of credit processes, the diversification of the portfolio, improved credit analysis, strict supervision and a credit risk-scoring model.

The Bank has three different levels of credit authorizations: The Board of Directors, Credit Committee and the Credit Department. Each level is defined depending on the amount of the transaction, the type of borrower and the purpose for which the funds will be used. The business areas prepare and structure the different proposals, which are analyzed and authorized by the Credit Department, or, if applicable, recommended to the corresponding authorization level, thus ensuring an appropriate separation between loan origination and the authorization of transactions.

The business areas also continually evaluate the financial situation of each customer, conducting an in-depth review and analysis of the inherent risk in each loan at least once a year. Should any impairment in a customer's financial situation be detected, the customer's grade is immediately reviewed. In this way, the Bank identifies the changes that occur in the risk profile of each customer. Such reviews consider the overall credit risk, including derivative transactions and foreign exchange exposure. In the case of risks above the acceptable level, additional reviews are carried out more frequently, at least once a quarter.

Loan risk concentrations- The Bank has implemented policies and procedures to maintain a sound and diversified portfolio with a prudent and controlled risk. Among such policies is the setting of credit risk exposure limits, considering business unit, currency, term, sector, etc. The limits are submitted annually to the Board of Directors for approval and their behavior is monitored and reported to the Risk Committee on a monthly basis.

Methodology used to determine allowances for loan losses- The Bank uses a credit risk classification system derived from the BNS methodology in order to identify the level of risk of loans as well as to ensure that the yields from each loan are proportionate to the risk assumed. This also includes systems and strategies to grant loans and monitor the loan portfolio. The Bank also takes advantage of BNS experience in portfolio grading, estimating allowances and losses, adapted as appropriate to the laws and needs of the Mexican market.

(Continued)

This model considers the following risk factors: country risk, financial behavior, financial hedging, debtor management, overall strength (the customer's relation to the economic environment, competitiveness, strengths and weaknesses), account management, industry conditions and payment experience.

Such factors constitute an evaluation of the customer's risk profile and the result is obtained by applying an algorithm that considers such elements. This algorithm is the result of BNS experience, its statistical analysis and adaptation to the Mexican market.

The internal grading system (classified by "IG Codes") uses eight grades considered to be acceptable (IG 98 to IG 77), five grades to reflect a higher than normal risk (IG 75 to IG 60) and four considered to be unacceptable (IG 40 to IG 20). A correlation has been established between the internal grading model and the levels of risk contained in articles 126 and 127 of *the General Provisions applicable to the Loan Portfolio Rating Methodology for Credit Institutions* published in the Federal Official Gazette on December 2, 2005 ("the Provisions").

Through official letter 141-4/31395/2008 dated November 11, 2008, the Banking Commission authorized the Bank to grade the commercial loan portfolio by using its internal grading methodology based on the Probability of Debtor Default, applicable to all of the Commercial Portfolio, except for the following segments: the special credit program referred to as Scotia Empresarial, which is graded by applying the internal model based on the debtor's creditworthiness, as well as loans made to Federal Entities and Municipalities, loans for Investment Projects with own repayment sources, loans extended to Trustees operating under Trusts and "structured" loan schemes which affect patrimony making it possible to assess the individual related risk and loans made to Financial Entities, which are individually graded in accordance with the methodologies specified in Articles 112, 114 and 115 of the Provisions.

Other types of loans and related provisions have been graded in accordance with Articles 126, 127, 130 and 131 of said Provisions.

(Continued)

(Pesos in millions)

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

Grade	IG Code
Excellent risk	98
Very good risk	95
Good risk	90
Satisfactory risk	87
High adequate risk	85
Medium adequate risk	83
Low adequate risk	80
Medium risk	77
High moderate risk	75
Medium moderate risk	73
Low moderate risk	70
Watch list	65
Special supervision	60
Sub-standard	40
High impairment	22
Doubtful recovery	21
Non-performing	20

Description of each risk level:

Excellent risk: Borrowers with the highest credit rating, outstanding financial structure and solid/consistent profitability. Their capacity for the timely repayment of debt is outstanding, which provides them with unrestricted access to the money and capital markets as well as to alternative financing sources. Management has sufficient experience and optimum performance. These borrowers are not vulnerable to changes in the environment of the country or of their economic sector.

Very good risk: Borrowers with a solid financial structure that generate sufficient funds and liquidity to cover short and long-term debts; however, they depend on the Bank to a greater extent than excellent risk borrowers. The management team is competent, with the capacity to easily overcome moderate setbacks. They operate in a stable or growing economic sector.

(Continued)

Good risk: Borrowers with a good financial structure, with consistent earnings and reliable cash flow. Their capacity to cover and service the debt is good. The management team has shown that it is good, with adequate capabilities in critical areas. The characteristics of the economic sector and the country's economy are sound, without indications that may adversely affect them.

Satisfactory risk: Borrowers with an adequate financial structure that can easily repay their loans in an effective manner. Although their earnings are consistent with the industry average, they are more susceptible to adverse economic conditions than borrowers in higher ratings. Management is competent and has the support of stockholders. The industry where they operate may be subject to cyclical trends.

High adequate risk: Borrowers who still have satisfactory ability to repay their loans and an adequate financial structure. However, although consistent, their earnings are slightly below industry average. The management team's capabilities to obtain efficient and profitable results are satisfactory. The industry where they operate may be subject to cyclical trends.

Medium adequate risk: Borrowers whose timely repayment of principal and interest thereon is still guaranteed. However, their earnings are currently below industry average, which suggest that their continued strength may be at risk. Management may be family-owned or professional and performance is fairly satisfactory, with management initiatives being supported by stockholders. The industry where they operate may be subject to cyclical trends.

Low adequate risk: Borrowers whose financial structure, profitability and current funding are generally adequate. Operating cash flows are at the break-even point and show adequate levels to cover the debt. However, earnings are below the industry average. Management may have problems in overcoming setbacks, but it is still considered adequate. The industry where they operate may be subject to cyclical trends or be affected by applicable regulations.

Medium risk: Borrowers that can easily meet their loan commitments in the short-term but whose payments in the long-term are potentially uncertain, with growing leverage and lower debt capacity. Management meets the minimum risk criteria. The industry where they operate may be subject to cyclical trends or be affected by macroeconomic changes.

High moderate risk: Borrowers that face a slight decrease in earnings, although they have good potential for successfully overcoming these difficulties. Operating cash flows are at the break-even point and suffice to timely meet their debt payments, but with a certain descending trend. Management shows mixed operating results and long-term prospects. The industry where they operate shows growth problems.

Medium moderate risk: Borrowers face growth problems or weak capitalization, have reasonable potential for successfully overcoming these difficulties and they are currently meeting their payment obligations in a timely manner. However, their funds rarely come from alternative sources and therefore their sustained repayment capacity is doubtful. Management evidences certain weaknesses that make stockholders skeptical, to a certain degree, of their performance.

Low moderate risk: Borrowers whose financial structure shows clear signs of weakness that may adversely affect their capacity or willingness to meet their long-term payment obligations. They regularly use alternative funding sources and payments are generally late. Management shows certain noteworthy limitations and share ownership may be concentrated in one single individual. The industry sector in which they operate is highly susceptible to changes in macroeconomic conditions.

Watch list: Borrowers whose financial structure is weak, the debt position is unbalanced and debt is overextended. They require constant funding from non-routine sources, and repayment performance is weak. These borrowers meet the Bank's minimum acceptable requirements. Management performance is poor. Borrowers are vulnerable to any business and/or industry problems.

Special supervision: Borrowers who have cash flow and liquidity problems that may require funding from alternative sources to prevent defaulting on their loans. Urgent changes are required in how the business is managed and its direction in order to combat the deterioration, which probably can be corrected in the medium term. Both the country and industry environments are frail. These customers definitely have unacceptable risks.

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

High impairment: Borrowers with clear financial problems that put at risk compliance with the service of their debt, are susceptible to bankruptcy proceedings, have defaulted on their payments and are highly dependent on alternative sources for meeting their loan repayment commitments. Management problems threaten the borrower's ability to continue as a going concern and so the impairment is deemed permanent. Viability of the industrial sector relies on structural changes.

Doubtful recovery: Borrowers with permanent financial problems. Businesses in this category are likely to have ceased operating and so their repayment performance is practically non-existent. Payments are up to one year past due and considered as doubtful recovery. Management is deficient and unreliable and the industry where they operate has been permanently affected.

Non-performing: Borrowers who have ceased making loan payments and whose situation does not allow for restructuring. Management is ineffective or has shown clear signs of dishonesty. The industry where they operate faces permanent problems and so it is practically impossible to maintain the loan as a performing asset.

Exempt portfolio and methodology:

Part of the portfolio is exempt from grading. Examples are: Mexican government sovereign debt, highway loans guaranteed by the Mexican government, and IPAB loans not arising from portfolio sales. No allowances are required for this portfolio.

The Bank has implemented the CreditMetrics® methodology and adapted it to the conditions in Mexico. This methodology measures and controls the credit risk of the different segments of the loan portfolio.

Portfolios and segments to which the Credit Risk measurement methodology applies are: a) non-retail portfolio: corporate, commercial, scotia empresarial; federal government, states and municipalities; b) retail: mortgage, credit card, scotia line, personal loans; and c) non-traditional portfolio: money market and derivatives.

The methodology includes estimating expected and unexpected losses using measurements of the probability of the occurrence of credit events (transition matrices) including likelihood of non-compliance.

- Expected losses represent an average estimate of the impact of 12-month non-compliance.

- Unexpected loss is a dispersion measurement with respect to an expected loss.

(Continued)

(Pesos in millions)

- A level of confidence of 99.75% over a one-year period is used to determine unexpected losses *("Credit VaR")*.

- The correlation between different economic sectors is used to measure the effect of the concentration in the commercial loan portfolio. Constant correlation assumptions consistent with international practices are made for the retail portfolio (credit card, Scotia line, personal and residential mortgage loans).

- Furthermore, stress testing is performed regularly as to both expected and unexpected losses.

Below are the expected and unexpected losses in nominal amounts as of December and the average of the last quarter of 2011 and 2010 (unaudited):

	2011		2010	
	Closing	**Average**	**Closing**	**Average**
Exposure	$ 183,066	174,860	149,946	148,462
Unexpected losses[/1]	16,245	15,556	9,633	9,005
Expected losses[/1]	2,384	2,397	2,245	2,297

[/1] *Current loan portfolio.*

Credit culture- To create and promote a credit culture, the Bank has permanent training programs for personnel involved in the loan origination and authorization processes. Among such programs is required advanced training in commercial banking practices that provides support tools for the analysis and evaluation of credit risks, as well as decision-making workshops.

Implementation of prudent credit criteria – In accordance with the *Prudent Credit Provisions*, the Bank has established control measures to identify, measure and limit the taking of risks in a timely manner derived from the credit activity in its different phases, which are documented in the credit policies and procedures manual and are constantly reviewed and updated, as well as being submitted for approval by the Board of Directors annually.

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(Pesos in millions)

Credit risk in investment securities – Below is a summary of exposures, credit rating and concentration by risk level of investment securities as of September and December 2011 (unaudited information):

Maturuty (years)		Held to maturity	Available for sale	Trading	Total for risk type	Concentration
December 2011						
mxAAA	$	–	4,385.3	11,091.4	15,476.7	71.4%
mxAA		1,977.3	189.6	–	2,166.9	10.0%
mxA		–	609.0	2,024.2	2,633.2	12.2%
mxBBB		–	798.4	–	798.4	3.7%
mxBB		–	17.9	–	17.9	0.1%
mxB		–	5.4	–	5.4	–
mxCCC		–	43.4	–	43.4	0.2%
mxD		–	0.3	–	0.3	–
Not rated		–	508.0	10.3	518.3	2.4%
	$	1,977.3	6,557.3	13,125.9	21,660.5	100%
Concentration		9.1%	30.30%	60.60%	100%	
September 2011						
mxAAA	$	–	1,126.7	7,118.4	8,245.1	49.0%
mxAA		1,956.1	189.3	20.0	2,165.4	12.9%
mxA		–	608.9	4,067.4	4,676.3	27.8%
mxBBB		–	1,063.9	–	1,063.9	6.3%
mxBB		–	95.7	–	95.7	0.6%
mxB		–	5.4	–	5.4	–
mxCCC		–	42.6	–	42.6	0.3%
mxD		–	0.3	–	0.3	–
Not rated		–	505.2	20.0	525.2	3.1%
	$	1,956.1	3,638.0	11,225.8	16,819.9	100%
Concentration		11.63%	21.63%	66.74%	100%	

(Continued)

(Pesos in millions)

Of the position of Sofoles mortgage instruments that the Bank held at December 2010, during 2011 the issuers made payments and a restructure for exchanging instruments, leaving the position at December 31, 2011 at $61, which are classified as available-for-sale instruments and the valuation gain (loss) at fair value is recognized in stockholders' equity.

Credit risk in derivatives operations

Below is the maximum exposure and concentration by counterparty type at the end of December and September 2011:

Counterparty type	Exposition	%
December		
Financial institutions	$ 23,661	98.9
Corporations	258	1.1
Total maximum exposure	$ 23,919	100
September		
Financial institutions	$ 31,245	98.5
Corporations	465	1.5
Total maximum exposure	$ 31,710	100

(Continued)

(Pesos in millions)

Below is the credit rating of financial assets relating to derivatives. There are fixed-income loans that have been covered by the fair value methodology, at the September and December 2011 close, according to the Banking Commission scale (unaudited information):

(MXP)	September 2011		December 2011	
Rating	**Amount**	**Total %**	**Amount**	**Total %**
A1	$ 1,308	33%	$ 1,279	32%
A2	616	15%	620	15%
B1	1,815	46%	1,913	47%
B2	–	0%	–	0%
B3	79	2%	79	2%
C1	26	1%	24	1%
C2	120	3%	117	3%
Total	$ 3,964	100%	$ 4,032	100%

(USD)	September 2011		December 2011	
Rating	**Amount**	**Total %**	**Amount**	**Total %**
A1	$ 46	28%	$ 8	5%
A2	119	72%	43	25%
B1	–	–	122	70%
Total	$ 165	100%	$ 173	100%

Another type of related assets is variable rate loans which were hedged through the cash flow methodology at December 2011, and had a position of $5,950. The hedged portfolio is a sub-set of the total commercial portfolio whose risk level is equal to a level A2 in the Banking Commission scale (at December 2011).

(d) Operational risk-

In conformity with chapter IV of the *General Provisions applicable to Credit Institutions regarding Comprehensive Risk Management*, published in the Federal Official Gazette on December 2, 2005, operational risk is a non-discretionary risk, which is defined as the potential loss resulting from internal control failures or deficiencies, errors in transaction processing or storage or in data transmission as well as adverse administrative or legal resolutions, frauds or theft and includes, among other things, technological risk and legal risk.

For compliance with the rules on operational risk established by the aforementioned Provisions, the Bank has put in place policies and procedures, enabling it to implement an appropriate operational risk management process, which is described as follows:

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

- Manual for Operational Risk Data Gathering and Classification.- These policies define the requirements for reporting the information that supports the measuring processes, including the scope, functions and responsibilities of the units providing the information, as well as its classification and specific characteristics.

- Levels of Operational Risk Tolerance – aimed at having an operational loss management tool that allows each of the Bank's areas to know the tolerance levels of losses applicable to each assumed loss event and encouraging improvements in the management process of Operational Risks within each area and that the latter implement, insofar as possible, the necessary actions to minimize the risk of future losses.

- Key Risk Indicators (KRI) - this process allows the Bank to establish indicators from variables drawn from processes, which performance is related to the degree of risk assumed. By monitoring each indicator, trends are identified that enable managing the indicator's values over time, assuming that by controlling these values the associated risk factor is maintained within the desired levels. To this end maximum and minimum admissible values are established for each of the indicators selected, so that mitigating/corrective action is automatically initiated once these values are exceeded.

(Continued)

- Estimated Legal Risk Loss Model - the Bank has a methodology for estimating expected and unexpected legal risk losses whereby it assesses potential loss as a result of adverse judgments in lawsuits in process. This methodology is based on the past experience of prior year losses, using a statistical analysis of severity and frequency to determine the probability of loss in relation to legal matters in process.

- Technological Risk Management Policies Manual – This manual sets forth the Bank's general policies and criteria in order to manage this risk.

- Technological Risk Sub-committee – This sub-committee is in charge of coordinating the technological risk management process for compliance with the regulation issued by the Banking Commission for the management of this risk, maintaining the technological risk management process independent of the Systems area, ensuring that all hardware, software, systems, applications, security, data recovery and networks are subject to a vulnerability evaluation process, promoting the establishment of policies and procedures to ensure the service quality level and data security and integrity at all times, and that electronic evidence is left for every transaction and activity performed by users.

The Bank also has a structured methodology for self-assessment of operational risks, which is applied throughout the organization and through which it identifies operational risks inherent to its processes. Its objectives are as follows:

- Evaluating the potential impact of significant operational risks identified on the Bank's objectives, competitiveness, profitability, productivity and reputation;

- Prioritizing, based on impact and significance, action for mitigating operational risks;

- Guiding each of the Bank's units in their operating risk management processes;

- Set up a systemic process for the Bank to maintain awareness of its operational risk;

- Compliance with the requirements established in the section III of Article 86 of the *General Provisions for Comprehensive Risk Management*.

(Continued)

Also, regular audits are performed by an experienced independent internal audit department, including comprehensive reviews of: the design and operation of internal control systems in all businesses and support groups, new products and systems; and the reliability and integrity of data processing operations.

As a result of the Operational Risk management, the Bank has identified operational risks for $505, which if they materialize, would cause a negative impact on the Bank's financial position at December 31, 2011, of which $172 are operational risk and $333 legal contingencies, both risks have been provisioned, for 2010 the risk totaled $382. The risks for 2011 represent 2% of total Equity Bank's. The expected loss for such contingencies is estimated at $19 and the unexpected loss of $184.

At the close of 2011, the Bank had built a historic database of operational risk losses which includes losses incurred during the period between January 2007 and December 2011, which aggregate 95,162 loss events with a total value of $801.4, classified under 23 risk categories and are analyzed in the next page (unaudited information).

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

Risk factors		2007	2008	2009	2010	2011	Grand total, carried forward
Regulatory (fines and penalties)	$	1,510	1,706	535	1,371	126	5,248
Lost lawsuits		6,764	2,718	4,554	10,145	4,053	28,234
Frauds (internal and external)		5,319	43,961	32,433	39,730	34,156	155,599
Bank credit card frauds		26,873	25,683	26,044	34,655	183,306	296,561
Phishing		4,697	151	302	960	–	6,110
Pharming		–	–	2,861	–	–	2,861
Assaults		3,186	3,794	4,685	1,663	1,094	14,422
Labor lawsuit		35	5,712	13,281	5,605	605	25,238
Miscellaneous checks		2,946	991	2,832	427	876	8,072
Shortages and forgeries (cash supply)		977	910	427	317	360	2,991
Accounting differences		378	214	4	–	2	598
Documentary (lost documentation)		–	–	23	160	–	183
Former employee indebtedness		10	3	–	–	79	92
Shortages and forgeries (foreign currency)		291	232	499	265	69	1,356
Irrecoverable amounts		246	8,320	67	3	876	9,512
Overdrafts		20	12	7	29	1,678	1,746
Trading		243	–	–	–	20	263
Errors in executing transactions		1,848	2,889	2,773	11,617	16,416	35,543
Fixed asset damages		975	–	–	–	–	975
System failures		8,014	408	659	12,360	5,329	26,770
Tax		20,837	–	737	83,937	131	105,642
Policies and procedures		–	–	71,336	–	12	71,348
Others		263	302	387	1,114	–	2,066
Total	$	85,432	98,006	164,446	204,358	249,188	801,430

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Risk factors	Grand total, brought forward	Events Number	Events Average Amount
Regulatory (fines and penalties)	$ 5,248	292	$ 18
Lost lawsuit	28,234	218	130
Frauds (internal and external)	155,599	1,624	96
Bank card frauds	296,561	88,235	3
Phishing	6,110	52	117
Pharming	2,861	21	136
Assaults	14,422	165	87
Labor lawsuits	25,238	117	216
Miscellaneous checks	8,072	390	21
Shortages and forgeries (cash supply)	2,991	904	3
Accounting differences	598	69	9
Documentary (lost documentation)	183	3	61
Former explyee indebtedness	92	11	8
Shortages and forgeries (foreign currency)	1,356	778	2
Irrecoverable amounts	9,512	1,377	7
Overdrafts	1,746	126	14
Trading	263	3	88
Errors in executing transactions	35,543	372	96
Fixed asset damages	975	2	487
System failures	26,770	266	101
Tax	105,642	31	3,408
Policies and procedures	71,348	52	1,372
Others	2,066	54	38
Total	$ 801,430	95,162	$ 6,518

(Continued)

(Pesos in millions)

(24) Other provisions-

The consolidated Bank recognizes the creation of accruals when there is a present obligation as a result of a past event that is likely to result in the disbursement of funds and may be reasonably estimated.

Below is a summary of activity in other accruals that the consolidated Bank had in the years ended December 31, 2011 and 2010:

Other accruals		2010	Fluctuation for the year	2011
IT and ESPS	$	1,112	(261)	851
Compensation		176	38	214
Miscellaneous liabilities		894	(66)	828
Fees		63	10	73
Others		186	(104)	82
	$	2,431	(383)	2,048

(25) Recently issued accounting standards-

On October 5, 2011, the resolution amending the general provisions applicable to credit institutions, was published in the Federal Official Gazette which modified the Criterion B-6 "Loan portfolio", which entry into force was in March 1, 2012.

Among other changes, set those listed below:

- Fees charged by the granting of credit: Establishes the deferral of these fees for renewals of loans, under the straight line method during the new term of the loan.

- Restructuration and renovations: new conditions established to consider as current loans those restructured or renewed loans and will require additional disclosures.

(Continued)

Following the adoption of changes to the Criteria B-6, management is under review, implementation and evaluation of the impact as a result of the entry into force of these changes.

2012 FRS Improvements

On December 2011 the CINIF issued the document entitled "2012 FRS Improvements", which contains some specific modifications to FRS. The improvements that generate accounting changes are the following:

- **FRS A-7 "Presentation and disclosure"-** FRS A-7 revises and adds certain paragraphs in order to clarify disclosure requirements with respect to key assumptions used at the end of the accounting period, to determine accounting estimates that imply uncertainty with a relevant risk of generating significant adjustments in the carrying amount of assets or liabilities in the following accounting period. These Improvements are effective beginning January 1, 2012 and are retrospectively applicable.

- **Bulletin B-14 "Earnings per share"-** This bulletin establishes for those entities within its scope, the disclosure of diluted earnings per share regardless of whether there is income or loss from continuing operations. This revision is effective for fiscal years beginning January 1, 2012 and is retrospectively applicable.

- **FRS C-1 "Cash and cash equivalents"-** FRS C-1 requires the presentation of restricted cash in the line item of "cash and cash equivalents", if the restriction expires within the twelve months following the date of the statement of financial position or in the regular course of the entity's operations. If the restriction expires at a subsequent date, it shall be classified as a long-term asset and named "restricted cash and cash equivalents". This revision is effective for fiscal years beginning January 1, 2012 and is retrospectively applicable.

(Continued)

- **Bulletin C-11 "Stockholders' equity"-** Elimination of recognition of donations received by for-profit entities in the contributed stockholders' equity. This revision is effective for fiscal years beginning January 1, 2012 and is prospectively applicable as to changes in valuation and retrospectively applicable as to changes in presentation.

- **Bulletin C-15 "Impairment of long-lived assets and their disposal"-** Elimination of the "not in service" requirement to classify a long-term asset as available-for-sale. Previously recognized goodwill impairment losses shall not be reversed and impairment losses shall be presented and reversed in the statement of income under the line items of costs and expenses in which the depreciation or amortization associated with the respective assets is recognized, unless it relates to a permanent investment in associated companies. These improvements are effective for fiscal years beginning January 1, 2012 and are prospectively applicable as to changes in valuation and retrospectively applicable as to changes in presentation.

Management estimates that the effects of the 2012 FRS Improvements will be immaterial.