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

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditor's Report thereon)

(Free Translation from Spanish Language Original)

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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 audited the accompanying consolidated financial statements of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries ("the Bank"), which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting criteria for credit institutions in Mexico established by the National Banking and Securities Commission ("the Banking Commission"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing (ISAs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

KPMG Cárdenas Dosal, S.C. la firma Mexicana miembro de KPMG International, una cooperativa Suiza.

Aguascalientes, Ags.
Ciudad Juárez, Chih.
Culiacán, Sin.
Chihuahua, Chih.
Guadalajara, Jal.
Hermosillo, Son.
Mérida, Yuc.
Mexicali, B.C.
México, D.F.
Monterrey, N.L.
Puebla, Pue.
Querétaro, Qro.
Reynosa, Tamps.
San Luis Potosí, S.L.P.
Tijuana, B.C.
Toluca, Edo. de Mex.

Opinion

In our opinion, the consolidated financial statements of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries as at December 31, 2012 and 2011, have been prepared, in all material respects, in accordance with the accounting criteria for credit institutions in Mexico issued by the Banking Commission.

Emphasis of matter

Without qualifying our opinion, we draw attention to the following:

During 2011 changes were made to the accounting criteria mentioned in note 3 to the consolidated financial statements.

Other matters

Previously, and on February 15, 2012, we issued our audit report on the consolidated financial statements of the Bank and Subsidiaries as of December 31, 2011 and for the year then ended in accordance with Mexican Financial Reporting Standards. As required by the Mexican Institute of Public Accountants, ISAs are mandatory in Mexico for audits of financial statements commencing on January 1, 2012; consequently, our audit report on the figures of the Bank's consolidated financial statements for 2012 and 2011 is issued on the basis of ISAs.

KPMG CARDENAS DOSAL, S. C.

SIGNATURE

Jorge Orendain Villacampa

February 22, 2013.

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

Consolidated Balance Sheets

December 31, 2012 and 2011

(Pesos in millions)

Assets		2012	2011
Cash and cash equivalents (note 5)	$	23,113	19,382
Margin accounts		37	60
Investment securities (note 6):			
Trading		14,157	13,126
Available-for-sale		24,283	6,557
Held-to-maturity		2,063	1,977
		40,503	21,660
Debtors under repurchase/resell agreements (debtor balance) (note 7)		13,277	4,957
Derivatives (note 8):			
Trading purposes		1,623	2,514
Hedging purposes		49	41
		1,672	2,555
Valuation adjustment from hedging of financial assets (note 9f)		63	150
Current loan portfolio (note 9):			
Commercial loans:			
Business or commercial activity		42,308	41,841
Financial entities		9,122	3,466
Government entities		4,945	6,863
		56,375	52,170
Consumer loans		20,190	16,098
Residential mortgages		48,035	43,147
Total current loan portfolio		124,600	111,415
Past due loan portfolio (note 9):			
Commercial loans:			
Business or commercial activity		351	346
Financial entities		-	32
		351	378
Consumer loans		527	581
Residential mortgages		1,995	2,151
Total past due loan portfolio		2,873	3,110
Total loan portfolio		127,473	114,525
Less:			
Allowance for loan losses (note 9g)		3,405	3,576
Loan portfolio, net		124,068	110,949
Benefits receivable from securitization transactions (note 10b)		160	205
Other accounts receivable, net (notes 5,6 and 10a)		13,619	11,417
Foreclosed assets, net (note 11)		29	17
Premises, furniture and equipment, net (note 12)		3,913	3,871
Permanent investments (note 13)		77	80
Deferred taxes and deferred employee statutory profit sharing, net (note 17)		1,258	773
Other assets:			
Deferred charges, prepaid expenses and intangibles		822	895
Other short and long term assets		791	684
		1,613	1,579
Total assets	$	223,402	177,655

Liabilities and Stockholders' Equity		2012	2011
Deposit funding (note 14):			
Demand deposits	$	74,353	69,613
Time deposits:			
General public		41,521	47,239
Money market		21,623	-
Credit securities issued		6,222	6,221
		143,719	123,073
Bank and other borrowings (note 15):			
Due on demand		1,068	-
Short-term		2,556	3,145
Long-term		1,964	2,460
		5,588	5,605
Creditors under repurchase/resell agreements (note 7)		31,860	9,842
Assigned securities to be settled (note 6b)		613	731
Derivatives (note 8):			
Trading purposes		1,789	2,727
Hedging purposes		468	395
		2,257	3,122
Other accounts payable:			
Income tax payable		84	2
Employee statutory profit sharing payable		278	210
Creditors pending settlement (note 5,6 and 8)		3,796	1,535
Sundry creditors and other accounts payable (note 18b)		4,647	5,452
		8,805	7,199
Deferred credits and prepayments		885	795
Total liabilities		193,727	150,367
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		2,974	2,687
Retained earnings		14,943	13,658
Unrealized gain from valuation of available-for-sale securities		186	204
Gain from valuation of cash flow hedge instruments (note 8)		(193)	(57)
Net income		3,841	2,872
		21,751	19,364
Total stockholders' equity		29,675	27,288
Commitments and contingencies (note 22)			
Total liabilities and stockholders' equity	$	223,402	177,655

(Continued)

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

Consolidated Balance Sheets, Continued

December 31, 2012 and 2011

(Pesos in millions)

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

	2012		2011	
Contingent assets and liabilities		$ 3		$ 71
Loan commitments		356,255		338,005
Assets in trust or under mandate:				
Trusts	$ 127,167		$ 127,943	
Mandate	28,906	156,073	26,833	154,776
Assets in custody or under management		$ 419,775		$ 482,236
Collateral, received by the entity		58,766		48,364
Collateral, received and sold or pledged by the entity		22,001		20,780
Investments on behalf of customers, (net)		84,457		63,934
Interest earned but not collected arising from past due loan portfolio		153		165
Other accounts		416,751		512,734

"The historical capital stock amounts to $6,200 at December 31, 2012 and 2011."

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."

"These consolidated balance sheets faithfully match with the consolidated balance sheets originals, which are properly signed and held by the Institution."

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Troy Wright (Sign) General Director	Michael Coate (Sign) Deputy General Director Finance and Business Intelligence	Agustín Corona Gahbler (Sign) Deputy General Director Group Audit	H. Valerio Bustos Quiroz (Sign) Director of Group Accounting

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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, 2012 and 2011

(Pesos in millions)

	2012	2011
Interest income (note 21)	$ 15,879	14,538
Interest expense (note 21)	(5,474)	(4,778)
Financial margin	10,405	9,760
Allowance for loan losses (note 9g)	(1,450)	(2,047)
Financial margin adjusted for allowance for loan losses	8,955	7,713
Commission and fee income (note 21)	2,612	2,210
Commission and fee expense	(388)	(380)
Financial intermediation income (note 21)	686	823
Other operating income (note 21)	2,995	3,102
Administrative and promotional expenses	(10,500)	(9,851)
	(4,595)	(4,096)
Net operating income	4,360	3,617
Equity in the results of operations of associated companies (note 13)	1	2
Income before income taxes	4,361	3,619
Current income taxes (note 17)	(824)	(641)
Deferred income taxes, net (note 17)	304	(106)
	(520)	(747)
Net income	$ 3,841	2,872

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."

"These consolidated statements of income faithfully match with the consolidated statements of income originals, which are properly signed and held by the Institution."

SIGNATURE

Troy Wright (Sign)
General Director

SIGNATURE

Michael Coate (Sign)
Deputy General Director Finance
and Business Intelligence

SIGNATURE

Agustín Corona Gahbler (Sign)
Deputy General Director Group Audit

SIGNATURE

H. Valerio Bustos Quiroz (Sign)
Director of Group Accounting

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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, 2012 and 2011

(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, 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
Changes resulting from stockholder resolutions:								
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2012 – Appropriation of 2011 net income	–	–	287	2,585	–	–	(2,872)	–
Dividends declared (note 18b)								
Ordinary Annual General Stockholders´ Meeting:								
April 30, 2012	–	–	–	(1,000)	–	–	–	(1,000)
October 12, 2012	–	–	–	(300)	–	–	–	(300)
	–	–	287	1,285	–	–	(2,872)	(1,300)
Changes related to the recognition of comprehensive income (note 18c):								
Net income	–	–	–	–	–	–	3,841	3,841
Valuation effects, of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $59 and $20, respectively (notes 6b and 8)	–	–	–	–	(18)	(136)	–	(154)
Total comprehensive income	–	–	–	–	(18)	(136)	3,841	3,687
Balances as of December 31, 2012	$ 7,451	473	2,974	14,943	186	(193)	3,841	29,675

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."

"These consolidated statement of changes in stockholder's equity faithfully match with the consolidated statement of changes in stockholder's equity originals, which are properly signed and held by the Institution."

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Troy Wright (Sign) General Director	Michael Coate (Sign) Deputy General Director Finance and Business Intelligence	Agustín Corona Gahbler (Sign) Deputy General Director Group Audit	H. Valerio Bustos Quiroz (Sign) Director of Group Accounting

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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, 2012 and 2011

(Pesos in millions)

	2012	2011
Net income	$ 3,841	2,872
Items not requiring (providing) cash flow:		
Impairment losses or impairment reversal in investing and financing activities	44	(27)
Depreciation of premises, furniture and equipment	361	293
Amortization of intangible assets	30	5
Provisions	1,907	2,625
Current and deferred income taxes	521	747
Equity in the income of unconsolidated subsidiaries and associated companies	(1)	(2)
Other	36	5
Subtotal	2,898	3,646
Operating activities:		
Change in margin accounts	23	89
Change in investment securities	(19,082)	3,514
Change in debtors under repurchase / resell agreements	(8,320)	10,197
Change in derivatives (assets)	3,342	(579)
Change in loan portfolio	(14,568)	(10,887)
Change in benefits receivable securitization transactions	88	23
Change in foreclosed assets	(12)	5
Change in other operating assets	(1,483)	(2,277)
Change in deposit funding	20,646	(2,780)
Change in bank and other borrowings	(17)	1,001
Change in creditors under repurchase / resell agreements	22,018	(2,150)
Change in derivatives (liabilities)	(3,472)	534
Change in other operating liabilities	2,084	(156)
Changes in hedging instruments (of hedged items related to operating activities)	-	(11)
Payments of income taxes	(1,380)	(908)
Net cash flows from operating activities	(133)	(4,385)
Investing activities:		
Payments for acquisition of premises, furniture and equipment	(403)	(584)
Payments for acquisition of subsidiary and associated companies	-	-
Collections of cash dividends	4	-
Payments for acquisition of intangible assets	(176)	(141)
Net cash flows from investing activities	(575)	(725)
Net cash flows from financing activities for payment of dividends	(2,300)	(2,710)
Net increase (decrease) in cash and cash equivalents	3,731	(1,302)
Cash and cash equivalents at beginning of year	19,382	20,684
Cash and cash equivalents at end of year	$ 23,113	19,382

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."

"These consolidated statements of cash flows faithfully match with the consolidated statements of cash flows originals, which are properly signed and held by the Institution."

SIGNATURE	SIGNATURE
Troy Wright (Sign) General Director	Michael Coate (Sign) Deputy General Director Finance and Business Intelligence
SIGNATURE	**SIGNATURE**
Agustín Corona Gahbler (Sign) Deputy General Director Group Audit	H. Valerio Bustos Quiroz (Sign) Director of Group Accounting

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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 subsidiaries on which the Bank has control, 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.

Significant transactions 2012-

(a) Placement of securitized bond certificates-

On November 29, 2012, the Bank issued bank bond certificates for $2,000 to investors, paying a variable interest rate and maturing in November 2015. The placement is part of a revolving certificate program amounting to $15,000 (see note 14).

(b) Acquisition of collection rights-

On November 30, 2012, through a promissory note, the Bank acquired the collection rights of a trust backed by operating lease assets for $1,000, which may be drawn down in one or multiple occasions, being the disposal minimum amount of $50. The promissory note matures in November 2018 and bears monthly interest at the 28-day TIIE rate plus 160 points over the unpaid principal amount (see note 10a).

(Continued)

(c) Increased acquisition of collection rights-

During fiscal year 2012, the Bank acquired new collection rights on two trusts backed by automotive portfolio for $2,932 and $1,500, maturing in June 2017 and February 2016, respectively. The acquisitions were made under the same conditions described in the original agreement (see note 10a).

During fiscal year 2012, the Bank acquired new collection rights on credit assets by $850 through a trust, maturing in June 2015. The acquisition was part of the same condition described in the original agreement (see note 10a).

(d) Crédito Familiar loan-

On November 30, 2012, the Bank granted a credit line to its related party Crédito Familiar, S. A. de C. V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada for $3,470. The credit line matures on November 5, 2015 and bears monthly interest at fixed annual rates from 6.34% to 7.10% over the unpaid principal amount.

(e) Scotiabank Chile loan-

On December 4, 2012, the Bank granted a simple loan to its related party Scotiabank Chile for 200 million dollars (4,181,767 Unidades de Fomento (UF) (Development Units)) maturing on March 31, 2016, and bearing semi-annual interest at a fixed annual rate of 3.46% over the unpaid principal amount of UF.

2011 Significant transactions-

(f) 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 100 basis points 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).

(Continued)

(g) Increased acquisition of collection rights-

During fiscal year 2011 the Bank acquired new collection rights 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).

(2) Summary of significant accounting policies-

(a) Financial statement authorization, presentation and disclosure-

On February 22, 2013, Troy Wright (General Director), Michael Coate (Deputy General Director Finance and Business Intelligence), Agustín Corona Gahbler (Deputy General Director Group Audit) and H. Valerio Bustos Quiroz (Director of Group Accounting) authorized the issuance of the accompanying audited consolidated financial statements and related notes.

The Bank's consolidated financial statements include the Bank's subsidiaries on which the Bank has control: Inmobiliaria, SECORESA, Scotia Servicios, Scotia Derivados and MexDer Trusts. Significant balances and transactions among the Bank's companies have been eliminated in preparing the consolidated financial statements. The consolidation was carried out using the audited financial statements of the subsidiaries at December 31, 2012 and 2011.

The Stockholders and the National Banking and Securities Commission ("the Banking Commission") are empowered to modify the consolidated financial statements after issuance. The accompanying 2012 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 accounting criteria provide that the absence of an express accounting criterion of the Banking Commission for credit institutions, and in a wider context the 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), 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.

The aforementioned consolidated financial statements are presented in Mexican pesos, which is the same as the recording currency and the functional currency.

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, 2012 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**
2012	$ 4.874624	3.91%	12.31%
2011	4.691316	3.65%	12.12%
2010	4.526308	4.29%	15.09%

(Continued)

(c) Cash and cash equivalents-

Cash and cash equivalents consist of cash in hand, precious metals (coins), deposits with banks in pesos and dollars, as well as 24 and 48-hour foreign currency purchase and sale transactions. Also includes bank borrowings with original maturities of up to three days ("Call Money"), recognized as restricted cash 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, are recognized as restricted cash and bear interest at the average funding rate. The cash and cash equivalents are recognized at nominal value.

The outright notes receivable, when not collected within the following due dates will be considered as other accounts receivables:

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

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

When the documents detailed above are not collected within the established due dates, the related amounts will be transferred to the originating item, as applicable, either Sundry Debtors or Loan Portfolio, and due consideration should be given to the provisions of criterion A-2, "Application of particular standards", and B-6 "Loan portfolio", respectively.

Transactions transferred to sundry debtors, not settled within fifteen days following the transfer date will be classified as past due debts and an allowance for their total amount recorded will be recorded concurrently.

Documents subject to final collection are recorded in suspense accounts under the item "Other accounts".

Checking account overdrafts, as reported in the bank statement issued by the corresponding credit institution, are shown in "Sundry creditors and other accounts payable".

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 "Creditors pending settlement", respectively.

(Continued)

(d) Margin accounts-

The margin accounts relate to transactions with derivative financial instruments executed in recognized markets and stock exchanges, which are deposited in highly liquid financial assets to ensure performance of corresponding obligations to such instruments. The amount of the deposits relates to the initial margin and the subsequent contributions or withdrawals made for the Bank and the clearing house 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 as accrued under "Interest income" and "Commission and fee expense", respectively. The partial or total amounts deposited or withdrawn by the clearing house as a result of price fluctuations of derivatives are recognized in "Margin accounts" affecting, in turn, a specific account that may be either debit or credit in nature, as applicable, which shall reflect derivative valuation effects prior to their settlement.

(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-

They are those who have to obtain short-term gains arising from differences in prices resulting from its 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.

(Continued)

Interest earned from debt securities and the gain or loss derived from securities investments denominated in foreign currency are recognized under the effective interest method 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 and purchase or sale results are recognized in the year's income within the caption of "Financial intermediation income".

Available-for-sale securities-

Those whose intention is not oriented to obtain profits from differences in prices in the short term or 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 within the caption of "Financial intermediation income". Accrued interest is recognized under the effective interest method under "Interest income or expense".

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". For available-for-sale securities, the valuation recognized in equity is canceled.

(Continued)

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.

(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.

(Continued)

The Bank acting as repurchasee recognizes the received collateral in memorandum accounts within the caption of "Collaterals received by the entity", in accordance with accounting criterion B-9 “Assets in custody and under management”. Financial assets granted as collateral, when the Bank is acting as repurchaser, are reclassified on the consolidated balance sheet within the caption of “Investment securities”, 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 acting as repurchase in turn becomes 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.

Also, in the case of transactions in which the Bank is acting as repurchasee, and sells, or pledges the collateral received, the Bank recognizes such collateral in memorandum accounts within the caption of "Collaterals received and sold or pledged by the entity", in accordance with accounting criterion B-9 “Assets in custody and under management”.

(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.

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.

(Continued)

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 the year's results 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 of clearing accounts-

Amounts receivable or payable for investment securities, securities repurchase/resell agreements, 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 “Creditors pending settlement”, 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.

(Continued)

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 criterias:

a) if the debts consist in loans with a single payment of principal and interest at maturity and are 30 or more calendar days past due;

b) if the debts refer to loans with a single payment of principal at maturity and periodic payments of interest, and the respective interest payment is 90 or more calendar days past due, or principal is 30 or more calendar days past due;

c) if debts consist of loans with principal and interest periodic partial payments, including mortgage loans, and are 90 or more calendar days past due;

d) if debts consist of revolving loans, when unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when 60 or more calendar days past due; and

e) overdrafts from checking accounts, and immediate payment notes receivable, upon occurrence of such event.

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; also suspending the amortization in the year's results of the financial income accrued. 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.

(Continued)

An allowance is constituted 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. For past-due loans, which restructuring agrees the capitalization of earned, uncollected interest previously recorded in memorandum accounts, an allowance is created for the total of such interest amount. The allowance is written off when there is evidence of sustained payment.

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 renewed, which are transferred to current portfolio when sustained payment have been made.

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

Loans with a single payment of principal at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity being restructured during the term of the loan or renewed anytime shall be considered as past due, while there is no evidence of sustained payment.

Current loans that are restructured or renewed, without at least 80% of the original loan term having elapsed, shall be deemed to be current only when the borrower has:

i) paid the total accrued interest, and
ii) paid the original principal loan amount at the renewal or restructuring date.

Renewed or restructured loans where the borrower fails to meet the above conditions will be deemed past due from the renewal or restructuring date until there is evidence that sustained payments are being made.

Restructured or renewed revolving loans shall, at any time, be regarded as current only when the borrower has paid off the totality of accrued interest, there are no unpaid loan installments and there is evidence to prove the debtor's repayment capability.

(Continued)

Loan due and payable principal and interest amounts which, at the restructuring date, have been repaid in full and for which one or several or several loan conditions have been changed, shall not be deemed restructured:

i) Guarantees: only when involving the extension or replacement with better quality guarantees.
ii) Interest rate: when the agreed-upon interest rate is improved.
iii) Currency: provided the rate corresponding to the new currency is applied.
iv) Payment date: only if the change does not represent exceeding or modifying the frequency of payments. In no case shall the change in the payment date enable omitting the payment in any given period.

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 for loan losses 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).

(Continued)

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)

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.

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 – 0.99 %
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)

Troubled loan portfolio – For financial statement disclosure purposes, commercial loans rated as having risk levels C, D and E are regarded as troubled 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. A portion of revenue from exchange fees are deferred until the obligation to deliver the rewards to which customers are entitled is incurred and amortized to income once that obligation is extinguished.

(m) Other accounts receivable-

Loans to officers and employees, collection rights and accounts receivable related to debts whose maturity is agreed from the outset to a period over 90 calendar days, 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, other debit items 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". Subsequent recoveries related to benefits to be received, are directly applied against the balance of such benefits.

(Continued)

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

Assets foreclosed shall be recorded on the date the admission order of the judicial sale by which the foreclosure was decreed, became final and conclusive and is immediately available for execution.

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

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.

Foreclosed assets and 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 reserve percentage applicable by the value of the foreclosed assets, based on the loan portfolio rating methodology, as shown in the next page.

(Continued)

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 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 is calculated using the straight-line method, based on the estimated useful lives for the Bank's management of the corresponding assets. Depreciable amount of property is determined by subtracting the residual value and, as applicable, the cumulative impairment losses to the acquisition cost. The Bank periodically evaluates property residual values to determine depreciable amounts.

The Bank evaluates periodically the net values of premises, furniture and equipment, to determine whether there is an indication that these values exceed their recoverable amount. The recoverable amount is the greater of net selling price and value in use. if it is determined to that the carrying amounts are excessive, the Bank recognizes losses impairment charged to income of period to be reduced to its recoverable amount.

(Continued)

(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.

Permanent investments where there is no control, join control or significant influence exists are classified as other investments, which are initially recognized and maintained valued at acquisition cost. Dividends, if any, received from these investments are recognized in consolidated statement of income caption "Other operating income", except if they come from periods prior to the acquisition, in which case are deducted from the permanent investment.

(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 recognized and are recorded in accordance with the provisions of FRS D-3 "Employee benefits" (see note 16).

(Continued)

(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.

Deferred IT and ESPS are accounted for under the asset and liability method. IT and deferred ESPS (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, and in the case of IT for operating loss carry forwards and other recoverable tax credits. 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.

Current and deferred ESPS is incorporated under the caption “Administrative and promotional expenses”, in the consolidated statement of income.

(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) Provisions-

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.

(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, as well as 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 the income statement.

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 the year’s income statement.

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 an commission collected in advance, as well as credit card annual fees are recorded under the caption "Deferred credits and prepayments", 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".

Fees collected for restructured or renewed loans are recorded as deferred credits and amortized against the results of operations for the year under the caption "Interest income" using the straight-line method during the new term of the loan.

(y) Foreign currency transactions-

Foreign currency transactions are initially recognized 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. At the closing date of the consolidated financial statements, foreign currency monetary assets and liabilities are translated at the year-end exchange rate, while foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period. Non-monetary assets and liabilities, and stockholders' equity are translated at the historical exchange rate.

(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.

(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-

Contingent assets and liabilities are not recorded while there are no reasonable elements for their quantification; however, where no such elements exist, qualitative disclosure is provided in the notes to the financial statements.

Contingent revenues, income or assets are recorded when its realization is virtually assured.

(ac) 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 during the lease period in the results of the period, under the caption "Other operating income". 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 2012-

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

On July 5, 2012, 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 main changes are listed below:

(a) Criterion B-10 "Trusts"-

- The definition of Trust Property is added.
- Recognition and valuation standards.- Trust property listed at the National Securities Registry shall be valued in accordance with the accounting standards set forth by the Banking Commission for such purpose, through general provisions applicable to securities issuers and other entities trading on the Mexican stock exchange market.
- It is specified that entities shall keep special control over each trust agreement. The balances of special accounting for each trust agreement shall match the balances of memorandum accounts where the entity recognizes the trust property.
- It is specified that income for trust management may accrue when the outstanding debt has been fully settled.

(b) Criterion C-5 "Consolidation of Specific Purpose Entities (SPE)"-

According to the new provisions, the methodology for SPE consolidation requires that the consolidated entity meets the provisions of FRS B-8 "Consolidated or combined financial statements"; therefore, the SPE's financial statements should be prepared pursuant to the same accounting criteria of the consolidating entity.

(Continued)

(c) **Criterion B-6 "Loan portfolio"-**

On October 5, 2011, the Federal Official Gazette published the resolution that modifies the general provisions applicable to credit institutions, effective as of March 1, 2012, whereby the accounting criterion B-6 "Loan Portfolio" was amended.

The changes include the following:

- Loan fees: Fees for loan renewal are deferred through the straight-line method during the new term of the loan.
- Restructuring and renovations: new conditions are established to consider as current existing loans that are restructured or renewed; additional disclosures are required.

<u>2012 FRS Improvements</u>

In December 2011, CINIF issued the document referred to as "2012 FRS Improvements", which contains precise modifications to some FRS. The modifications, which had no effect on the consolidated financial statements of the Bank are listed below:

- **FRS A-7 "Presentation and disclosure"**
- **Bulletin C-15 "Impairment of long-lived assets and their disposal"**

Accounting changes 2011-

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 shown in the next page.

(Continued)

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.

(Continued)

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.

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.

(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. Therefore, as of December 31, 2012 and 2011, the Bank's position is within the authorized limits.

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

		2012	2011
Assets	USD	3,170	1,840
Liabilities		(3,167)	(1,847)
Long (short) position	USD	3	(7)

(Continued)

At December 31, 2012, the long (short in 2011) in foreign currency position consists of 96% in US dollars (78% in 2011), and 4% in other foreign currencies (22% in 2011).

At December 31, 2012 and 2011, the exchange rate of the peso to the dollar was $12.9658 and $13.9476, respectively, and on February 22, 2013, the date on which the issuance of the consolidated financial statements was authorized, it was $12.7517.

(5) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2012 and 2011 are analyzed as follows:

	2012	2011
Cash in hand	$ 3,398	2,890
Banks:		
Domestic	5	209
Foreign	953	1,269
Three-day interbank call money	3,462	1,646
24 and 48-hour foreign currency sales	(4,450)	(1,680)
Other funds available	82	54
Restricted funds:		
Deposits with the Central Bank	12,830	12,827
24 and 48-hour foreign currency purchase	6,444	1,812
Compensation fund to operate derivatives	389	355
	$ 23,113	19,382

At December 31, 2012 and 2011, 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. Interest earned on the deposits in the Central Bank at December 31, 2012 and 2011 were $43 and $40, respectively.

For the years ended on December 31, 2012 and 2011, the Bank maintained an asset (liability) balance for foreign currency purchase and sale transactions payable at a date later than the date agreed of $1,559 ($3,355) and $1,118 ($1,249), respectively, which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors pending settlement", as appropriate.

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At December 31, 2012 and 2011, the Bank had the following three-day interbank loans ("Call money"):

Institution	2012 Amount	2012 Rate	2012 Term	2011 Amount	2011 Rate	2011 Term
Banco Nacional de México, S. A.	$ 2,462	4.37%	2 days	$ –	–	–
HSBC México, S. A.	–	–	–	1,646	4.50%	3 days
Banco Inbursa, S. A.	1,000	4.42%	2 days	–	–	–
	$ 3,462			1,646		

At December 31, 2012 and 2011, the Bank has gold and silver precious metals (coins) for 14,506 (3,393 gold and 11,113 silver) and 9,206 (2,074 gold and 7,132 silver) units, respectively; the quoted market prices used for translation purposes are those issued by the Central Bank; purchase and sale transactions are 24 and 48 hours. The value of such metals is shown under other funds available and immediate payment notes receivable and is analyzed as follows:

	2012	2011
Immediate payment notes receivable	$ 17	21
Precious metal coins:		
Gold	61	30
Silver	5	3
	66	33
	$ 83	54

At December 31, 2012 and 2011, 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 2012	Receivable 2011	Deliverable 2012	Deliverable 2011
Dollar	$ 5,240	1,581	3,223	1,390
Other currencies	1,204	231	1,227	290
	$ 6,444	1,812	4,450	1,680

At December 31, 2012 and 2011, earnings resulting from foreign exchange purchase and sale transactions are $944 and $415, respectively, and are recorded under the caption "Financial intermediation income". Such results are mostly part of a synthetic strategy with derivatives (see note 8).

(Continued)

(6) Investment securities-

(a) Composition-

At December 31, 2012 and 2011, the Bank's investment securities are as follows:

		2012	2011
Trading:			
Debt securities:			
Government securities	$	14,064	11,019
Bank promissory notes		14	1,975
Others		19	122
Shares		60	10
		14,157	13,126
Available-for-sale:			
Debt securities:			
Government securities		21,016	5,241
Bank promissory notes		2,533	609
Others		732	704
Shares		2	3
		24,283	6,557
Held-to-maturity:			
Special CETES of the UDI Trust:			
Residential mortgages		2,063	1,977
Total investment securities	$	40,503	21,660

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(b) At December 31, 2012 and 2011, the securities classified as trading, available-for-sale and held-to-maturity, are analyzed as follows:

		2012	2011
Trading:			
Debt securities:			
Government securities (unrestricted):			
CETES	$	6	49
LDBONDESD		381	–
		387	49
Value date sales:			
BONOS M		(492)	(532)
BI CETES		(488)	(28)
S UDIBONO		–	(60)
BONOS MO		–	(104)
UDIBONOS0		(20)	(56)
		(1,000)	(780)
(Assigned securities to be settled unrestricted securities)	$	(613)	(731)
Trading securities:			
CETES pledged as collateral	$	43	–
Under repurchase/resell agreements:			
CETES	$	4,162	1,092
BPAS		5	1,613
BPA		103	663
BPAT		21	751
BONDESD		6,719	4,291
BONOS M		2,074	2,131
BONOS M0		–	158
UDIBONO		31	60
UDIBONOS0		–	29
CBUR		179	–
BG91		471	–
		13,765	10,788
To the next page		13,808	10,788

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Trading (continued):		**2012**	**2011**
Previous page	$	13,808	10,788
Value date purchases:			
BONOS M		246	180
UDIBONO		10	51
		256	231
Total government securities	$	14,064	11,019
Bank promissory notes			
BANORTE	$	–	1,962
Restricted securities			
Under repurchase/resell agreements:			
BANOBRA:			
PRLV		14	13
Total bank promissory notes	$	14	1975
Under repurchase/resell agreements:			
Others:			
CBUR	$	19	72
CBPC		–	50
Total other debts securities	$	19	122
Shares	$	60	10

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		2012	2011
Available-for-sale:			
Debt securities:			
Domestic government securities:			
MMVCB	$	–	798
LDBONDESD		108	–
MEXK40		–	206
MEXQ10		–	256
MEXX60		–	406
MEX449		–	430
MEX932		–	212
BONOS M		–	301
BONOS M0		–	73
BPAG		27	–
CABEI		337	–
FIFOMI		14	–
		486	2,682
Foreign government securities:			
BRAZD15		391	–
BRAZX87		521	609
UMS13F		524	–
UMS14F		231	–
UMS14F2		154	–
UMS15F		468	–
		2,289	609
Value date purchases (restricted securities):			
MEXMH932		–	58
Restricted Securities:			
Under repurchase/resell agreements:			
LD BONDESD		17,353	899
BPAS		119	993
BPAG		769	–
		18,241	1,892
Total government securities	$	21,016	5,241

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		2012	2011
Available for sale (continued):			
Bank promissory notes:			
Own position:			
BANORTE	$	1,908	–
BANOB		15	–
		1,923	–
Restricted securities:			
Under repurchase/resell agreements:			
BANOB		610	609
Total bank promissory notes:	$	2,533	609
Others:			
Own position:			
VIPESA	$	507	448
MOLYMET		–	91
CINMOBI		–	5
CASITA		–	43
MONTP10		49	99
PATRIMO		–	18
PRB		25	–
		581	704
Restricted Securities:			
MOYMET		151	–
Total others	$	732	704
Shares	$	2	3
Held-to-maturity:			
Government securities:			
CETES B4 170713	$	756	725
CETES B4 220707		338	324
CETES B4 220804		2	1
CETES B4 270701		956	916
CETES BC 170713		11	11
Total government securities (note 9e)	$	2,063	1,977

(Continued)

For the years ended December 31, 2012 and 2011, the Bank maintains an asset (liability) balance for transactions with securities settled on a date subsequent to the agreed-upon date of $1,001 ($256) and $809 ($240), 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, with a fair value of $28 at December 31, 2011, and the valuation result for securities for the year ended on that date, was recognized under the caption "Unrealized gain from valuation of available for sale securities" in stockholders' equity for $14.

During 2012, the Bank impaired 1,316,647 debt securities mentioned in the preceding paragraph by $28. The related effect was recognized in the year's results of operations.

The gain or loss from valuation of available-for-sale securities for the years ended December 31, 2012 and 2011, recognized in other items of comprehensive income within stockholders' equity amounted to ($31) ($18 net of deferred taxes) and $102 ($62 net of deferred taxes), respectively. The above includes the net gains for hedged instruments of $25 and ($3), respectively.

For the years ended December 31, 2012 and 2011, the net gains from interest income, gains or losses from purchase and sale transactions, and intermediation income from investments in securities are detailed below.

		2012	2011
Trading	$	532	782
Available-for-sale		967	219
Held-to-maturity		86	82
	$	1,585	1,083

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

At December 31, 2012 and 2011, the investments in the same non-government issuer of debt securities over 5% of the Bank's net capital are analyzed as follows:

	2012				2011			
	Issue	Amount	Term*	Rate**	Issue	Amount	Term*	Rate**
BANORTE	Various	1,908	58	4.54%	Various	1,962	86	4.38%

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

(Continued)

(7) Securities under repurchase/resell agreements-

At December 31, 2012 and 2011, 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	
	2012	2011	2012	2011
BPAS	$ –	2,707	(124)	(1,591)
BPAT	–	8,305	(21)	(722)
BPA 182	10,588	1,388	(54)	(662)
MBON	5,013	2,001	(2,010)	(2,289)
BI CETES	–	350	(3,808)	(121)
LD BONDESD	16,035	8,360	(23,600)	(4,233)
CEBUR	151	–	(348)	(72)
PRLV	200	–	(13)	(13)
UDIB	–	–	(31)	(89)
CBIC	–	500	–	–
CBPC	–	800	–	(50)
CBBN	307	–	(610)	–
BPAG	3,077	–	(1,241)	–
	35,371	24,411	(31,860)	(9,842)
Collaterals sold or pledged:				
LD BONDESD	(13,700)	(7,020)		
BONOS M	(3,005)	(2,001)		
BPA 182	(3,651)	(1,119)		
BPAT	–	(6,108)		
BPAS	–	(2,706)		
CBIC	–	(500)		
CBBN	(307)	–		
CBUR	(151)	–		
BPAG	(1,280)	–		
	(22,094)	(19,454)		
Debtors (creditors) repurchase/resell agreements	$ 13,277	4,957	(31,860)	(9,842)

(Continued)

At December 31, 2012 and 2011, maturities of sale and repurchase agreements vary between 2 and 84 days (3 and 91 days in 2011, respectively), with weighted rates of 4.53% acting as repurchasee, and 4.18% acting as repurchaser (4.53% and 4.25% in 2011, respectively).

During the years ended December 31, 2012 and 2011, interest or premiums collected amounted to $1,908 and $1,448, respectively; interest or premiums paid amounted to $2,099 and $1,712, 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, 2012 and 2011, 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:

2012:

Issuer	Series	Number of certificates	Market value
Guarantees received:			
BI Cetes	130725	1,101,918	$ 11
IS Bpa 182	180412	314,826	31
LD Bondes D	140320	1,500,274	150
LD Bondes D	140719	43,416	4
LD Bondes D	171019	52,812	5
Total guarantees received			$ 201
Guareantees delivered:			
BI Cetes	130530	4,285,196	$ 42

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

(Continued)

(8) Derivatives-

At December 31, 2012 and 2011, the valuation of derivative financial instruments for trading and hedging purposes, recognized under "Derivatives", is analyzed as follows:

	2012		2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Trading purposes:				
Foreign exchange currency forward contracts	$ 100	39	151	160
Futures	–	–	3	4
Options (sharing/indexes)	306	305	334	335
Interest rate swaps	1,217	1,445	2,026	2,228
	1,623	1,789	2,514	2,727
Hedging purposes:				
Fair value hedges	18	213	16	183
Cash flow hedges	31	255	25	212
	49	468	41	395
	$ 1,672	2,257	2,555	3,122

For the year ended December 31, 2012 and 2011, the amount of losses recognized in results of operations arising from the (impairment) reversion of financial instruments for trading and hedging purposes amounted to ($3) and ($13) and hedging for ($11) and ($1), respectively.

As for instruments used for cash-flow hedging purposes, the net (loss) income for the year ended December 31, 2012 and 2011, derived from their ineffectiveness of ($11) and $4, respectively, that is included in the results of operations under the caption "Financial intermediation income". The loss effect from the valuation relating to the effective hedge portion for the years ended December 31, 2012 and 2011, which amounts to $200 ($136 net of the deferred tax effect) and $156 ($107 net of the deferred tax effect), respectively, is presented in stockholders' equity.

At December 31, 2012 and 2011, 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 $60 and ($122) and $143 and ($114), respectively.

The net estimated effect of losses arising from derivative transactions presented under stockholders' equity at December 31, 2012 and 2011, which are expected to be reclassified to income within the following twelve months amounts to ($126) and ($58), respectively.

At December 31, 2012 and 2011, the gain for the valuation of derivatives for fair value hedging and trading purposes were $137 and $106 respectively, while the loss from valuation of the hedged item attributable to the hedged risk was $ 51 and $ 108 respectively.

(Continued)

At December 31, 2012 and 2011, the net losses on financial assets and liabilities related to trading derivatives are $774 and $123, respectively. Such results are part of a synthetic strategy, with non-derivative foreign exchange purchase and sale transactions, which gains of $944 and $415 for the years ended December 31, 2012 and 2011, respectively, are included in "Financial intermediation income" (see note 5).

For the year ended December, 31 2012 and 2011, the Bank foresees that all transactions to hedge forecasted cash flows are highly likely to occur.

For the years ended December 31, 2012 and 2011, the Bank maintained an (liability) asset balance on derivatives transactions settled on a date subsequent to the agreed-upon date of ($6) and ($18), 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, 2012 and 2011 are analyzed as follows:

			2012	
Type of instrument		**Hedging purposes**	**Trading purposes**	**Total**
Interest rate:				
Bought:				
Futures:				
TIIE	$	–	2,457	2,457
Options (shares $2,473 and índexes $2,388)		–	4,861	4,861
Swaps		13,456	43,192	56,648
Forward contracts		–	9,900	9,900
	$	13,456	60,410	73,866
Sold:				
Futures:				
TIIE	$	–	617	617
Options (shares $2,473 and índexes $2,934)		–	5,407	5,407
Swaps		6,200	39,499	45,699
Forward contracts		–	261	261
	$	6,200	45,784	51,984

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	2012		
Type of instrument	**Hedging purposes**	**Trading purposes**	**Total**
Bought:			
Swaps (in millons of dollars)	117	106	223
Sold:			
Swaps (in millions of dollars)	–	140	140
Bought:			
Swaps (in millions of euros)	44	–	44
Bought:			
Swaps (CLF Chilean)	–	4	4
Foreign exchange (in millions of dollars):			
Bought:			
Forward contracts	–	1,330	1,330
Options	–	17	17
	–	1,347	1,347
Sold:			
Options	–	7	7
Forward contracts	–	256	256
Forward contracts (gold ounce)	–	4	4
	–	267	267

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		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
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

(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, 2012, of all operations, there are $118 (37 in 2011) totaling $15,560 ($9,670 in 2011) 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 $6,359 ($7,461 in 2011) 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.

(Continued)

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(9) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2012 and 2011, the classification of loans into current and past due by currency, which includes the restructured portfolio in UDI Trusts, is analyzed as follows:

	2012		2011	
	Current	**Past due**	**Current**	**Past due**
In assets:				
Pesos:				
Business or commercial activity	$ 33,840	334	31,948	300
Financial institutions	6,515	–	3,297	32
Government entities	3,729	–	4,768	–
Consumer loans	20,190	527	16,098	581
Residential mortgages	47,869	1,945	42,953	2,110
	112,143	2,806	99,064	3,023
Foreign currency:				
Business or comercial activity	8,468	17	9,893	46
Financial institutions	2,607	–	169	–
Government entities	1,216	–	2,095	–
Residential mortgages	166	50	194	41
	12,457	67	12,351	87
	$ 124,600	2,873	111,415	3,110
	127,473		114,525	
In memorandum accounts:				
Loan commitments (see note 20a)	6,812		4,267	
	$ 134,285		118,792	

At December 31, 2012 and 2011, the Bank has no restricted portfolio; therefore the entire portfolio is unrestricted.

(Continued)

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(b) Classification of loan portfolio by economic sector-

At December 31, 2012 and 2011, credit risk (including loans, guarantees and loan commitments, see note 20a) classified by economic sector and the percentage of concentration are analyzed as follows:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Community, social and personal services, mainly government entities	$ 12,978	10	11,468	10
Construction and housing	54,259	41	51,573	43
Financial, insurance and real estate services	14,882	11	8,309	7
Manufacturing	11,291	8	10,370	9
Commerce and tourism	13,906	10	12,897	11
Consumer loans and credit cards	20,717	15	16,679	14
Agriculture, forestry and fishing	3,848	3	3,765	3
Transportation, warehousing and communication	906	1	1,027	1
Other	1,498	1	2,704	2
	$ 134,285	100	118,792	100

(c) Acquisition of consumer loans-

On March 31, 2011, the Bank wrote off from the consolidated balance sheet the amount not recovered of consumer loans (automotive loans) acquired to a SOFOL in 2006 for $88, which it applied against the allowance created.

At December 31, 2011, there is no amount to recover regarding this portfolio.

(Continued)

(d) Loans to government entities-

At December 31, 2012 and 2011, loans granted to government entities are analyzed as follows:

		2012	2011
Autonomous entity loan	$	1,239	2,096
Receivables under financial support programs		204	266
Governments, municipalities and state secretariats		3,502	4,501
Total loans to government entities	$	4,945	6,863

(e) 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.

(Continued)

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 below:

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

(Continued)

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 June 1, 2012 and December 1, 2011, the Bank received payment of the first and second annual installment on the discounts due by the Federal Government under the Agreement for $72 ($66, of capital and $6 of interest) and $80 ($66, of capital and $14 of interest), respectively.

At December 31, 2012, the Bank did not apply 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, 2012 under "Investment securities – Held-to-Maturity securities" (see note 6b), are as follows:

	Titles	Amount	Maturity date
Special Cetes B4 170713	8,867,241	$ 756	July 13, 2017
Special Cetes B4 220707	3,961,831	338	July 7, 2022
Special Cetes B4 220804	21,792	2	August 4, 2022
Special Cetes B4 270701	11,209,686	956	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	$ 2,063	

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

(f) Additional loan portfolio information-

Annual weighted lending rates:

Annual weighted loan interest rates during 2012 and 2011 were as follows:

	2012	**2011**
Commercial loans*	6.48%	6.50%
Personal loans	15.74%	16.18%
Credit cards	27.96%	28.49%
Residential mortgages	11.54%	11.81%

* 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, 2012 and 2011, the amount of loans granted under these programs totaled $3,801 and $4,819, respectively, and the related liability is included in "Bank and other borrowings" (see note 15).

Restructured loans:

At December 31, 2012 and 2011, restructured and renewed loans are analyzed as follows:

	Current loans	Past due loans	Total	
2012				
Commercial loans	$ 1,573	130	1,703	
Residential mortgages	4,642	434	5,076	[2]
Consumer loans	78	23	101	
	$ 6,293	587	6,880	
2011				
Commercial loans	$ 2,759	152	2,911	[1]
Residential mortgages	4,750	494	5,244	[2]
Consumer loans	121	84	205	
	$ 7,630	730	8,360	

[1] In 2011, a commercial loan was restructured, with additional estate guarantees amounting for $7.

[2] From the total balance of restructured and renewed residential mortgage loans as of December 31, 2012 and 2011, there were no additional guaranties obtained.

During 2012 and 2011, the Bank performed several modifications to the original terms of commercial loans not considered restructurings by $1,130 and $32, respectively.

Current loans restructured by the Bank during 2012 and 2011, which continue to be current, amount to $216 and $37. During 2012, no past due commercial loans were restructured. For 2011, the Bank had only one past-due commercial loan for $53 that was restructured and remained past due.

(Continued)

During 2012 and 2011, the Bank restructured past due mortgage loans for $632 and $1,181, respectively. At December 31, 2012 and 2011 the current portfolio totals $602 and $29, while the past due portfolio aggregates $1,114 and $67, respectively.

During 2012, the Bank did not restructure consumer loans. For 2011, the restructuring of past due portfolio amounted to $4, of which at December 31, 2011 $3 are current and $1 are past due loans.

During the years 2012 and 2011, capitalization of interest was held for $10 and $19, respectively.

Risk concentration:

At December 31, 2012, the Bank has one individual debtor that exceeded 10% of the Bank's basic capital. At December 31, 2011, there were no balances due from one individual debtor that exceeded such limit. The balance of the loans granted to the three largest debtors as of December 31, 2012 and 2011, amount to $12,334 and $5,545, respectively.

Past due loan portfolio:

An analysis of past due loans at December 31, 2012 and 2011, 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
2012						
Commercial*	$	99	46	67	139	351
Consumer		490	34	3	–	527
Residential mortgages		1,204	434	333	24	1,995
	$	1,793	514	403	163	2,873
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

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

(Continued)

The movement in the past due loan portfolio for the years ended December 31, 2012 and 2011 is summarized below:

	2012	2011
Balance at beginning of year	$ 3,110	3,788
Settlements	(22)	(22)
Write-offs and debt forgiveness	(1,620)	(2,440)
Net increase	1,407	1,773
Foreign exchange fluctuation	(2)	11
	$ 2,873	3,110

Nominal interest on the past due loan portfolio not recognized in results of operations for the year ended December 31, 2012 amounted to $153 ($165 in 2011).

For the years ended December 31, 2012 and 2011, the Bank opted for eliminating from assets those past due loans that had been reserved in full for $1,499 and $2,267, respectively. In both years there was no application of reserves for related loans.

For the years ended December 31, 2012 and 2011, the Bank obtained recoveries of loans for $576 and $502, respectively.

Impaired loans:

The balance of impaired commercial loans as of December 31, 2012 and 2011 is $2,473 and $1,489, respectively, from which $2,122 and $1,110 are recorded in current loans, and $351 and $378 are recorded in past due loans, respectively.

Adjustment for valuation of financial asset hedging:

At December 31, 2012 and 2011, 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 for $63 and $150, respectively.

(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, 2012 and 2011, the allowance for loan losses classified between general reserves and specific reserves according to the criteria mentioned in note 2(j), is as follows;

	2012		**2011**	
	General	**Specific**	**General**	**Specific**
Commercial *	$ 193	970	298	1,132
Personal loans	235	1,341	213	1,079
Residential mortgages	96	420	77	493
	$ 524	2,731	588	2,704
	$ 3,255		3,292	

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

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At December 31, 2012, 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	$ 30,608	3,020	45,000	78,628
A-2	16,177	–	–	16,177
B and B-1	14,076	12,640	4,255	30,971
B-2	809	3,920	–	4,729
B-3	688	–	–	688
C and C-1	563	662	640	1,865
D	312	386	1	699
E	102	89	133	324
Total graded portafolio	$ 63,335	20,717	50,029	134,081
Allowance for loan losses				
A and A-1	$ 86	15	96	197
A-2	107	–	–	107
B and B-1	328	617	185	1,130
B-2	63	333	–	396
B-3	79	–	–	79
C and C-1	200	257	194	651
D	203	281	1	485
E	97	73	40	210
Allowance for graded loans	$ 1,163	1,576	516	3,255
Additional reserves for residential mortgages past due loans				90
Operational risk reserve				31
Additional reserve for past due interest				29
Total allowance for loan losses				$ 3,405

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

(Continued)

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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)

Beginning in March 2012, the methodology for determining the allowances for commercial loans is based on the severity of the loss. The change in methodology was intended to implement an advanced rating model that enables a reliable estimate of the need for reserves. Changing the methodology resulted in a decrease of $65 in the reserve.

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.

Additional reserves recognized by the Banking Commission

Through official letter number 142-2/6584/2012 dated October 15, 2012, the Banking Commission authorized the Bank to create additional reserves for covering FOVI (Fondo de Operación y Financiamiento Bancario a la Vivienda (Fund for the Operations and Bank Financing of Housings)) type loans. The allowance was determined by analyzing such portfolio and the need of recording additional allowances for loans with guarantees with recovery deficiencies on the unpaid balance provided for by such Fund. The authorized additional allowance amounts to $97, which will be accounted for on a monthly basis over 36 months, at a monthly rate of $2.7, from the authorization date. At December 31, 2012, a total of $8.1 has been recorded in income of the year, corresponding to 3 accrued periods.

At December 31, 2011, the Bank has no additional guarantees recognized and authorized by the Banking Commission.

(Continued)

The movement in the allowance for loan losses for the years ended December 31, 2012 and 2011 is summarized below:

	2012	2011
Balance at beginning of year	$ 3,576	3,913
Provisions charged to results of operations	1,450	2,047
Applications, waivers and others	(1,550)	(2,361)
Awards	(57)	(53)
Exchange rate fluctuations	(14)	30
Balance at end of year	$ 3,405	3,576

A reconciliation between the total graded portfolio and total credit risk, including that recognized in memorandum accounts as of December 31, 2012 and 2011 is analyzed as follows:

	2012	2011
Total graded portfolio	$ 134,081	118,527
Portfolio not including creditors under support programs	204	265
Total of credit risks	$ 134,285	118,792

(10) Collection rights and mortgage portfolio securitization-

(a) Collection rights-

As of December 31, 2012 and 2011, the Bank has recorded under the caption “Other accounts receivable” on the unconsolidated balance sheet, collection rights of private securitization of securities entered into with different of non-bank financial. The acquisitions, collection and balances related to the collection rights are shown in the next page.

(Continued)

	Amount Dec 31, 2011	2012 Acquisition	Collection	Amount Dec 31, 2012	Maturity date
Trust 242896	$ 2,850	2,932	(1,680)	4,102	June 2017*
Trust 959	316	–	(316)	–	–
Trust 1364	695	–	(695)	–	–
Trust 1439	1,500	1,500	(1,000)	2,000	February 2016**
Trust 1178	1,500	850	(1,522)	828	June 2015***
Trust 1355	–	103	–	103	November 2018****
	6,861	5,385	(5,213)	7,033	
Accrued interest for commission to Credit line unused and restructured	27	28	(27)	28	
	$ 6,888	5,413	(5,240)	7,061	

	Amount Dec 31, 2010	2011 Acquisition	Collection	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 restructured	25	27	(25)	27	
	$ 4,941	5,855	(3,908)	6,888	

* During 2012, the Bank acquired new collection rights for $2,932 over a trust, supported by the automotive portfolio, which matures in June, 2017 (see note 1).

** During 2012, the Bank acquired new collection rights of $1,500 over a trust, supported by the automotive portfolio, maturing in February 2016 (see note 1).

*** During 2012, the Bank acquired new collection rights over a trust supported by credit assets in the amount of $850. The promissory note matures in June 2015 (see note 1).

**** On November 30, 2012, the Bank acquired new collection rights for $1,000 over a trust supported by operating lease assets, maturing in November 2018. At December 31, only $103 has been drawn down (see note 1).

For the years ended December 31, 2012 and 2011, the Bank recognized in the results of year $357 and $400, respectively by accrued interest concept, which are included in the consolidated income statement under the caption "Other operating income (expense)".

(Continued)

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, 2012 and 2011 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, 2012 and 2011, the amount of the portfolio assigned receivable amounted to $1,300 and $1,595 respectively, and the amount payable on the debt securities amounted to $1,092 and $1,334, respectively.

As part of the agreed-upon consideration for the securitization, the Bank received a trust certificate, the value of which as of December 31, 2012 and 2011 of $95 and $182, respectively. 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, 2012 and 2011 were $65 and $23 respectively, was recognized in "Other operating income" in the consolidated statement of income. During the year 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, 2012 and 2011 received prepayments of $216 and $184, respectively.

The Bank receives servicing fees from the trust, which are recognized in earnings when are accrues, which for the years ended December 31, 2012 and 2011 the income from this source were $13 and $16, 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.

(Continued)

(11) Foreclosed assets-

At December 31, 2012 and 2011, foreclosed assets are analyzed as follows:

		2012	2011
Premises	$	34	33
Furniture, values and foreclosed rights		10	–
Asset under enforceable promise to sell		–	1
		44	34
Allowance for impairment		(15)	(17)
	$	29	17

The movement of the allowance for impairment for the years ended December 31, 2012 and 2011 is analyzed as follows:

		2012	2011
Balance at beginning of year	$	(17)	(79)
Additional provisions due to aging, charged to operations for the year		(2)	(1)
Credit to income on sale of assets		4	63
Balance at end of year	$	(15)	(17)

(Continued)

(12) Premises, furniture and equipment-

Premises, furniture and equipment at December 31, 2012 and 2011 are analyzed as follows:

	2012	2011	Annual depreciation rate
Land	$ 543	542	–
Office premises	1,588	1,528	Various
Transportation equipment	59	65	25%
Computer equipment	966	1,019	30%
Computer equipment an capital lease	82	82	20%
Furniture and equipment	1,267	1,211	10%
Telecommunications equipment	340	272	10%
Artworks	2	2	N/A
Leasehold improvements	2,026	1,953	Various
	6,873	6,674	
Accumulated depreciation	(2,960)	(2,803)	
	$ 3,913	3,871	

Depreciation charged to results of operations for the years ended December 31, 2012 and 2011 amounted to $361 and $293, respectively.

(Continued)

(13) Permanent investments-

At December 31, 2012 and 2011, permanent investments in shares, classified by activity, are analyzed as follows:

		2012	2011
Others banking related services	$	46	45
Mutual funds		25	24
Derivatives market operators		5	10
Security and protection		1	1
	$	77	80

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”.

(Continued)

(14) Deposit funding-

The average weighted interest rates on deposit balances during the years ended December 31, 2012 and 2011 are as follows:

	2012 Rates		2011 Rates	
	Pesos	Dollars	Pesos	Dollars
Demand deposits	1.12%	0.05%	1.01%	0.05%
Savings deposits	0.56%	–	0.55%	–
Time deposits of the public	3.78%	0.18%	3.76%	0.18%
Money market	4.59%	0.52%	–	0.65%

At December 31, 2012 and 2011, the Bank issued bank bonds certificates under the program authorized by the Banking Commission for up to $15,000, which issues are detailed below (see note 1a):

2012:

Number of securities	Interest payments	Rate	Emission ratio	Amount	Term
20,000,000	28 days	TIIE 28 days + 0.25%	13%	$ 2,000	3 years
2011:					
31,420,000	28 days	TIIE 28 days + 0.40%	21%	3,142	5 years
3,580,000	28 days	TIIE 28 days + 0.49%	2%	358	7 years
35,000,000				3,500	
========					
				$ 5,500	

Derived from program of bank bonds certificates authorized by the Banking Commission for an amount of $10,000, at December 31, 2011 the Bank issued 27,000,000 securities for $2,700, which issues are detailed below:

Number of securities	Interest payments	Rate	Emission ratio	Amount	Term
20,000,000	28 days	TIIE 28 days - 0.09%	20%	$ 2,000	5 years
4,000,000	semiannual	9.89%	4%	400	10 years
3,000,000	semiannual	9.75%	3%	300	13 years
27,000,000				$ 2,700	
========					

The nominal value of stock certificates is one hundred nominal pesos.

Accrued interest payable at December 31, 2012 and 2011, is $22 and $20, respectively.

(15) Bank and other borrowings-

At December 31, 2012 and 2011, bank and other borrowings are analyzed as follows:

	2012	2011
Due on demand	$ 1,068	–
Short-term:		
Pesos:		
Development banks [1]	1,540	2,112
Development agencies [1]	808	882
Accrued interest	16	27
	2,364	3,021
Denominated in dollars, translated into pesos:		
Development agencies [1]	161	117
Development banks [1]	31	7
	192	124
Total short term	2,556	3,145
Long-term:		
Pesos:		
Development banks [1]	–	6
Development agencies [1]	1,215	1,624
FOVI	195	248
	1,410	1,878
Denominated in dollars, translated into pesos:		
Development agencies [1]	35	23
Private domestic banks	519	559
	554	582
Total long-term	1,964	2,460
Total bank and other borrowings	$ 5,588	5,605

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

(Continued)

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, 2012 and 2011, the Bank has no significant interbank lines of credit with authorized amounts that have not been drawn down.

For the years 2012 and 2011, bank and other loans weighted average annual interest rates are as follows:

	2012 Rates		**2011 Rates**	
	Pesos	**Foreign currency**	**Pesos**	**Foreign currency**
Private domestic banks	4.30%	0.60%	4.43%	–
Central Bank	4.51%	–	4.53%	–
Development banks	5.91%	2.27%	6.12%	4.39%
Development agencies	4.31%	1.25%	5.06%	1.48%

(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, 2012 and 2011, the charge to operations for the Bank's contributions to the defined contribution pension plan amounted to $61 and $56, 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, 2012 and 2011.

(Continued)

The components of the net periodic cost (income) for the years ended December 31, 2012 and 2011 are as follows:

	Pensions			Seniority premium			Medical expenses, food coupons. life insurance
	Retirement	**Disability**	**Total**	**Retirement**	**Termination**	**Total**	**for retirees**
2012							
Service cost	$ 27	2	29	3	5	8	70
Interest cost	176	4	180	6	4	10	222
Return on plan assets	(164)	(5)	(169)	(5)	(6)	(11)	(240)
Amortization of prior service:							
Transition asset	–	–	–	–	–	–	(9)
Plan modifications	22	–	22	–	–	–	(14)
Actuarial loss (gain), net	9	–	9	–	–	–	33
Net periodic cost	70	1	71	4	3	7	62
Cost (income) recognition of actuarial gains generated in the year	–	(2)	(2)	–	(3)	(3)	–
Total cost (income)	$ 70	(1)	69	4	–	4	62
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, 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

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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, 2012:

		Pensions			Seniority premium			Medical expenses, food coupons, life insurance for retirees
		Retirement	Disability	Total	Retirement	Termination	Total	
Defined benefit obligations (DBO) as of December 31, 2011	$	(1,995)	(41)	(2,036)	(63)	(48)	(111)	(2,621)
Plan improvements		–	–	–	–	–	–	170
Current service cost		(27)	(2)	(29)	(3)	(5)	(8)	(70)
Interest cost		(176)	(4)	(180)	(6)	(5)	(11)	(222)
Paid benefits		203	1	204	5	6	11	111
Actuarial loss		(255)	–	(255)	(7)	–	(7)	(411)
Transfer of obligations		(43)	–	(43)	–	–	–	(7)
Additional recognition		(18)	–	(18)	–	–	–	–
DBO as of December 31, 2012		(2,311)	(46)	(2,357)	(74)	(52)	(126)	(3,050)
Plan assets at fair value		1,907	55	1,962	62	74	136	2,803
Financial situation of the fund		(404)	9	(395)	(12)	22	10	(247)
Past service for:								
Plan improvements		35	–	35	–	–	–	(192)
Cumulative actuarial gains		506	–	506	16	–	16	1,045
Projected asset, net as of December 31, 2012	$	137	9	146	4	22	26	606

A reconciliation of the net projected (liability) asset as of December 31, 2012 is analyzed as follows:

		Pensions			Seniority premium			Medical, expenses food coupons, life insurance, for retirees
		Retirement	Disability	Total	Retirement	Termination	Total	
Projected asset, net as of December 31, 2011	$	95	7	102	4	20	24	547
Net cost for fiscal year		(70)	(1)	(71)	(4)	(3)	(7)	(62)
Contributions to fund during 2012		112	1	113	4	3	7	121
Immediate recognition of gains and losses		–	2	2	–	2	2	–
Projected asset, net as of December 31, 2012	$	137	9	146	4	22	26	606

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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

(Continued)

Detail of acquired benefit obligations (ABO) as of December 31, 2012 and 2011 follows:

		Pensions			Seniority premium			Medical expenses food coupons life insurance, for retirees
		Retirement	Disability	Total	Retirement	Termination	Total	
2012								
ABO	$	(1,583)	–	(1,583)	(8)	(45)	(53)	(1,246)
2011								
ABO	$	(1,436)	–	(1,436)	(7)	(43)	(50)	(1,073)

Below is an analysis of movements of the plan assets required for covering the employee benefit obligations for the years ended December 31, 2012 and 2011:

		2012	2011
Fair value of the assets at beginning of year	$	4,383	4,298
Plan contributions during the year		243	260
Return on plan assets		549	108
Increase for personnel transfer		50	–
Payments from the fund during the year		(324)	(283)
Fair value of the assets at end of year	$	4,901	4,383

During the years ended 2012 and 2011, the expected return on the plan assets are $420 and $382, respectively.

During the year 2013, contributions to the fund in the amount of $241 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, 2012 and 2011.

(Continued)

		2012	2011
Acquired benefit obligations (ABO)	$	(259)	(243)
DBO at beginning of year	$	(243)	(235)
Current service cost		(16)	(15)
Interest cost		(20)	(19)
Benefits paid		106	74
Actuarial loss		(86)	(48)
DBO at December 31		(259)	(243)
Plan assets		–	–
Fund financial situation		(259)	(243)
Prior service:			
Transition liability		–	30
Projected liability, net	$	(259)	(213)

The net cost of statutory compensation benefits for the years ended December 31, 2012 and 2011, amounted to $153 and $112, respectively.

The nominal rates as of December 31, 2012 and 2011 used in actuarial projections are as follows:

	2012	2011
Return on plan assets	8.00%	9.75%
Discount rate	8.00%	9.25%
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.

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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	6.50%	$ 2,370
1% increase in medical inflation rate	7.50%	$ 2,843
1% decrease in medical inflation rate	5.50%	$ 2,001

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, 2010, 2009 and 2008 follows:

	Pensions		
	2010	2009	2008
DBO	$ (2,049)	(1,895)	(1,737)
Plan assets	1,827	1,660	1,394
Financial situation of the fund	$ (222)	(235)	(343)
Variances in assumptions and experience adjustments	$ (76)	232	335

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		Seniority premiums		
		2010	**2009**	**2008**
DBO	$	(101)	(98)	(90)
Plan assets		125	110	94
Financial situation of the fund	$	24	12	4
Variances in assumptions and experience adjustments	$	7	(3)	8

		Medical expenses, food coupons and life insurance		
		2010	**2009**	**2008**
DBO	$	(2,516)	(1,982)	(1,820)
Plan assets		2,346	1,997	1,511
Financial situation of the fund	$	(170)	15	(309)
Variances in assumptions and experience adjustments	$	(364)	480	(195)

		Statutory severance compensation		
		2010	**2009**	**2008**
DBO	$	(235)	(281)	(270)
DBO losses	$	37	–	3

As of December 31, 2012, 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.

	Pensions		Seniority premium		Medical expenses, food coupons, life insurance,	Statutory severance
	Retirement	Disability	Retirement	Termination	for retirees	compensation
Prior service –plan improvements	9.49	1.0	10.22	1.0	14.73	N/A
Actuarial loss (gain), net	13.51	Immediate	13.02	Immediate	14.90	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 rate for fiscal years of 2011 and 2012 is 30%, for 2013 the rate is 30% for 2014 shall be 29%, and for 2015 and thereafter, 28%. The IETU and ESPS rates for 2011 and 2012 are 17.5% and 10%, respectively.

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, 2012 and 2011 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:

	2012		2011	
	IETU/IT	ESPS	IT	ESPS
Current IT:				
Bank	$ 834	278	622	210
2011 canceled provision	(31)	(10)	–	–
Inmobiliaria	19	–	17	–
Derivative market entities	1	–	1	–
Current IETU:				
Service entities	1	–	1	–
Total current	824	268	641	210
Deferred	(304)	(102)	106	38
	$ 520	166	747	248

(Continued)

Deferred IT and ESPS:

The deferred tax asset at December 31, 2012 and 2011 comprises the following:

	2012		2011	
	IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:				
Trading	$ 70	23	85	28
Available-for-sale	(93)	(31)	(103)	(34)
Cash flow hedge swaps	107	36	58	19
Expense accruals and others	323	106	224	74
Premises, furniture and equipment	(82)	56	(106)	50
Unearned fees collected	302	101	295	99
Pension plan	(233)	(78)	(201)	(68)
Foreclosed assets	224	75	114	38
Allowance in excess [1]	259	93	148	53
	877	381	514	259
	$ 1,258		773	

Deferred IT and ESPS credits (charges) to results of operations and stockholders' equity, for the years ended December 31, 2012 and 2011 are presented below:

	2012		2011	
	IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:				
Trading	$ (15)	(5)	(7)	(3)
Available-for-sale	10	3	(30)	(10)
Cash flow hedge swaps	49	17	37	12
Expense accruals and others	99	32	(54)	(17)
Premises, furniture and equipment	24	6	(4)	(4)
Unearned fees collected	7	2	10	4
Pension plan	(32)	(10)	(26)	(10)
Foreclosed assets	110	37	(25)	(8)
Allowance in excess	111	40	–	–
	363	122	(99)	(36)
	$ 485		(135)	

[1] Net of valuation allowance

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	2012		2011	
	IT	ESPS	IT	ESPS
Deferred tax:				
In results of operations	$ 304	102	(106)	(38)
In stockholders' equity:				
Valuation in available-for-sale securities	10	3	(30)	(10)
Valuation of cash flow hedge swaps	49	17	37	12
	363	122	(99)	(36)
	$ 485		(135)	

The following is an analysis of the effective tax rate of the Bank for the fiscal years ended at December 31, 2012 and 2011:

	IT			ESPS
	Tax Base	Tax at 30%	Effective rate	at 10%
December 31, 2012				
Operating income	$ 4,232	(1,269)	(30%)	(423)
Allocation to current tax:				
Adjustment for effects of inflation	(637)	191	5%	64
Mark to market of investment securities	17	(5)	–	(2)
Depreciation and amortization	(27)	8	–	3
Non-deductibles expenses	225	(68)	(2%)	(22)
Deduction for provision for loan losses	(1,433)	430	10%	143
Current and deferred ESPS	167	(50)	(1%)	(17)
Deduction ESPS paid in the year	(150)	45	1%	15
Tax recoveries and others, net	387	(116)	(3%)	(39)
Current tax	2,781	(834)	(20%)	(278)
Allocation to deferred tax: (30% tax rate)				
Mark to market of investment securities	50	(15)	–	(5)
Provisions and others	(326)	98	2%	33
Premises, furniture and equipment	(54)	17	–	6
Pension plan	107	(32)	(1%)	(11)
Foreclosed assets	(368)	110	3%	37
Unearned fees collected	(22)	6	–	2
Allowance in excess (28%)	(396)	111	3%	40
Deferred tax	(1,009)	295	7%	102
Income tax	$ 1,772	(539)	(13%)	(176)

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	IT			ESPS
	Tax Base	**Tax at 30%**	**Effective rate**	**at 10%**
December 31, 2011				
Operating income	$ 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 rate)				
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)

(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, 2012 and 2011, 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.

(Continued)

(b) Dividends declared-

At December 31, 2012 and 2011, the Bank declared and paid dividends as shown below:

Date of decree	Amount	Payment date in 2012	Amount	Payment date in 2011	Amount
12-oct-12	$ 300	Oct, 19	$ 300	-	$ -
30-apr-12	1,000	Aug, 31 / Nov, 30	1,000	-	$ -
25-nov-11	1,800	Mar, 30 / May, 31	1,000	Nov, 30	800
28-apr-11	1,300	-	-	May, 27/Aug, 26 and Nov, 30	1,300
27-mar-09	2,000	-	-	Mar, 18/May, 27	610
			$ 2,300		$ 2,710

At year end 2012, there are no unpaid dividends. At December 31, 2011 the balance outstanding dividend was $800.

(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)

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, 2012 the capital contribution account (CUCA) and the tax basis retained earnings account (CUFIN) of the Bank amount to $7,624 and $3,129, 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, 2012 and 2011, 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:

	2012	2011
Stockholders' equity	$ 29,674.2	27,287.4
Investments in financial services entities and their holding companies	(664.5)	(659.6)
Investments in other companies	–	(77.7)
Deferred tax deduction	(351.9)	(201.4)
Deferred assets classed as basic	351.9	201.4
Intangible assets and deferred taxes	(2,376.2)	(2,285.4)
Basic capital (Tier 1)	26,633.5	24,264.7
General allowance for loan loss – Supplementary capital (Tier 2)	435.6	390.1
Net capital (Tier 1 + Tier 2)	$ 27,069.1	24,654.8

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Assets at risk as of December 31, 2012:

		Risk weighted assets	Capital requirement
Market risk:			
Transactions in Mexican pesos at nominal interest rates	$	12,507.9	1,000.6
Transactions with debt securities in pesos with premium and adjustable rates		2,477.1	198.2
Transactions in Mexican pesos at real interest rates or denominated in UDIS		1,573.0	125.8
Positions in UDIS or with returns linked to the INPC		7.0	0.6
Foreign currency transactions at nominal interest rates		1,459.5	116.8
Foreign currency positions or with exchange rate indexed returns		89.6	7.2
Equity positions or with returns indexed to the price of a single share or group of shares		176.9	14.2
Total market risk		18,291.0	1,463.4
Credit risk:			
Group II (weighted at 20%)		67.5	5.4
Group II (weighted at 100%)		911.3	72.9
Group III (weighted at 20%)		1,929.1	154.3
Group III (weighted at 50%)		1,226.4	98.1
Group III (weighted at 100%)		2.3	0.2
Group IV (weighted at 20%)		250.8	20.1
Group V (weighted at 20%)		181.9	14.6
Group V (weighted at 50%)		435.3	34.8
Group V (weighted at 115%)		1,362.9	109.0
Group V (weighted at 150%)		748.8	59.9
Group VI (weighted at 50%)		13,304.5	1,064.4
Group VI (weighted at 75%)		12,376.4	990.1
Group VI (weighted at 100%)		24,888.4	1,991.1
Group VII-A (weighted at 20%)		751.6	60.1
Group VII-A (weighted at 23%)		88.7	7.1
Group VII-A (weighted at 50%)		710.4	56.8
Group VII-A (weighted at 57.5%)		2,632.6	210.6
Group VII-A (weighted at 100%)		44,305.6	3,544.5
Group VII-A (weighted at 120%)		8.5	0.7
Group VII-A (weighted at 150%)		50.1	4.0
Group VIII (weighted at 125%		2,634.4	210.8
Group IX (weighted at 100%)		24,898.8	1,991.9
Total credit risk		133,766.3	10,701.4
Operational risk		19,582.4	1,566.6
Total market, credit and operational risk	$	171,639.7	13,731.4

(Continued)

Capitalization indices as of December 31:

	2012	**2011**
Capital to credit risk assets:		
Basic capital (Tier 1)	19.91%	20.47%
Supplementary capital (Tier 2)	0.33%	0.33%
Net capital (Tier 1 + Tier 2)	20.24%	20.80%
Capital to market credit and operational risk assets:		
Basic capital (Tier 1)	15.52%	15.46%
Supplementary capital (Tier 2)	0.25%	0.25%
Net capital (Tier 1 + Tier 2)	15.77%	15.71%

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.

The "Resolution Amending the General Provisions Applicable to Credit Institutions" (the Resolution) was published in the Federal Official Gazette on November 28, 2012. The purpose of such Resolution is to strengthen the composition of net capital of credit institutions to reflect the most recent international consensus on the matter, pursuant to the guidelines established by the Basel Committee on Banking Supervision (Basel III). The Resolution will become effective on January 1, 2013, except for the transition articles thereof, which stipulate the coming into force of certain provisions at a later stage.

The Bank's management estimates that the application of this Resolution shall not have significant effects on its capitalization ratio.

At December 31, 2012, the net capital structure of $27,069 increased 9.79% from $24,654.8 in 2011 due to the reserves generated in the year for $2,841.6.

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)

(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, 2012 and 2011, are analyzed as follows:

Other related parties	**2012**	**2011**
Income:		
Awards and interests for repurchase agreement	$ 636	383
Rents and maintenance	2	2
Commissions	135	56
Financial intermediation income	–	11
Financial advice	31	31
Co-distribution and administrative services	353	383
Others	25	1
	$ 1,182	867
Expenses:		
Financial intermediation income	$ 27	–
Interest paid	1	48
Commissions	10	42
Awards and interests for repurchase agreement	604	223
Financial advice	500	280
Rents	9	8
Fees	101	50
Others	36	39
	$ 1,288	690

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Balances receivables and payables from related parties as of December 31, 2012 and 2011 are as follows:

Controller		**2012**	**2011**
Payable:			
Demand deposits	$	12	16
Other accounts payables		-	1,000
		12	1,016
Other related parties			
Receivable:			
Cash and cash equivalents	$	123	3
Debtor under repurchase/resell agreements		10,611	3,337
Derivatives		3,306	5,225
Commercial loans		5,387	2,256
Co-distribution		27	25
Other accounts receivable		6	17
	$	19,460	10,863
Payable:			
Demand deposits	$	2,443	1,961
Creditors under repurchase/resell agreements		22,476	5,430
Derivatives		3,373	5,035
Other accounts payables		290	77
	$	28,582	12,503

For the years ended December 31, 2012 and 2011 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, except credit operations where reserves are created according to the methodology of the Banking Commission.

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, 2012 and 2011 amount to $7,583 and $2,715, respectively. The deposits made by related parties as of December 31, 2012 and 2011 amount to $2,466 and $1,957, respectively.

For the years ended December 31, 2012 and 2011, the benefits granted to senior management amounted to $226 and $136, respectively.

(Continued)

(20) Memorandum accounts-

(a) Loan commitments -

Lines of credit:
At December 31, 2012 and 2011, the balance of lines of credit amounted to $349,443 and $333,738, respectively.

Letters of credit:
At December 31, 2012 and 2011, the Bank has letters of credit for $6,812 and $4,267, respectively.

At December 31, 2012 and 2011, the allowance for credit letters amounts to $49 and $40, respectively, and are included in the allowance for loan losses.

(b) Assets in trust or under mandate-

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2012 and 2011, is analyzed as follows:

	2012	2011
Trust:		
Administrative	$ 121,115	122,662
Guarantee	4,991	4,394
Investment	1,061	887
	127,167	127,943
Mandates	28,906	26,833
	$ 156,073	154,776

Trust revenue accrued for the years ended December 31, 2012 and 2011 amounted $194 and $201, respectively and were recorded in the caption "Commission and fee income".

(Continued)

(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, 2012 and 2011, the assets in custody are analyzed as follows:

		2012	2011
Securities in custody:			
Securities	$	193	162
General		418	298
Investment		1,206	1,059
Securities management		9,525	9,525
Other		156	1,013
		11,498	12,057
Securities under management:			
Securities		43,861	41,446
Other		1,773	1,773
		45,634	43,219
Transactions with derivative financial instruments on behalf of third parties:			
Futures		362,633	426,816
Options		10	144
		362,643	426,960
	$	419,775	482,236

Income arising from securities in custody for the years ended December 31, 2012 and 2011 amounts to $5 and $4, 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, 2012 and 2011 are analyzed on the next page.

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		2012	2011
Collaterals received by the entity:			
Repurchase / resell agreements:			
BPAS	$	-	3,032
LD BONDES		16,203	8,395
BPAT		-	8,291
BPA 182		10,623	1,121
BPAG		3,078	-
BONOS M		4,833	2,000
BI CETES		11	358
PRLV		200	800
CBIC		-	500
CBUR		151	-
CBBN		307	-
		35,406	24,497
Guarantees received for derivatives transactions		8	-
Guarantees received for credit operations		23,352	23,867
Total collateral received by the entity	$	58,766	48,364

		2012	2011
Collaterals received and sold or pledged by the entity:			
LD BONDESD	$	13,714	7,134
BONOS M		2,901	2,000
BPA 182		3,648	1,121
BI CETES		-	1,172
BPAT		-	6,124
BPAS		-	2,729
CBIC		-	500
CBBN		307	-
CBUR		151	-
BPAG		1,280	-
	$	22,001	20,780

(Continued)

(e) Investments on behalf of customers-

As of December 31, 2012 and 2011 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:

		2012	2011
Equities and others	$	1,067	4,042
Government securities		50,031	29,833
Mutual funds		30,463	28,006
Bank securities not issued by the Bank		2,896	2,053
	$	84,457	63,934

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, 2012 and 2011, income by segment is analyzed as follows:

		Credit and services	Trading and Treasury	Total
December 31, 2012				
Interest income, net	$	9,341	1,064	10,405
Commissions and fee income, net, financial intermediation income and other operating income (expenses)		5,219	686	5,905
Net operating revenues		14,560	1,750	16,310
Allowance for loan losses		(1,450)	–	(1,450)
Administrative and promotional expenses		(9,962)	(538)	(10,500)
Income before income taxes and equity in the results of operations of associated companies	$	3,148	1,212	4,360
Equity in the results of operations of associated companies				1
Current and deferred income taxes, net				(520)
Net income				3,841

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	Credit and services	Trading and Treasury	Total
December 31, 2011			
Interest income, net	$ 9,208	552	9,760
Commissions and fee income, net, financial intermediation income 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 income taxes and equity in the results of operations of associated companies	$ 2,759	858	3,617
Equity in the results of operations of associated companies			2
Current and deferred income taxes, net			(747)
Net income			$ 2,872

(b) Financial margin-

For the years ended December 31, 2012 and 2011, the financial margin in the consolidated statement of income consists of the following elements:

Interest income:

Interest income for the years ended December 31, 2012 and 2011 is comprised as follows:

	Credit and services	Trading and treasury	Total
December 31, 2012			
Cash and cash equivalents	$ –	785	785
Margin accounts	–	5	5
Investment securities	–	1,032	1,032
Securities under repurchase/resell agreements	–	1,944	1,944
Current loan portfolio	11,742	–	11,742
Past due loan portfolio	24	–	24
Loan origination fees	312	–	312
Valuation gain	–	35	35
	$ 12,078	3,801	15,879

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December 31, 2011		Credit and services	Trading and treasury	Total
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

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2012 and 2011:

		2012		2011	
		Current	Past due	Current	Past due
Commercial	$	2,934	15	2,785	10
Financial institutions		199	2	198	3
Consumer		3,294	7	3,090	11
Residential mortgages		5,357	–	5,020	3
Government entities		270	–	515	–
	$	12,054	24	11,608	27
		$ 12,078		11,635	

For the years ended December 31, 2012 and 2011, within total interest income from commercial, consumer and residential loans commissions are recorded that represent a yield adjustment of 0.17%, 0.58% and 0.20% for 2012, as well as 0.20%, 1.17% and 0.24% for 2011, respectively.

For the years ended December 31, 2012 and 2011, total interest income includes interest denominated in foreign currency amounting to 25 and 22 USD, respectively.

(Continued)

Loan origination fees for the years ended December 31, 2012 and 2011 are comprised as shown as follows:

		2012	2011
Commercial loans	$	97	104
Consumer loans		118	112
Residential mortgages loans		97	97
	$	312	313

Amortization periods for the fees are from 12 to 360 months.

Interest expense:

Interest expense for the years ended December 31, 2012 and 2011 is comprised of the following:

		Credit and Services	Trading and Treasury	Total
2012				
Demand deposits	$	649	–	649
Time deposits		1,877	–	1,877
Credit securities issued		–	351	351
Bank and other borrowings		–	254	254
Securities under repurchase/resell agreements		–	2,120	2,120
Residential mortgages loan origination fees and expenses		212	–	212
Valuation loss		–	11	11
	$	2,738	2,736	5,474
2011				
Demand deposits	$	528	–	528
Time deposits		1,801	–	1,801
Credit securities issued		–	351	351
Bank and other borrowings		–	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

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(c) Commission and fee income-

For the years ended December 31, 2012 and 2011, the commission and fee income are analyzed as follows:

		2012	2011
Letters of credit with no refinancing	$	60	45
Account handling		456	164
Trust activities		194	201
Fund transfers		65	59
Electronic banking services		230	205
Credit transactions		921	787
Other fees and commissions collected		686	749
	$	2,612	2,210

(d) Financial intermediation income-

For the years ended December 31, 2012 and 2011, financial intermediation income is analyzed as follows:

		2012	2011
Unrealized:			
Investment securities	$	(122)	37
Derivatives:			
Trading		45	39
Hedging		(22)	2
Securities available for sale in hedge		25	2
Foreign currencies and precious metals		412	(124)
		338	(44)
Realized:			
Investment securities		620	478
Derivatives:			
Trading		(821)	(175)
Foreign currencies and precious metals		549	564
		348	867
	$	686	823

(Continued)

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(e) Other operating income (expenses)-

For the years ended December 31, 2012 and 2011, other operating income is analyzed as follows:

		2012	2011
Recoveries of loan portfolio	$	576	502
Dividends		47	20
Donations		(12)	(16)
Income on sale of foreclosed assets		145	291
Income from securitization		42	23
Taxation		23	118
Income from the purchase of securities in trust (note 10)		358	400
Other recoveries		48	282
Income from credit insurance		791	680
Transfer of securities		68	102
Distribution of shares of mutual funds		313	282
Loans to employees		80	76
Food stamps		170	160
Write-offs and losses		(227)	(394)
Others		573	576
	$	2,995	3,102

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(f) Financial ratios-

The following are the main quarterly financial ratios of the Bank as of and for the years ended December 31, 2012 and 2011:

	2012			
	Fourth	**Third**	**Second**	**First**
Delinquency index	2.3%	2.6%	2.6%	2.5%
Coverage of past due loan portfolio index	118.5%	102.9%	109.3%	117.1%
Operating efficiency (*administrative and promotional expenses / average total assets*)	5.0%	5.5%	5.5%	5.4%
ROE (*annualized net income for the quarter / average stockholders' equity*)	7.4%	15.1%	16.3%	15.1%
ROA (*annualized net income for the quarter / average total assets*)	1.1%	2.2%	2.3%	2.3%
Net capital / Assets at credit risk	20.24%	22.25%	21.73%	22.02%
Net capital / Assets at credit, market and operational	15.77%	17.20%	16.74%	16.63%
Liquidity (*liquid assets / liquid liabilities*)	78.9%	81.7%	66.8%	64.4%
Financial margin after allowance for loan losses / Average earning assets	4.0%	5.8%	5.6%	5.0%

	2011			
	Fourth	**Third**	**Second**	**First**
Delinquency index	2.7%	2.6%	2.9%	3.3%
Coverage of past due loan portfolio index	115.0%	116.6%	113.2%	105.6%
Operating efficiency (*administrative and promotional expenses / average total assets*)	5.9%	5.5%	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*)	52.7%	58.3%	64.8%	58.8%
Financial margin after allowance for loan losses / Average earning assets	4.3%	4.7%	5.0%	4.7%

(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, 2012 and 2011, amounted to $830 and $784 respectively.

(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 (unaudited)-

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.

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.

(Continued)

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 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.

(Continued)

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.

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 Risk Management Committee has approved stress limits.

(Continued)

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 2012, are as follows:

	Position			VaR	
Product	**Average**	**Maximum**	**Limit**	**Average**	**Limit**
Bank	$ 144,205	171,300		7.87	52.5
Pesos:					
Money market	30,208	44,875	105,000	7.75	
Interest rate swaps	93,845	110,284	207,000	1.66	
Interest rate futures [2]	–	–	–	1.63	
Forwards of CETES [3]	5,294	9,900	10,000	0.001	
Caps & Floors	1,667	2,648	2,500	0.10	
Interest rate market and rate derivates [4]	131,014	167,707	324,500	7.38	50.0
Shares	40	63	206	1.28	13.0
IPC futures	–	–	2,880		
Share portfolio [3]	$ 40	63	3,086	1.28	13.0

(Continued)

Product	Position Average	Position Maximum	Position Limit	VaR Average	VaR Limit
Dollars:					
Forwards and futures foreign exchange contracts [5] [6] [7]	$ 968	1,614	4,020	2.62	
Foreign exchange market [5] [6]	0.9	12	55	0.54	
Foreign currency options [6]	47	75	800	1.39	
Foreign currency futures [3]					
Foreign currency swaps [6]	65	66	600	0.02	
Forwards of precious metals [6]	4.2	10.2	50	1.84	
Options of precious metals [6]	–	–	200	0.00	
Spot of precious metals [6]	3.9	5.1	10	1.47	
Foreign exchange and foreign currency derivatives and precious metals [4]	$ 1,089	1,782.3	5,735	1. 31	16.5

(1) VaR expressed in millions of pesos.
(2) Position and limit on the number of contracts traded in MexDer.
(3) Special position of the Treasury.
(4) Observed period (holding period) of the Foreign Exchange VaR, Capital and Interest rates and limits of 1 day.
(5) The Forwards position is a gross position (long + short) and Foreign Exchange position is net (long - short).
(6) Figures expressed in millions of dollars.
(7) Include the net position of foreign exchange forwards from the Treasury.

The Bank's average 1 day global VaR during the fourth quarter of 2012 was $7.87 and the global VaR at December 31, 2012 was $11.88.

For interpreting VaR and by way of example, the average one-day value at risk for the Bank in the money market is $7.38. This means that, under normal conditions, the maximum potential loss in 99 out of 100 days may be up to $7.38.

During the fourth quarter of 2012, 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.

(Continued)

Below are the positions in number of contracts traded:

Underlying asset	Average	Maximum	Limit
28-day TIIE futures	72,730	102,589	945,000
91-day Cetes futures	177	1,000	90,000
M bond futures[1]	-	-	37,550
Swaps futures	15	250	1,000
Total interest rate futures[2]	72,922	103,839	1,073,550
Total dollar futures[2]	-	-	5,000

[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, 2012 was $598.1, 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 quarter Oct-Dec/12, there were excesses in the P&L with regard to the VaR of Capitals, Global FX and Global Casa de Bolsa owing to the high volatility in the interest rate, capitals and currency markets in Q4/2012.

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.

(Continued)

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.

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.

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Quantitative information on sensitivities.

Quantitative information of interest rate sensitivities

Below are the sensitivities to 1 basis point as of September 30, 2012 and December 31, 2012:

Sensitivity 1bp	**September 2012**	**December 2012**
Fixed rate	0.292	0.820
Revisable rate	0.020	0.052
Subtotal interest rate	0.312	0.872
Futures	0.071	0.014
Swaps	0.061	(0.030)
Subtotal interest rate derivatives	0.132	(0.016)
Total	0.444	0.856

At December 31, 2012, the Bank presents sensitivity in its interest rate portfolios of $0.856, which indicates that for each basis point the interest rate decreases, the group would earn a profit of $0.856.

Compared with the preceding quarter, there was an increase in long positions of M bonds and Swaps portfolio and sensitivity was increased to $0.856.

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

(Continued)

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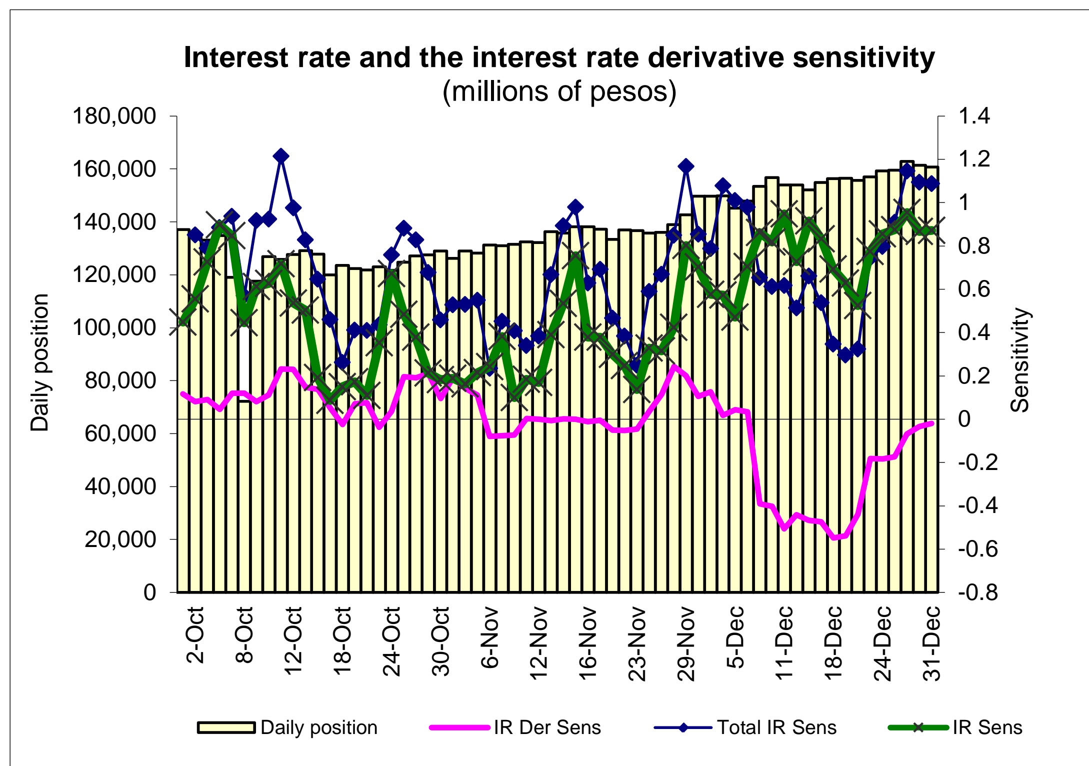
Bellow is a chart showing the trend of the sensitivity to interest rates and interest rate derivatives as the net effect of the portfolio, the total daily position for the period of October to December 2012.



The graph shows that at quarter’s close, the daily sensitivity for interest rates increases compared to the preceding quarter, equivalent to $0.856.

The following table shows statistics for the fourth quarter of 2012, maximum, minimum and average. On average, the sensitivity was $0.488.

Sensitivities 1 bp		**Average**	**Maximum**	**Minimum**
Interest rate	$	0.512	0.954	0.087
Rates derivatives		(0.024)	0.243	(0.549)
Total	$	0.488	1.197	(0.462)

(Continued)

Sensitivities for the shares portfolio and IPC derivatives.

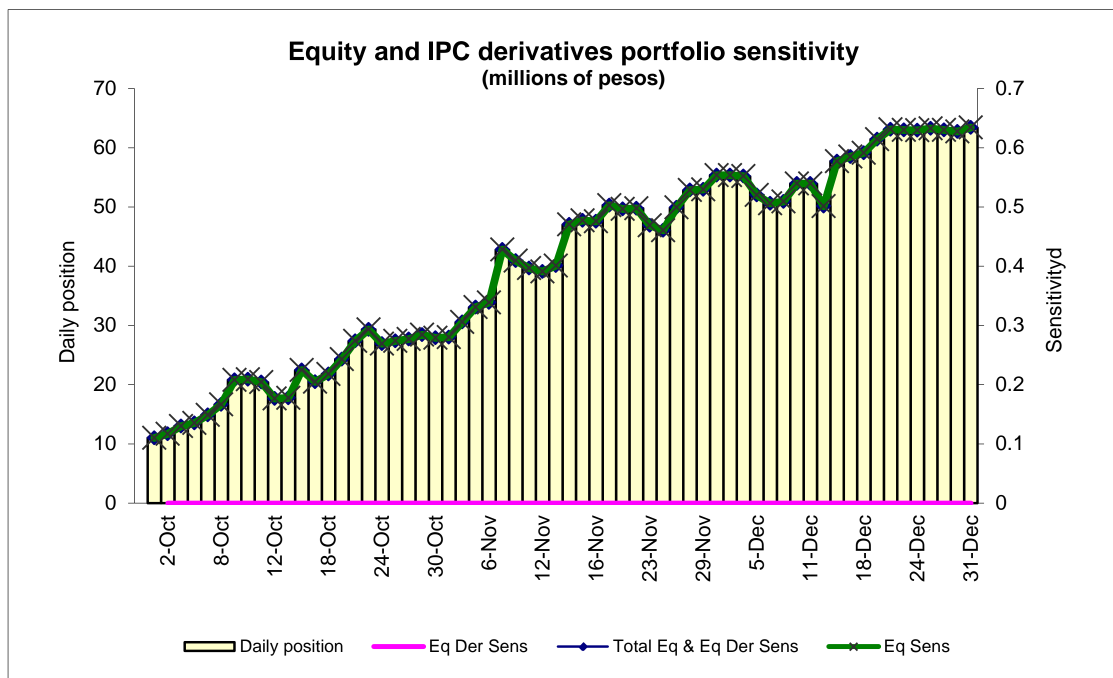
Below are presented the sensitivities at September 28 and December 31, 2012:

	September 2012	December 2012
Total shares	0.133	0.634

During the quarter, the Capital desk continued with its strategy of conducting intraday transactions. Compared with the preceding quarter, it recorded an increase in the position, the most relevant are EWZ* (Brazilian index), AMX L (Telecomunicatios) y FCX* (Mining).

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

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



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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 $0.401.

Sensitivities	Average	Maximum	Minimum
Shares	$ 0.401	0.634	0.110

Below are the sensitivities as of September 28 and December 31, 2012:

Exchange rate	September 2012	December 2012
USD	(0.004)	(0.049)
CAD	-	0.065
EUR	(0.022)	0.111
Other	0.039	0.037
Subtotal	0.013	0.164
Forwards and DEUA futures	0.00009	(0.00203)
OTC Options of MXN/USD	-	(0.00031)
Swaps	(0.00013)	(0.00011)
Subtotal	(0.00004)	(0.0024)
Total	0.013	0.0162

During the fourth quarter of 2012 the exchange rate sensitivity increased to $0.162. Forwards and currency option position was increased. 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.

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

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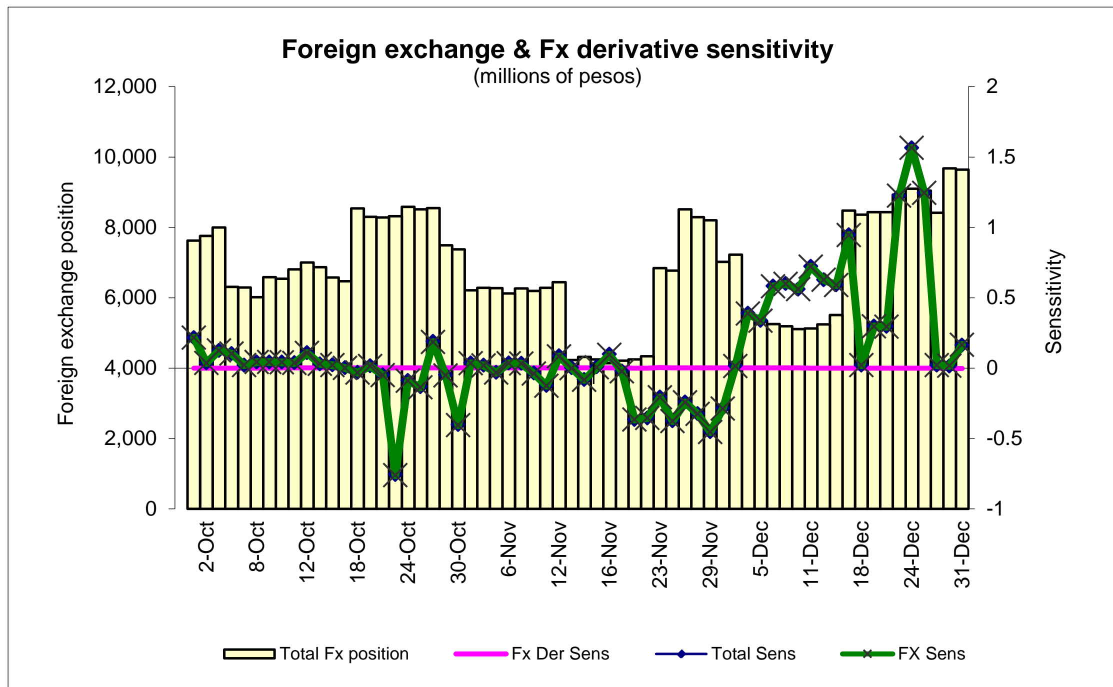
The following is the daily trend of the sensitivities for this portfolio:



The currency portfolio position increased as a result of the increase in the forward and options position.

The sensitivity quarterly of the currency and currency derivatives portfolio on average was $0.117.

Sensitivities		Average	Maximum	Minimum
Currency		0.115	1.565	(0.760)
Currency derivatives		0.002	0.003	(0.003)
Total	$	0.117	1.568	(0.763)

(Continued)

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

Below is the position and the sensitivities of the currency options portfolio at December 31, 2012:

Greeks	Delta	Gamma	Vega	Theta	Rho
Exchange rate options MXN/USD	0.4218	(0.0326)	(0.9537)	0.0026	0.0259

Market risk treatment in available-for-sale securities- At December 31, 2012, the position of the Bank's available-for-sale securities amounts to $24,283.2. 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, 2012, the sensitivity of investment securities classified as available-for-sale and held-to-maturity represent 0.02% and 0.09%, respectively, of the book value. The sensitivity was realized for all of the non-impaired securities.

	Available for sale	Held to maturity
Exposure	$ 24,382.2	2,063.2
Sensitivity ($)	4.85	1.85
Sensitivity (%)	0.02	0.09

For comparative purposes below are the sensitivities at the end of September 2012.

	Available for sale	Held to maturity
Exposure	$ 23,671.5	2,041.5
Sensitivity ($)	2.37	1.43
Sensitivity (%)	0.01	0.07

(Continued)

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:

Description		2012	2011
a) Variation in economic value (Impact on economic value of 100 bp. parallel changes in rates)	$	778	573
b) Variation in financial income - 12 months (Impact on margin of 100 bp. parallel changes in rates)	$	325	300

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:

Accumulated repricing gaps – Mexican pesos + UDIS		Exposure 2012-Q4	Exposure 2011-Q4
3 months	$	24,882	19,054
6 months		-	19,419
12 months		(11,419)	26,633
2 years		-	3,280
3 years		-	(5,655)
5 years		(3,965)	285
10 years		14,270	15,544
15 years		3,984	19,050
20 years		752	19,050
30 years		-	19,070
	$	28,504	135,730

* On November 1, new limits for monitoring reprising gaps were approved.

(Continued)

Exposure Accumulated repricing gaps – Dollars		Exposure 2012-Q4 (Millions of dollars)	2011-Q4 (Millions of dollars)
3 months		416	581
6 months		-	600
12 months		(137)	582
2 years		-	230
3 years		-	89
5 years		(188)	73
10 years		5	77
15 years		7	77
30 years		-	82
	$	28,504	135,730

* On November 1, new limits for monitoring reprising gaps were approved.

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. In the next page is shown the Bank's average exposure for 2-week accumulated gaps and average liquid assets for the last quarter of 2012 and 2011.

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Description		**2012**	**2011**
Two-week accumulated gap (Mexican pesos + UDIs)	$	(9,609)	(6,372)
Liquid assets		5,073	5,193

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 close of December and September 2012:

Maturity (years)		Held to maturity	Available for sale	Trading	Total for maturity period	Concentration
December 2012						
0.5	$	–	2,968	5,428	8,396	21%
1		–	49	(25)	24	–
2		–	2,300	702	3,002	7%
3		767	18,456	6,494	25,717	63%
4		1,296	–	1,448	2,744	7%
>=5		–	–	49	49	–
Without Maturity		–	510	61	571	2%
Total	$	2,063	24,283	14,157	40,503	100%
Concentration		5%	60%	35%	100%	
September 2012						
0.5	$	–	5,159	3,956	9,115	27%
1		–	1,312	537	1,849	6%
2		–	1,566	1,731	3,297	10%
3		759	15,138	853	16,750	50%
4		1,282	–	521	1,803	5%
>=5		–	–	–	–	–
Maturity		–	497	12	509	2%
	$	2,041	23,672	7,610	33,323	100%
Concentration		6%	71%	23%	100%	

Trading includes value date sales.

Bank information not considering consolidation effects of subsidiaries.

(Continued)

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, 2012:

Assets cash flows (Pesos)			Liabilities cash flows (Pesos)		
Date		**Amount**	**Date**		**Amount**
03/12/2012	$	450	03/12/2012	$	50
05/12/2012	$	1,700	04/12/2012	$	30
06/12/2012	$	1,050	05/12/2012	$	660
07/12/2012	$	500	06/12/2012	$	870
11/12/2012	$	400	07/12/2012	$	600
13/12/2012	$	1,050	10/12/2012	$	1,000
14/12/2012	$	1,000	11/12/2012	$	300
27/12/2012	$	50	13/12/2012	$	1,100
–		–	14/12/2012	$	100
–		–	17/12/2012	$	300
–		–	18/12/2012	$	650
–		–	19/12/2012	$	400
–		–	20/12/2012	$	400
–		–	21/12/2012	$	1,420
–		–	24/12/2012	$	300
–		–	26/12/2012	$	680
–		–	27/12/2012	$	450
–		–	28/12/2012	$	50
Total	$	6,200	Total	$	9,360

(c) Credit risk-

Transactions with customers create credit risk exposure. This exposure is recorded in both the balance sheet and memorandum accounts. Exposure to credit risk recorded in the 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.

(Continued)

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.

(Continued)

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.

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.

(Continued)

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

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.

(Continued)

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.

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.

(Continued)

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.

(Continued)

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.

(Continued)

- 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.

- 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 2012 and 2011:

		2012		**2011**	
		Closing	**Average**	**Closing**	**Average**
Exposure	$	198,420	187,012	183,066	174,860
Unexpected losses[/1]		10,557	16,095	16,245	15,556
Expected losses[/1]		2,269	2,974	2,384	2,397

[/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.

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 2012:

Maturuty (years)		Held to maturity	Available for sale	Trading	Total for risk type	Concentration
December 2012						
mxAAA	$	2,063	19,324	14,059	35,446	87%
mxAA		–	225	20	245	1%
mxA		–	1,937	14	1,951	5%
mxBBB		–	2,288	–	2,288	6%
Not rated		–	509	64	573	1%
	$	2,063	24,283	14,157	40,503	100%
Concentration		5%	60%	35%	100%	
September 2012						
mxAAA	$	2,042	15,798	7,451	25,291	76%
mxAA		–	199	–	199	1%
mxA		–	3,901	47	3,948	12%
mxBBB		–	2,272	100	2,372	7%
mxBB		–	1,004	–	1,004	3%
Not rated		–	497	12	509	1%
	$	2,042	23,671	7,610	33,323	100%
Concentration		6%	71%	23%	100%	

(Continued)

Bank's information, without considering the effects of consolidation with subsidiaries.

Credit risk in derivatives operations

Below is the maximum exposure and concentration by counterparty type at the end of December and September 2012:

Counterparty type	Exposition	%
December		
Financial institutions	$ 24,066	99.3
Corporations	179	0.7
Total maximum exposure	$ 24,245	100
September		
Financial institutions	$ 21,113	97.0
Corporations	737	3.0
Total maximum exposure	$ 21,850	100

(Continued)

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 2012 close, according to the Banking Commission scale:

(MXP) Rating		September 2012		December 2012	
		Amount	Total %	Amount	Total %
A1	$	3,950	57.8%	2,804	48.3%
A2		1,654	24.2%	1,541	26.5%
B1		1,169	17.1%	1,295	22.3%
B2		15	0.2%	89	1.5%
B3		12	0.2%	63	1.1%
C1		16	0.2%	–	–
C2		17	0.2%	15	0.3%
E		6	0.1%	4	–
Total	$	6,839	100%	5,811	100%

(USD) Rating		September 2012		December 2012	
		Amount	Total %	Amount	Total %
A1	$	307	79.7%	47	31%
A2		31	8.1%	48	32%
B1		47	12.2%	56	37%
Total	$	385	100%	151	100%

Another type of related assets is variable rate loans which were hedged through the cash flow methodology at December 2012, and had a position of $6,200. The hedged portfolio is a subset of the total commercial portfolio whose risk level is equal to a level A2 in the Banking Commission scale at December 2012.

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(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 $482, which if they materialize, would cause a negative impact on the Bank's financial position at December 31, 2012, of which $51 are operational risk and $431 legal contingencies, both risks have been provisioned, for 2011 the risk totaled $505. The risks for 2012 represent 1.5% of total Equity Bank's. The expected loss for such contingencies is estimated at $24 and the unexpected loss of $253.

At the close of 2012, the Bank had built a historic database of operational risk losses which includes losses incurred during the period between January 2008 and December 2012, which aggregate 179,840 loss events with a total value of $1.078, classified under 23 risk categories and are analyzed in the next page.

(Continued)

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Notes to the Consolidated Financial Statements

(Pesos in millions)

Database of operational risk losses (in thousands of nominal pesos)

Risk factors		2008	2009	2010	2011	2012	Grand total, carried forward
Regulatory (fines and penalties)	$	1,706	535	1,371	126	1,522	5,260
Lost lawsuits		2,718	4,554	10,145	4,053	9,224	30,694
Frauds (internal and external)		43,961	32,433	39,730	34,156	23,939	174,219
Bank credit card frauds		25,683	26,044	34,655	183,306	177,209	446,897
Phishing		151	302	960	–	448	1,861
Pharming		–	2,861	–	–	–	2,861
Assaults		3,794	4,685	1,663	1,094	307	11,543
Labor lawsuit		5,712	13,281	5,605	605	–	25,203
Miscellaneous checks		991	2,832	427	876	318	5,444
Shortages and forgeries (cash supply)		910	427	317	360	254	2,268
Accounting differences		214	4	–	2	51	271
Documentary (lost documentation)		–	23	160	–	–	183
Former employee indebtedness		3	–	–	79	80	162
Shortages and forgeries (foreign currency)		232	499	265	69	101	1,166
Irrecoverable amounts		8,320	67	3	876	41	9,307
Overdrafts		12	7	29	1,678	45	1,771
Trading		–	–	–	20	–	20
Errors in executing transactions		2,889	2,773	11,617	16,416	144,417	178,112
Fixed asset damages		–	–	–	–	–	–
System failures		408	659	12,360	5,329	3,291	22,047
Tax		–	737	83,937	131	507	85,312
Policies and procedures		–	71,336	–	12	90	71,348
Others		302	387	1,114	–	183	1,986
Total	$	98,006	164,446	204,358	249,188	362,027	1,078,025

(Continued)

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(Pesos in millions)

Risk factors		Grand total, brought forward	Events	
			Number	Average Amount
Regulatory (fines and penalties)	$	5,260	195	27
Lost lawsuit		30,694	274	112
Frauds (internal and external)		174,219	1,800	97
Bank card frauds		446,897	173,890	3
Phishing		1,861	10	186
Pharming		2,861	21	136
Assaults		11,543	151	76
Labor lawsuits		25,203	116	217
Miscellaneous checks		5,444	270	20
Shortages and forgeries (cash supply)		2,268	777	3
Accounting differences		271	34	8
Documentary (lost documentation)		183	3	61
Former exployee indebtedness		162	10	16
Shortages and forgeries (foreign currency)		1,166	722	2
Irrecoverable amounts		9,307	498	19
Overdrafts		1,771	112	16
Trading		20	2	10
Errors in executing transactions		178,112	444	401
Fixed asset damages		-	-	-
System failures		22,047	380	58
Tax		85,312	34	2,509
Policies and procedures		71,438	55	1,299
Others		1,986	42	47
Total	$	1,078,025	179,840	6

(Continued)

(24) Other provisions-

The Bank recognizes the creation of accruals under the caption "Sundry creditors and other accounts payables", 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 Bank had in the years ended December 31, 2012 and 2011:

Other accruals		**2012**	**Fluctuation for the year**	**2011**
IT and ESPS	$	1,134	283	851
Compensation		260	46	214
Miscellaneous liabilities		1,065	237	828
Fees		74	1	73
Others		120	38	82
	$	2,653	605	2,048

(25) Recently issued accounting standards-

The CINIF has issued the FRS and Improvements listed below:

FRS B-8 "Consolidated or combined financial statements"- FRS B-8 is effective for years beginning on or after January 1, 2013, with retrospective effects. FRS B-8 supersedes former FRS B-8 "Consolidated or combined financial statements". The main changes with respect to the superseded FRS include the following:

- The definition of control is amended to stipulate that an entity controls an investee when it controls the relevant activities of the investee; it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee

- The term "protective rights" is introduced, which is defined as those designed to protect the interest of the non-controlling investor.

(Continued)

- The concepts of principal and agent are incorporated, the principal being an investor with decision-making rights over the investee; moreover, an agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee.

- The term "Special Purpose Entity" or SPE is eliminated since it is deemed that to identify an entity as a subsidiary, its operating objective and purpose are irrelevant.

- The term "structured entity" is included, which refers to an entity designed so that voting or similar rights are not a determining factor in deciding who controls such entity.

FRS C-7 "Associates, joint ventures and other permanent investments"- FRS C-7 is effective for years beginning on or after January 1, 2013, with retrospective effects. FRS C-7 supersedes former FRS C-7 "Investments in associates and other permanent investments". The major changes from the original FRS C-7 are as follows:

- It is provided that investments in joint ventures should be accounted for by the equity method.

- The term "Special Purpose Entity" or SPE is eliminated since it is deemed that to identify an entity as a subsidiary, its operating objective and purpose are irrelevant.

- It is stipulated that all the effects that have an impact on the net profit or loss of a holding company, arising from its permanent investments in associates, joint ventures and others, should be recognized under the heading of "equity in the results of other entities".

- Additional disclosures are required for providing more details of the financial information of associates and/or joint ventures.

FRS C-21 "Joint arrangements"- FRS C-21 is effective for years beginning on or after January 1, 2013, with retrospective effects and is issued for amending the absence of accounting standards with regard to joint arrangements. The main aspects covered by this FRS include the following:

- A joint arrangement is defined as an arrangement that regulates an activity over which two or more parties have joint control. Moreover, joint arrangements are divided into two types:

  a) Joint operations: whereby the parties with joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement; and

  b) Joint ventures: whereby the parties with joint control have rights to the net assets of the arrangement.

(Continued)

- It is made clear that joint operations may or may not be structured through a separate vehicle, while joint ventures always have a separate vehicle.
- A joint venturer accounts for its interest in the joint venture as a permanent investment using the equity method.

2013 Improvements to FRS

In December 2012 the CINIF published a document called "Improvements to 2013 FRS, which contains specific amendments to certain existing FRS. The improvements that produce accounting changes are as follows:

- **FRS C-5 "Prepayments", Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments" and Bulletin C-12 "Financial instruments with characteristics of liabilities, equity or both"-** Provides that expenses on the issue of debentures such as legal fees, issuance, printing and placement costs, etc. should be presented as a reduction of the corresponding liability and charged to income based on the effective interest method. This improvement is effective for years beginning on or after January 1, 2013 and presentation changes should be recognized retrospectively.

- **FRS D-4 "Income taxes"-** Establishes that current and deferred income tax shall be recognized and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event that is recognized in a different period, outside profit or loss, either in other comprehensive income or directly in equity. This improvement is effective for years beginning on or after January 1, 2013 and presentation changes should be recognized retrospectively.

- **Bulletin D-5 "Leases"-** It was defined that costs incurred and directly attributable to negotiating and arranging a lease (fees, legal fees, tenancy rights (extra pay) etc.), both for the lessor and lessee shall be deferred in the lease term and charged or credited to income in proportion to the related income or expense. This improvement is effective for years beginning on or after January 1, 2013 and its recognition is retrospective.

Management estimates that the new FRS and the improvements to FRS will be immaterial.