LISTING PARTICULARS

U.S.$250,000,000

Banco GNB Sudameris S.A.

7.50% Subordinated Notes due 2022

We offered U.S.$250,000,00 aggregate principal amount of our 7.50% subordinated notes due 2022 (the "notes"). The notes will mature on July 30, 2022. Interest on the notes will accrue at a rate of 7.50% per annum and will be payable semi-annually in arrears on January 30 and July 30 of each year, commencing on January 30, 2013. Interest on the notes is accruing from July 30, 2012, or if interest has already been paid, from the date it was most recently paid.

The notes will be our unsecured subordinated obligations and will rank junior to all of our existing and future senior obligations and will rank senior only to our capital stock. The notes will not be guaranteed by our subsidiaries and will not be entitled to any sinking fund. See "Description of the Notes."

There is currently no public market for the notes. Application has been made for admission of the notes to the Official List and trading on the Euro MTF Market of the Luxembourg Stock Exchange.

Investing in the notes involves risks that are described in the "Risk Factors" section beginning on page 15 of this listing particulars.

Price per note: 100.0% plus accrued interest, if any, from July 30, 2012.

The notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), any U.S. state securities laws or the securities laws of any other jurisdiction. The notes may not be offered or sold within the United States or to any U.S. persons, except (a) to qualified institutional buyers within the meaning of Rule 144A under the Securities Act ("Rule 144A"), in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, and (b) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act ("Regulation S"). For further details about eligible offerees and resale restrictions, see "Transfer Restrictions."

The notes have been automatically registered with the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*). Registration does not constitute an opinion of the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*) as to approval of the quality of the notes or our solvency. The notes may not be publicly offered or sold in the Republic of Colombia ("Colombia").

This listing particulars constitutes a prospectus for the purpose of Luxembourg law dated July 10, 2005 on Prospectuses for Securities.

The notes were ready for delivery in book-entry form only through the facilities of The Depository Trust Company ("DTC") for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream"), on July 30, 2012.

BofA Merrill Lynch

The date of this listing particulars is August 23, 2012.

In making your investment decision, you should rely only on the information contained in this listing particulars. Neither we nor the initial purchaser have authorized any person to provide you with different information. If any person provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this listing particulars is accurate as of the date on the front cover of this listing particulars only. Our business, properties, results of operations or financial condition may have changed since that date. Neither the delivery of this listing particulars nor any sale of notes hereunder will under any circumstances imply that the information herein is correct as of any date subsequent to the date on the front cover of this listing particulars.

TABLE OF CONTENTS

Available Information iii
Service of Process and Enforceability of Civil Liabilities iv
Cautionary Statement Regarding Forward-Looking Statements v
Presentation of Financial and Other Information vii
Summary 1
Risk Factors 15
Exchange Rates and Foreign Exchange Controls 39
Use of Proceeds 43
Capitalization 44
Selected Financial and Operating Data 45
Unaudited Pro Forma Condensed Consolidated Financial Information 49
Selected Statistical Data 54
Management’s Discussion and Analysis of Financial Condition and Results of Operations 87
Risk Management 112
Business 127
Industry 143
Colombian Banking Regulation 149
Management 163
Share Ownership and Principal Shareholder 167
Related Party Transactions 168
Description of the Notes 169
Tax Considerations 185
Plan of Distribution 190
Transfer Restrictions 194
Listing and General Information 197
Legal Matters 198
Independent Accountants 198
Index to Financial Statements F-1
Appendix A—Summary of Certain Differences Between Colombian Banking GAAP and U.S. GAAP A-1

Unless otherwise indicated or the context otherwise requires, all references in this listing particulars to “we,” “us,” “our,” the “Bank” and “ourselves” mean Banco GNB Sudameris S.A. and its consolidated subsidiaries.

This listing particulars has been prepared by us solely for use in connection with the proposed offering of the notes described in this listing particulars.

The initial purchaser makes no representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this listing particulars. Nothing contained in this listing particulars is, or shall be relied upon as, a promise or representation by the initial purchaser as to the past or future.

Neither we nor the initial purchaser are making an offer to sell the notes in any jurisdiction except where such an offer or sale is permitted. You must comply with all laws and regulations that apply to you in any place in which you buy, offer or sell any notes or possess or distribute this listing particulars. You must also obtain any consents, permission or approvals that you need in order to purchase, offer or sell any notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. We and the initial purchaser are not responsible for your compliance with these legal requirements. We are not making any representation to you regarding the legality of your investment in the notes under any legal investment or similar law or regulation.

You acknowledge that:

- you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this listing particulars;
- you have not relied on the initial purchaser or its agents or any person affiliated with the initial purchaser or its agents in connection with your investigation of the accuracy of such information or your investment decision; and
- no person has been authorized to give any information or to make any representation concerning us or the notes other than those as set forth in this listing particulars. If given or made, any such other information or representation should not be relied upon as having been authorized by us, the initial purchaser or its agents.

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. By purchasing notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Transfer Restrictions” in this listing particulars. The notes are subject to restrictions on resale and transfer and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. Please refer to the sections in this listing particulars entitled “Plan of Distribution” and “Transfer Restrictions.”

In making an investment decision, prospective investors must rely on their own examination of the Bank and the terms of the offering, including the merits and risks involved. We are not providing you with any legal, business, tax or other advice in this listing particulars and prospective investors should not construe anything in this listing particulars as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the notes under applicable legal, investment or similar laws or regulations.

None of the United States Securities and Exchange Commission (the “SEC”), any United States state securities commission or any other regulatory authority has approved or disapproved of the notes or determined if this listing particulars is truthful or complete. Any representation to the contrary is a criminal offense.

The notes offered pursuant to this listing particulars are not governed by Colombian securities regulations. The notes are not being offered in the Colombian securities market and, consequently, this listing particulars is not, does not constitute and cannot be deemed, a public offering, as defined in Article 6.1.1.1.1 of Decree 2555 of 2010.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

AVAILABLE INFORMATION

For as long as any notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser or subscriber of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser or subscriber, the information required to be delivered to such persons pursuant to Rule 144(d)(4) under the Securities Act (or any successor provision thereto). Any such request may be made to us in writing at our main offices located at Carrera 7a. No. 75-85/87, Bogotá, Colombia.

We are also required to furnish certain information, including quarterly and annual reports, to the Superintendency of Finance and the Colombian Stock Exchange (*Bolsa de Valores de Colombia*), which will be available in Spanish at www.bvc.com.co. The information included (or accessed through) any website included or referred to in this listing particulars, is not incorporated by reference in, and shall not be considered part of, this listing particulars.

SERVICE OF PROCESS AND ENFORCEABILITY OF CIVIL LIABILITIES

We are a corporation organized under the laws of Colombia. Two of our directors and all of our officers and certain other persons named in this listing particulars reside outside the United States and all or a significant portion of the assets of the directors and officers and certain other persons named in this listing particulars and substantially all of our assets are located outside the United States. As a result, it may not be possible for you to affect service of process within the United States upon such persons or to enforce against them or against us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Colombia, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

We have been advised by Cardenas & Cardenas Abogados, that Colombian courts determine whether to enforce a U.S. judgment predicated on the U.S. securities laws through a procedural system known under Colombian law as *exequatur* which is heard by the Colombian Supreme Court. Colombian courts will enforce a foreign judgment, without reconsideration of the merits, only if the judgment satisfies the requirements of Articles 693 and 694 of Colombia's *Código de Procedimiento Civil* (Code of Civil Procedure), which provide that the foreign judgment will be enforced if:

- a treaty exists between Colombia and the country where the judgment was granted or there is reciprocity in the recognition of foreign judgments between the courts of the relevant jurisdiction and the courts of Colombia;
- the foreign judgment does not relate to "in rem rights" vested in assets that were located in Colombia at the time the suit was filed and does not contravene or conflict with Colombian laws relating to public order other than those governing judicial procedures;
- the foreign judgment, in accordance with the laws of the country where it was rendered, is final and is not subject to appeal and a duly certified and authenticated copy of the judgment has been presented to a competent court in Colombia;
- the foreign judgment does not refer to any matter upon which Colombian courts have exclusive jurisdiction;
- no proceeding is pending in Colombia with respect to the same cause of action, and no final judgment has been awarded in any proceeding in Colombia on the same subject matter and between the same parties; and
- in the proceeding commenced in the foreign court that issued the judgment, the defendant was served in accordance with the law of such jurisdiction and in a manner reasonably designated to give the defendant an opportunity to defend against the action.

The United States and Colombia do not have a bilateral treaty providing for automatic reciprocal recognition and enforcement of judgments in civil and commercial matters. The Colombian Supreme Court has generally accepted that reciprocity exists when it has been proven that either a U.S. court has enforced a Colombian judgment or that a U.S. court would enforce a foreign judgment, including a judgment issued by a Colombian court. However, such enforceability decisions are considered by Colombian courts on a case-by-case basis. Colombian Supreme Court case law has established that reciprocity may be evidenced by submitting an expert report from a recognized lawyer in the other relevant jurisdiction.

We will appoint CT Corporation, located at 111 Eighth Avenue, New York, NY 10011, as agent to receive service of process under the indenture governing the notes, including with respect to any action brought against us in the United States District Court for the Southern District of New York under the federal securities laws of the United States or of any State of the United States or any action brought against us in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This listing particulars includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, “forward-looking statements.” These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “estimates,” “seeks,” “projects,” “intends,” “plans,” “may,” “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this listing particulars and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to:

- changes in Colombian, South American, regional and international business and economic, political or other conditions;
- the global financial crisis and the current market environment;
- developments affecting Colombian and international capital and financial markets;
- government regulation and tax matters and developments affecting us and our industries;
- increases in defaults by our customers;
- increases in loan impairment losses;
- decreases in deposits, customer loss or revenue loss;
- increases in provisions for contingent liabilities;
- our ability to continue the development of our payroll loans (*libranzas*) and commercial loan portfolio;
- the continuation of long-term *convenios* (funding agreements) with governmental entities and pension funds;
- availability and cost of funding;
- our level of indebtedness and other financial obligations;
- the consummation of the acquisition of the HSBC Entities;
- the successful implementation of our business model in the HSBC Entities;
- our ability to sustain or improve our financial performance;
- increases in inflation rates;

- changes in interest rates which may, among other effects, adversely affect margins and the valuation of our treasury portfolio;
- movements in exchange rates;
- competition in the banking and financial services, credit card services, insurance, asset management and related industries;
- adequacy of risk management procedures and credit, market and other risks of lending and investment activities;
- decreases in our level of capitalization;
- changes in market values of Colombian and South American securities, particularly Colombian government securities;
- adverse legal or regulatory disputes or proceedings;
- internal security issues affecting countries where we will operate and natural disasters;
- loss of key members of our senior management; and
- other risk factors as set forth under "Risk Factors."

These factors should not be construed as exhaustive and should be read with the other cautionary statements in this listing particulars, including those factors identified or discussed under the "Risk Factors" section of this listing particulars.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this listing particulars. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this listing particulars, those results or developments may not be indicative of results or developments in subsequent periods.

Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statements that we make in this listing particulars speak only as of the date of those statements, and we undertake no obligation to update those statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein to “peso,” “pesos” or “Ps” refer to the lawful currency of Colombia. All references to “U.S. dollars,” “dollars” or” U.S.$” are to United States dollars. See “Exchange Rates and Foreign Exchange Controls” for information regarding exchange rates for the Colombian currency since 2007. This listing particulars translates certain Colombian peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. The conversion of amounts expressed in Colombian pesos as of a specified date at the then prevailing exchange rate may result in presentation of U.S. dollar amounts that differ from U.S. dollar amounts that would have been obtained by converting Colombian pesos as of another specified date. Unless otherwise indicated, such peso amounts have been translated at the rate of Ps 1,792.07 per U.S.$1.00, which corresponds to the representative market rate calculated on March 31, 2012. Such conversion should not be construed as a representation that the peso amounts correspond to, or have been or could be converted into, U.S. dollars at that rate or any other rate. On July 30, 2012, the representative market rate was Ps 1,789.02 per U.S.$l.00. See “Exchange Rates and Foreign Exchange Controls.”

Our financial statements

The Bank and its subsidiaries are entities under the comprehensive supervision of, and subject to inspection and surveillance as financial institutions by, the Colombian Superintendency of Finance (the “Superintendency of Finance”). We are required to comply with capital adequacy regulations, and each of our financial subsidiaries is separately required to comply with capital adequacy regulations applicable to banks and other financial institutions.

Our consolidated financial statements at December 31, 2010 and 2011 and for the three years in the three-year period ended December 31, 2011, included in this listing particulars are referred to herein as our “audited annual consolidated financial statements.” Our consolidated financial statements at March 31, 2012 and for the three-month periods ended March 31, 2011 and 2012, included in this listing particulars are referred to herein as our “unaudited three-month consolidated financial statements.” In our opinion, the unaudited three month consolidated financial statements include all adjustments necessary to present fairly in all material respects our financial condition and results of operations at the dates and the periods presented. In this listing particulars, we refer to our audited annual consolidated financial statements and our unaudited three-month consolidated financial statements together as the “consolidated financial statements.” Our historical results are not necessarily indicative of results to be expected for future periods.

We have prepared the consolidated financial statements and other financial data included herein in accordance with generally accepted accounting principles in Colombia and the regulations of the Superintendency of Finance (collectively “Colombian Banking GAAP”). The audited annual consolidated financial statements and unaudited three-month consolidated financial statements have not been reviewed or approved by the Superintendency of Finance; however, financial statements for the period ended December 31 of each year, prepared on the basis of Colombian Banking GAAP, are remitted to the Superintendency of Finance for their review.

Colombian Banking GAAP differs in certain significant respects from generally accepted accounting principles in the United States, or “U.S. GAAP.” See “Appendix A–Summary of Certain Differences Between Colombian Banking GAAP and U.S. GAAP” for a description of the principal differences between Colombian Banking GAAP and U.S. GAAP.

Financial statements of the HSBC entities

HSBC Colombia S.A.’s consolidated financial statements at December 31, 2011 and 2010 and for the years then ended; as well as at December 31, 2010 and 2009 and for the years then ended, included in this listing particulars have been prepared in conformity with Colombian Banking GAAP.

HSBC Bank Paraguay S.A.'s financial statements at December 31, 2011 and for the year then ended, included in this listing particulars have been prepared in accordance with accounting standards and valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Paraguay, and on matters not covered therein, with general accounting standards accepted in Paraguay (collectively, "Paraguayan Banking GAAP").

HSBC Bank Peru S.A.'s financial statements at December 31, 2011 and 2010; as well as 2010 and 2009 and for the years then ended, included in this listing particulars have been prepared based on the bank's accounting standards established by the Superintendency of Banking, Insurance, and Private Administrators of Pension Funds ("Peruvian Banking GAAP").

HSBC Bank (Uruguay) S.A.'s financial statements at December 31, 2011, 2010 and 2009 and for the years then ended, included in this listing particulars have been prepared in accordance with accepted accounting principles in Uruguay established by the Central Bank of Uruguay ("Uruguayan Banking GAAP").

No member of the HSBC group and no director or officer of any member of the HSBC group assumes any responsibility for, or shall have any liability to any person in respect of, the accuracy or completeness of the information in this listing particulars or for any failure by Banco GNB Sudameris S.A. to disclose events which may have occurred or may affect the completeness or accuracy of the disclosure herein.

Market share and other information

We obtained market and competitive position data, including market forecasts, used throughout this listing particulars from market research, publicly available information, and industry publications. We have presented this data on the basis of information from third-party sources that we believe are reliable, including, among others, the International Monetary Fund, or "IMF," the Superintendency of Finance, the Colombian Stock Exchange, the Colombian National Bureau of Statistics (*Departamento Administrativo Nacional de Estadística*), or "DANE," the 2010 World Bank Development Indicators, the Economist Intelligence Unit, Euromonitor International and the Association of Banking and Financial Institutions of Colombia (*Asociación Bancaria y de Entidades Financieras de Colombia*). Industry and government publications, including those referenced herein, generally state that the information presented has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Unless otherwise indicated, gross domestic product, or "GDP," figures with respect to Colombia in this listing particulars are based on the 2005 base year data series published by DANE. Although we have no reason to believe that any of this information or these reports is inaccurate in any material respect, we have not independently verified the competitive position, market share, market size, market growth or other data provided by third parties or by industry or other publications. We and the initial purchaser do not make any representation or warranty as to the accuracy of such information.

Except where otherwise indicated, our balance sheet and statement of income data included in this listing particulars reflects consolidated Colombian Banking GAAP information, while comparative disclosures of our financial and operating performance against that of our competitors are based on unconsolidated information prepared on the basis of Colombian Banking GAAP reported to the Superintendency of Finance.

Credit institutions are a major category of financial institutions under Colombian banking regulations. Credit institutions include banks, financing companies and financial corporations. Banks undertake traditional deposit-taking and lending activities. Financing companies place funds in circulation by means of active credit operations, with the purpose of fostering the sale of goods and services, including the development of leasing operations. Finance corporations invest directly in the economy and thus are the only vehicles through which a bank may invest in non-financial sectors. See "Colombian Banking Regulation."

Annualized ratios

We present net interest margin, return on average assets, return on average shareholders' equity, charge-offs to average outstanding loans and other financial ratios for the three-month periods ended March 31, 2011 and 2012 on an annualized basis by multiplying earnings for the three-month period by four. Annualized ratios are not necessarily indicative of the ratios that will be achieved in full-year 2012.

Other conventions

Certain amounts included in this listing particulars have been subject to rounding adjustments. Accordingly, amounts shown as totals in certain tables may not be an arithmetic summation of the figures that precede them.

References to "billions" in this listing particulars are to 1,000,000,000s and to "trillions" are to 1,000,000,000,000s.

"Minority interest" and "non-controlling interest" refer to the participation of minority shareholders in the Bank and its subsidiaries, as applicable.

"HSBC Colombia" refers to HSBC Colombia S.A. "HSBC Paraguay" refers to HSBC Bank Paraguay S.A. "HSBC Peru" refers to HSBC Bank Peru S.A. "HSBC Uruguay" refers to HSBC Bank (Uruguay) S.A. "HSBC Entities" refers to HSBC Colombia, HSBC Paraguay, HSBC Peru and HSBC Uruguay.

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business. In addition, our names, logos and website names and addresses are our service marks or trademarks. Other trademarks, service marks or trade names appearing in this listing particulars are the property of their respective owners. Some of the trademarks we own or have the right to use include *Banco GNB Sudameris, Servivalores GNB Sudameris, Servitrust GNB Sudameris* and *Servibanca*. We also sell products under a number of licensed brands, including *Credilibranza GNB Sudameris, Cash GNB Sudameris* and *SAP—Sistema Automático de Pagos*. We also own or have the rights to copyrights that protect the content of our products. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this listing particulars are listed without the ©, ® and TM symbols, but we will assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks and trade names.

SUMMARY

This summary highlights selected information from this listing particulars but does not contain all the information that may be important to you. You should read carefully this entire listing particulars, including the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk factors" and the financial statements and the related notes thereto included elsewhere in this listing particulars, before making an investment decision.

Bank overview

Banco GNB Sudameris S.A. is a universal bank in Colombia with special focus on small and medium enterprises, or SMEs, mid-corporates and personal banking. The Bank was created in August 1920 as a Colombian corporation. In 1924, it became a branch of Banque Francaise et Italienne para l'Amerique du Sud. On December 22, 2003, Banque Sudameris, Banca Intesa and other shareholders sold their aggregate 94.6% ownership interest to Gilex Holding B.V., our current controlling shareholder, which in turn is controlled by the Gilinski family. The Gilinski family had been a controlling shareholder of Banco Andino and Banco de Colombia (now known as Bancolombia).

Since our acquisition by the Gilinski family in December 2003, our assets have increased by approximately fourteen-fold, our shareholders' equity has increased by approximately ten-fold, our client base has increased by approximately thirteen-fold and our market participation has increased four-fold. See "Business—History."

As part of our operating strategy, we maintain a strong capital and liquidity position. Our network of ATMs and branches spread throughout each of Colombia's 32 departments in more than 483 cities and towns, with particular emphasis on the wealthiest and largest cities in Colombia (Bogotá, Medellín, Cali and Barranquilla) covering nearly 90% of Colombia's population. Banco GNB Sudameris is one of Colombia's most efficient banking platforms as a result of its continuous focus on innovation and the second-largest ATM network in Colombia.

The following table sets forth our ranking among the ten largest Colombian banks (measured in terms of assets) with respect to the following ratios:

Banco GNB Sudameris Positioning(1)	**At and for the three months ended March 31, 2012**
Non-performing loans ratio(2)	1
Coverage ratio(3)	2
Liquidity ratio(4)	2
Operating expenses-to-assets ratio(5)	1

(1) Based on unconsolidated figures published by the Superintendency of Finance.
(2) Calculated as non-performing loans as a percentage of total loans. Non-performing loans include all loans at least 31 days past due.
(3) Calculated as allowances as a percentage of past-due loans. Past-due loans include all loans at least 31 days past due.
(4) Calculated as liquid assets as a percentage of total deposits. Liquid assets include cash and equivalents and investments held for trading.
(5) Calculated as operating expenses as a percentage of total average assets.

We are one of Colombia's largest providers of credit through payroll loans (*libranzas*), with agreements with more than 600 employers; reaching approximately 201,690 clients throughout Colombia at March 31, 2012. At March 31, 2012, we had a market share of 11.4% of the Colombian payroll loan (*libranza*) market. Payroll loans (*libranzas*) accounted for 46% of our total loan portfolio at March 31, 2012.

Through our subsidiaries, we also provide asset, cash and portfolio management services as well as other fiduciary services, ATM services for a wide range of transactions and stock brokerage and other securities market services.

In May 2012, we entered into an agreement with HSBC Latin America Holdings (UK) Ltd and other HSBC affiliates to acquire HSBC's banking operations in Colombia, Paraguay, Peru and Uruguay. These acquisitions, which are anticipated to occur over the next five to twelve months, will give us a footprint in the South American region. As a result of these acquisitions, we anticipate that our total assets will grow, on a pro forma basis, to Ps 18,179,959.1 million. See "Unaudited Pro Forma Condensed Consolidated Financial Information."

The table below sets forth our and the Colombian financial system's efficiency ratio, non-performing loans ratio and ROAE for the periods presented.

Position Compared to Colombian Financial System(1)	At and for the year ended December 31, 2009	2010	2011	At and for the three-month period ended March 31, 2012
		(in percentages)		
Unconsolidated efficiency ratio(2)				
Banco GNB Sudameris	35.9%	44.5%	45.9%	42.8%
Financial system	44.1%	48.4%	48.7%	43.5%
Unconsolidated non-performing loans ratio(3)				
Banco GNB Sudameris	1.6%	1.7%	1.6%	1.6%
Financial system	4.4%	3.2%	2.8%	3.2%
Unconsolidated ROAE(4)				
Banco GNB Sudameris	20.3%	19.3%	16.4%	19.8%
Financial system	18.4%	16.7%	16.4%	19.7%

(1) The Colombian financial system currently includes 23 banks, including Banco GNB Sudameris.
(2) Based on data published by the Superintendency of Finance. Calculated as operating expenses excluding depreciation and amortization, divided by gross margin, as published by the Superintendency of Finance.
(3) As published by the Superintendency of Finance. Calculated as non-performing loans as a percentage of total loans. Non-performing loans include all loans at least 31 days past due.
(4) Based on data published by the Superintendency of Finance. For the years ended December 31, "ROAE" is calculated as net income divided by average shareholders' equity (the sum of shareholders' equity at the end of the fiscal year plus shareholders' equity at the end of the prior fiscal year, divided by two). For the three-month period ended March 31, ROAE is calculated as net income for the three-month period multiplied by four, divided by average shareholders' equity (the sum of shareholders' equity at the end of the three-month period and shareholders' equity at the end of the previous fiscal year, divided by two).

The following table presents our key consolidated financial and operating data for the periods and at the dates presented:

	At and for the year ended December 31,			At and for the three-month period ended March 31,
	2009	2010	2011	2012
	(in Ps millions, except operating data or where otherwise indicated)			
Consolidated Financial data:				
Total assets	7,307,096.3	8,321,389.0	9,922,440.0	10,137,263.7
Investments	3,303,495.7	3,925,352.5	4,001,730.7	4,061,720.9
Loan portfolio	3,240,562.6	3,459,714.5	4,309,373.3	4,321,963.3
Deposits	4,072,889.6	4,918,073.9	6,053,654.0	6,651,697.8
Total shareholders' equity	517,857.6	597,507.8	636,784.0	670,602.4
Direct operating result	381,583.8	334,127.9	331,430.6	80,910.5
Net income	87,028.3	113,201.0	99,746.2	21,636.0
ROAA (1)		1.4%	1.1%	0.9%
ROAE (2)		20.3%	16.2%	14.1%
Net interest margin (3)		4.0%	3.3%	3.0%
Cost-to-income ratio (4)	38.2%	38.6%	42.3%	41.5%
Operating expenses-to-assets ratio (5)		2.2%	2.0%	1.9%
Non-performing loan ratio (6)	1.6%	1.7%	1.6%	1.6%
Operational data (in units):				
Number of customers (7)	243,779	254,479	280,548	287,253
Number of branches	92	98	106	106
Number of ATMs	1,426	1,588	1,804	1,821

(1) For the years ended December 31, "ROAA" is calculated as net income divided by average of total assets (the sum of total assets at the end of the fiscal year and total assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, ROAA is calculated as net income for the three-month period multiplied by four, divided by average assets (the sum of total assets at the end of the three-month period and total assets at the end of the previous fiscal year, divided by two).

(2) For the years ended December 31, "ROAE" is calculated as net income divided by average shareholders' equity (the sum of shareholders' equity at the end of the fiscal year plus shareholders' equity at the end of the prior fiscal year, divided by two). For the three-month period ended March 31, ROAE is calculated as net income for the three-month period multiplied by four, divided by average shareholders' equity (the sum of shareholders' equity at the end of the three-month period and shareholders' equity at the end of the previous fiscal year, divided by two).

(3) For the years ended December 31, net interest margin is calculated as direct operating result (excluding commissions and fees, net and exchange, net), divided by average interest-earning assets (the sum of interest-earning assets at the end of the fiscal year and interest-earning assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, net interest margin is calculated as direct operating result (excluding commissions and fees, net and exchange, net) multiplied by four, divided by average interest-earning assets (the sum of interest-earning assets at the end of the three-month period and interest-earning assets at the end of the previous fiscal year, divided by two). Interest-earning assets are calculated as the sum of asset positions in money market and similar operations, plus investments, plus loan portfolio before allowances, plus bankers' acceptances, spot operations and derivative instruments.

(4) Calculated as other operating expenses divided by direct operating result plus other operating income.

(5) For the years ended December 31, operating expenses-to-assets ratio is calculated as other operating expenses divided by average of total assets (the sum of total assets at the end of the fiscal year and total assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, operating expenses-to-assets ratio is calculated as other operating expenses for the three-month period multiplied by four, divided by average assets (the sums of total assets at the end of the three-month period and total assets at the end of the previous fiscal year, divided by two).

(6) Non-performing loans as a percentage of total loans. Non-performing loans include all loans at least 31 days past due.

(7) Reflects only customers of the Bank.

Strengths

We believe that we have achieved and we are able to maintain, our strong position in the Colombian banking industry through the following competitive strengths.

We are a significant player in Colombia's banking sector with a strong exposure to key attractive segments with focus on highly profitable risk-adjusted products

We are a universal bank with special focus on SMEs, mid-corporates and personal banking. We believe these segments are attractive because they yield relatively higher margins than large corporate clients.

Our banking business is focused on three principal areas that are highly profitable in relation to the risk involved: payroll loans (*libranzas*), *carteras de fomento* (development loans) and *convenios* (funding agreements). Payroll loans (*libranzas*), which represent the substantial majority of our consumer loan portfolio, are consumer loans serviced through directly-sourced deductions from the client's salary. Development loans are credit lines funded by governmental development entities that we on-lend to companies at an intermediation margin ranging between 2-4% for long term funding for domestic development projects. Funding agreements are arrangements we enter into with governmental entities and pension funds where they agree to deposit their funds with us in exchange for certain services. These deposit arrangements represent low-cost funding for us and reduce our reliance on wholesale funding. See "Business—Our banking operations—General."

Superior risk management culture with high asset quality and strong liquidity

We have the lowest non-performing loan ratio of the Colombian banking system (1.6% at March 31, 2012 compared to 3.2% for the Colombian banking system). Our strong focus on payroll loans (*libranzas*) significantly reduces our consumer portfolio risk. We also maintain a strong liquidity position. At March 31, 2012, our investment-to-assets ratio was 40.2% as compared to 19.1% for the Colombian banking system, while our loans-to-deposits ratio was 65.3% as compared to 108.4% for the Colombian banking system. Our solvency ratio, which is calculated as our technical capital divided by our risk-weighted assets, was 14.9%, as compared to 15.3% for the Colombian banking system. The minimum solvency ratio required by Colombian banking regulations is 9.0%. Our coverage ratio (allowances as a percentage of past due loans) at March 31, 2012 was 197.6%, which compares favorably with the average for the Colombian banking system of 143.8%.

Our strong asset quality and capital and liquidity position has resulted in our local rating of AA+ by Fitch Inc. and by BRC, the Colombian rating agency. These ratings have also allowed us to secure and maintain our *convenios* (funding agreements) with governmental entities and pension funds. In addition, we are one of only nine recognized market makers for Colombian sovereign debt, and the fifth-largest market maker in the Colombian banking system at March 31, 2012. As a recognized market maker, we have access to the liquidity of the Colombian electronic trading system (*Sistema Electrónico de Negociación*, or "SEN"). See "Business—Treasury operations."

We have one of the most efficient banking platforms nationwide with focus on alternative channels to reach clients throughout Colombia.

We have a nationwide network of 106 branches and the second-largest ATM network in Colombia with 1,821 ATMs at March 31, 2012. In addition, we have payroll loans (*libranzas*) centers onsite at the premises of 23 employers. Our network covers each of the 32 departments of Colombia and is in approximately 483 cities and towns throughout Colombia, with a focus on the wealthiest and largest cities of Colombia (Bogotá, Medellín, Cali and Barranquilla). Our distribution network covers nearly 90% of the Colombian market.

Our focused approach to distribution through *libranza* centers and the use of next-generation ATMs, as well as our focus on development loans and funding arrangements, makes the use of the relatively more expensive branch format less critical to our banking business. As a result, we believe we are one of the most efficient banks in Colombia. At March 31, 2012, our efficiency ratio was 42.8%, as compared to 43.5% for the Colombian banking the system. See "Business—Other services and products—ATM services-Servibanca."

Our sophisticated technological backbone improves efficiency while enhancing processes and transactions

Our business model relies on the widespread presence of, and access to, highly-functional ATMs that provide a wide array of services to our clients in an efficient and hassle-free manner. We believe that the proper management of technology is key to the efficient management and growth of our business. We maintain a scalable technological infrastructure designed to facilitate processes while maximizing safety and privacy. Our central platform is Bantotal, a central system that acts as depositary of information regarding clients' activities and processes transactions in both domestic and foreign currency. We also maintain up-to-date information systems for processing, safety and contingencies. In 2011, we incorporated Servitotal, whose purpose is to develop new technological platforms and solutions for our banking business, in a strategic alliance with Bantotal, a technological solutions company focused on the banking sector. Our sophisticated information technological platform allows us to provide the services that our institutional clients require or demand. See "Business—Technology."

Our experienced management team has a strong track record of growing both organically and through acquisitions

The majority of our management has been with us from the time the Gilinski family became controlling shareholders in 2003. In particular, Mr. Jaime Gilinski Bacal, our Chairman of the board of directors, was also previously a member of the board of directors of Banco Andino and Banco de Colombia. Our President, Camilo Verástegui Carvajal, was also an executive officer of those banks at the same time as Mr. Gilinski. Their combined experience in the banking sector, as well as that of other officers of the Bank, positions us well to continue growing and to integrate efficiently our planned acquisitions. See "Management."

Under the stewardship of our current senior management, since 2003 we have undergone the integration of Banco Tequendama and the acquisition of two brokerage companies. During that time, our assets have increased by approximately fourteen-fold, our shareholders' equity has increased by approximately ten-fold, our client base has increased by approximately thirteen-fold and our market participation has increased four-fold. See "Business—History."

The acquisition of HSBC's banking operations in Colombia, Paraguay, Peru and Uruguay will provide us access to countries with substantial potential where we expect to replicate our success in Colombia

The acquisition of HSBC's banking operations in Colombia, Paraguay, Peru and Uruguay represent a significant opportunity for our international expansion. These acquisitions will allow us to diversify into countries that we believe have high economic growth potential and relatively low bank penetration rates. We believe that the assets are well-positioned banks, mostly in investment grade countries (Colombia, Peru and Uruguay) and in relatively solid financial systems. We believe that our management has the experience and technical expertise to replicate in those new markets our success in Colombia, and to exploit synergies in the Colombian market. See "Business—Recent developments—HSBC acquisitions."

Strategy

Our overall objectives are to build upon our competitive strengths to pursue opportunities for growth and to enhance our long-term financial performance. To achieve these objectives, we intend to pursue a strategy with the following principal elements:

Continue our conservative risk management approach

We seek to maintain high quality assets and strong capital and liquidity positions. We believe that this policy has allowed us and will continue to allow us to enjoy an excellent reputation in the Colombian banking system. This has resulted in the development of a significant portfolio of *convenios* (funding arrangements), which provide us a stable, long-standing and reliable source of funds and reduces our reliance on wholesale funding. Our policy of maintaining a high level of liquidity, including by investing in highly liquid instruments, also allows us to react quickly to, and minimize the risk of, any volatility in the market. See "Business—Our banking operations—General."

Increase presence in the profitable libranza consumer loan and SMEs commercial loan segments

We seek to increase our presence in the *libranza* segment of consumer loans, where we believe there is significant opportunity for growth. This type of loan has historically yielded relatively high margins and low non-performing loan ratios. We plan to continue to grow this business segment by having our sales force target employers and offering them our wide array of transactional services and our ATM network for their specific needs.

We also plan to focus on expanding our SME commercial loan portfolio by targeting smaller and medium-sized enterprises, which generally yield higher margins than large corporate clients. In our marketing efforts, we are able to offer not only loan products but a wide array of transactional services and our ATM network for their specific needs.

Continue to innovate and develop alternative distribution channels to reach clients efficiently in Colombia and beyond

We plan to continue building out and innovating our distribution channels. In particular, we plan to grow and enhance our ATM network, as well as internet banking. Currently, through our ATM network we are able to provide not only traditional transactional services such as withdrawals, transfers between accounts and payments of utility bills and other, but also provide non-traditional services such as payment of taxes, traffic violation fines, newspaper subscriptions, airline reservations and liability insurance premiums. We believe that our ability to provide a wide array of services at our ATMs results in increased client referrals. See "Business—Other services and products—ATM services-Servibanca" and "Business—Distribution."

Improve our cross-selling efforts by offering clients our diverse set of products

In addition to our traditional banking products, we are able to offer other products through our subsidiaries, including payment and collection services through our ATM network; fiduciary services, such as asset administration and management, portfolio management and cash management through Servitrust; and brokerage and exchange services and mutual fund management through Servivalores. We plan to continue to focus on the cross-selling of our wide range of products and services. For example, we can offer our *libranza* clients credit card and other services beyond lending, and our institutional banking clients an ATM network located in their premises with services tailored to their specific needs. We believe that by cross-selling our products and services we are able to develop greater customer loyalty, which results in increased revenues.

Leverage our ATM platform and client service oriented culture to better serve clients

We seek to leverage our ATM platform to better serve our clients. We believe that a widespread ATM network is a much more efficient and service-friendly platform than the traditional branch network. Clients have more convenient access to ATMs than to branches because there will generally be many more ATMs than branches in the general location of the client. Through ATMs, clients are able to conduct banking and other transactions 24 hours a day, unlike branches, which serve clients only during business hours. Also, the transaction execution time for most transactions is generally faster through ATMs than at branches. By incorporating more services to our ATM system and increasing our ATM network, which currently covers nearly 90% of the Colombian market as measured by population, we believe we will continue to attract clients and develop more customer loyalty.

Achieve profitable growth in South America by exporting our proven business model to new markets

As part of our integration plan for the HSBC Entities, we plan to introduce our business model of conservative risk management, high liquidity, focus on profitable and high credit segments of consumer and commercial lending, diversified funding and an efficient distribution channel with emphasis on highly-functional ATMs. We believe that the different markets we will be entering (Paraguay, Peru and Uruguay) offer appropriate conditions for the successful development of our business model. We also believe that our management, together with the existing management at the different HSBC Entities, is fully capable of replicating our business model in the HSBC Entities to be acquired given its experience integrating Banco Tequendama, a fiduciary services company and two brokerage houses into our operations.

Recent developments

HSBC acquisitions

On May 11, 2012, we entered into a master share purchase agreement with HSBC Latin America Holdings (UK) Ltd and other HSBC affiliates to acquire HSBC's banking operations in Colombia, Paraguay, Peru and Uruguay. The total consideration for the four acquisitions is U.S.$400 million. The purchase price for each acquisition will be payable at closing of the relevant acquisition, adjusted for variations in net equity between a reference amount and the net equity existing at closing. Of the purchase price relating to Peru, U.S.$40 million will be deferred and payable on the one-year anniversary of the closing of the Peru acquisition.

We and our controlling shareholder agreed to cause capital injections of U.S.$130 million into the Bank (which capital injection was completed in May 2012) and U.S.$35 million into the Bank as conditions to the closings of each of the Paraguay and Uruguay acquisitions. We are also required to repay, or cause to repay, to HSBC on the one-year anniversary of the closing of the relevant acquisition, subordinated debt in the amount of U.S.$25 million in the case of Paraguay and U.S.$17 million in the case of Uruguay.

Although we anticipate that we will be consummating all four acquisitions, the master purchase agreement provides that the acquisitions are independent of each other, and the failure or delay in closing one acquisition does not affect the parties' obligations to close the remaining acquisitions. The acquisitions are subject to certain conditions to closing, the most important of which is the regulatory approvals of the different banking authorities. Based on our discussions with our legal counsels in the different jurisdictions, we anticipate that the acquisitions will close within the next five to twelve months.

The master share purchase agreement provides that if any of the four acquisitions has not been consummated by November 11, 2013, then either HSBC or we can move to terminate such acquisition. In the event that the failure to consummate the acquisition by November 11, 2013 is due to a reason other than a breach by HSBC (other than, in the case of the Colombia and Peru acquisitions only, the failure to obtain required governmental approvals), then we would be required to pay a break up fee ranging between U.S.$2.5 million and U.S.$8.2 million, depending on which is the affected acquisition.

The acquisition of HSBC's operations represents a significant opportunity for our international expansion process. It is the most important transaction in our history, given the opportunity to significantly expand its presence in South America, diversifying into countries with high growth potential. We believe that the assets are all well-positioned banks, mostly in investment grade countries (Peru, Colombia and Uruguay) and in relatively solid financial systems.

The following table presents some key information for the entities to be acquired. The financial information in the table below is derived from the financial statements of each of these entities included elsewhere in this listing particulars. Please note that the financial information included below is based on generally accepted accounting principles of each of Colombia, Paraguay, Peru and Uruguay and was converted to U.S. dollars from their original currency using different representative market rates, as a result, the information provided below is not directly comparable.

	Colombia(1)	Paraguay(1)	Peru(1)	Uruguay(1)
	(in Ps millions)			
Balance sheet(2)				
Total assets	2,211,410.0	1,126,031.5	2,505,584.6	2,078,739.8
Investments	503,524.0	172,854.7	68,929.5	142,616.3
Loan portfolio	1,329,030.0	574,614.8	1,471,164.5	1,022,603.1
Deposits	1,336,999.0	963,219.3	2,038,483.1	1,729,315.0
Total shareholders' equity	195,772.0	97,560.9	185,201.6	111,708.5
Income statement(3)				
Direct operating result	174,555.0	59,259.1	141,551.3	55,644.6
Net income	(43,844.0)	5,188.5	(38,454.9)	(14,469.7)
Other data(2)				
Branches	20	7	24	10

(1) The books and records of the HSBC Entities are maintained in their respective national currencies and their consolidated financial statements are prepared in accordance with accounting principles applicable to financial institutions in their respective countries. Such local accounting principles differ in certain significant respects from U.S. GAAP and IFRS. We have made no attempt to identify or describe such differences.

(2) At March 31, 2012. Local financial statements were first translated into U.S. dollars using the following exchange rates per U.S. dollar: 2.668 Peruvian nuevos soles; 4,283.79 Paraguayan guaranies, and 19.542 Uruguayan pesos at March 31, 2012. The resulting U.S. dollar amounts were then translated into pesos using the representative market rates as computed and certified by the Superintendency of Finance of Ps 1,792.07 per U.S. dollar at March 31, 2012.

(3) For the year ended December 31, 2011. Local financial statements were first translated into U.S. dollars using the following exchange rates per U.S. dollar: 2.697 Peruvian nuevos soles; 4,392.68 Paraguayan guaranies, and 19.898 Uruguayan pesos at March 31, 2012. The resulting U.S. dollar amounts were then translated into pesos using the representative market rates as computed and certified by the Superintendency of Finance of Ps 1,942.7 per U.S. dollar at December 31, 2011.

HSBC Colombia S.A. offers general banking services, with a focus on premium services and a wider product base. HSBC Colombia S.A. also offers wealth management and trust services.

HSBC Bank Paraguay S.A. is a full service bank focused mainly on the commercial and corporate segments with a premium retail offering. The commercial and corporate banking business is focused on regional customers and aimed at increasing its presence in the agribusiness and cattle ranching sectors. In retail banking, the bank targets high-end customers and also other segments through corporate payroll relationships.

HSBC Bank Peru S.A. offers commercial and retail banking services. The commercial banking business provides mainly working capital and trade related products. The retail banking business is focused on premium and mass affluent customers, providing mainly mortgages and payroll loans.

HSBC Bank (Uruguay) S.A. is a full service bank with a focus on higher-end segments. The retail banking segment is mainly focused on high value local and regional market segments, providing mainly wealth management services, mortgages and personal loans. It has an incipient business on mass market through clients driven by corporate payroll relationships. The commercial banking segment focuses mainly on companies involved in international trade and agribusiness, with an important number of regional business customers from Brazil and Argentina. It has a strong presence in capital markets, as a local market maker with an active sales unit.

The Offering

The following summary contains basic information about the notes and is not intended to be complete. For a more complete understanding of the notes, please refer to the section entitled "Description of the Notes" in this listing particulars.

Issuer	Banco GNB Sudameris S.A.
Notes Offered	U.S.$250,000,000 aggregate principal amount of 7.50% subordinated notes due 2022.
Maturity	July 30, 2022.
Interest	The notes will bear interest at the rate of 7.50% per annum, payable semi-annually in arrears on January 30 and July 30, of each year, beginning on January 30, 2013.
Issue Price	100.0%.
Ranking	The notes will be our unsecured subordinated obligations. Upon liquidation, the payment of all obligations on or relating to the notes will be subordinated in right of payment to the prior payment in full in cash or cash equivalents of all obligations due in respect of our Senior Liabilities, and will be senior only to our Capital Stock. The notes will rank *pari passu* with all of our unsecured and subordinated debt, if any, that complies with the requirements set forth in Decree 2555. The terms "Senior Liabilities," "Capital Stock" and "Decree 2555" are defined under "Description of the Notes." At March 31, 2012, we had Ps 9,466,661.3 million of outstanding Senior Liabilities and no outstanding subordinated indebtedness.
Optional Redemption	The notes may not be redeemed prior to maturity.
Covenants	The indenture governing the notes contains covenants that will, among other things, require us to maintain our corporate existence, furnish certain periodic reports, and limit our ability to merge or consolidate with another entity or sell, lease or transfer substantially all of our properties or assets to another entity. These covenants are subject to a number of important limitations and exceptions. See "Description of the Notes—Certain Covenants."
No Acceleration	**There is no right of acceleration in the case of a default in any payment on the notes (whether when due or otherwise) or the performance of any of our other obligations under the notes or the indenture.** Notwithstanding the immediately preceding sentence, holders shall have the right to accelerate the payments due under the notes during the occurrence of an event of default only if there has been a change, amendment or modification to Colombian banking laws that would permit such right without disqualifying the notes

	from Tier Two Capital (as defined under "Description of the Notes") status and holders exercise such right in accordance with applicable Colombian banking law. Subject to the subordination provisions of the notes, if any event of default occurs and is continuing, the trustee may pursue any available remedy (excluding acceleration, except as provided herein) to collect the payment of principal and interest on the notes or to enforce the performance of any provision under the indenture. See "Description of the Notes—Events of Default" and "Colombian Banking Regulation."
Book-Entry System; Delivery and Form and Denomination of the Notes	The notes will be issued only in fully registered form, without interest coupons, in the form of beneficial interests in respect of one or more global securities in denominations of U.S.$10,000 and integral multiples of U.S.$1,000 thereof. Beneficial interests in respect of the global securities will be shown on, and transfers thereof will be effected only through, the book-entry records maintained by DTC and its participants, including Euroclear and Clearstream. The notes will not be issued in definitive form except under certain limited circumstances.
Use of Proceeds	The net proceeds from the offering will be available to strengthen our capital structure and for regulatory compliance and general corporate purposes.
Governing Law	The notes and the indenture will be governed by the laws of the State of New York.
Listing and Trading	Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange and to trade on the Euro MTF Market of the Luxembourg Stock Exchange. However, we cannot assure you that the listing application will be approved.
Trustee, Security Registrar, Transfer Agent and Paying Agent	The Bank of New York Mellon.
Luxembourg Listing and Paying Agent	The Bank of New York Mellon (Luxembourg) S.A.
Transfer Restrictions	The notes have not been registered under the Securities Act and are subject to restrictions on transfer and resale. See "Transfer Restrictions" and "Plan of Distribution."
Risk Factors	Investing in the notes involves substantial risks and uncertainties. See "Risk Factors" and other information included in this listing particulars for a discussion of factors you should carefully consider before deciding to invest in the notes.

Summary Financial Data

The following table presents our selected consolidated financial information and other data as of and for each of the periods indicated. The financial data as of and for the fiscal years ended December 31, 2009, 2010 and 2011 set forth below have been derived from our audited consolidated financial statements included elsewhere in this listing particulars. The financial data as of and for the three-month periods ended March 31, 2011 and 2012 set forth below have been derived from our unaudited consolidated financial statements included elsewhere in this listing particulars. Our consolidated financial statements for each period were prepared in accordance with Colombian Banking GAAP, which differs in certain material respects from U.S. GAAP. See "Annex A—Summary of Certain Differences Between Colombian Banking GAAP and U.S. GAAP."

Our historical results are not necessarily indicative of results to be expected for future periods. Results for the three-month period ended March 31, 2012 are not necessarily indicative of results expected for the full year.

This financial data should be read in conjunction with our audited annual consolidated financial statements and the related notes, our unaudited three-month consolidated financial statements and the related notes, and "Presentation of Financial and Other Information," "Unaudited Pro Forma Condensed Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this listing particulars.

Statement of income data

	For the year ended December 31,				For the three-month period ended March 31,		
	2009	2010	2011	2011	2011	2012	2012
		(in Ps millions)		(in U.S.$ millions) (1)	(in Ps millions)		(in U.S.$ millions) (1)
Direct operating income	863,212.7	698,359.7	732,861.5	408.9	164,037.2	241,828.7	134.9
Direct operating expenses	481,628.9	364,231.8	401,430.9	224.0	87,294.9	160,918.2	89.8
Direct operating result	**381,583.8**	**334,127.9**	**331,430.6**	**184.9**	**76,742.3**	**80,910.5**	**45.1**
Other operating income and expenses—net	(133,433.8)	(60,299.0)	(83,521.5)	(46.6)	(8,701.5)	(14,184.4)	(7.9)
Operating result before provisions, depreciation and amortizations	248,150.0	273,828.9	247,909.1	138.3	68,040.8	66,726.1	37.2
Allowances	115,089.1	99,687.2	100,966.4	56.3	36,614.9	33,073.5	18.5
Depreciation and amortization	16,727.6	19,623.6	17,425.7	9.7	4,686.5	4,410.5	2.5
Net operating income	**116,333.3**	**154,518.1**	**129,517.0**	**72.3**	**26,739.4**	**29,242.1**	**16.3**
Net non-operating income	**8,191.0**	**17,413.4**	**15,843.7**	**8.8**	**4,641.5**	**3,945.1**	**2.2**
Profit before income tax	**124,524.3**	**171,931.5**	**145,360.7**	**81.1**	**31,380.9**	**33,187.2**	**18.5**
Income tax expense	37,496.0	58,730.5	45,614.5	25.5	13,779.5	11,551.2	6.4
Net income	**87,028.3**	**113,201.0**	**99,746.2**	**55.7**	**17,601.4**	**21,636.0**	**12.1**

(1) Translated for convenience only using the representative market rates as computed and certified by the Superintendency of Finance of Ps 1,792.07 per U.S.$ 1.00 at March 31, 2012. On July 30, 2012, the representative market rate was Ps 1,789.02 per U.S.$1.00.

Balance sheet data

	At December 31,				At March 31,	
	2009	2010	2011	2011	2012	2012
		(in Ps millions)		(in U.S.$ millions) (1)	(in Ps millions)	(in U.S.$ millions) (1)
Assets:						
Cash and due from banks	517,183.1	684,141.1	702,754.7	392.1	777,281.1	433.7
Asset positions in money market and similar operations	7,210.0	6,556.4	619,703.2	345.8	655,980.7	366.0
Investments	3,303,495.7	3,925,352.5	4,001,730.7	2,233.0	4,061,720.9	2,266.5
Loan portfolio	3,240,562.6	3,459,714.5	4,309,373.3	2,404.7	4,321,963.3	2,411.7
Bankers' acceptances, spot operations and derivatives instruments	2,592.6	4,771.2	2,073.0	1.2	1,893.4	1.1
Accounts receivable	55,092.7	32,396.8	39,666.6	22.1	41,157.3	23.0
Foreclosed assets	1,377.2	1,811.3	710.5	0.4	661.8	0.4
Property and equipment	63,775.4	80.166.0	97,051.0	54.2	102,450.6	57.2
Other assets	66,792.4	67,447.1	81,455.1	45.5	105,126.3	58.7
Reappraisal of assets, net	49,014.6	59,032.1	67,921.9	37.9	69,028.3	38.5
Total assets	**7,307,096.3**	**8,321,389.0**	**9,922,440.0**	**5,536.9**	**10,137,263.7**	**5,656.7**
Liabilities:						
Deposits	4,072,889.6	4,918,073.9	6,053,654.0	3,378.0	6,651,697.8	3,711.7
Liability positions in money market and similar operations	1,449,025.3	1,706,163.2	2,041,671.6	1,139.3	1,456,768.1	812.9
Bankers' acceptances outstanding and derivatives	0.0	4,202.8	2,210.5	1.2	1,300.8	0.7
Bank borrowings and other financial obligations	1,064,639.9	872,867.4	963,542.3	537.7	929,776.7	518.8
Accounts payable	135,486.5	131,294.0	163,652.9	91.3	163,448.7	91.2
Other liabilities	27,832.1	29,058.0	35,641.3	19.9	221,818.1	123.8
Accrued liabilities and provisions	39,365.3	62,221.9	25,283.4	14.1	41,851.1	23.4
Total liabilities	**6,789,238.7**	**7,723,881.2**	**9,285,656.0**	**5,181.5**	**9,466,661.3**	**5,282.5**
Shareholders' equity:						
Capital	44,649.4	44,649.4	44,649.4	24.9	48,758.9	27.2
Reserves	278,000.6	320,091.7	369,533.2	206.2	488,784.2	272.7
Surplus account	96,121.1	102,974.5	102,135.0	57.0	91,005.5	50.8
Earnings from prior periods	12,058.2	16,591.2	20,720.2	11.6	20,417.8	11.4
Net income	87,028.3	113,201.0	99,746.2	55.7	21,636.0	12.1
Total shareholders' equity	**517,857.6**	**597,507.8**	**636,784.0**	**355.4**	**670,602.4**	**374.2**
Total liabilities and shareholders' equity	**7,307,096.3**	**8,321,389.0**	**9,922,440.0**	**5,536.9**	**10,137,263.7**	**5,656.7**

(1) Translated for convenience only using the representative market rates as computed and certified by the Superintendency of Finance of Ps 1,792.07 per U.S.$ 1.00 at March 31, 2012.

Other financial and operating data

	At and for year ended December 31,			At and for three-month period ended March 31,
	2009	2010	2011	2012
	(in percentages, unless otherwise indicated)			
Profitability and cost to income ratios:				
ROAA (1)		1.4%	1.1%	0.9%
ROAE (2)		20.3%	16.2%	14.1%
Net interest margin (3)		4.0%	3.3%	3.0%
Cost-to-income ratio (4)	38.2%	38.6%	42.3%	41.5%
Operating expenses to assets ratio (5)		2.2%	2.0%	1.9%
Capitalization and Balance Sheet Structure:				
Shareholders' equity as a percentage of total assets	7.1%	7.2%	6.4%	6.6%
Solvency ratio (6)	11.5%	11.7%	11.0%	14.7%
Total deposits as a percentage of total loans	125.7%	142.2%	140.5%	154.9%
Total deposits as a percentage of total assets	55.7%	59.1%	61.0%	65.6%
Credit quality:				
Non-performing loan ratio (7)	1.6%	1.7%	1.6%	1.6%
Allowance for loan losses as a percentage of total loans	4.9%	3.8%	3.1%	3.1%
Allowance for loan losses as a percentage of non-performing loans	304.4%	221.4%	193.4%	197.6%
Operational data (in units):				
Number of customers (8)	243,779	254,479	280,548	287,253
Number of employees (9)	1,044	1,085	1,095	1,112
Number of branches	92	98	106	106
Number of ATMs	1,426	1,588	1,804	1,821

(1) For the years ended December 31, "ROAA" is calculated as net income divided by average of total assets (the sum of total assets at the end of the fiscal year and total assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, ROAA is calculated as net income for the three-month period multiplied by four, divided by average assets (the sum of total assets at the end of the three-month period and total assets at the end of the previous fiscal year, divided by two).

(2) For the years ended December 31, "ROAE" is calculated as net income divided by average shareholders' equity (the sum of shareholders' equity at the end of the fiscal year plus shareholders' equity at the end of the prior fiscal year, divided by two). For the three-month period ended March 31, ROAE is calculated as net income for the three-month period multiplied by four, divided by average shareholders' equity (the sum of shareholders' equity at the end of the three-month period and shareholders' equity at the end of the previous fiscal year, divided by two).

(3) For the years ended December 31, net interest margin is calculated as direct operating result (excluding commissions and fees, net and exchange, net), divided by average interest-earning assets (the sum of interest-earning assets at the end of the fiscal year and interest-earning assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, net interest margin is calculated as direct operating result (excluding commissions and fees, net and exchange, net) multiplied by four, divided by average interest-earning assets (the sum of interest-earning assets at the end of the three-month period and interest-earning assets at the end of the previous fiscal year, divided by two). Interest-earning assets are calculated as the sum of asset positions in money market and similar operations, plus investments, plus loan portfolio before allowances, plus bankers' acceptances, spot operations and derivative instruments.

(4) Calculated as other operating expenses divided by direct operating result plus other operating income.

(5) For the years ended December 31, operating expenses to assets ratio is calculated as other operating expenses divided by average of total assets (the sum of total assets at the end of the fiscal year and total assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, operating expenses to assets ratio is calculated as other operating expenses for the three-month period multiplied by four, divided by average assets (the sums of total assets at the end of the three-month period and total assets at the end of the previous fiscal year, divided by two).

(6) Solvency ratio is calculated as technical capital divided by risk-weighted assets. For a definition of technical capital, see "Colombian Banking Regulation—Capital adequacy requirements."

(7) Non-performing loans as a percentage of total loans. Non-performing loans include all loans at least 31 days past due.

(8) Reflects only customers of the Bank.

(9) Reflects aggregated employees of the Bank and its subsidiaries.

RISK FACTORS

You should carefully consider the following risk factors, as well as the other information presented in this listing particulars, before buying the notes. Our business, financial condition and results of operations could be materially and adversely affected if any of the risks described below occur. In that event, the market price of the notes could decline, and you could lose all or part of your investment. We may face additional risks and uncertainties that are not presently known to us, or that we currently deem immaterial, which may also impair our business.

Risks relating to Colombia

Adverse economic and political conditions in Colombia may have an adverse effect on our results of operations and financial condition.

Substantially all of our operations, assets and customers are located in Colombia. As a result, our financial condition, results of operations and asset quality are dependent on the macroeconomic and political conditions prevailing in Colombia. Decreases in the GDP growth rate, periods of negative GDP growth, increases in inflation, changes in policy, or future judicial interpretations of policies involving exchange controls and other matters such as (but not limited to) currency depreciation, inflation, interest rates, taxation, banking laws and regulations and other political or economic developments in or affecting Colombia may affect the overall business environment and may in turn impact our financial condition and results of operations. Colombia’s fiscal deficit and growing public debt could adversely affect the Colombian economy. The Colombian fiscal deficit was 2.2% of GDP in 2009; 2.7% of GDP in 2010; and 2.1% of GDP in 2011. Despite the growth of Colombia’s economy over the past several years, we cannot assure you as to whether current growth and relative stability will be sustained. If the condition of the Colombian economy were to deteriorate, we would likely be adversely affected.

The government of Colombia has historically exercised substantial influence on the local economy, and governmental policies are likely to continue to have an important effect on Colombian entities (including us), market conditions and the prices of the securities of local issuers, including the notes. For example, the Colombian Central Bank could sharply raise or lower interest rates, which could negatively affect our net interest income and asset quality and also restrict our growth. As a result of the presidential elections in Colombia held in June 2010, a new administration, led by President Juan Manuel Santos, assumed power in Colombia on August 7, 2010. The president of Colombia has considerable power to determine governmental policies and actions relating to the economy, and may adopt policies that are inconsistent with those of the prior government or that negatively affect us. Our business and results of operations or financial condition may be adversely affected by changes in government or fiscal policies, and other political, diplomatic, social and economic developments that may affect Colombia. We cannot predict what policies will be adopted by the Colombian government and whether those policies would have a negative impact on the Colombian economy or our business and financial performance or the market value for the notes. It is also possible that political uncertainty may adversely affect Colombia’s economic situation. Social and political instability in Colombia or other adverse social or political developments in or affecting Colombia could adversely affect our business, financial condition and result of operations, as well as market conditions and prices for the notes. These and other future developments in the Colombian political or social environment may cause disruptions to our businesses and adversely affect our financial condition or results of operations.

Exchange rate volatility may adversely affect the Colombian economy and our ability to make interest and principal payments on the notes.

Pursuant to Colombian law, the Colombian government and the Colombian Central Bank maintain the power to intervene in the exchange market in order to consolidate or dispose of international reserves, as well as to control any volatility in the exchange rate, acting through a variety of mechanisms, including discretionary ones. During recent years, the Colombian Central Bank has employed a floating exchange rate system with periodic interventions. From time to time, there have been significant fluctuations in the exchange rate between the peso and the dollar. For example, the peso depreciated 11% against the dollar in 2008, appreciated 9% against the dollar in 2009, appreciated 6% against the dollar in 2010 and depreciated 1.5% against the dollar in 2011. As observed during 2011, unforeseen events in international markets, fluctuations in interest rates, changes in capital flows, political developments or inflation rates may cause exchange rate instability that could, in turn, depress the value of the peso against the dollar, which could adversely affect our ability to make principal or interest payments on the notes, as these obligations are denominated in dollars, while our operations are primarily conducted in pesos. Given that a portion of our assets and liabilities are denominated in, or indexed to, foreign currencies, especially the dollar, sharp movements in exchange rates may negatively impact our results. We cannot assure you that the peso will not depreciate or appreciate relative to other currencies in the future.

The Colombian economy remains vulnerable to external shocks.

A significant decline in economic growth of any of Colombia's major trading partners—in particular, the United States, China, Ecuador and Venezuela—could have a material adverse effect on Colombia's balance of trade and economic growth. In addition, a "contagion" effect, under which an entire region or class of investments becomes less attractive to, or subject to outflows of funds by international investors, could negatively affect Colombia. Lower economic growth may result in asset quality deterioration and could negatively affect our business.

The recent global economic and financial crisis, which began in the U.S. financial system and spread to different economic sectors and countries around the world, has had negative effects on the Colombian economy. During 2009, the economies of the United States and some European countries contracted, which, in turn, affected the Colombian economy. Although there have recently been signs of recovery in the global economy, this recovery may be fragile and also may reflect temporary benefits from government stimulus programs that may not be sustained. Moreover, in recent months, several European Union members have been obliged to reduce their public expenditures due to their high indebtedness rates, which has negatively affected the Eurozone's economy. The ability of certain countries, such as Greece, Portugal and Spain, and companies in those countries and in the Eurozone to repay debt obligations remains uncertain. In addition, certain events, such as the outbreak of civil and political unrest in several countries in Africa and the Middle East, including Egypt, Libya, Tunisia, Bahrain, Syria and the Ivory Coast might further strain and affect the global economy and the global financial system.

Even though exports from Colombia have grown at an accelerated rate in recent years, fluctuations in commodity prices pose a significant challenge to their sustainability. Unemployment continues to be high in Colombia compared to other economies in Latin America. We cannot assure you that growth achieved over the past decade by the Colombian economy will continue in future periods.

The long-term effects of the global economic and financial crisis on the international financial system remain uncertain. In addition, the effect on consumer confidence of any actual or perceived deterioration in the Colombian economy may have a material adverse effect on our results of operations and financial condition.

Colombia has experienced internal security issues that have had or could have a negative effect on the Colombian economy.

Colombia has experienced internal security issues, primarily due to the activities of guerrilla groups such as the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*), or "FARC," paramilitary groups and drug cartels. In remote regions of the country with minimal governmental presence, these groups have exerted influence over the local population and funded their activities by protecting, and rendering services to drug traffickers. Even though the former Colombian government's "democratic security" program and the current Colombian government's "democratic prosperity" program have reduced guerilla and criminal activity, particularly in the form of terrorism attacks, homicides, kidnappings and extortion, such activity persists in Colombia, and possible escalation of such activity and the effects associated with them have had and may have in the future a negative effect on the Colombian economy and on us, including our customers, employees, results of operations and financial condition.

Tensions with Venezuela and Ecuador may affect the Colombian economy and, consequently, our results of operations and financial condition.

Diplomatic relations with Venezuela and Ecuador, two of Colombia's main trading partners, have from time to time been tense and affected by events surrounding the Colombian armed forces combat of the FARC throughout Colombia, particularly on Colombia's borders with Venezuela and Ecuador. Any further deterioration in relations with Venezuela and Ecuador may result in the closing of borders, the imposition of trade barriers or a breakdown of diplomatic ties, any of which could have a negative effect on Colombia's trade balance, economy and general security situation, which may adversely affect our results of operations and financial condition.

Government policies and actions, and judicial decisions, in Colombia could significantly affect the local economy and, as a result, our results of operations and financial condition.

Our results of operations and financial condition may be adversely affected by changes in Colombian governmental policies and actions, and judicial decisions, involving a broad range of matters, including interest rates, exchange rates, exchange controls, inflation rates, taxation and banking regulations and other political or economic developments affecting Colombia. The Colombian government has historically exercised substantial influence over the economy, and its policies are likely to continue to have a significant effect on Colombian companies, including us. As a result of the presidential elections in Colombia held in June 2010, a new administration, led by President Juan Manuel Santos, assumed power in Colombia on August 7, 2010. The president of Colombia has considerable power to determine governmental policies and actions relating to the economy, and may adopt policies that are inconsistent with those of the prior government or that negatively affect us. Future governmental policies and actions, or judicial decisions, could adversely affect our results of operations or financial condition.

New or higher taxes resulting from changes in tax regulations or the interpretation thereof in Colombia could adversely affect our results of operations and financial condition.

New tax laws and regulations, and uncertainties with respect to future tax policies, pose risks to us. In recent years, Colombian tax authorities have imposed additional taxes in a variety of areas, such as taxes on financial transactions, taxes to fund Colombia's war against terrorism and a tax on equity. In addition, the Colombian Congress enacted the Fiscal Rules, the Royalty Law and the Fiscal Sustainability Law (*Regla Fiscal*, *Ley de Regalías* and *Ley Sostenibilidad Fiscal*). Changes in tax-related laws and regulations, and interpretations thereof, can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting tax deductions, and eliminating tax-based incentives and non-taxed income. In addition, tax authorities or courts may interpret tax regulations differently than we do, which could result in tax litigation and associated costs and penalties. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal factors affecting our financial condition and results of operations—Tax policies."

Natural disasters in Colombia could disrupt our businesses and affect our results of operations and financial condition.

We are exposed to natural disasters in Colombia, such as earthquakes, volcanic eruptions, tropical storms and hurricanes. Recently, heavy rains in Colombia, attributable in part to the La Niña weather phenomenon, have resulted in severe flooding and mudslides. La Niña is a recurring weather phenomenon, and it may contribute to flooding, mudslides or other natural disasters on an equal or greater scale in the future. In the event of a natural disaster, our disaster recovery plans may prove to be ineffective, which could have a material adverse effect on our ability to conduct our businesses, particularly if such an occurrence affects computer-based data processing, transmission, storage and retrieval systems or destroys customer or other data. In addition, if a significant number of our employees and senior managers were unavailable because of a natural disaster, our ability to conduct our businesses could be compromised. Natural disasters or similar events could also result in substantial volatility in our results of operations for any fiscal quarter or year.

Our assets may be subject to seizure through eminent domain by the Colombian government.

The Colombian government could seize or expropriate our assets under certain circumstances. Pursuant to Article 58 of the Colombian constitution, the Colombian government can exercise its eminent domain powers in respect of our assets in the event such action is deemed by the Colombian government to be required in order to protect public interests. Eminent domain powers may be exercised through an ordinary expropriation proceeding (*expropiación ordinaria*), an administrative expropriation (*expropiación administrativa*) or an expropriation for reasons of war (*expropiación en caso de guerra*). In all cases we would be entitled to a fair compensation (*indemnización previa*) for the expropriated assets. Also, as a general rule (with the exception of expropriations for reasons of war, in which case compensation may be quantified and paid later), compensation must be paid before the asset is effectively expropriated. However, the compensation may be lower than the price for which the expropriated asset could be sold in a free-market sale or the value of the asset as part of an ongoing business.

Risks relating to our business and industry

A decline in asset quality, including our loan portfolio, may have an adverse effect on our results of operations and financial condition.

Changes in the financial condition or credit profiles of our customers and increases in inflation or interest rates could have a negative effect on the quality of our loan portfolio, causing us to increase loan loss provisions and resulting in reduced profitability. In particular, the level of non-performing loans may increase in the future as a result of factors beyond our control, such as economic conditions and political events affecting Colombia generally or specific sectors of the economy.

A substantial number of our customers consist of individuals and small- and medium-sized enterprises, or “SMEs”, and these customers are more likely to be adversely affected by downturns in the Colombian economy than large corporations and high-income individuals. For example, unemployment directly affects the ability of individuals to obtain and repay consumer loans. Consequently, we may experience higher levels of non-performing loans, which could result in increased loan loss provisions due to defaults by, or deterioration in the credit profiles of, individual borrowers. Non-performing loans and resulting loan losses may increase materially in the future and adversely affect our results of operations and financial condition.

Our loan portfolios have grown substantially in recent years. See “Selected Statistical Data.” As default rates generally increase with the age of loans, the level of non-performing loans may lag behind the rate of growth in loans but may increase when growth slows or the loan portfolios become more mature. As a result, historic loan loss experience may not necessarily be indicative of future loan loss experience.

Our allowances for impairment losses may not be adequate to cover the future actual losses to our loan portfolio.

We record allowances for impairment losses on loans and other assets. The amount of allowances we record is based on our current assessment of and expectations concerning various factors affecting the quality of our loan portfolio and follows the guidelines of the Superintendency of Finance. These factors include, among other things, our borrowers’ financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Colombia’s economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond our control. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for impairment losses on loans and other assets require recalibration, which can lead to increased provision expense. We believe our allowance is adequate as of the date hereof for all known losses. If our assessment of and expectations concerning the above-mentioned factors differ from actual developments, or if the quality of our loan portfolio deteriorates or the future actual losses exceed our estimates, our allowance for impairment losses may not be adequate to cover actual losses and we may need to make additional provisions for impairment losses, which may materially and adversely affect our results of operations and financial condition.

We may be unable to realize on collateral or guarantees securing loans, which may adversely affect our results of operations and financial condition.

We make loans that are secured by collateral, including real estate and other assets that are generally located in Colombia. The value of collateral may significantly fluctuate or decline due to factors beyond our control, including, for example, economic and political conditions in the country. At December 31, 2011 and March 31, 2012, 21.2% and 13.2%, respectively, of our total past due loans (including our foreign operations) were secured. An economic slowdown may lead to a downturn in the Colombian real estate market, which may, in turn, result in declines in the value of real estate securing loans to levels below the principal balances of these loans. Any decline in the value of the collateral securing loans may result in reduced recoveries from collateral realization and have an adverse effect on our results of operations and financial condition.

We also make loans on the basis of guarantees from relatives, affiliates or associated persons of borrowers. To the extent that guarantors encounter financial difficulties due to economic conditions, personal or business circumstances, or otherwise, our ability to enforce such guarantees may be impaired.

In addition, we may face difficulties in enforcing our rights as secured creditors against borrowers, collateral or guarantees. In particular, timing delays and procedural problems in realizing against collateral, as well as debtor-protective judicial interpretations of the law, may make it difficult to foreclose on collateral, realize against guarantees or enforce judgments in our favor, which could materially and adversely affect our results of operations and financial condition.

We engage in transactions with certain related parties that could result in conflicts of interest.

Certain parties related to us have been involved, directly or indirectly, in credit transactions with us. In accordance with the Colombian banking regulations, related parties include directors, principal executive officers and holders that own, directly or indirectly, more than 10% of our shares, and companies controlled by any of them. Under Colombian banking regulations, all loans to related parties must be made on terms no more favorable than those offered to third parties. The Superintendency of Finance regulates and closely monitors related-party transactions and establishes limits on related-party transactions. For example, for unsecured loans to shareholders holding 20% or more of the Bank's shares, the maximum aggregate amount of the loans is limited to 20% of the Bank's technical capital. For unsecured loans to shareholders holding less than 20% of the Bank's shares, the maximum aggregate amount of the loans is limited to 10% of the Bank's technical capital, which is the same limit Colombian banking regulations impose on unsecured loans to third-parties. Secured loans are limited to 25% of the Bank's technical capital. Our related-party exposure (as measured in accordance with Colombian banking regulations) equaled 9.6% and 0% of our technical capital, at December 31, 2011 and March 31, 2012, respectively.

Although we intend to continue entering into transactions with related parties on terms similar to those that would be offered by or to an unaffiliated third party, such financial transactions create the potential for, or could result in, conflicts of interest. At December 31, 2011, direct and indirect loans to our shareholders on a consolidated basis were Ps 107,237.0 million, in the aggregate. We did not have any loans to related parties outstanding at March 31, 2012. We believe we are in compliance with all related-party transaction requirements imposed by Colombian banking regulations. For further information on our transactions with related parties, see "Related Party Transactions."

We may face legal and other challenges to maximizing revenue from credit card fees and other fees from customers.

As part of our credit card business, we face risks relating to the pricing of merchant fees. There has been an ongoing dispute in Colombia between retailers and banks regarding merchant fees. The Superintendency of Industry and Commerce has issued resolutions related to Asociación Gremial de Instituciones Financieras Credibanco (Visa franchisee in Colombia) and Redeban Multicolor S.A. (MasterCard franchisee in Colombia), the entities relied on by most Colombian banks to manage the credit card system in Colombia, related to an alleged agreement on the pricing of merchant and acquiring fees among the banks. As a result of these resolutions, the fees collected from customers and income from credit card fees could decrease, which could also lead to changes in commercial strategies that could impact our results of operations and financial condition. In addition, fees charged for other banking services may be reduced in the future as a result of regulatory measures and/or pressure from retailers and interest groups.

A new insolvency law in Colombia may limit our ability to collect monetary obligations and enforce rights against collateral or under guarantees.

Colombian insolvency laws provide that creditors of an insolvent debtor in default are prohibited from initiating collection proceedings outside the bankruptcy or reorganization process of such debtor. In addition, all collection proceedings outstanding at the beginning of the bankruptcy or reorganization process must be suspended and any creditors are prevented from enforcing their rights against the collateral and other assets of the debtor. Law 1380 of 2010 provided insolvency protection to individuals who are not merchants. The law enabled an individual to submit monetary obligations to extrajudicial conciliation hearings with the individual’s creditors. The collection of interest on the debt subject to such proceedings was then suspended for a period of 60 days or more. After hearings were initiated, it was not possible for any creditor, including us, to initiate or continue enforcement actions or collect collateral from the debtor.

A perception that loans to individuals may be difficult or impossible to recover could cause us to enhance credit requirements and result in decreased lending to individuals. In addition, increased difficulties in enforcing debt and other monetary obligations due to this new insolvency law could have an adverse effect on our results of operations and financial condition. On September 19, 2011, the Colombian Constitutional Court determined that this law was unconstitutional because of defects in the lawmaking process. On September 20, 2011, Colombian Senator Roy Leonardo Barreras presented a bill on the same terms as Law 1380 of 2010, which has been published but has not yet been discussed in the Colombian Congress. This bill was included as an additional chapter to a bill called the General Procedural Code. This code, including the chapter on insolvency proceedings for individuals, was approved by the Colombian Congress on June 12, 2012. This bill is pending the approval of the President of Colombia. If it is approved by the President of Colombia, the chapter on insolvency proceedings for individuals will enter into effect in October 2012.

Any failure of risk management processes, including credit and market risk, could materially and adversely affect our banking business, results of operations and financial condition.

Credit risk is a principal risk inherent in our banking business. Our policies and procedures, which are designed to identify, monitor and manage risk, may prove to be insufficient. Furthermore, we may not be able to upgrade, on a timely basis, risk management systems. For example, the risk management systems utilize an internal credit rating system to assess the risk profile of each customer. As this process involves detailed analyses of the customer’s credit risk, taking into account quantitative and qualitative factors, it is necessarily subject to human error. Our personnel may fail to detect risks before they occur, or may not effectively implement their risk management systems, which may increase exposure to credit risk. As a result, any failure to effectively implement or consistently follow or refine risk management systems may result in higher risk exposures, which could materially and adversely affect our results of operations and financial condition.

Declines in the value of our sovereign debt securities portfolios could have an adverse effect on our results of operations.

Our debt securities portfolio primarily consists of sovereign debt securities, mainly securities issued or guaranteed by the Colombian government. We are exposed to significant credit, market and liquidity risks associated with sovereign debt. At December 31, 2011 and March 31, 2012, debt securities represented 40.3% and 38.8%, respectively, of our consolidated total assets, and approximately 96.7% and 96.8%, respectively, of these securities were issued or backed by the Colombian government. A significant decline in the value of these government securities could materially and adversely affect our debt securities portfolio and, consequently, our financial condition and results of operations. See "Colombian Banking Regulation—Mandatory investments."

Our banking business is subject to market risk.

We are directly and indirectly affected by changes in market conditions. Market risk, or the risk that the value of assets and liabilities or revenues will be adversely affected by variation in market conditions, is inherent in the products and instruments associated with our operations, including loans, deposits, securities, bonds, long-term debt, short-term borrowings, proprietary trading in assets and liabilities and derivatives. Changes in market conditions that may affect our financial condition and results of operations include fluctuations in interest and currency exchange rates, securities prices, changes in the implied volatility of interest rates and foreign exchange rates, among others.

Our banking business is subject to counterparty risk.

Our banking business is exposed to counterparty risks in addition to credit risks associated with lending activities. Counterparty risk may arise from, for example, investing in securities of third parties, entering into derivative contracts under which counterparties have obligations to make payments to us, or executing securities, futures, currency or commodity trades from proprietary trading activities that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. These risks could materially and adversely affect our results of operations and financial condition.

Our banking business is subject to market and operational risks associated with derivative transactions.

Our banking business enters into derivative transactions primarily for hedging purposes and, on a limited basis, on behalf of customers. We are subject to market and operational risks, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of a counterparty to perform its obligations to us).

Market practices and documentation for derivative transactions in Colombia may differ from those in other countries. For example, documentation may not incorporate terms and conditions of derivatives transactions as commonly understood in other countries. In addition, the execution and performance of these transactions depend on our ability to develop adequate control and administration systems, and to hire and retain qualified personnel. Moreover, our ability to monitor and analyze these transactions depends on our information technology systems. These factors may further increase risks associated with derivative transactions and could materially and adversely affect our results of operations and financial condition.

We are subject to liquidity risk, which may result in increases to funding costs.

Our principal sources of funding for our banking business are savings accounts, term deposits and current accounts, that together represented approximately 64.6% and 69.9% of consolidated total liabilities at December 31, 2011 and March 31, 2012, respectively. Because we rely primarily on short-term deposits for funding, a sudden or unexpected shortage of funds in the Colombian banking system and money markets may prevent us from meeting our obligations or obtaining necessary funding without incurring higher costs or selling certain assets at prices below prevailing market values in our banking business, which could materially and adversely affect our results of operations and financial condition.

We have a significant concentration of deposits among a relatively limited number of institutional clients.

At March 31, 2012, our top 20 depositors accounted for 36.4% of all our deposits. At the same date, based on type of deposit, this concentration is higher: 54.7% for checking account deposits, 58.8% for savings account deposits and 37.8% for term deposits. This concentration mainly results from the *convenios* (funding agreements) we enter into with governmental entities and pension funds. Under these agreements, these entities agree to deposit their funds with us and we manage their collections and payments, among other things. Although these funding agreements have historically been stable and long-standing, we cannot assure you that this will continue. If several of these depositors elect to terminate their relationship with us or withdraw a substantial amount of their deposits, we may be unable to meet our obligations or obtain necessary funding without incurring higher costs or selling certain assets at prices below prevailing market values in our banking business, which could materially and adversely affect our results of operations and financial condition. See "Business—Our banking operations—General."

Default by one or more of our largest borrowers could adversely affect our results of operations and financial condition.

The aggregate outstanding loans to our ten-largest borrowers represented 9.8% and 8.9% of our consolidated total loan portfolio at December 31, 2011 and March 31, 2012, respectively. Default on loans by one or more of these borrowers may adversely affect our results of operations and financial condition.

Downgrades in our credit ratings would increase the cost of, or impair access to, funding.

Our credit ratings are an important component of our ability to obtain funding. Our ability to compete successfully in the marketplace for deposits depends on various factors, including our financial stability as reflected by our credit ratings. A downgrade in credit ratings may adversely affect perception of our financial stability and ability to raise deposits. Adverse changes in credit ratings would also increase the cost of raising funds in the capital markets or borrowing funds. In addition, lenders and counterparties in derivative transactions are sensitive to the risk of a rating downgrade. Any downgrade in any of our credit ratings could materially and adversely affect our results of operations and financial condition.

Our loan portfolios are subject to risk of prepayment, which may result in reinvestment of assets on less profitable terms.

Our loan portfolios are subject to prepayment risk, which results from the ability of a borrower to pay a loan prior to maturity. Generally, in a declining interest rate environment, prepayment activity increases with the effect of reducing weighted average lives of interest earning assets and adversely affecting results. Prepayment risk also has an adverse effect on credit card and collateralized mortgage obligations, since prepayments could shorten the weighted average life of these portfolios, which may result in a mismatch in funding or in reinvestment at lower yields.

On July 9, 2012, the Colombian Congress adopted Law no. 1555, which prohibits the charging of prepayment penalties for new credits in local currency that exceeds an amount in pesos equivalent to 880 times the minimum monthly salary established by Colombian law. The anticipated effect of this law is the reduction of prepayment penalty revenues on a going forward basis (which have historically accounted for less than 1% of our direct operating results) and a possible increase in our risk of prepayment described above.

Guidelines for loan classification and allowances in Colombia are different and may not be comparable to those in other countries.

Colombian banking regulations require us to classify each loan or type of loan according to a risk assessment that is based on specified criteria, to establish corresponding reserves and, in the case of some non-performing assets, to certain charge-off loans. The criteria to establish reserves include both qualitative and quantitative factors. Colombian banking regulations relating to loan classification and determination of loan loss reserves are generally different than those applicable to banks in other countries, including the United States. If the rules applicable in the United States were applicable in Colombia today, the level of our loan loss reserves may be different than our current reserve levels. New regulations relating to loan loss reserves took effect and require greater reserves for loan losses in 2012. We do not currently anticipate any significant impact to our provision policies resulting from these new regulations. We also may deem it necessary to increase our loan loss reserves in the future, or future regulations may require such additional reserves. Increasing loan loss reserves could materially and adversely affect our results of operations and financial position and our ability to service the notes.

We are subject to extensive supervision and regulation, and changes in banking laws and regulations in Colombia could adversely affect our consolidated results.

We are subject to extensive supervision and regulation by the Superintendency of Finance and the Colombian Central Bank. Colombian banking regulations grant the Superintendency of Finance the authority to oversee and supervise banks, insurance companies and other financial institutions. Under these laws, all banking operations in Colombia require licensing by the Superintendency of Finance, and the Superintendency of Finance and the Colombian Central Bank have general administrative responsibilities over banks and other financial institutions like us, including authority to set loan loss provisions, regulatory capital requirements and other minimum capital adequacy and reserve requirements. In addition, banks are required to provide the Superintendency of Finance, on a periodic basis, with all information that is necessary to allow for its evaluation of their financial performance.

Banking and financial services laws and regulations are subject to ongoing review and revision, including changes in response to global regulatory trends and, more recently, the global economic and financial crisis. In the wake of this crisis, governments have been actively considering new banking laws and regulations, and reviewing and revising existing laws and regulations, particularly in relation to capital adequacy and accounting standards, including Basel III. The adoption of new laws or regulations, or changes in the interpretations or enforcement of existing laws or regulations, may have an adverse effect on our results of operations and financial condition.

Regulatory actions may result in fines, penalties and restrictions that could materially and adversely affect our businesses and financial performance.

We and our Colombian subsidiaries are subject to regulation and supervision by Colombian authorities. These regulatory authorities have broad powers to adopt regulations and other requirements affecting or restricting virtually all aspects of our organization and operations, including, for example, the imposition of anti-money laundering measures and the authority to regulate the terms and conditions of credit that can be applied by Colombian banks. Failure to comply with applicable regulations could subject us to fines or sanctions or even revocation of licenses or permits to operate our business. In the event we encounter significant financial problems, are in danger of insolvency or become insolvent, or are otherwise not deemed to be viable, the banking authorities would have broad powers to intervene in our or their management and operations, including by suspending or removing management and, in extreme circumstances, putting us or them into conservatorship or receivership or taking control of us or them.

Our operations require the maintenance of our banking and other licenses and any noncompliance with our license and reporting obligations could have an adverse effect on our business, financial condition and results of operations.

All banking operations in Colombia require licensing by the Superintendency of Finance. We currently have the necessary licenses to conduct all of our banking and other operations in Colombia. Although we believe we are currently in compliance with our existing material license and reporting obligations to the

Superintendency of Finance and other Colombian governmental authorities, we cannot assure you that we will be able to maintain the necessary licenses in the future. The loss of a license, a breach of the terms of any of our licenses or a failure to obtain any further required licenses in the future could have a material adverse effect on our business, financial condition and results of operations.

Failure to protect personal information could adversely affect our reputation and our business.

We manage and hold confidential personal information of customers in the conduct of their banking operations. Although we have procedures and controls to safeguard personal information in our possession, unauthorized disclosures could subject us to legal actions and administrative sanctions as well as damages. Any failure to protect personal information could result in reputational damage and have an adverse effect on our results of operations and financial condition.

We are subject to fluctuations in interest rates and other market risks, which may materially and adversely affect our results of operations and financial condition.

Market risk refers to the probability of variations in income or in the market value of assets and liabilities due to changes in markets, including variations in market rates of interest and foreign currency exchange rates. Changes in interest rates affect the following areas, among others, of our businesses: net direct operations income; the volume of loans originated; market value of securities holdings; asset quality; and gains from sales of loans and securities.

Changes in short-term interest rates may affect interest margins quickly and, therefore, net direct operations income, which comprises the majority of our revenue. Increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates may discourage customers from borrowing and may result in increased delinquencies in outstanding loans and deterioration in the quality of assets. Increases in interest rates may reduce the value of our assets, including our financial assets, the assets managed by Servitrust and Servivalores and the investments we make. We hold a substantial portfolio of loans and debt securities that have both fixed and floating interest rates. In addition, we may incur costs (which, in turn, will affect our results of operations) if we implement strategies to reduce future interest rate exposure. Increases in interest rates may reduce gains or require us to record losses on sales of our loans or securities.

High interest rates have historically been common in many countries in Latin America. Upon the consummation of the HSBC acquisitions, we would have even greater regional exposure to fluctuations in interest rates. To the extent there are significant increases of such rates in any of the countries where we will operate, our operating margins may be adversely affected and our results of operations may experience significant adverse consequences.

We face exposure to fluctuations in foreign currency exchange, particularly in light of the fact that the currencies in countries where we operate and plan to operate have historically experienced significant devaluations. The types of instruments exposed to foreign exchange rate risk include, for example, investments in foreign subsidiaries, foreign currency-denominated loans and securities, foreign currency-denominated debt and various foreign exchange derivative instruments whose values fluctuate with changes in the level or volatility of currency exchange rates or foreign interest rates.

We are subject to trading risks with respect to our trading activities.

Our banking operations engage in proprietary trading, and we derive a portion of our profits from such trading activities. As a result, any reduction in trading income could adversely affect our results of operations and financial condition. Our trading income is volatile and dependent on numerous factors beyond our control, including, among others, market trading activity, interest rates, exchange rates and general market volatility. A significant decline in our trading income, or large trading losses, could adversely affect our results of operations and financial condition.

Declines in the market price for securities could result in us recording impairment losses as well as increased unrealized losses on other securities. Losses in the Colombian equity markets could result in further losses from impairment or sale of these securities. Any significant increases in exposure to any of these non-traditional risks, or a significant increase in credit risk or bankruptcy of any of the counterparties, could materially and adversely affect our results of operations and financial condition.

Colombian law imposes limitations on interest rates, and future additional restrictions on interest rates or banking fees could negatively affect our profitability.

The Colombian Commercial Code limits the amount of interest that may be charged in commercial transactions, including transactions of Colombian banking operations. In the future, regulations in Colombia could impose increased limitations regarding interest rates or fees. Law 1430 of December 2010 authorizes the Colombian central government to impose or place limits on tariffs and fees charged by banks and other financial institutions where the government has determined that there is insufficient competition in a relevant market. Additionally, the law requires the Superintendency of Finance to implement a monitoring scheme of the tariffs and fees charged by the financial institutions in their relevant markets and to report the results of this evaluation semiannually to the Colombian central government. A significant portion of our revenues and operating cash flow is generated by credit services and any such increased limitations would materially and adversely affect our results of operations and financial condition.

On December 20, 2011, the Colombian central government used the authority granted by law 1430 of 2010 and established in Decree 4809 of 2011 caps to fees banks can charge for withdrawals from ATMs outside their own networks. Further limits or regulations regarding banking fees and uncertainty with respect thereto could have a negative effect on our results of operations and financial condition.

The Colombian Central Bank may impose requirements on the ability of Colombian residents, including us, to obtain loans in foreign currency.

Under Colombian exchange control operations, the Colombian Central Bank may impose certain mandatory deposit requirements in connection with foreign currency-denominated loans obtained by Colombian residents, including us. Most recently, when the peso appreciated against foreign currencies in 2008, such mandatory deposit requirement was set at 40% of the amounts to be disbursed under any credit facility denominated in a foreign currency. Future measures or requirements imposed by the Colombian Central Bank, such as mandatory deposit requirements, may adversely affect our and our clients’ ability to obtain loans in foreign currency.

We face uncertainty regarding new consumer protection laws.

Law 1328 of 2009, also referred to as the “financial reform law,” creates a new customer protection regime with respect to financial institutions. The financial reform law provides a bill of rights for consumers of financial services and products, including the right to receive clear, complete and reliable information about the services and products offered by financial institutions. The law also contains specific new obligations for financial institutions, including a duty to maintain a financial ombudsman in charge of consumer protection, a duty to create a financial consumer attention center pursuant to terms set by the Superintendency of Finance, an obligation to provide services and products under the same conditions offered to the general public, and a prohibition on the inclusion of predatory or abusive clauses in contracts with consumers. Any violation of this law by us could result in monetary or administrative sanctions or restrictions on our operations.

Failure to comply with Colombian usury laws could subject us to civil and criminal penalties, and compliance with such usury laws may limit the range of services and products we are able to offer.

Loans made by us are subject to Colombian usury laws. These laws impose ceilings on interest charges and possible penalties for violation of those ceilings, including restitution of excess interest, forfeiture of any interest accrued and criminal charges. The maximum rate of interest that we may charge on commercial loans under Colombian law is limited to 1.5 times the *Interés Bancario Corriente* ("IBC"), which is certified by the Superintendency of Finance and calculated as the average of the interest ordinarily charged by banks within a set period of time. The IBC is calculated and certified separately for consumer loans, commercial loans and microcredit (as defined under Colombian law), using data received from regulated banking institutions in Colombia, who must report on a weekly basis all loans disbursed and their respective prices for each of these two categories of credit. The Superintendency of Finance announces a new rate for consumer loans every three months and a new rate annually for microcredit. We do not intend to make loans at or in excess of the maximum rates determined by the Superintendency of Finance. However, uncertainties in determining the legality of interest rates under Colombian usury laws could result in inadvertent violations, in which case we could incur the penalties mentioned above.

In addition, legislative or regulatory changes in existing usury laws or the methodology for calculating the IBC may lead to a lowering of the maximum rates of interest we may charge or the imposition of other lending restrictions, which could negatively affect our results of operation and financial condition. In addition, our ability to offer an expanded range of products or services to underserved market segments may be limited by our need to comply with Colombian usury laws, as we may not be able to offer such services profitably and in compliance with such laws.

Our businesses may face constitutional actions, class actions and other legal actions involving claims for significant monetary awards against financial institutions, which may affect our businesses.

Under the Colombian Constitution, individuals may initiate constitutional actions (*acciones populares*), or class actions (*acciones de grupo*), to protect their collective or class rights, respectively. Colombian financial institutions, including us and our subsidiaries, have been, and continue to be, subject to these actions with regard to fees, financial services, mortgage lending and interest rates, the outcomes of which are uncertain. In addition, the number of such actions could increase in the future and could significantly affect our businesses.

We may not be able to manage our growth successfully.

We have been expanding the scope of our operations over the past few years, and we expect that this expansion will continue. As we continue to grow, we must improve our operational, technical and managerial knowledge and compliance systems in order to effectively manage our operations across the expanded group. Failure to integrate, monitor and manage expanded operations could have a material and adverse effect on our reputation and financial results. Our future growth will also depend on our access to internal and external financing sources. We may be unable to access such financing on commercially acceptable terms or at all.

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

In order for us to grow, remain competitive, participate in new businesses, or meet regulatory capital adequacy requirements, we may require new capital in the future. Recently, the Ministry of Finance (*Ministerio de Hacienda y Crédito Público*) published on its website a proposal for the amendment of the regulatory capital adequacy requirements established in Decree 2555 of 2010. The Ministry of Finance published this proposal in order to receive comments to the proposal. Since the proposal is a preliminary draft, we cannot determine at this moment how the current regulation on capital adequacy requirements will be amended, when it will be amended or the effect that such amendment may have on the Bank. Moreover, we may need to raise additional capital in the event of large losses in our total loan portfolio that result in a reduction of our shareholders' equity. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including: our future financial condition, results of operations and cash flows; any necessary corporate or government regulatory approvals; general market conditions for capital-raising activities by commercial banks and other financial institutions; and economic, political and other conditions in Colombia and elsewhere. We may not be able to obtain additional capital in a timely manner or on acceptable terms or at all.

We are susceptible to fraud by employees or outsiders, unauthorized transactions by employees and other operational errors, and the failure of our system of internal controls to discover and rectify such matters could have a material adverse effect on our business, financial condition and results of operations.

As with other financial institutions, we are susceptible to, among other things, fraud by employees or outsiders, unauthorized transactions by employees, failure to properly document transactions, failure to comply with regulatory requirements, breaches of conduct of business rules, equipment failures, natural disasters, failure of external systems and other operational errors (including clerical or record-keeping errors and errors resulting from faulty computer or telecommunications systems). Given the high volume of transactions that may occur at a financial institution, errors could be repeated or compounded before they are discovered and rectified. In addition, a number of our banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult to detect quickly or at all. While we believe that we maintain a system of internal controls designed to monitor and control operational risk, we cannot assure you that our system of internal controls will be effective. Losses from the failure of our system of internal controls to discover and rectify such matters could have a material adverse effect on our business, financial condition and results of operations. Our business depends on our ability to process large numbers of transactions efficiently and accurately. Our and our parent’s currently adopted procedures may not be effective in controlling each of the operational risks we face.

Failure of our information systems could materially and adversely affect the effectiveness of our risk management and internal control processes as well as our results of operations and financial condition.

We are highly dependent on the ability to collect and process, on a timely basis, a large amount of financial and other information, and services and products, at a time when transaction processes have become more complex with increasing volumes. A partial or complete failure of any of these systems could materially and adversely affect our decision-making process, risk management and internal control systems as well as our ability to respond on a timely basis to changing market conditions.

In addition, our ability to remain competitive will depend in part on our ability to upgrade information technology infrastructure on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to ensure the proper functioning of financial control, accounting and other data collection and processing systems and to remain competitive. In particular, as we continue to open new branches, we need to improve our information technology infrastructure, including maintaining and upgrading our software and hardware systems and our back-office operations.

Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could damage our reputation and materially and adversely affect our results of operations and financial condition.

We also rely on information systems to operate our websites, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures, viruses, computer “hackers” or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our customers with delays or errors, which could reduce demand for their services and products and could materially and adversely affect our results of operations and financial condition.

Our policies and procedures may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to fines and other liabilities.

We are required to comply with applicable anti-money laundering, anti-terrorism financing laws and other regulations. These laws and regulations require us, among other things, to adopt and enforce “know your customer" policies and procedures and to report suspicious or large transactions to the applicable regulatory authorities. While we have adopted policies and procedures aimed at detecting and preventing the use of our banking networks for money laundering activities and by terrorists and terrorist-related organizations and individuals generally, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where they may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent that we fail to fully comply with applicable laws and regulations, the relevant government authorities to which we report have the power and authority to impose fines and other penalties. Furthermore, such measures, procedures and compliance may not be completely effective in preventing third parties from using us as a conduit for money laundering or terrorist financing without our knowledge. If we were to be associated with money laundering (including illegal cash operations) or terrorist financing, our reputation could suffer and/or we could become subject to fines, sanctions or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with us), which could have a material adverse effect on our business, financial condition and results of operations.

Banking regulations, accounting standards and corporate disclosure applicable to us differ from those in the United States and other countries.

Colombian banking regulations can differ in a number of material respects from regulations applicable to banks in other countries, including those in the United States. See "Colombian Banking Regulation." Accounting principles in Colombia and the United States also differ. See "Appendix A—Summary of Certain Differences Between Colombian Banking GAAP and U.S. GAAP." We prepare our annual audited financial statements in accordance with Colombian Banking GAAP, which differs in significant respects from U.S. GAAP. Thus, Colombian financial statements and reported earnings may differ from those of companies in other countries.

The HSBC Entities prepare their annual audited financial statements in accordance with the generally accepted accounting principles of their respective countries, which also differ in significant respects from U.S. GAAP. Thus, the financial statements of these entities may differ from those of companies in other countries.

Although the Colombian government is currently undertaking a review of regulations relating to accounting, audit, and information disclosure, with the intention of seeking convergence with international standards, current regulations continue to differ in certain respects from those in other countries. In addition, there may be less publicly available information about us than is regularly published by or about U.S. issuers or issuers in other countries.

Competition and consolidation in the Colombian banking and financial industry could adversely affect our market position.

We operate in a competitive market. Since the 1990s, when the Colombian financial system was deregulated, there has been an ongoing process of consolidation that has included foreign bank participants entering the market. We expect that consolidation to lead to the creation of larger local financial institutions, including additional foreign banks, presenting the risk that we could lose a portion of our market share in the industry, affecting our results of operations.

Our ability to maintain our competitive position depends mainly on our ability to anticipate and fulfill the needs of new and current customers through the development of innovative services and products, and our ability to offer adequate services and strengthen our customer base through cross-selling. Our businesses will be adversely affected if we are unable to retain current customers and attract new ones. In addition, our efforts to offer new services and products may not succeed if product or market opportunities develop more slowly than expected or if the profitability of these opportunities is undermined by competitive pressures.

We depend on our senior management, and the loss of their services would have a material adverse effect on our business.

We are highly dependent on members of our senior management team, all of whom possess considerable experience and expertise and have strong relationships with customers and participants of the Colombian business community. Accordingly, our success will depend on the continued service of these senior officers, who are not obliged to remain employed with us. The loss of the services of any of these senior officers could have an adverse effect on our business. See “Management” and “Business—Our strengths—Our experienced management team has a strong track record of growing organically and through acquisitions.”

We face certain risks if our controlling shareholder ceases to own or control us.

Our development, operations and growth have depended significantly upon the efforts of our controlling shareholder, Gilex Holding B.V., which in turn is controlled by the Gilinski family. Since the Gilinski family acquired its controlling interest in 2003, our total assets have increased by approximately fourteen-fold, shareholders’ equity has increased by approximately ten-fold, our client base has increased by approximately thirteen-fold and our market participation has increased four-fold. In addition, from time to time, we have received capital injections from the Gilinski family, including a capital injection of U.S.$130 million in connection with our acquisition of the HSBC Entities. We cannot assure you that the Gilinski family will continue to directly or indirectly control and/or own us and that we will continue to benefit from our association with the Gilinski family. Any such events could adversely affect our results of operations and financial condition.

We are subject to reputational risk.

Damage to our reputation may limit our ability to attract customers, employees and investors. Harm to our reputation can arise from employee misconduct, legal and regulatory requirements, ethical issues, money laundering, and failing to deliver minimum standards of service and quality, among others. Reputation plays an integral role in our business operations, which are based on customer confidence and trust. If our public image or reputation is damaged as a result of adverse publicity or otherwise, business relationships with our customers may deteriorate, which would adversely affect our results of operations and financial condition.

We are controlled by the Gilinski family and their interests could differ from the interests of those of holders of the notes.

The Gilinski family beneficially owns, directly and indirectly, 94.7% of our shares. The Gilinski family accordingly controls us. See “Share Ownership and Principal Shareholder.” Circumstances may occur in which our controlling shareholder may have an interest in pursuing transactions that, in its judgment, enhance the value of its several investments in the banking sector. Such transactions may not necessarily be in the Bank’s interest or that of the note holders. Due to its control, the Gilinski family has and will have, the power to:

- elect a majority of our directors and appoint our executive officers, set our management policies and exercise overall control over the Bank and subsidiaries;
- agree to sell or otherwise transfer its controlling stake in the Bank; and
- determine the outcome of substantially all actions requiring shareholder approval, including transactions with related parties, corporate reorganizations, acquisitions and dispositions of assets, and dividends. See “Related Party Transactions.”

Risks relating to our proposed acquisition of HSBC's banking businesses in Colombia, Paraguay, Peru and Uruguay

We may be unable to obtain the approvals required to complete all of the acquisitions or obtaining required governmental and regulatory approvals may require us to comply with restrictions or conditions that may materially impact the anticipated benefits of the acquisitions.

Each of the acquisitions is subject to the satisfaction or waiver of certain conditions, including, among others, the receipt of all required approvals from the respective regulatory authorities in Colombia, Paraguay, Peru and Uruguay. These governmental authorities may impose conditions on the completion, or require changes to the terms, of the acquisitions, including restrictions or conditions on our business, operations, or financial performance following consummation of the acquisitions that may materially impact the anticipated benefits thereof. These conditions or changes could have the effect of delaying completion of the acquisitions or imposing additional costs on or limiting our revenues following the acquisitions.

We cannot assure you that we will be successful in obtaining the required approvals in each of the four relevant jurisdictions. The approval process is subject to compliance with several conditions, some of which may involve a considerable amount of discretion or interpretation on the part of the regulators. In particular, it is unclear whether the recent political events in Paraguay that resulted in the impeachment and ouster of President Fernando Lugo would have any effect on our approval process in Paraguay. To the extent we are unable to obtain one or more approvals, we would still be required to consummate the remaining acquisitions, even if the acquisition of less than all of the HSBC Entities is less commercially attractive.

Our planned acquisition of HSBC's banking businesses in Colombia, Paraguay, Peru and Uruguay may not perform in accordance with expectations or may disrupt our operations and adversely affect our credit rating and profitability.

A component of our strategy is to identify and pursue growth-enhancing strategic opportunities. As part of that strategy, we have agreed to acquire HSBC's banking businesses in Colombia, Paraguay, Peru and Uruguay. The HSBC acquisitions could expose us to risks with which we have limited or no experience. In addition, each of the HSBC acquisitions could negatively affect credit ratings on our debt securities, including the notes.

We have based our assessment of the HSBC acquisitions on assumptions with respect to operations, profitability and other matters that may subsequently prove to be incorrect. The HSBC acquisitions may not produce anticipated synergies or perform in accordance with our expectations (including as a result of reductions in anticipated deposit levels and the loss of customers at the HSBC Entities) and could adversely affect our operations and profitability. In addition, new demands on our existing organization and personnel resulting from the integration of new acquisitions could disrupt our operations and adversely affect our operations and profitability.

We may be unsuccessful in addressing the challenges and risks presented by our operations in countries outside Colombia.

The proposed acquisition of HSBC's banking businesses in Colombia, Paraguay, Peru and Uruguay, if consummated, would result in our having to conduct banking businesses outside our historical home market of Colombia. These operations may involve risks to which we have not previously been exposed, and in countries that may present different or greater risks, including from competition, than Colombia.

We have limited experience conducting consumer and commercial banking businesses in countries outside Colombia. Accordingly, we may not be successful in managing such operations outside of our traditional domestic market. We may face delays in payments by customers and higher delinquency rates in these countries, which could necessitate higher provisions for loan losses and, consequently, have a negative effect on our financial performance.

In addition, we may not be able to realize all of the anticipated benefits from the proposed acquisitions. Achieving such benefits will depend, to a large extent, on our ability to run a business outside Colombia. Any failure to do so could adversely affect our margins, our results of operations and financial condition.

We will depend on the current senior management of the different entities we have agreed to acquire, and the loss of their services could have an adverse effect on such entities' business.

We intend to retain the current senior management of the HSBC Entities. The loss of services of any of these senior officers could have an adverse effect on the relevant entity's business.

We face risks related to regulatory asymmetries.

Regulation of financial institutions varies across the different jurisdictions in which we plan to operate. These differences are particularly pronounced in the assessment of credit risk and investments. These asymmetries may affect the expected results of operations in each jurisdiction, and as a consequence could adversely affect our consolidated results of operations.

In the event that an acquisition has not consummated on or prior to November 11, 2013, such acquisition may be terminated by HSBC or us and, depending on the circumstances, we may have to pay break-up fees.

The master share purchase agreement governing the proposed acquisition of the HSBC Entities provides that if any of the four acquisitions has not been consummated by November 11, 2013, then either HSBC or we can move to terminate such acquisition. In the event the failure to consummate the acquisition by November 11, 2013 is due to a reason other than a breach by HSBC (other than, in the case of the Colombia and Peru acquisitions only, the failure to obtain required governmental approvals), then we would be required to pay a break-up fee ranging between U.S.$2.5 million and U.S.$8.2 million, depending on which is the affected acquisition.

The pro forma financial information in this listing particulars may not be reflective of our operating results and financial condition following the acquisitions, and we may be unable to achieve anticipated cost savings and other benefits.

The pro forma financial information included in this listing particulars is derived from our historical audited and unaudited interim condensed consolidated financial statements as well as the historical financial statements of the HSBC Entities in Colombia, Paraguay, Peru and Uruguay, included elsewhere in this listing particulars. The preparation of this pro forma information is based upon available information and certain assumptions and estimates that we believe are reasonable. This pro forma information may not necessarily reflect what our results of operations and financial position would have been, had the acquisitions occurred during the periods presented or what our results of operations and financial position will be in the future.

We have limited knowledge of the assets and liabilities of the HSBC Entities.

As part of our acquisition of the HSBC Entities, we have carried out, and are in the process of carrying out, legal and accounting due diligence on the HSBC Entities. However, this due diligence may not produce all of the economic and financial information that may be material to our decision to acquire the HSBC Entities. The master share purchase agreement that we have entered into with HSBC allows us to recover only for certain breaches of representations and warranties, and we may not be able to recover from HSBC for liabilities that we may discover following the closing of the acquisitions. We may incur significant losses in connection with assets or liabilities of the HSBC Entities, which may have a material adverse effect on us and on our ability to meet our obligations under the notes.

The operating information related to the HSBC Entities in this listing particulars may be imprecise and incomplete.

We describe in this listing particulars for informational purposes only certain operating information of the HSBC Entities, which we have obtained from HSBC and other publicly-available sources and which represents our best understanding and our management's expectations regarding this information. However, not all of this information has been independently verified. Therefore, you should not rely on this information as an indication of the HSBC Entities' businesses and results of operations or of our future business and results of operations once the acquisitions are completed. The operating information of the HSBC Entities included in this listing particulars may significantly differ from the actual operating information of the HSBC Entities.

The anticipated benefits of the acquisitions may not be realized fully and may take longer to realize than expected.

The acquisitions involve the integration of four businesses, each in a different market and jurisdiction, into our historical business in Colombia. Management will be required to devote significant attention and resources to integrating these entities. Delays in this process could adversely affect the combined Bank's business, financial results and financial condition. Even if we are able to integrate our business operations successfully, we cannot assure you that this integration will result in the realization of the full benefits of synergies, cost savings, innovation and operational efficiencies that we expect to realize or that these benefits will be achieved within a reasonable period of time. In addition, it is possible that the integration process could result in the loss of key employees, the disruption of ongoing businesses or inconsistencies in standards, controls, procedures and policies, which adversely affect our ability to maintain relationships with customers, providers and employees or to achieve the anticipated benefits of the acquisitions.

Furthermore, some business, accounting and risk management practices used by the HSBC Entities are different from the practices used by us, and it will be necessary to integrate the respective practices we have been using historically to the operations of the HSBC Entities. The lack of a successful integration of HSBC's operations with our operations could curtail the growth, and adversely affect the operations and results of, the combined entity after the acquisitions are consummated. In addition, we have historically reported our results under Colombian Banking GAAP and the HSBC Entities, other than HSBC Colombia, report their results under generally accepted accounting principles in force in each of their jurisdictions. We cannot assure you that there will not be material differences in consolidated results of operations and financial condition, once we include the HSBC Entities on a consolidated basis with us for financial reporting purposes.

We cannot assure you that the anticipated cost savings, operating margins or other benefits will be achieved or that our estimates and assumptions will prove to be accurate. If our cost savings, operating margins or the impact of other benefits is less than our estimates or our cost savings initiatives adversely affect our operations or cost more or take longer to implement than we project, or if our assumptions prove to be inaccurate, our results will be lower than we anticipate and the savings or other benefits we projected may not be realized.

The acquisition of HSBC's operations in Paraguay, Peru and Uruguay exposes us to additional risks and challenges associated with operating internationally.

Our acquisition of HSBC's operations in Paraguay, Peru and Uruguay would mark our first experience operating outside of the Colombian market. The operations of HSBC in Paraguay, Peru and Uruguay expose us to additional operational and market risk associated with operating internationally, and may require significant management attention and financial resources. The operations of HSBC in South America also expose us to additional regulatory oversight in Paraguay, Peru and Uruguay, as well as risks generally associated with international business operations, including:

- governmental regulations applicable to the financial industry and changes in such regulations;

- changes in social, political and economic conditions;
- limitations on foreign investment;
- restrictions on currency convertibility and volatility of foreign exchange markets;
- inflation and government measures to curb inflation;
- changes in local labor conditions;
- changes in tax and other laws and regulations;
- expropriation and nationalization of our assets in a particular jurisdiction; and
- restrictions on repatriation of dividends or profits.

Exposure to each of these risks or others associated with operating in those markets could adversely affect our business, results of operations, prospects and financial condition.

Economic and political developments in Paraguay could affect HSBC Paraguay's business, financial condition and results of operations.

HSBC Paraguay's operations and financial condition are dependent upon the performance of the Paraguayan economy. HSBC Paraguay is a Paraguayan bank and substantially all its operations, assets and customers are located in Paraguay. As a result, its business, financial condition and results of operations are to a large extent dependent upon the general condition of Paraguay's economy, the devaluation of the guaraní as compared to the U.S. dollar, price instability, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Paraguay over which HSBC Paraguay has no control. Although the Paraguayan economy has exhibited signs of improvement in recent years, this improvement has been closely related to the success of the agribusiness sector. External factors, such as weather conditions, may adversely affect this sector of the economy, which in turn would have a negative impact on the general economy of Paraguay. This type of deterioration in Paraguay's economic conditions could have a material adverse effect on HSBC Paraguay.

Recent political developments in Paraguay could also negatively affect the operations of HSBC Paraguay. On June 21, 2012, Paraguay's Chamber of Representatives met and approved a surprise motion to impeach President Fernando Lugo. This motion was supported mainly by the Liberal Party, which had previously been part of a coalition that backed President Lugo. The Paraguayan Senate held an impeachment trial on June 22, 2012 and voted to remove President Lugo. The impeachment proceedings were the result of claims that poor management by former President Lugo contributed to a deadly clash between police and farmers in north-eastern Paraguay on June 15, 2012 that resulted in 17 deaths. In accordance with the Paraguayan constitution, Vice-President Federico Franco, a member of the Liberal Party, was sworn in as the new president on June 22, 2012, and he will serve as president for the remainder of former President Lugo's term, due to end in August 2013. Presidential elections are scheduled to be held in April 2013. The president of Paraguay has considerable power to determine governmental policies and actions that relate to the Paraguayan economy and that consequently affect the operations and financial performance of financial institutions such as HSBC Paraguay. The uncertainty surrounding a change in government could cause instability and volatility in Paraguay.

President Lugo's removal has been condemned by some Latin American nations as a legislative coup, with some of Paraguay's trading partners like Argentina, Brazil and Venezuela recalling their ambassadors to Paraguay and refusing to recognize the new government. Venezuela's state-owned oil company, PDVSA, has also halted scheduled oil shipments to Paraguay. In addition, on June 29, 2012, members of both the Mercosur trade bloc and UNASUR voted to suspend Paraguay's membership until after the 2013 presidential elections, though they refrained from imposing economic sanctions on Paraguay. We cannot assure you that the political turmoil and the new administration's uneasy relationship with its neighbors and trade partners will not negatively affect the Paraguayan economy, and consequently HSBC Paraguay's financial condition and operations. Any of these events, or other unanticipated economic or political developments in Paraguay that have a negative effect on HSBC Paraguay, could in turn have a material adverse effect on our consolidated results of operations and financial condition once we include the results of HSBC Paraguay on a consolidated basis with us for financial reporting purposes.

Economic and political developments in Peru could affect HSBC Peru's business, financial condition and results of operations.

The operations and financial condition of HSBC Peru are dependent upon the performance of the Peruvian economy. As a result, its business, financial position and results of operations may be affected by the general conditions of the Peruvian economy, price instability, inflation, interest rates, regulation, taxation, social instability, political unrest and other developments in or affecting Peru, over which HSBC Peru has no control. Declining economic activity in Peru, the devaluation of the Peruvian nuevo sol and increases in inflation or Peruvian domestic interest rates may materially affect HSBC Peru's businesses and operations. In the past, Peru has experienced periods of weak economic activity and deterioration in economic conditions. We cannot assure you that such conditions will not return or that, if they were to occur again, such conditions will not have a material and adverse effect on HSBC Peru's business, financial condition or results of operations.

HSBC Peru's financial condition and results of operations may also be adversely affected by changes in Peru's political climate to the extent that such changes affect the nation's economic policies, growth, stability, outlook or regulatory environment. Presidential elections were held in Peru in April 2011. On July 28, 2011, Ollanta Humala was sworn in as the new president of Peru for a five-year term through 2016, after winning a run-off election. President Humala founded the *Gana Perú* (Win Peru) party, an alliance of various left-leaning parties. The president of Peru has considerable power to determine governmental policies and actions that relate to the Peruvian economy and that consequently affect the operations and financial performance of financial institutions such as HSBC Peru. The uncertainty surrounding a change in government could cause instability and volatility in Peru, including the Peruvian nuevos soles exchange rate and the performance of the Lima Stock Exchange.

In public statements made since his inauguration, President Humala has stated that Peru will continue conservative economic policies, a responsible fiscal policy and autonomous monetary policy. Furthermore, the appointment of cabinet ministers with government experience and public announcements from government officials have partially dissipated concerns that Peru's economic policy framework would change drastically. However, we cannot assure you whether the current or any future Peruvian administration will maintain business-friendly and open-market economic policies or policies that stimulate economic growth and social stability. Any of these events, or other unanticipated economic or political developments in Peru that have a negative effect on HSBC Peru, could in turn have a material adverse effect on our consolidated results of operations and financial condition once we include the results of HSBC Peru on a consolidated basis with us for financial reporting purposes.

Economic and political developments in Uruguay could affect HSBC Uruguay's business, financial condition and results of operations.

HSBC Uruguay's financial condition and results of operations are dependent on political and economic conditions in Uruguay. Certain actions by the Uruguayan government with respect to inflation, interest rates, foreign exchange controls and taxes, as well as the contagion effects from international financial crises, could have a material adverse effect on HSBC Uruguay's operations. Current Uruguayan President José Mujica, sworn in on March 1, 2010, has largely continued his predecessor's investor friendly economic policies, combined with an emphasis on social programs. Since the beginning of his term, President Mujica has made several public statements reaffirming the course of his economic policy, aimed at attracting increasing amounts of foreign direct investment in Uruguay. Uruguay's positive economic climate led Standard & Poor's to reinstate the country's investment-grade rating in April 2012, increasing it from BB+ to BBB-. President Mujica's term is set to expire in March 2015, and since the Uruguayan constitution does not permit immediate re-election, a new president is set to be elected in October 2014.

However, despite the stability and growth that Uruguay's economy has experienced over the past several years, the Uruguayan government has intervened in its economy in the past and made significant changes in monetary, credit, industry and other policies and regulations. The Uruguayan government may again take actions in the future to control inflation and implement other policies and regulations, including economic measures such as price controls, currency devaluations, capital controls and limits on imports. We have no control over, and cannot predict, what measures or policies the Uruguayan government may take in the future, which may adversely affect HSBC Uruguay's business, financial condition and results of operations.

Similarly, future external shocks or crises in other emerging market countries could dampen Uruguay's economic performance and consequently adversely affect HSBC Uruguay's operations. For example, in 2002, Uruguay went through its steepest economic and financial crisis in recent history, resulting mostly from external factors. Devaluation in neighboring Brazil in 1999 made Uruguayan goods less competitive, and starting in late 2001, an economic crisis in Argentina also undermined Uruguay's economy. In mid-2002, Argentine withdrawals from Uruguayan banks started a bank run which was overcome only by massive borrowing from international financial institutions, leading in turn to serious debt sustainability problems. Indeed, any significant deterioration in the economies of Uruguay's main trading partners, including Argentina, Brazil or other emerging market countries, could negatively impact Uruguay's economy in the future. In addition, Uruguay's economy remains highly linked to the U.S. dollar and therefore vulnerable to external shocks. In 2008, the global financial crisis had an adverse impact on global economic conditions. Although a boom in commodities prices helped Uruguay's economy to continue growing while developed nations struggled through the crisis, it is uncertain whether Uruguay could sustain this level of economic performance when faced with crises in the future, especially if they cause a decrease in exports, a decline in tax revenues and reduced access to international capital markets. Any of these events, or other unanticipated economic or political developments in Uruguay that have a negative effect on HSBC Uruguay, could in turn have a material adverse effect on our consolidated results of operations and financial condition once we include the results of HSBC Uruguay on a consolidated basis with us for financial reporting purposes.

Risks relating to the notes

It may be difficult to enforce your rights if we enter into a bankruptcy, liquidation or similar proceeding in Colombia.

The insolvency laws of Colombia, particularly as they relate to the priority of creditors (secured or unsecured), the ability to obtain post-petition interest and the duration of insolvency proceedings, may be less favorable to your interests than the bankruptcy laws of the United States. Your ability to recover payments due on the notes may be more limited than would be the case under U.S. bankruptcy law. The following is a brief description of certain aspects of insolvency laws in Colombia.

Your ability to enforce your rights under the notes may be limited if we become subject to the proceedings principally set forth in Decree 663 of 1993 and Decree 2555 of 2010, as amended from time to time, which proceedings establish the events under which the Superintendency of Finance may initiate a taking of possession (*toma de posesión*) proceeding either to administer a bank or to liquidate it. Under Colombian banking laws, financial institutions are subject to a special administrative takeover by the Superintendency of Finance in the event that the financial institution becomes insolvent.

The Superintendency of Finance can take control of financial institutions under certain circumstances. The following grounds for takeover are considered to be "automatic" in the sense that, if the Superintendency of Finance discovers their existence, the Superintendency of Finance is obligated to step in and take over the respective financial institution: (i) if the financial institution's "technical capital" (*patrimonio adecuado*) falls below 40% of the legal minimum or (ii) the expiration of the term of any then current recovery plans or the non-fulfillment of the goals set forth in such plans. Additionally, the Superintendency of Finance conducts periodic visits to financial institutions and, as a consequence of these visits, the Superintendency of Finance can impose capital or solvency obligations on financial institutions without taking control of the financial institution.

Furthermore, and subject to the approval of the Ministry of Finance (*Ministerio de Hacienda y Crédito Público*), the Superintendency of Finance may, at its discretion, initiate intervention procedures under the following circumstances: (i) suspension of payments; (ii) failure to pay deposits; (iii) refusal to submit its files, accounts and supporting documentation for inspection by the Superintendency of Finance; (iv) repeated failure to comply with orders and instructions from the Superintendency of Finance; (v) repeated violations of applicable laws and regulations or of the bank's by-laws; (vi) unauthorized or fraudulent management of the bank's business; (vii) reduction of the bank's Technical Capital below 50% of its subscribed capital; (viii) failure to comply with minimum capital requirements set forth in the Colombian Financial Statute (*Estatuto Orgánico del Sistema Financiero*); (ix) failure to comply with the recovery plans that were adopted by the bank; (x) failure to comply with the order of exclusion of certain assets and liabilities to another institution designated by the Superintendency of Finance; and (xi) failure to comply with the order of progressive unwinding (*desmonte progresivo*) of the operations of the bank.

A takeover by the Superintendency of Finance may have one of two different purposes: (i) to manage the financial institution, in which case the financial institution will be allowed to continue its activities subject to the administration of the Superintendency of Finance; or (ii) to liquidate the financial institution. The Superintendency of Finance must decide if it will either manage or liquidate the financial institution within two months following the takeover in the event of a bankruptcy, liquidation or similar proceeding.

In view of the broad discretionary powers of the Superintendency of Finance it is impossible to predict how long payments under the notes could be delayed and whether or to what extent you would be compensated for any delay if any of the actions described above were to be taken with respect to us.

Judgments of Colombian courts with respect to the notes will be payable only in pesos which may expose you to exchange rate volatility.

If proceedings are brought in the courts of Colombia seeking to enforce our obligations or the rights of holders of the notes, we will not be required to discharge our obligations in a currency other than pesos. Under Colombian laws, an obligation in Colombia to pay amounts denominated in a currency other than pesos may only be satisfied in Colombian currency at the exchange rate, as determined by the Colombian Central Bank and published by the Superintendency of Finance, also known as *Tasa Representativa del Mercado*, in effect on the date the judgment is obtained, and such amounts are then adjusted to reflect exchange rate variations through the effective payment date. The then-prevailing exchange rate may not afford non-Colombian investors with full compensation for any claim arising out of or related to our obligations under the notes. As a result, investors may be exposed to exchange rate risks.

Holders of notes will not have the right to accelerate the notes.

The holders will have no right to accelerate any payment due under the notes during an Event of Default unless there has been a change, amendment or modification to the Colombian banking laws that would allow such right without disqualifying the notes from Tier Two Capital status. If any Event of Default occurs and is continuing, the Trustee may only pursue other available remedies, if any, excluding acceleration, to collect the payment of principal and interest on the notes or to enforce the performance of any provision under the indenture.

Except as described above, the holders of the notes have no right of acceleration in the case of the Bank's failure to perform its obligations under the Indenture.

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

The notes constitute our unsecured, subordinated indebtedness, and will be subordinated and junior in right of payment and in liquidation to all of our Senior Liabilities and will rank pari passu without preference among themselves and with all of our other unsecured subordinated indebtedness.

By reason of the subordination of the notes, in the case of our liquidation, although the notes would become immediately due and payable at their principal amount together with accrued interest thereon, our assets would be available to pay such amounts only after all of our Senior Liabilities (as defined in the Description of the Notes) has been paid in full and upon conclusion of the applicable procedures. At March 31, 2012, we had Ps 9,466,661.3 million of Senior Liabilities outstanding, which includes total deposits, bank and other entities loans outstanding, excluding subordinated indebtedness. We expect to incur additional Senior Liabilities from time to time, and the indenture governing the notes does not prohibit or limit the incurrence of other indebtedness, including additional Senior Liabilities. See "Description of the Notes—Subordination of Notes."

Any market for the notes may be adversely affected by economic and market conditions in emerging market economies.

Colombia is generally considered by investors to be an "emerging market country," and securities of Colombian issuers have been, to varying degrees, influenced by economic and market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may materially affect the prices of securities of issuers in other countries, including Colombia. We cannot assure you that events elsewhere that are unrelated to our financial performance, especially in other emerging market countries, will not adversely affect any market for the notes that may develop.

The notes are a new issue of securities and we cannot assure you that an active trading market will develop for the notes.

Prior to this offering, there was no market for the notes. Although we have applied to list the notes on the Luxembourg Stock Exchange and for trading on the Euro MTF market, we cannot assure you that a trading market for the notes will develop, or if a trading market does develop, that it will be maintained. Even if a trading market for the notes develops, it may not provide significant liquidity and we expect transaction costs would be high.

The initial purchaser has informed us that it intends to make a market in the notes after this offering is completed. However, the initial purchaser has no obligation to do so and may cease any market-making at any time without notice in its sole discretion. The price at which the notes may trade will depend on many factors, including, but not limited to, prevailing interest rates, general economic conditions, our performance and financial results and markets for similar securities. Historically, the markets for debt such as the notes have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the notes may be subject to similar disruptions, which may have an adverse effect on the holders of the notes.

There are no restrictive covenants in the indenture for the notes limiting our ability to incur future indebtedness or complete other transactions.

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, change of control, transactions with affiliates, incurrence of liens or the issuance or repurchase of securities by us or any of our subsidiaries. We therefore may incur additional indebtedness, including senior indebtedness, and engage in other transactions that may not be in the interests of the note holders.

The ratings of the notes may be lowered or withdrawn depending on various factors, including the rating agency's assessments of our financial strength and Colombian sovereign risk.

One or more independent credit rating agencies may assign credit ratings to the notes. The ratings address the timely payment of interest on each payment date. The ratings of the notes are not a recommendation to purchase, hold or sell the notes, and the ratings do not comment on market price or suitability for a particular investor. The ratings of the notes are subject to change and may be lowered or withdrawn. A downgrade in or withdrawal of the ratings of the notes will not be an event of default under the indenture. The assigned ratings may be raised or lowered depending, among other things, on the rating agency's assessment of our financial strength, as well as its assessment of Colombian sovereign risk generally.

The notes are subject to transfer restrictions.

The notes have not been registered under the Securities Act, any state securities laws or the laws of any other jurisdiction. As a result, the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Such exemption includes offers and sales that occur outside the United States in compliance with Regulation S in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A. Due to these transfer restrictions, you may be required to bear the risk of your investment for an indefinite period of time. For a discussion of certain restrictions on resale and transfer, see "Transfer Restrictions" in this listing particulars.

We cannot assure you that a judgment of a U.S. court for liabilities under U.S. securities laws would be enforceable in Colombia, or that an original action can be brought in Colombia against us for liabilities under U.S. securities laws.

We are a corporation organized under the laws of Colombia. Two of our directors and officers and certain other persons named in this listing particulars reside outside the United States and all or a significant portion of the assets of the directors and officers and certain other persons named in this listing particulars and substantially all of our assets are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or against us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Colombia, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated upon the U.S. federal securities laws. For more information, see "Service of Process and Enforceability of Civil Liabilities."

EXCHANGE RATES AND FOREIGN EXCHANGE CONTROLS

Exchange rates

The Superintendency of Finance calculates the representative market rate based on the weighted averages of the buy/sell foreign exchange rates quoted daily by certain financial institutions, including us, for the purchase and sale of U.S. dollars. On July 30, 2012, the representative market rate was Ps 1,789.02 per U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for pesos/ U.S. dollars.

The following table presents the average peso/ U.S. dollar representative market rate for each of the five most recent years calculated by using the average of the exchange rates on the last day of each month during the period, and the year-end, high and low representative market rates for each of the five most recent years.

Peso/ U.S.$1.00 representative market rate	Average	Year-end	Low	High
Period:				
2007	2,078.35	2,014.76	1,877.88	2,261.22
2008	1,966.26	2,243.59	1,652.41	2,392.28
2009	2,156.29	2,044.23	1,825.68	2,596.37
2010	1,897.89	1,913.98	1,786.20	2,044.23
2011	1,848.17	1,942.70	1,748.41	1,972.76

Source: Superintendency of Finance.

The following table presents the average peso/ U.S. dollar representative market rate for each month since January 2012 calculated by using the average of the exchange rates on each day of each month during the period, and the period-end, high and low representative market rate for the months indicated.

Recent exchange rates of peso per U.S. dollar	Average	Month-end	Low	High
Month:				
January 2012	1,850.30	1,815.08	1,801.88	1,942.70
February 2012	1,782.75	1,766.83	1,767.83	1,797.68
March 2012	1,766.31	1,792.07	1,758.03	1,792.07
April 2012	1,773.63	1,761.20	1,761.20	1,793.30
May 2012	1,794.25	1,823.83	1,754.89	1,845.17
June 2012	1,792.63	1,784.60	1,766.91	1,834.71
July 2012	1,784.43	1,789.02	1,771.53	1,799.48

Source: Superintendency of Finance.

Foreign exchange controls

The Colombian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of pesos by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

In 1990, the Colombian government initiated a policy of gradual currency liberalization. Foreign currency holdings abroad were permitted and, in a series of decrees, control of the exchange rate was shifted from the Colombian Central Bank to the spot foreign exchange market conducted by certain authorized financial institutions.

The general legal principles of Colombia's foreign exchange and international investments regulations, or "Foreign Regulations," were established by Law 9 of 1991. Pursuant to this law, the board of directors of the Colombian Central Bank enacted Resolution 8 of 2000 as amended, or "Resolution 8," which is considered the main legal framework governing Colombia's FX regulations.

Resolution 8 establishes two types of markets for foreign currency exchange: (i) the free market, which consists of all foreign currencies originated in sales of services, donations, remittances and all other inflows or outflows that do not have to be channeled through the FX Market (as defined in (ii) below), or the "Free Market." The Free Market also includes assets and investments abroad, including its profits, owned by Colombian residents prior to September 1, 1990; and (ii) the controlled market, or the "FX Market," which consists of: (a) all foreign currencies originated in operations considered to be controlled operations and, therefore, which may only be transacted through foreign exchange intermediaries, or through registered compensation accounts, or (b) foreign currencies originated in operations which although not required to be transacted through the FX Market, are voluntarily channeled through such market. This market is made up of the following foreign exchange operations, which must be channeled through the FX Market: (1) import and export of goods, (2) foreign investments in Colombia, (3) foreign indebtedness agreements entered into by Colombian residents, as well as the financial costs associated with such indebtedness, (4) direct investments abroad by Colombian residents, (5) derivatives transactions, (6) guaranties granted in foreign currency and (7) financial investments in foreign securities or assets abroad and their yield, unless such investments are made in foreign currency originated in operations in the Free Market.

Under Colombian FX regulations, foreign exchange intermediaries, or "FX Intermediaries," are authorized to enter into foreign exchange transactions, or "FX Transactions," to convert pesos into foreign currencies or foreign currencies into pesos. According to Article 58 of Resolution 8, the following institutions are considered FX Intermediaries: commercial banks, mortgage banks, financial corporations, commercial finance companies, *Financiera Energética Nacional S.A., Banco de Comercio Exterior de Colombia S.A.—Bancoldex,* financial cooperatives and local stock brokerage firms. These institutions are considered authorized intermediaries and, therefore, are allowed to buy and sell foreign currency originated in FX Transactions. Exchange intermediation companies are also considered authorized intermediaries; however, these companies have a limited regime and are not authorized to buy and sell foreign currency for controlled operations.

Compensation accounts are accounts opened abroad by Colombian residents (individuals and legal entities), which are registered with the Colombian Central Bank to channel foreign currency originated in controlled operations in the FX Market. Colombian law allows the Colombian Central Bank to intervene in the foreign exchange market if the value of the peso is subject to significant volatility. The Colombian Central Bank may also limit the remittance of dividends and/or investments of foreign currency received by Colombian residents whenever the international reserves fall below an amount equal to three months of imports. See "Risk Factors—Risks relating to Colombia—Government policies and actions, and judicial decisions, in Colombia could significantly affect the local economy and, as a result, our results of operations and financial condition."

In addition to its past interventions in the FX Market, the Colombian Central Bank regulations establish a deposit requirement on all foreign loans granted to Colombian residents, as an instrument to control the fluctuation of the peso against the U.S. dollar. To this end, the Colombian Central Bank has on some occasions required that a certain percentage of the debt incurred (depending on the maturity of the debt) to be deposited in pesos or foreign currency with the Colombian Central Bank in a non-interest-bearing account for a fixed period of time (*depósito por operaciones de endeudamiento externo*). A debtor of foreign loans can early prepay or redeem the certificate given by the Colombian Central Bank evidencing the deposit, but said prepayment or early redemption will imply a discount. The discount is reduced as the term for maturity is reduced. Even though the deposit requirement is currently equal to zero of the disbursements made under the loan, which means that there is currently no deposit that has to be made with the Colombian Central Bank by the debtor of foreign loans, the same may be modified by the Colombian Central Bank at any time. In addition to the deposit requirements, the Colombian Central Bank has allowed Colombian financial institutions to obtain loans in foreign currency, either directly or by issuing securities, and to lend in foreign currency so long as the term of payment of the loans provided by the Colombian financial entity is equal or shorter than the term of the loan received by the Colombian financial entity. The Colombian Central Bank has also set limits on a financial intermediary's net foreign currency position, which is defined as foreign currency denominated assets (including any off-balance sheet items, made or contingent, including those that may be sold in Colombian legal currency) minus foreign currency denominated liabilities.

Fluctuation of the peso against the U.S. dollar and measures adopted by the Colombian government

During 2007, the peso appreciated against the U.S. dollar by 10.0%. As the peso appreciated against the U.S. dollar, the Colombian Central Bank intervened in the FX Market to control currency fluctuation. During 2008, the peso depreciated by 11.4% and closed at an exchange rate of Ps 2,243.59 per U.S.$1.00. Measured on an end-of-period basis, during 2009 the peso appreciated against the U.S. dollar by 8.9%, during 2010 the peso appreciated against the U.S. dollar by 6.4%, during 2011 the peso depreciated against the U.S. dollar by 1.5%, and in the three-month period ended March 31, 2012 the peso appreciated against the U.S. dollar by 9.3%.

The Colombian Central Bank and the Ministry of Finance have, in recent years, adopted a set of measures intended to tighten monetary policy and control the fluctuation of the peso against the U.S. dollar. Pursuant to Resolution 5 of 2008 and Resolution 11 of 2008 of the Colombian Central Bank, such measures include, among others: reserve requirements on private demand deposits, savings deposits and other deposits on liabilities currently set at 11.0%, reserves of 4.5% for term deposits with maturities for less than 540 days and 0.0% for term deposits with maturities for more than 540 days; and the deposit requirements with respect to indebtedness in a foreign currency, currently set at 0.0%. During 2007 and 2008, both the Ministry of Finance and the Colombian Central Bank adopted several measures aimed at controlling the fluctuation of the peso against the U.S. dollar. These measures included, among others, the following:

- 50.0% non-interest bearing deposit requirement at the Colombian Central Bank, currently applicable to short-term portfolio investments in assets other than shares or convertible bonds or collective investment funds that only invest in shares or convertible bonds, for a period of six months, which was rescinded in 2008;

- a six-month 40.0% non-interest bearing deposit at the Colombian Central Bank applicable to corporate reorganization transactions, including mergers, acquisitions and spin-offs, if the successor thereof is a Colombian resident required to repay foreign indebtedness which would have otherwise been subject to the deposit requirement of Resolution No. 2 of May 6, 2007;

- exemptions to the 40.0% non-interest bearing deposit requirement applicable to foreign investment in local private equity funds and American Depositary Receipt (“ADR”) and Global Depositary Receipt (“GDR”) programs of Colombian issuers;

- restrictions on the repatriation of foreign direct investments;

- increases to the reference rate (repo rate); and

- interest-free deposits with the Colombian Central Bank applicable to the proceeds resulting from import financings.

On September 1, 2008 by means of Decree 3264, the Colombian government eliminated restrictions on the repatriation of foreign direct investments. Additionally, on October 8, 2008 and October 9, 2008, through Decree 3913 and Resolution 10, issued by the Colombian government and the Colombian Central Bank, respectively, the deposit requirement was set at 0.0% in connection with foreign portfolio investment and foreign indebtedness operations, including foreign loans, import financing and export financing.

On March 3, 2010, the Colombian Central Bank resumed intervention in the foreign exchange market, accumulating international reserves through daily purchases of at least U.S.$20.0 million in competitive auctions in response to indications of an exchange rate misalignment. The Colombian Central Bank extended its intervention in the Colombian foreign exchange market through September 30, 2011.

Due to the behavior of the foreign exchange market as well as greater uncertainty in the international economy, the Colombian Central Bank did not renew the program for the daily purchase of international reserves. In turn, considering the extreme volatility seen in the financial markets, the Colombian Central Bank established a mechanism pursuant to which it would call for auctions at the spot market for an amount of U.S.$200 million any time the representative market rate showed a 2% or more (downward or upward) deviation from the ten-day moving average. On October 28, 2011, the Colombian Central Bank replaced the mechanism of auctions at the spot market, with the mechanism of volatility options calculated on the basis of the twenty-day moving average, with a +/-4% deviation, and for an amount of U.S.$200 million.

On February 3, 2012, due to the significant appreciation of the peso as compared to the U.S. dollar, the Colombian Central Bank announced that the volatility options would no longer be used, and that it would intervene in the Colombian foreign exchange market through daily purchases of at least U.S.$20.0 million in competitive auctions. Recently, the Colombian Central Bank made public its decision to extend its intervention in the Colombian foreign exchange market through November 2012.

On November 5, 2010, the Colombian government issued Decree 4145, pursuant to which, among other things, interest payments on foreign indebtedness by Colombian companies became subject to a 33.0% withholding tax rate. On December 29, 2010, the Colombian government enacted Law 1430 of 2010, which among other things reduced the withholding tax rate on interest payments on foreign indebtedness of Colombian companies having a term of one year or more, to 14.0%. Nevertheless, certain exemptions apply to this rule, including (i) foreign indebtedness incurred by entities controlled by the Colombian government, (ii) loans obtained by Colombian banks and financial corporations, and (iii) loans with a maturity of less than one year.

The Colombian government has considerable power to determine governmental policies and actions that relate to the Colombian economy and, consequently, to affect the operations and financial performance of businesses. The Colombian government and the Colombian Central Bank may seek to implement additional measures aimed at controlling further fluctuation of the peso and fostering domestic price stability. A prediction cannot be made on the policies that may be adopted by the Colombian government and whether those policies may negatively affect the Colombian economy or our business or financial performance. Furthermore, we cannot assure you that the peso will not depreciate or appreciate relative to other currencies in the future.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the notes in this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately U.S.$244,500,00 million.

The net proceeds from the offering will be available to strengthen our capital structure, and for regulatory compliance and general corporate purposes.

CAPITALIZATION

The following table sets forth our actual capitalization at March 31, 2012, and as adjusted to give effect to issuance of the U.S.$250,000,000 of notes offered hereby as if it had occurred on March 31, 2012. There has been no material adverse change in the Bank's business, financial condition, results of operations or prospects since March 31, 2012, the date of the last financial statements.

	At March 31, 2012[1]			
	Actual		As Adjusted for this Offering	
	(in millions of Ps)	(in millions of U.S.$)	(in millions of Ps)	(in millions of U.S.$)
Debt:				
Short-term debt[2]	297,517.9	166.0	297,517.9	166.0
Long-term debt[3]	632,258.8	352.8	1,080,276.3	602.8
Total debt	929,776.7	518.8	1,377,794.2	768.8
Capital:				
Subscribed capital	48,758.9	27.2	48,758.9	27.2
Legal reserve and other reserves	667,991.1	372.7	667,991.1	372.7
Equity revaluation	21,265.5	11.9	21,265.5	11.9
Net income	8,529.9	4.8	8,529.9	4.8
Minority interest	6,983.6	3.9	6,983.6	3.9
Less:				
Long-term investments	(966.4)	(0.5)	(966.4)	(0.5)
Non-monetary inflation adjustment	(16,528.6)	(9.2)	(16,528.6)	(9.2)
Primary capital (Tier I)	**736,034.0**	**410.7**	**736,034.0**	**410.7**
Allowances for loans	22.0	0.0	22.0	0.0
Subordinated bonds[4]	—	—	368,0170.0	205.4
Others	41,547.5	23.2	41,547.5	23.2
Computed secondary capital (Tier II)	**41,569.5**	**23.2**	**409,586.5**	**228.6**
Technical Capital	**777,603.5**	**433.9**	**1,145,620.5**	**639.3**
Risk-weighted assets including market risk[5]	5,279,207.9	2,945.9	5,279,207.9	2,945.9
Technical capital to risk-weighted assets[6][7]	**14.7%**	**14.7%**	**21.7%**	**21.7%**

(1) Amounts stated in U.S. dollars have been converted, solely for the convenience of the reader, at the rate of Ps 1,792.07 per U.S.$1.00, which is the representative market rate calculated on March 31, 2012, the last business day of the quarter, as reported by the Superintendency of Finance. Such conversions should not be construed as representations that the peso amounts represent, or have been or could be converted into, United States dollars at that or any other rate.

(2) Includes current portion of "Bank borrowings and other financial obligations."

(3) Includes long-term portion of "Bank borrowings and other financial obligations."

(4) We recognize only U.S.$205.4 million of this U.S.$250 million offering because Decree 2555 provides that subordinated debt that is secondary capital (Tier II) may not exceed 50% of the primary capital (Tier I).

(5) Risk weighted assets including market risk is calculated as risk weighted assets plus the product of market risk multiplied by 100/9.

(6) Capital adequacy requirements for Colombian financial institutions (as set forth in Decree 1720 of 2001, as amended) are based on the standards of the Basel Committee.

(7) Colombian regulations require that a credit institution's technical capital be at least 9% of that institution's total risk-weighted assets.

SELECTED FINANCIAL AND OPERATING DATA

The following table presents our selected consolidated financial information and other data as of and for each of the periods indicated. The financial data as of and for the fiscal years ended December 31, 2009, 2010 and 2011 set forth below have been derived from our audited consolidated financial statements included elsewhere in this listing particulars. The financial data as of and for the three-month periods ended March 31, 2011 and 2012 set forth below have been derived from our unaudited consolidated financial statements included elsewhere in this listing particulars. Our consolidated financial statements for each period were prepared in accordance with Colombian Banking GAAP, which differs in certain material respects from U.S. GAAP. See “Annex A—Summary of Certain Differences Between Colombian Banking GAAP and U.S. GAAP.”

Our historical results are not necessarily indicative of results to be expected for future periods. Results for the three-month period ended March 31, 2012 are not necessarily indicative of results expected for the full year.

This financial data should be read in conjunction with our audited annual consolidated financial statements and the related notes, our unaudited three-month consolidated financial statements and the related notes, and “Presentation of Financial and Other Information,” “Unaudited Pro Forma Condensed Consolidated Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this listing particulars.

Statement of income data

	For the year ended December 31,				For the three-month period ended March 31,		
	2009	2010	2011	2011	2011	2012	2012
		(in Ps millions)		(in U.S.$ millions) (1)	(in Ps millions)		(in U.S.$ millions) (1)
Direct operating income	863,212.7	698,359.7	732,861.5	408.9	164,037.2	241,828.7	134.9
Direct operating expenses	481,628.9	364,231.8	401,430.9	224.0	87,294.9	160,918.2	89.8
Direct operating result	**381,583.8**	**334,127.9**	**331,430.6**	**184.9**	**76,742.3**	**80,910.5**	**45.1**
Other operating income and expenses—net	(133,433.8)	(60,299.0)	(83,521.5)	(46.6)	(8,701.5)	(14,184.4)	(7.9)
Operating result before provisions, depreciation and amortizations	248,150.0	273,828.9	247,909.1	138.3	68,040.8	66,726.1	37.2
Allowances	115,089.1	99,687.2	100,966.4	56.3	36,614.9	33,073.5	18.5
Depreciation and amortization	16,727.6	19,623.6	17,425.7	9.7	4,686.5	4,410.5	2.5
Net operating income	**116,333.3**	**154,518.1**	**129,517.0**	**72.3**	**26,739.4**	**29,242.1**	**16.3**
Net non-operating income	**8,191.0**	**17,413.4**	**15,843.7**	**8.8**	**4,641.5**	**3,945.1**	**2.2**
Profit before income tax	**124,524.3**	**171,931.5**	**145,360.7**	**81.1**	**31,380.9**	**33,187.2**	**18.5**
Income tax expense	37,496.0	58,730.5	45,614.5	25.5	13,779.5	11,551.2	6.4
Net income	**87,028.3**	**113,201.0**	**99,746.2**	**55.7**	**17,601.4**	**21,636.0**	**12.1**

(1) Translated for convenience only using the representative market rates as computed and certified by the Superintendency of Finance of Ps 1,792.07 per U.S.$ 1.00 at March 31, 2012. On July 30, 2012, the representative market rate was Ps 1,789.02 per U.S.$1.00.

Balance sheet data

	At December 31,				At March 31,	
	2009	2010	2011	2011	2012	2012
		(in Ps millions)		(in U.S.$ millions) [(1)]	(in Ps millions)	(in U.S.$ millions) [(1)]
Assets:						
Cash and due from banks	517,183.1	684,141.1	702,754.7	392.1	777,281.1	433.7
Asset positions in money market and similar operations	7,210.0	6,556.4	619,703.2	345.8	655,980.7	366.0
Investments	3,303,495.7	3,925,352.5	4,001,730.7	2,233.0	4,061,720.9	2,266.5
Loan portfolio	3,240,562.6	3,459,714.5	4,309,373.3	2,404.7	4,321,963.3	2,411.7
Bankers' acceptances, spot operations and derivatives instruments	2,592.6	4,771.2	2,073.0	1.2	1,893.4	1.1
Accounts receivable	55,092.7	32,396.8	39,666.6	22.1	41,157.3	23.0
Foreclosed assets	1,377.2	1,811.3	710.5	0.4	661.8	0.4
Property and equipment	63,775.4	80.166.0	97,051.0	54.2	102,450.6	57.2
Other assets	66,792.4	67,447.1	81,455.1	45.5	105,126.3	58.7
Reappraisal of assets, net	49,014.6	59,032.1	67,921.9	37.9	69,028.3	38.5
Total assets	**7,307,096.3**	**8,321,389.0**	**9,922,440.0**	**5,536.9**	**10,137,263.7**	**5,656.7**
Liabilities:						
Deposits	4,072,889.6	4,918,073.9	6,053,654.0	3,378.0	6,651,697.8	3,711.7
Liability positions in money market and similar operations	1,449,025.3	1,706,163.2	2,041,671.6	1,139.3	1,456,768.1	812.9
Bankers' acceptances outstanding and derivatives	0.0	4,202.8	2,210.5	1.2	1,300.8	0.7
Bank borrowings and other financial obligations	1,064,639.9	872,867.4	963,542.3	537.7	929,776.7	518.8
Accounts payable	135,486.5	131,294.0	163,652.9	91.3	163,448.7	91.2
Other liabilities	27,832.1	29,058.0	35,641.3	19.9	221,818.1	123.8
Accrued liabilities and provisions	39,365.3	62,221.9	25,283.4	14.1	41,851.1	23.4
Total liabilities	**6,789,238.7**	**7,723,881.2**	**9,285,656.0**	**5,181.5**	**9,466,661.3**	**5,282.5**
Shareholders' equity:						
Capital	44,649.4	44,649.4	44,649.4	24.9	48,758.9	27.2
Reserves	278,000.6	320,091.7	369,533.2	206.2	488,784.2	272.7
Surplus account	96,121.1	102,974.5	102,135.0	57.0	91,005.5	50.8
Earnings from prior periods	12,058.2	16,591.2	20,720.2	11.6	20,417.8	11.4
Net income	87,028.3	113,201.0	99,746.2	55.7	21,636.0	12.1
Total shareholders' equity	**517,857.6**	**597,507.8**	**636,784.0**	**355.4**	**670,602.4**	**374.2**
Total liabilities and shareholders' equity	**7,307,096.3**	**8,321,389.0**	**9,922,440.0**	**5,536.9**	**10,137,263.7**	**5,656.7**

(1) Translated for convenience only using the representative market rates as computed and certified by the Superintendency of Finance of Ps 1,792.07 per U.S.$ 1.00 at March 31, 2012.

Other financial and operating data

	At and for year ended December 31,			At and for three-month period ended March 31,
	2009	2010	2011	2012
	(in percentages, unless otherwise indicated)			
Profitability and cost to income ratios:				
ROAA[(1)]		1.4%	1.1%	0.9%
ROAE[(2)]		20.3%	16.2%	14.1%
Net interest margin[(3)]		4.0%	3.3%	3.0%
Cost-to-income ratio[(4)]	38.2%	38.6%	42.3%	41.5%
Operating expenses to assets ratio[(5)]		2.2%	2.0%	1.9%
Capitalization and balance sheet structure:				
Shareholders' equity as a percentage of total assets	7.1%	7.2%	6.4%	6.6%
Solvency ratio[(6)]	11.5%	11.7%	11.0%	14.7%
Total deposits as a percentage of total loans	125.7%	142.2%	140.5%	154.9%
Total deposits as a percentage of total assets	55.7%	59.1%	61.0%	65.6%
Credit quality:				
Non-performing loan ratio[(7)]	1.6%	1.7%	1.6%	1.6%
Allowance for loan losses as a percentage of total loans	4.9%	3.8%	3.1%	3.1%
Allowance for loan losses as a percentage of non-performing loans	304.4%	221.4%	193.4%	197.6%
Operational data (in units):				
Number of customers[(8)]	243,779	254,479	280,548	287,253
Number of employees[(9)]	1,044	1,085	1,095	1,112
Number of branches	92	98	106	106
Number of ATMs	1,426	1,588	1,804	1,821

(1) For the years ended December 31, "ROAA" is calculated as net income divided by average of total assets (the sum of total assets at the end of the fiscal year and total assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, ROAA is calculated as net income for the three-month period multiplied by four, divided by average assets (the sum of total assets at the end of the three-month period and total assets at the end of the previous fiscal year, divided by two).

(2) For the years ended December 31, "ROAE" is calculated as net income divided by average shareholders' equity (the sum of shareholders' equity at the end of the fiscal year plus shareholders' equity at the end of the prior fiscal year, divided by two). For the three-month period ended March 31, ROAE is calculated as net income for the three-month period multiplied by four, divided by average shareholders' equity (the sum of shareholders' equity at the end of the three-month period and shareholders' equity at the end of the previous fiscal year, divided by two).

(3) For the years ended December 31, net interest margin is calculated as direct operating result (excluding commissions and fees, net and exchange, net), divided by average interest-earning assets (the sum of interest-earning assets at the end of the fiscal year and interest-earning assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, net interest margin is calculated as direct operating result (excluding commissions and fees, net and exchange, net) multiplied by four, divided by average interest-earning assets (the sum of interest-earning assets at the end of the three-month period and interest-earning assets at the end of the previous fiscal year, divided by two). Interest-earning assets are calculated as the sum of asset positions in money market and similar operations, plus investments, plus loan portfolio before allowances, plus bankers' acceptances, spot operations and derivative instruments.

(4) Calculated as other operating expenses divided by direct operating result plus other operating income.

(5) For the years ended December 31, operating expenses to assets ratio is calculated as other operating expenses divided by average of total assets (the sum of total assets at the end of the fiscal year and total assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, operating expenses to assets ratio is calculated as other operating expenses for the three-month period multiplied by four, divided by average assets (the sums of total assets at the end of the three-month period and total assets at the end of the previous fiscal year, divided by two).

(6) Solvency ratio is calculated as technical capital divided by risk-weighted assets. For a definition of technical capital, see "Colombian Banking Regulation—Capital adequacy requirements."

(7) Non-performing loans as a percentage of total loans. Non-performing loans include all loans at least 31 days past due.

(8) Reflects only customers of the Bank.

(9) Reflects aggregated employees of the Bank and its subsidiaries.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

On May 11, 2012, we entered into a master share purchase agreement with HSBC Latin America Holdings (UK) Ltd and other HSBC affiliates to acquire HSBC's banking operations in Colombia, Peru, Paraguay and Uruguay. The total consideration for the four acquisitions is U.S.$400.0 million. The purchase price for each acquisition will be payable at closing of the relevant acquisition, adjusted for variations in net equity between a reference amount and the net equity existing at closing. Of the purchase price relating to Peru, U.S.$40.0 million will be deferred and payable on the one-year anniversary of the closing of the Peru acquisition. See "Business—Recent developments—HSBC Acquisitions" for a detailed description of these transactions.

The unaudited pro forma condensed consolidated financial information presented below derives from the historical financial statements of the Bank and HSBC Colombia, prepared in accordance with Colombian Banking GAAP; as well as those for HSBC Paraguay, HSBC Peru and HSBC Uruguay prepared in accordance with accounting principles applicable to financial institutions in their respective countries. The pro forma financial information under the Pro Forma Consolidated column has been adjusted to be presented under Colombian Banking GAAP. Please refer to the footnotes of the pro forma financial information below for a description of the conversion adjustments.

The unaudited pro forma condensed consolidated financial information was prepared using the acquisition method of accounting, as provided by Colombian Banking GAAP, based on available information and assumptions that we believe to be reasonable. Under this method the difference between the net assets acquired and the consideration transferred is accounted for as "goodwill." Under Colombian Banking GAAP, "goodwill" must be amortized over a period no longer than 20 years. All pro forma adjustments are (i) directly attributable to the acquisition, (ii) factually supportable and (iii) with respect to the income statement, expected to have a continuing impact. These adjustments are described in the notes to the unaudited pro forma condensed consolidated financial information tables appearing below.

The unaudited pro forma condensed consolidated balance sheet at March 31, 2012 and income statements for the three months ended March 31, 2012 and for the year ended December 31, 2011 give effect to our acquisitions of HSBC Colombia, HSBC Paraguay, HSBC Peru and HSBC Bank Uruguay as if they had occurred on January 1, 2011.

We believe that the assumptions used to derive the unaudited pro forma condensed consolidated financial information are reasonable given the information available; however, such assumptions are subject to change and the effect of any such change could be material. The unaudited pro forma condensed consolidated financial statements have been provided for informational purposes only and are not necessarily indicative of the financial condition or results of operations that would have been achieved had the transaction actually been completed on the dates indicated and do not purport to be indicative of results of operations at any future date or for any future period.

The unaudited pro forma condensed consolidated financial information does not include the anticipated realization of cost savings from any operating efficiencies, synergies or restructurings resulting from the integration of the HSBC Entities and does not contemplate the liabilities that may be incurred in connection with the transaction and any related restructurings.

This pro forma financial information should be read in conjunction with our audited annual consolidated financial statements and the related notes, our unaudited three-month consolidated financial statements and the related notes thereto, and "Presentation of Financial and Other Information," "Selected Financial and Operating Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this listing particulars.

Unaudited pro forma condensed consolidated balance sheet at March 31, 2012

Banco GNB Sudameris S.A.
Unaudited Pro Forma Condensed Consolidated Balance Sheet
As of March 31, 2012

	GNB Sudameris	HSBC Colombia	HSBC Peru (1)(A)	HSBC Paraguay (1) (B)	HSBC Uruguay (1)(2)(C)	Pro Forma Adjustments	Notes	Pro Forma Consolidated (D)
				(in Ps millions)				
Assets:								
Cash and due from banks	777,281.1	198,223.0	799,519.6	240,044.7	209,597.5			2,224,665.9
Asset positions in money market and similar operations	655,980.7	45,078.0		105,078.1	535,180.6			1,341,317.4
Investments	4,061,720.9	503,524.0	68,929.5	172,854.7	142,616.3	1,038.7	(1)	4,950,684.1
Loan portfolio	4,321,963.3	1,329,030.0	1,471,164.5	574,614.8	1,022,603.1	(5,375.2)	(2)	8,714,000.4
Bankers' acceptances, spot operations and derivatives instruments	1,893.4	11,894.0		5,605.9	142,185.8	(306.9)	(1)	161,272.2
Accounts receivable	41,157.3	30.346.0	11,164.8	18,113.4	8,777.5			109,559.0
Foreclosed assets	661.8	230.0	3,189.2					4,081.0
Property and equipment	102,450.6	12,414.0	13,655.1	8,027.5	17,200.4			153,747.6
Goodwill, net						175,203.7	(5a)	175,203.7
Other assets	105,126.6	67,361.0	137,961.8	1,692.4	578.6	(49,630.8)	(3)(4)	263,089.6
Reappraisal of assets, net	69,028.0	13,310.0						82,338.0
Total assets	10,137,263.7	2,211,410.0	2,505,584.6	1,126,031.5	2,078,739.8	120,929.5		18,179,959.1
Liabilities:								
Deposits	6,651,697.8	1,336,999.0	2,038,483.1	963,219.3	1,729,315.0			12,719,714.2
Liability positions in money market and similar operations	1,456,768.1							1,456,768.1
Bankers' acceptances outstanding and derivatives	1,300.8	10,479.0		5,293.8	135,008.9	4.5	(1)	152,078.1
Bank borrowings and other financial obligations	929,776.7	554,238.0	147,429.6	22,956.1	67,327.2			1,721,727.6
Accounts payable	163,448.7	57,496.0		3,816.9				224,761.6
Other liabilities	221,818.1	15,892.0	27,431.1	4,648.6	9,699.5	716,828.0	(5b)	996,317.3
Accrued liabilities and provisions	41,851.1	40,534.0	107,039.2	28,535.9	25,680.6			243,640.8
Total liabilities	**9,466,661.3**	**2,015,638.0**	**2,320,383.0**	**1,028,470.6**	**1,967,031.3**	**716,823.5**		**17,515,007.8**
Shareholders' equity:								
Capital	48,758.9	233,230.0	369,672.8	70,349.8	170,601.6	(843,854.1)	(5c)	48,758.9
Reserves	509,202.0	(41,810.0)	(180,774.2)	24,597.6	(61,490.8)	264,336.5	(1)(2)(5c)	514,061.1
Surplus account	91,005.5	11,784.0				(11,784.0)	(5c)	91,005.5
Net income for current period	21,636.0	(7,432.0)	(3,697.0)	2,613.5	2,597.7	(4,592.4)	(1)(2) (3)(4)(5c)	11,125.8
Total shareholders' equity	**670,602.4**	**195,772.0**	**185,201.6**	**97,560.9**	**111,708.5**	**(595,894.0)**		**664,951.1**
Total liabilities and shareholders' equity	**10,137,263.7**	**2,211,410.0**	**2,505,584.6**	**1,126,031.5**	**2,078,739.8**	**120,929.5**		**18,179,959.1**

(1) Local financial statements were first translated into U.S. dollars using the following exchange rates per U.S. dollar: 2.668 Peruvian nuevos soles; 4,283.79 Paraguayan guaranies, and 19.542 Uruguayan Pesos at March 31, 2012. The resulting U.S. dollar amounts were then translated into pesos using the representative market rate as computed and certified by the Superintendency of Finance of Ps 1,792.07 per U.S. dollar at March 31, 2012.

(2) The line item "loan portfolio" includes Ps 56,343.5 million relating to securities issued by the Central Bank of Uruguay.

Unaudited pro forma condensed consolidated income statement for the three-month period ended March 31, 2012

Banco GNB Sudameris S.A.
Unaudited Pro Forma Condensed Consolidated Statement of Income
For the three-month period ended March 31, 2012

	GNB Sudameris	HSBC Colombia	HSBC Peru (1)(A)	HSBC Paraguay (1)(B)	HSBC Uruguay (1)(C)	Pro Forma Adjustments	Notes	Pro Forma Consolidated (D)
	(in Ps millions)							
Direct operating income	241,828.7	123,479.0	83,442.1	215,126.1	23,019.0	(386.7)	(1)	686,508.1
Direct operating expenses	160,918.2	72,390.0	47,008.9	199,772.7	6,694.5			486,784.4
Direct operating result	**80,910.5**	**51,089.0**	**36,433.2**	**15,353.4**	**16,324.4**	**(386.7)**		**199,723.8**
Other operating income (expense)	(14,184.4)	(29,109.0)	(36,941.0)	(6,400.0)	7,476.0			(79,158.3)
Operating income before provisions and depreciation and amortization	66,726.1	21,980.0	(507.8)	8,953.4	23,800.5	(386.7)		120,565.5
Provisions	33,073.5	28,648.0	5,323.8	5,302.5	25,883.0	3,865.4	(2)	102,096.2
Goodwill amortization						1,193.5	(5b)	1,193.5
Depreciation and amortization	4,410.5	3,647.0	2,434.2	550.3	981.6	(3.152.6)	(4)	8,871.0
Net operating income (loss)	**29,242.1**	**(10,315.0)**	**8,265.8**	**3,100.6**	**(3,064.1)**	**(2,293.0)**		**8,404.7**
Net non-operating income	**3,945.1**	**4,145.0**	**2,257.6**	**(145.1)**	**5,663.8**			**15,866.3**
Income (loss) before income tax expense	**33,187.2**	**(6,170.0)**	**(6,008.3)**	**2,955.5**	**2,599.6**	**(2,293.0)**		**24,271.1**
Income tax expense	11,551.2	1,262.0	2,311.3	342.0	1.9	2,299.1	(3)	13,144.9
Net income (loss)	**21,636.0**	**(7,432.0)**	**(3,697.0)**	**2,613.5**	**2,597.7**	**(4,592.4)**		**11,126.2**

(1) Local financial statements were first translated into U.S. dollars using the following exchange rates per U.S. dollar: 2.668 Peruvian nuevos soles; 4,283.79 Paraguayan guaranies, and 19.542 Uruguayan Pesos at March 31, 2012. The resulting U.S. dollar amounts were then translated into pesos using the representative market rate as computed and certified by the Superintendency of Finance of Ps 1,792.07 per U.S. dollar at March 31, 2012.

Unaudited pro forma condensed consolidated income statement for the year ended December 31, 2011

Banco GNB Sudameris S.A.
Unaudited Pro Forma Condensed Consolidated Statement of Income
For the year ended December 31, 2011

	GNB Sudameris	HSBC Colombia	HSBC Peru (1) (A)	HSBC Paraguay (1)(B)	HSBC Uruguay (1)(C)	Pro Forma Adjustments	Notes	Pro Forma Consolidated (D)
	(in Ps millions)							
Direct operating income	732,861.5	369,989.0	246,091.2	479,783.2	83,630.3	180.6	(1)	1,912,535.8
Direct operating expenses	401,430.9	195,434.0	104,539.9	420,524.1	27,985.7			1,149,914.6
Direct operating result	**331,430.6**	**174,555.0**	**141,551.3**	**59,259.1**	**55,644.6**	**180.6**		**762,621.2**
Other operating income (expense)	(83,521.5)	(125,004.0)	(156,565.6)	(42,712.3)	24,314.3			(383,489.1)
Operating income (loss) before provisions and depreciation and amortization	247,909.1	49,551.0	(15,014.3)	16,546.8	79,958.9	180.6		379,132.1
Provisions	100,966.4	89,120.0	29,493.5	8,056.0	107,662.4	(20,058.0)	(2)	315,240.3
Goodwill amortization						4,466.6	(5b)	4,466.6
Depreciation and amortization	17,425.7	14,738.0	12,913.9	3,182.3	5,079.5	12,069.2	(4)	65,408.6
Net operating income (loss)	**129,517.0**	**(54,307.0)**	**(57,421.7)**	**5,308.5**	**(32,783.0)**	**3,702.8**		**(5,983.4)**
Net non-operating income	**15,843.7**	**14,777.0**	**10,137.1**	**681.6**	**18,320.7**			**59,760.1**
Income (loss) before income tax expense	**145,360.7**	**(39,530.0)**	**(47,284.6)**	**5,990.1**	**(14,462.3)**	**3,702.8**		**53,776.7**
Income tax expense	45,614.5	4,314.0	8,829.7	801,6	7.4	8,829.7	(3)	50,737.5
Net income	**99,746.2**	**(43,844.0)**	**(38,454.9)**	**5,188.5**	**(14.469.7)**	**(5,126.9)**		**3,039.2**

(1) Local financial statements were first translated into U.S. dollars using the following exchange rates per U.S. dollar: 2.697 Peruvian nuevos soles; 4,392.68 Paraguayan guaranies, and 19.898 Uruguayan Pesos at March 31, 2012. The resulting U.S. dollar amounts were then translated into pesos using the representative market rates as computed and certified by the Superintendency of Finance of Ps 1,942.7 per U.S. dollar at December 31, 2011.

A Amounts presented under Peruvian Banking GAAP.

B Amounts presented under Paraguayan Banking GAAP.

C Amounts presented under Uruguayan Banking GAAP.

D Amounts presented under Colombian Banking GAAP based on the adjustments described below.

Notes to the unaudited pro forma condensed consolidated financial information

(1) Reflects valuation over investment securities based on accounting guidelines established by the Superintendency of Finance in the Basic Accounting Circular, as amended. This adjustment increases investment securities by Ps 1,038.7 million and reserves by Ps 942.4 million and decreases bankers' acceptances, spot operations and derivatives instruments by Ps 306.9 million at March 31, 2012; direct operating income for the three months ended March 31, 2012 is decreased by Ps 386.7 million and for the year ended December 31, 2011 is increased by Ps 180.6 million.

(2) Represents an adjustment on the allowance for loans losses determined in accordance with standards established by Superintendency of Finance in the Basic Accounting Circular, as amended, and External Circular 054 of 2009. This adjustment increases the allowance for loan losses by Ps 5,375.2 million and decreases reserves by Ps 21,567.8 million at March 31, 2012; net operating income for the three months ended March 31, 2012 is decreased by Ps 3,865.4 million and for the year ended December 31, 2011 is increased by Ps 20,058.0 million.

(3) This adjustment reflects the write-off of the deferred income tax asset associated to net operating losses. This deferred income tax is not allowed by Colombian Banking GAAP. This adjustment represents a decrease in other assets of Ps 40,714.2 million and reserves of Ps 29,585.4 million at March 31, 2012; net income for the three months ended March 31, 2012 is decreased by Ps 2,299.1 million at and for the year ended December 31, 2011 by Ps 8,829.7 million.

(4) This adjustment reflects the write-off of other assets such as information technology system expenses and related leasehold improvements which will bring no future benefits to GNB Sudameris given that such information technology system is owned by HSBC and will not be used by the HSBC Entities. This adjustment decreases other assets by Ps 8,916.6 million and earnings from prior periods by Ps 12,069.2 million and increases the net income for the three months ended March 31, 2012 by Ps 3,152.6 million.

(5) This adjustment represents the method of purchase accounting under Colombian Banking GAAP. It reflects: (a) the goodwill generated in the transaction by Ps 180,863.8 million and the corresponding amortization by Ps 4,466.6 million for the year ended December 31, 2011 and Ps 1,193.5 million for the three months ended March 31, 2012; (b) a liability with the former shareholders by Ps 716,828 million and (c) the elimination of historical shareholders' equity by Ps 535,964.3 million.

The table below indicates the excess of purchase price over the net assets acquired:

	(in Ps millions)
Assets to be acquired	7,867,491.7
Liabilities to be assumed	7,331,527.4
Net assets	**535,964.3**
Purchase price	716,828.0
Goodwill	**180,863.8**
Goodwill amortization for the year ended December 31, 2011	4,466.6
Goodwill amortization for the three-month period ended March, 2011	1,193.5
Goodwill, net at March 31, 2012	**175,203.7**

We have assumed that the purchase price is U.S. $400.0 million converted into pesos using an exchange rate of Ps 1,792.07 per U.S. dollar. No interest adjustment related to debt is included in the pro forma financial information because the acquisitions are being funded with internal resources.

SELECTED STATISTICAL DATA

The following information is included for analytical purposes and should be read in conjunction with our consolidated financial statements included in this listing particulars as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations." This information has been prepared based on our financial records, which are prepared in accordance with Colombian Banking GAAP. This information includes our financial information at March 31, 2012 and for the three-month periods ended March 31, 2011 and 2012 and at December 31, 2010 and 2011 and for the fiscal years ended December 31, 2009, 2010 and 2011, as applicable.

Distribution of assets, liabilities and shareholders' equity, interest rates and interest differential

Average balances have been calculated as follows: for each month, the average monthly balance of the Bank was established. The average balance for each period is the average of these average monthly balances. We stop accruing interest on loans after they are past due by more than a certain number of days that depends on the type of loan. See "—Loan portfolio—Suspension of accruals." For purposes of the presentation in the following tables, non-performing loans have been treated as non-interest-earning assets.

Under Colombian Banking GAAP, interest on investment securities includes accrued interest on debt instruments, valuation adjustments and gains (losses) realized on debt and equity securities that are accounted for as "available for sale," gains (losses) on repurchase transactions (repos), gains (losses) realized on the sale of debt securities, and mark-to-market gains (losses) on our trading securities portfolio.

Average balance sheet

The following tables present:

- average balances calculated by adding the average monthly balances for the Bank assets and liabilities and then dividing by the number of months in the period;
- interest income and expense amounts; and
- average yield and interests rate for our interest-earning assets and interest-bearing liabilities, respectively.

The interest rate subtotals are based on the weighted average of the average peso-denominated and foreign currency-denominated balances.

Certain of the information in this section, identified in tables marked "unconsolidated", has been prepared on an unconsolidated basis for Banco GNB Sudameris S.A. only, given that this entity conducts our banking operations and the unconsolidated entities are not material to such operations. Any other table not marked "unconsolidated" has information that has been prepared on a consolidated basis.

	Average balance sheet and income from interest-earning assets for the three-month period ended March 31,					
	2011			2012		
	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield
	(in Ps millions, except percentages)					
Unconsolidated						
Assets						
Interest-earning assets						
Asset positions in money market and similar operations						
Peso-denominated	2,135.6	26.9	5.0%	89,642.6	1,137.7	5.1%
Foreign currency-denominated	9,571.8	14.5	0.6%	84,598.7	20.2	0.1%
Total	**11,707.4**	**41.4**	**1.4%**	**174,241.3**	**1,157.9**	**2.7%**
Investment securities (1)						
Peso-denominated	3,922,111.2	31,964.3	3.3%	3,962,889.2	50,437.0	5.1%
Foreign currency-denominated	5,191.6	0.0	0.0%	0.0	0.0	0.0%
Total	**3,927,302.8**	**31,964.3**	**3.3%**	**3,962,889.2**	**50,437.0**	**5.1%**
Loans and financial leases						
Peso-denominated	3,281,106.4	100,153.3	12.2%	4,076,969.0	122,235.7	12.0%
Foreign currency-denominated	342,137.5	2,805.6	3.3%	386,852.5	3,906.3	4.0%
Total	**3,623,243.9**	**102,958.9**	**11.4%**	**4,463,821.5**	**126,142.0**	**11.3%**
Total interest-earnings assets						
Peso-denominated	7,205,353.2	132,144.5	7.3%	8,129,500.8	173,810.4	8.6%
Foreign currency-denominated	356,900.9	2,820.1	3.2%	471,451.2	3,926.5	3.3%
Total interest-earnings assets	**7,562,254.1**	**134,964.6**	**7.1%**	**8,600,952.0**	**177,736.9**	**8.3%**
Non-interest-earnings assets						
Cash and due from banks						
Peso-denominated	366,253.1	0.0	0.0%	439,089.1	0.0	0.0%
Foreign currency-denominated	1,588.8	0.0	0.0%	5,799.1	0.0	0.0%
Total	**367,841.9**	**0.0**	**0.0%**	**439,888.2**	**0.0**	**0.0%**
Allowance for loan and financial lease losses						
Peso-denominated	(132,321.0)	0.0	0.0%	(137,711.0)	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**(132,321.0)**	**0.0**	**0.0%**	**(137,711.0)**	**0.0**	**0.0%**
Loans rated "C", "D" and "E" (2)						
Peso-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**0.0**	**0.0**	**0.0%**	**0.0**	**0.0**	**0.0%**
Bankers' acceptance, spot transactions and derivatives						
Peso-denominated	2,260.4	0.0	0.0%	2,398.7	0.0	0.0%
Foreign currency-denominated	987.1	0.0	0.0%	65.9	0.0	0.0%
Total	**3,247.5**	**0.0**	**0.0%**	**2,464.6**	**0.0**	**0.0%**

	Average balance sheet and income from interest-earning assets for the three-month period ended March 31,					
	2011			2011		
	Average balance	Average balance	Average balance	Average balance	Average balance	Average balance
	(in Ps millions, except percentages)					
Accounts receivable						
Peso-denominated	28,940.0	0.0	0.0%	37,270.2	0.0	0.0%
Foreign currency-denominated	4,497.1	0.0	0.0%	2,301.5	0.0	0.0%
Total	**33,437.1**	**0.0**	**0.0%**	**39,571.7**	**0.0**	**0.0%**
Foreclosed assets						
Peso-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**0.0**	**0.0**	**0.0%**	**0.0**	**0.0**	**0.0%**
Property and equipment						
Peso-denominated	57,886.9	0.0	0.0%	75,944.5	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**57,886.9**	**0.0**	**0.0%**	**75,944.5**	**0.0**	**0.0%**
Other assets						
Peso-denominated	133,619.7	0.0	0.0%	119,418.0	0.0	0.0%
Foreign currency-denominated	219.8	0.0	0.0%	23.9	0.0	0.0%
Total	**133,839.5**	**0.0**	**0.0%**	**119,441.9**	**0.0**	**0.0%**
Total non-interest-earnings assets						
Peso-denominated	456,639.1	0.0	0.0%	531,409.5	0.0	0.0%
Foreign currency-denominated	7,292.8	0.0	0.0%	8,190.4	0.0	0.0%
Total non-interest-earning assets	**463,931.9**	**0.0**	**0.0%**	**539,599.9**	**0.0**	**0.0%**
Total interest and non-interest-earning assets						
Peso-denominated	7,661,992.3	132,144.5	6.9%	8,660,910.3	173,810.4	8.0%
Foreign currency-denominated	364,193.7	2,820.1	3.1%	479,641.6	3,926.5	3.3%
Total assets	**8,026,186.0**	**134,964.6**	**6.7%**	**9,140,551.9**	**177,736.9**	**7.8%**

	Average balance sheet and expense from interest-bearing liabilities for the three-month period ended March 31,					
	2011			2012		
	Average balance	Interest expense Paid	Average interest rate	Average balance	Interest expense paid	Average interest rate
	(in Ps millions, except percentages)					
Unconsolidated						
Liabilities and shareholders' equity						
Interest-bearing liabilities						
Current accounts						
Peso-denominated	403,837.9	1,321.4	1.3%	541,657.9	2,907.8	2.1%
Foreign currency-denominated	8,572.6	0.0	0.0%	8,311.4	0.0	0.0%
Total	**412,410.5**	**1,321.4**	**1.3%**	**549,969.3**	**2,907.8**	**2.1%**
Savings deposits						
Peso-denominated	1,850,407.2	15,795.7	3.4%	2,683,753.7	34,994.4	5.2%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**1,850,407.2**	**15,795.7**	**3.4%**	**2,683,753.7**	**34,994.4**	**5.2%**
Term deposits	0.0	0.0	0.0%	0.0	0.0	0.0%
Peso-denominated	2,602,640.8	29,823.9	4.6%	3,027,323.3	45,351.9	6.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**2,602,640.8**	**29,823.9**	**4.6%**	**3,027,323.3**	**45,351.9**	**6.0%**
Liability positions in money market and similar operations (3)						
Peso-denominated	1,439,254.8	10,835.3	3.0%	1,070,823.6	12,901.3	4.8%
Foreign currency-denominated	8,930.6	0.0	0.0%	6,421.6	0.0	0.0%
Total	**1,448,185.4**	**10,835.3**	**3.0%**	**1,077,245.2**	**12,901.3**	**4.8%**
Bank borrowings and other financial obligations (4)						
Peso-denominated	547,432.1	8,222.5	6.0%	569,176.8	10,866.5	7.6%
Foreign currency-denominated	318,028.9	1,487.7	1.9%	354,788.9	2,591.3	2.9%
Total	**865,461.0**	**9,710.2**	**4.5%**	**923,965.7**	**13,457.8**	**5.8%**
Long-term debt (bonds)						
Peso-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**0.0**	**0.0**	**0.0%**	**0.0**	**0.0**	**0.0%**
Total interest-bearing liabilities						
Peso-denominated	6,843,572.8	65,998.8	3.9%	7,892,735.3	107,021.9	5.4%
Foreign currency-denominated	335,532.1	1,487.7	1.8%	369,521.9	2,591.3	2.8%
Total	**7,179,104.9**	**67,486.5**	**3.8%**	**8,262,257.2**	**109,613.2**	**5.3%**
Total non-interest-bearing liabilities and shareholders' equity	**847,081.1**	**0.0**	**0.0%**	**878,294.7**	**0.0**	**0.0%**
Total interest and non-interest-bearing liabilities	**7,405,995.9**	**67,486.5**	**3.6%**	**8,510,924.3**	**109,613.2**	**5.2%**
Total liabilities and shareholders' equity	**8,026,185.9**	**67,486.5**	**3.6%**	**9,140,551.9**	**109,613.2**	**5.2%**

(1) Includes available for sale securities, for which yields are based on historical cost balances.

(2) See "—Loan portfolio—Risk categories."

(3) Reflects operations involving common short-term interbank funds, repurchase transactions (repos), and simultaneous operations and transactions involving the temporary transfer of securities.

(4) Reflects loans made by other financial institutions including development banks and international correspondent banks.

	Average balance sheet and income from interest-earning assets for years ended December 31,								
	2009			2010			2011		
	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield
	(in Ps millions, except percentages)								
Unconsolidated									
Assets									
Interest-earning assets									
Asset positions in money market and similar operations									
Peso-denominated	264,420.6	3,625.2	1.4%	6,720.5	109.7	1.6%	43,792.7	830.0	1.9%
Foreign currency-denominated	70,860.8	1,390.3	2.0%	17,491.8	574.6	3.3%	12,196.7	66.8	0.5%
Total	**335,281.4**	**5,015.5**	**1.5%**	**24,212.3**	**684.3**	**2.8%**	**55,989.4**	**896.8**	**1.6%**
Investment securities (1)									
Peso-denominated	2,950,199.3	228,408.7	7.7%	3,806,143.1	133,618.9	3.5%	3,926,533.3	164,670.3	4.2%
Foreign currency-denominated	5,378.5	0.0	0.0%	5,841.3	0.0	0.0%	3,208.8	0.0	0.0%
Total	**2,955,577.8**	**228,408.7**	**7.7%**	**3,811,984.4**	**133,618.9**	**3.5%**	**3,929,742.1**	**164,670.3**	**4.2%**
Loans and financial leases									
Peso-denominated	2,931,495.9	475,748.2	16.2%	3,162,908.2	420,893.4	13.3%	3,586,551.1	440,749.7	12.3%
Foreign currency-denominated	281,953.6	16,983.2	6.0%	292,431.6	12,591.4	4.3%	347,049.2	11,328.4	3.3%
Total	**3,213,449.5**	**492,731.4**	**15.3%**	**3,455,339.8**	**433,484.8**	**12.5%**	**3,933,600.3**	**452,078.1**	**11.5%**
Total interest-earning assets									
Peso-denominated	6,146,115.8	707,782.1	11.5%	6,975,771.8	554,622.0	8.0%	7,556,877.1	606,250.0	8.0%
Foreign currency-denominated	358,192.9	18,373.5	5.1%	315,764.7	13,166.0	4.2%	362,454.7	11,395.2	3.1%
Total interest-earnings assets	**6,504,308.7**	**726,155.6**	**11.2%**	**7,291,536.5**	**567,788.0**	**7.8%**	**7,919,331.8**	**617,645.2**	**7.8%**
Non-interest-earning assets									
Cash and due from banks (2)									
Peso-denominated	0.0	0.0	0.0%	326,393.7	0.0	0.0%	402,394.9	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	11,593.8	0.0	0.0	8,601.3	0.0	
Total	**0.0**	**0.0**	**0.0%**	**337,987.5**	**0.0**	**0.0%**	**410,996.2**	**0.0**	**0.0%**
Allowance for loan and financial lease losses									
Peso-denominated	(121,202.8)	0.0	0.0%	(140,335.2)	0.0	0.0%	(136,425.7)	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%

	Average balance sheet and income from interest-earning assets for years ended December 31,								
	2009			2010			2011		
	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield
	(in Ps millions, except percentages)								
Total	**(121,202.8)**	**0.0**	**0.0%**	**(140,335.2)**	**0.0**	**0.0%**	**(136,425.7)**	**0.0**	**0.0%**

	2009 Average balance	2009 Interest income earned	2009 Average yield	2010 Average balance	2010 Interest income earned	2010 Average yield	2011 Average balance	2011 Interest income earned	2011 Average yield
	Average balance sheet and income from interest-earning assets for years ended December 31, (in Ps millions, except percentages)								
Loans rated "C," "D" and "E" (3)									
Peso-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**0.0**	**0.0**	**0.0%**	**0.0**	**0.0**	**0.0%**	**0.0**	**0.0**	**0.0%**
Bankers' acceptance, spot transactions and derivatives									
Peso-denominated	5,269.7	0.0	0.0%	4,985.3	0.0	0.0%	2,011.9	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**5,269.7**	**0.0**	**0.0%**	**4,985.3**	**0.0**	**0.0%**	**2,011.9**	**0.0**	**0.0%**
Accounts receivable									
Peso-denominated	44,802.2	0.0	0.0%	35,620.9	0.0	0.0%	32,457.8	0.0	0.0%
Foreign currency-denominated	5,672.9	0.0	0.0%	4,206.3	0.0	0.0%	2,089.1	0.0	0.0%
Total	**50,475.1**	**0.0**	**0.0%**	**39,827.2**	**0.0**	**0.0%**	**34,546.9**	**0.0**	**0.0%**
Foreclosed assets									
Peso-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**0.0**	**0.0**	**0.0%**	**0.0**	**0.0**	**0.0%**	**0.0**	**0.0**	**0.0%**
Property, plant and equipment, net									
Peso-denominated	36,570.0	0.0	0.0%	45,923.2	0.0	0.0%	63,572.1	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**36,570.0**	**0.0**	**0.0%**	**45,923.2**	**0.0**	**0.0%**	**63,572.1**	**0.0**	**0.0%**
Other assets									
Peso-denominated	98,953.5	0.0	0.0%	124,501.2	0.0	0.0%	133,551.9	0.0	0.0%
Foreign currency-denominated	1,259.7	0.0	0.0%	1,001.8	0.0	0.0%	347.9	0.0	0.0%
Total	**100,213.2**	**0.0**	**0.0%**	**125,503.0**	**0.0**	**0.0%**	**133,899.8**	**0.0**	**0.0%**
Total non-interest-earnings assets									
Peso-denominated	64,392.6	0.0	0.0%	397,089.1	0.0	0.0%	497,562.9	0.0	0.0%
Foreign currency-denominated	6,932.6	0.0	0.0%	16,801.9	0.0	0.0%	11,038.3	0.0	0.0%
Total non-interest-earnings assets	**71,325.2**	**0.0**	**0.0%**	**413,891.0**	**0.0**	**0.0%**	**508,601.2**	**0.0**	**0.0%**
Total interest and non-interest-earnings assets									
Peso-denominated	6,210,508.4	707,782.1	11.4%	7,372,860.9	554,622.0	7.5%	8,054,440.0	606,250.0	7.5%
Foreign currency-denominated	365,125.5	18,373.5	5.0%	332,566.6	13,166.0	4.0%	373,493.0	11,395.2	3.1%

	Average balance sheet and income from interest-earning assets for years ended December 31,								
	2009			2010			2011		
	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield	Average balance	Interest income earned	Average yield
	(in Ps millions, except percentages)								
Total assets	**6,575,633.9**	**726,155.6**	**11.0%**	**7,705,427.5**	**567,788.0**	**7.4%**	**8,427,933.0**	**617,645.2**	**7.3%**

	Average balance sheet and expense from interest-bearing liabilities for years ended December 31,								
	2009			2010			2011		
	Average balance	Interest expense paid	Average interest rate	Average balance	Interest expense paid	Average interest rate	Average balance	Interest expense paid	Average interest rate
	(in Ps millions, except percentages)								
Unconsolidated									
Liabilities and shareholders' equity									
Interest-bearing liabilities									
Current accounts									
Peso-denominated	277,325.4	2,804.5	1.0%	368,884.5	5,416.6	1.5%	477,289.3	7,611.0	1.6%
Foreign currency-denominated	12,662.7	0.0	0.0%	10,441.9	0.0	0.0%	9,066.3	0.0	0.0%
Total	**289,988.1**	**2,804.5**	**1.0%**	**379,326.4**	**5,416.6**	**1.4%**	**486,355.6**	**7,611.0**	**1.6%**
Savings deposits									
Peso-denominated	1,105,832.4	62,774.2	5.7%	1,503,671.7	54,063.7	3.6%	2,239,100.5	94,766.7	4.2%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**1,105,832.4**	**62,774.2**	**5.7%**	**1,503,671.7**	**54,063.7**	**3.6%**	**2,239,100.5**	**94,766.7**	**4.2%**
Term deposits									
Peso-denominated	2,165,539.3	184,237.1	8.5%	2,777,139.6	136,772.9	4.9%	2,606,104.4	132,198.1	5.1%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**2,165,539.3**	**184,237.1**	**8.5%**	**2,777,139.6**	**136,772.9**	**4.9%**	**2,606,104.4**	**132,198.1**	**5.1%**
Liability positions in money market and similar operations (4)									
Peso-denominated	1,373,101.2	72,466.2	5.3%	1,237,151.1	37,151.0	3.0%	1,398,382.2	54,876.9	3.9%
Foreign currency-denominated	10,544.3	0.0	0.0%	20,362.3	0.0	0.0%	31,407.0	0.0	0.0%
Total	**1,383,645.5**	**72,466.2**	**5.2%**	**1,257,513.4**	**37,151.0**	**3.0%**	**1,429,789.2**	**54,876.9**	**3.8%**
Bank borrowings and other financial obligations (5)									
Peso-denominated	662,653.8	60,474.5	9.1%	725,609.7	45,787.9	6.3%	551,365.0	35,887.5	6.5%
Foreign currency-denominated	296,386.1	10,402.0	3.5%	275,139.2	6,201.5	2.3%	312,302.2	6,268.9	2.0%
Total	**959,039.9**	**70,876.5**	**7.4%**	**1,000,748.9**	**51,989.4**	**5.2%**	**863,667.2**	**42,156.4**	**4.9%**
Long-term debt (bonds)									
Peso-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Foreign currency-denominated	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Total	**0.0**	**0.0**	**0.0%**	**0.0**	**0.0**	**0.0%**	**0.0**	**0.0**	**0.0%**
Total interest-bearing liabilities									
Peso-denominated	5,584,452.1	382,756.5	6.9%	6,612,456.6	279,192.1	4.2%	7,272,241.4	325,340.2	4.5%
Foreign currency-denominated	319,593.1	10,402.0	3.3%	305,943.4	6,201.5	2.0%	352,775.5	6,268.9	1.8%
Total	**5,904,045.2**	**393,158.5**	**6.7%**	**6,918,400.0**	**285,393.6**	**4.1%**	**7,625,016.9**	**331,609.1**	**4.3%**
Total non-interest-bearing liabilities and shareholders' equity	**671,588.7**	**0.0**	**0.0%**	**787,027.6**	**0.0**	**0.0%**	**802,916.1**	**0.0**	**0.0%**
Total interest and non-interest-bearing liabilities	**6,135,469.1**	**393,158.5**	**6.4%**	**7,146,659.9**	**285,393.6**	**4.0%**	**7,854,961.1**	**331,609.1**	**4.2%**
Total liabilities and shareholders' equity	**6,575,633.9**	**393,158.5**	**6.0%**	**7,705,427.6**	**285,393.6**	**3.7%**	**8,427,933.0**	**331,609.1**	**3.9%**

(1) Includes available for sale securities, for which yields are based on historical cost balances.

(2) Until 2010, reserve requirements accounts (*encaje*) were interest bearing and we recorded them under "Interest-earning assets—Interbank and overnight funds." Commencing in 2010, reserve requirement accounts are no longer interest bearing.

(3) See "—Loan portfolio—Risk categories."

(4) Reflects operations involving common short-term interbank funds, repurchase transactions (repos), simultaneous operations and transactions involving the temporary transfer of securities.

(5) Reflects loans made by other financial institutions including development banks and international correspondent banks.

Changes in direct operating result—volume and rate analysis

The following tables allocate by currency of denomination, changes in our direct operating result to changes in average volume, changes in nominal rates and the net variance caused by changes in both average volume and nominal rates for the three-month period ended March 31, 2011 compared to the three-month period ended March 31, 2012; the year ended December 31, 2010 compared to the year ended December 31, 2011; and the year ended December 31, 2009 compared to the year ended December 31, 2010. Volume and rate variances have been calculated based on variances in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities. Net changes attributable to changes in both volume and interest rate have been allocated to changes in volume.

	2009 – 2010 Increase (decrease) due to changes in			**2010 – 2011 Increase (decrease) due to changes in**			**March 31, 2011 – March 31, 2012 Increase (decrease) due to changes in**		
	Volume	**Rate**	**Net change**	**Volume**	**Rate**	**Net change**	**Volume**	**Rate**	**Net change**
					(in Ps millions)				
Unconsolidated									
Interest-earnings assets									
Asset positions in money market and similar operations									
Peso-denominated	(257,700.1)	(3,515.5)	261,215.6	37,072.2	720.3	37,792.5	87,507.0	1,110.8	88,617.8
Foreign currency-denominated	(53,369.0)	(815.7)	(54,184.7)	(5,295.1)	(507.8)	(5,802.9)	75,026.9	5.7	75,032.6
Total asset positions in money market and similar operations	**(311,069.1)**	**(4,331.2)**	**(315,400.3)**	**31,777.1**	**212.5**	**31,989.6**	**162,533.9**	**1,116.5**	**163,650.4**
Investment securities (1)									
Peso-denominated	855,943.8	(94,789.8)	761,154.0	120,390.2	31,051.4	151,441.6	40,778.0	18,472.7	59,250.7
Foreign currency-denominated	462.8	0.0	462.8	(2,632.5)	0.0	(2,632.5)	(5,191.6)	0.0	(5,191.6)
Total investment securities	**856,406.6**	**(94,789.8)**	**761,616.8**	**117,757.7**	**31,051.4**	**148,809.1**	**35,586.4**	**18,472.7**	**54,059.1**
Loans and financial leases									
Peso-denominated	231,412.3	(54,854.8)	176,557.5	423,642.9	19,856.3	443,499.2	795,862.6	22,082.4	817,945.0
Foreign currency-denominated	10,478.0	(4,391.8)	6,086.2	54,617.6	(1,263.0)	53,354.6	44,715.0	1,100.7	45,815.7
Total interest- earnings assets	**241,890.3**	**(59,246.6)**	**182,643.7**	**478,260.5**	**18,593.3**	**496,853.8**	**840,577.6**	**23,183.1**	**863,760.7**
Total loans and financial leases									
Peso-denominated	829,656.0	(153,160.1)	676,459.9	581,105.3	51,628.0	632,733.3	924,147.6	41,665.9	965,813.5
Foreign currency-denominated	(42,428.2)	(5,207.5)	(47,635.7)	46,690.0	(1,770.8)	44,919.2	114,550.3	1,106.4	115,656.7
Total interest- earning assets	**787,227.8**	**(158,367.6)**	**628,860.2**	**627,795.3**	**49,857.2**	**677,652.5**	**1,038,697.9**	**42,772.3**	**1,081,470.2**

(1) Under Colombian Banking GAAP, interest income from investment securities includes the following: accrued interest on debt instruments, valuation adjustments and gains (losses) realized on debt and equity securities that are accounted for as "available for sale," gains (losses) on repurchase transactions (i.e., repos), gains (losses) realized on the sale of debt securities, and mark-to-market gains (losses) on the trading securities portfolio.

	2009 – 2010 Increase (decrease) due to changes in			2010 – 2011 Increase (decrease) due to changes in			March 31, 2011 – March 31, 2012 Increase (decrease) due to changes in		
	Volume	**Rate**	**Net change**	**Volume**	**Rate**	**Net change**	**Volume**	**Rate**	**Net change**
					(in Ps millions)				
Unconsolidated									
Interest-bearing liabilities									
Current accounts									
Peso-denominated	91,559.1	2,612.1	94,171.2	108,404.8	2,194.4	110,599.2	137,820.0	1,586.4	139,406.4
Foreign currency-denominated	(2,220.8)	0.0	(2,220.8)	(1,375.6)	0.0	(1,375.6)	(261.2)	0.0	(261.2)
Total checking accounts	**89,338.3**	**2,612.1**	**91,950.4**	**107,029.2**	**2,194.4**	**109,223.6**	**137,558.8**	**1,586.4**	**139,145.2**
Savings deposits									
Peso-denominated	397,839.3	(8,710.5)	389,128.8	735,428.8	40,703.0	776,131.8	833,346.5	19,198.7	852,545.2
Foreign currency-denominated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total savings deposits	**397,839.3**	**(8,710.5)**	**389,128.8**	**735,428.8**	**40,703.0**	**776,131.8**	**833,346.5**	**19,198.7**	**852,545.2**
Term deposits									
Peso-denominated	611,600.3	(47,464.2)	564,136.1	(171,035.2)	(4,574.8)	(175,610.0)	424,682.5	15,528.0	440,210.5
Foreign currency-denominated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total time deposits	**611,600.3**	**(47,464.2)**	**564,136.1**	**(171,035.2)**	**(4,574.8)**	**(175,610.0)**	**424,682.5**	**15,528.0**	**440,210.5**
Liability positions in money market and similar operations									
Peso-denominated	(135,950.1)	(35,315.2)	(171,265.3)	161,231.1	17,725.9	178,957.0	(368,431.2)	2,066.0	(366,365.2)
Foreign currency-denominated	9,818.0	0.0	9,818.0	11,044.7	0.0	11,044.7	(2,509.0)	0.0	(2,509.0)
Total liability positions in money market and similar operations	**(126,132.1)**	**(35,315.2)**	**(161,447.3)**	**172,275.8**	**17,725.9**	**190,001.7**	**(370,940.2)**	**2,066.0**	**(368,874.2)**
Bank borrowings and other financial obligations									
Peso-denominated	62,955.9	(14,686.6)	48,269.3	(174,244.7)	(9,900.4)	(184,145.1)	21,744.7	2,644.0	24,388.7
Foreign currency-denominated	(21,246.9)	(4,200.5)	(25,447.4)	37,163.0	67.4	37,230.4	36,760.0	1,103.6	37,863.6
Total bank borrowings and other financial obligations	**41,709.0**	**(18,887.1)**	**22,821.9**	**(137,081.7)**	**(9,833.0)**	**(146,914.7)**	**58,504.7**	**3,747.6**	**62,252.3**
Long-term debt (bonds)									
Peso-denominated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency-denominated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total long-term debt (bonds)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total interest-bearing liabilities									
Peso-denominated	1,028,004.5	(103,564.4)	924,440.1	659,784.8	46,148.1	705,932.9	1,049,162.5	41,023.1	1,090,185.6
Foreign currency-denominated	(13,649.7)	(4,200.5)	(17,850.2)	46,832.2	67.4	46,899.6	33,989.8	1,103.6	35,093.4
Total interest- bearing liabilities	**1,014,354.8**	**(107,764.9)**	**906,589.9**	**706,617.0**	**46,215.5**	**752,832.5**	**1,083,152.3**	**42,126.7**	**1,125,279.0**

Interest-earning assets—net interest margin and yield spread

The following table presents average balances of interest-earning assets as well as our yields on our average interest-earning assets, net interest earned, net interest margin and interest spread for the periods indicated.

	For the year ended December 31,			For the three-month period ended March 31,	
	2009	2010	2011	2011	2012
	(in Ps millions, except percentages)				
Unconsolidated					
Asset positions in money market and similar operations					
Peso-denominated	264,420.6	6,720.5	43,792.7	2,135.6	89,642.6
Foreign currency-denominated	70,860.8	17,491.8	12,196.7	9,571.8	84,598.7
Total	**335,281.4**	**24,212.3**	**55,989.4**	**11,707.4**	**174,241.3**
Investment securities					
Peso-denominated	2,950,199.3	3,806,143.1	3,926,533.3	3,922,111.2	3,962,889.2
Foreign currency-denominated	5,378.5	5,841.3	3,208.8	5,191.6	0.0
Total	**2,955,577.8**	**3,811,984.4**	**3,929,742.1**	**3,927,302.8**	**3,962,889.2**
Loans and financial leases					
Peso-denominated	2,931,495.9	3,162,908.2	3,586,551.1	3,281,106.4	4,076,969.0
Foreign currency-denominated	281,953.6	292,431.6	347,049.2	342,137.5	386,852.5
Total	**3,213,449.5**	**3,455,339.8**	**3,933,600.3**	**3,623,243.9**	**4,463,821.5**
Total average interest-earning assets					
Peso-denominated	6,146,115.8	6,975,771.8	7,556,877.1	7,205,353.2	8,129,500.8
Foreign currency-denominated	358,192.9	315,764.7	362,454.7	356,900.9	471,451.2
Total	**6,504,308.7**	**7,291,536.5**	**7,919,331.8**	**7,562,254.1**	**8,600,952.0**
Net interest earned (1)					
Peso-denominated	707,782.1	554,622.0	606,250.0	132,144.5	173,810.4
Foreign currency-denominated	18,373.5	13,166.0	11,395.2	2,820.1	3,926.5
Total	**726,155.6**	**567,788.0**	**617,645.2**	**134,964.6**	**177,736.9**
Average yield on interest-earning assets					
Peso-denominated	11.5%	8.0%	8.0%	7.3%	8.6%
Foreign currency-denominated	5.1%	4.2%	3.1%	3.2%	3.3%
Total	**11.2%**	**7.8%**	**7.8%**	**7.1%**	**8.3%**
Direct operating margin (2)					
Peso-denominated	11.5%	8.0%	8.0%	7.3%	8.6%
Foreign currency-denominated	5.1%	4.2%	3.1%	3.2%	3.3%
Total	**11.2%**	**7.8%**	**7.8%**	**7.1%**	**8.3%**
Interest spread on loans and financial leases (3)					
Peso-denominated	9.4%	9.1%	7.8%	8.4%	6.6%
Foreign currency-denominated	2.8%	2.3%	1.5%	1.5%	1.2%
Total	**8.7%**	**8.4%**	**7.1%**	**7.6%**	**6.0%**
Interest spread on total interest-earning assets (4)					
Peso-denominated	4.7%	3.7%	3.5%	3.5%	3.1%
Foreign currency-denominated	1.9%	2.1%	1.4%	1.4%	0.5%
Total	**4.5%**	**3.7%**	**3.5%**	**3.4%**	**3.0%**

(1) Net interest earned is calculated as direct operating income less direct operating expenses paid and includes accrued interest, valuation adjustments and gains (losses) realized on debt and equity securities that are accounted for as “available for sale,” gains (losses) on repurchase transactions (repos), gains (losses) realized on the sale of debt securities, and mark-to-market gains (losses) on trading securities portfolio.

(2) Direct operating margin is calculated as direct operating result divided by total average interest-earning assets.

(3) Interest spread on loans and financial leases is calculated as the difference between the average yield on interest-earning loans and financial leases and the average rate paid on interest-bearing liabilities.

(4) Interest spread on total interest-earning assets is calculated as the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities.

Investment portfolio

We acquire and hold fixed income debt and equity securities for liquidity and other strategic purposes, or when required by law. In recent years, credit institutions, including us, have been required to hold certain debt securities issued by the Colombian government or government-related entities. Colombian Central Bank regulations require credit institutions to make investments in agricultural development bonds (*Títulos de Desarrollo Agropecuario*), or “TDAs,” issued by the Agricultural Sector Financing Fund (*Fondo para el Financiamiento del Sector Agropecuario*), or “Finagro.” Finagro is a development bank affiliated with the Colombian Ministry of Agriculture and finances the production and marketing activities of the agricultural and livestock sector. These securities yield below-market interest rates. The amount of these mandatory investments, which our subsidiaries are still required to hold, is calculated as a percentage of short-term deposits. Another mandatory investment, still on our portfolio but no longer subject to new issuances, is in debt reduction bonds (*Títulos de Reducción de Deuda*) issued by the Colombian government. Under government discretion, authorities may extend the scope of current regulations or require additional disbursements on current or new types of mandatory investments. See “—Mandatory investments.”

The Superintendency of Finance requires investments to be classified as “trading,” “available for sale” or “held to maturity.” Trading investments are investments acquired primarily to obtain profits from fluctuations in short-term prices and are recorded at market value. The difference between current and previous market value is added to, or subtracted from, the value of the investment and credited or charged to earnings. “Available for sale” investments are those investments that we intend, and are able, to hold for at least one year and they are recorded on the balance sheet at market value with changes to the values of these securities recorded in a separate equity account called “unrealized gains and losses”; when a portion of the gains or losses is realized, such amount is transferred to the statement of income. “Held to maturity” investments are investments acquired and that we intend, and are able, to hold until maturity, and are valued at amortized cost.

In accordance with Chapter 1 of Circular 100 of 1995 issued by the Superintendency of Finance, investments in debt securities are fully reviewed for impairment in June and December and partially reviewed every three months, by considering the related solvency, market, currency exchange rate and country risks. Investments in securities with certain ratings by external rating agencies recognized by the Superintendency of Finance cannot be recorded on our balance sheet for an amount higher than specified percentages of the face value, net of amortizations recorded at the valuation date.

Long-term classification	Maximum face value (%)
BB+, BB, BB-	Ninety (90)
B+, B, B-	Seventy (70)
CCC	Fifty (50)
DD, EE	Zero (0)

Short-term classification	Maximum face value (%)
3	Ninety (90)
4	Fifty (50)
5 and 6	Zero (0)

Internal or external debt securities issued or guaranteed by Colombia, as well as those issued by the Colombian Central Bank and those issued or guaranteed by *Fondo de Garantías de Instituciones Financieras,* or “FOGAFIN,” are not subject to this adjustment.

The following table presents the book value of our investments, net of allowance for investment securities losses, at the dates indicated.

	At December 31,			At March 31,	
	2009	2010	2011	2011	2012
			(in Ps millions)		
Debt securities (1)					
Securities issued or secured by the Colombian Central Government (2)	3,043,038.7	3,596,924.0	3,645,463.0	3,644,946.8	3,681,486.4
Securities issued or secured by the Colombian Central Bank	0.0	0.0	0.0	0.0	0.0
Securities issued or secured by other Colombian government entities	195,345.8	251,010.3	285,178.4	262,177.2	309,039.3
Securities issued or secured by financial entities (3)	5,194.4	6,307.1	883.7	2,403.5	20.1
Other securities (4)	33,141.8	31,247.5	29,285.9	29,810.9	28,576.8
Total debt securities	**3,276,720.7**	**3,885,488.9**	**3,960,811.0**	**3,939,338.4**	**4,019,122.6**
Total debt securities, net	**3,276,720.7**	**3,885,488.9**	**3,960,811.0**	**3,939,338.4**	**4,019,122.6**
Equity securities, net	**8,069.4**	**11,303.0**	**3,585.6**	**10,233.4**	**4,798.2**
Investment funds, net	**18,705.6**	**28,560.6**	**37,334.1**	**31,518.0**	**37,800.1**
Total investment securities, net	**3,303,495.7**	**3,925,352.5**	**4,001,730.7**	**3,981,089.8**	**4,061,720.9**

(1) All of our debt securities are denominated in pesos. We do not have any debt securities denominated in foreign currency.

(2) Includes Colombian central government-issued treasuries (*Títulos de Tesorería*).

(3) Reflects investments made in debt securities issued by private financial entities.

(4) Reflects investments made in debt securities issued by multilateral institutions and non-financial companies.

Investment securities portfolio maturity

The following table summarizes the maturities and weighted average nominal yields of our debt investment securities at and December 31, 2011 and at March 31, 2012.

	At December 31, 2011									
	Maturity less than 1 year		Maturity between 1 and 5 years		Maturity between 5 and 10 years		Maturity more than 10 Years		Total	
	Balance (1)	Yield (2)	Balance (1)	Yield (2)	Balance (1)	Yield (2)	Balance (1)	Yield (2)	Balance (1)	Yield (2)
	(in Ps millions, except yields)									
Debt securities (3)										
Securities issued or secured by the Colombian Central Government	2,989,658.9	5.3%	655,582.5	5.8%	198.4	3.5%	23.2	3.6%	3,645,463.0	5.4%
Securities issued or secured by the Colombian Central Bank	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Securities issued or secured by other Colombian government entities	225,352.3	2.2%	59,826.1	4.0%	0.0	0.0%	0.0	0.0%	285,178.4	2.6%
Securities issued or secured by financial entities	525.2	5.1%	358.4	0.7%	0.0	0.0%	0.0	0.0%	883.7	3.3%
Other securities	0.0	0.0%	29,285.9	7.5%	0.0	0.0%	0.0	0.0%	29,285.9	7.5%
Total debt securities	**3,215,536.4**	**5.1%**	**745,053.0**	**5.7%**	**198.4**	**3.5%**	**23.2**	**3.6%**	**3,960,811.0**	**5.2%**
Total debt securities, net	**3,215,536.4**	**5.1%**	**745,053.0**	**5.7%**	**198.4**	**3.5%**	**23.2**	**3.6%**	**3,960,811.0**	**5.2%**
Equity securities, net	**3,585.6**	**0.0%**	**0.0**	**0.0%**	**0.0**	**0.0%**	**0.0**	**0.0%**	**3,585.6**	**0.0%**
Investment funds, net	**37,334.1**	**9.3%**	**0.0**	**0.0%**	**0.0**	**0.0%**	**0.0**	**0.0%**	**37,334.1**	**9.3%**
Total investment securities, net	**3,256,456.1**	**5.1%**	**745,053.0**	**5.7%**	**198.4**	**3.5%**	**23.2**	**3.6%**	**4,001,730.7**	**5.2%**

(1) Amounts for debt securities are net of allowances for decline in value, which amounted to zero at December 31, 2011. Amounts for equity securities are net of allowances, which amounted to zero at December 31, 2011.

(2) Yield was calculated using the internal rate of return, or "IRR" at December 31, 2011.

(3) All of our debt securities are denominated in pesos. We do not have any debt securities denominated in foreign currency.

	At March 31, 2012									
	Maturity less than 1 year		Maturity between 1 and 5 years		Maturity between 5 and 10 years		Maturity more than 10 Years		Total	
	Balance (1)	Yield (2)	Balance (1)	Yield (2)	Balance (1)	Yield (2)	Balance (1)	Yield (2)	Balance (1)	Yield (2)
	(in Ps millions, except yields)									
Debt securities (3)										
Peso-denominated										
Securities issued or secured by the Colombian central government	2,724,632.3	5.3%	955,986.9	5.8%	704.0	4.0%	163.1	6.9%	3,681,486.4	5.4%
Securities issued or secured by the Colombian Central Bank	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Securities issued or secured by other Colombian government entities	249,236.5	2.5%	59,802.8	3.6%	0.0	0.0%	0.0	0.0%	309,039.3	2.7%
Securities issued or secured by financial entities	19.4	6.2%	0.7	0.0%	0.0	0.0%	0.0	0.0%	20.1	6.0%
Other securities	0.0	0.0%	28,576.7	7.0%	0.0	0.0%	0.0	0.0%	28,576.7	7.0%
Total debt securities	2,973,888.2	5.1%	1,044,367.2	5.7%	704.0	4.0%	163.1	6.9%	4,019,122.6	5.2%
Total debt securities, net	2,973,888.2	5.1%	1,044,367.2	5.7%	704.0	4.0%	163.1	6.9%	4,019,122.6	5.2%
Equity securities, net	4,798.2	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	4,798.2	0.0%
Investment funds, net	37,800.1	7.1%	0.0	0.0%	0.0	0.0%	0.0	0.0%	37,800.1	7.1%
Total investment securities, net	3,016,486.5	5.1%	1,044,367.2	5.7%	704.0	4.0%	163.1	6.9%	4,061,720.9	5.2%

(1) Amounts for debt securities are net of allowances for decline in value, which amounted to zero at March 31, 2012. Amounts for equity securities are net of allowances, which amounted to zero at March 31, 2012.

(2) Yield was calculated using the IRR at March 31, 2012.

(3) All of our debt securities are denominated in pesos. We do not have any debt securities denominated in foreign currency.

At December 31, 2011 and March 31, 2012, we had the following investments in securities of issuers that exceeded 10% of our shareholders' equity.

	December 31, 2011		
	Issuer	Book value	Market value
		(in Ps millions)	
Securities issued or secured by the Colombian central government	Ministry of Finance	3,645,463.0	3,645,463.0
Securities issued or secured by Colombian government entities	Finagro	285,178.4	285,178.4
Total		**3,930,641.4**	**3,930,641.4**

	March 31, 2012		
	Issuer	Book value	Market value
		(in Ps millions)	
Securities issued or secured by the Colombian central government	Ministry of Finance	3,681,486.4	3,681,486.4
Securities issued or secured by Colombian government entities	Finagro, Findeter	309,139.3	309,139.3
Total		**3,990,525.7**	**3,990,525.7**

Loan portfolio

The following table presents our loan portfolio classified into commercial, consumer and mortgage loans.

	At December 31,			At March 31,	
	2009	2010	2011	2011	2012
			(in Ps millions)		
Commercial					
General purpose loans (1)	846,504.7	1,019,345.1	1,421,807.5	1,060,031.2	1,463,856.9
Loans funded by development banks	906,994.7	816,648.5	757,487.6	777,846.9	743,476.5
Working capital loans	120,419.4	73,232.5	138,066.3	91,141.9	22,720.8
Credit cards	13,125.4	11,884.0	12,108.8	12,699.7	13,153.6
Overdrafts	14,484.7	7,146.6	7,465.3	13,798.2	11,517.3
Total commercial	**1,901,528.9**	**1,928,256.7**	**2,336,935.5**	**1,955,517.9**	**2,254,725.1**
Consumer					
Credit cards	24,479.3	21,860.7	20,141.5	20,218.2	18,430.6
Personal loans (2)	1,448,951.2	1,625,454.0	2,064,045.9	1,706,707.2	2,165,572.7
Automobile and vehicle loans	12,446.1	7,297.2	3,524.1	6,336.6	2,649.1
Overdrafts	984.9	570.3	618.6	786.2	882.2
Loans funded by development banks	20.0	47.3	1.7	36.3	0.0
General purpose loans (3)	18,788.8	8,549.1	17,881.5	15,335.1	17,699.0
Working capital loans	228.7	128.4	43.5	103.1	40.1
Total consumer	**1,505,899.0**	**1,663,907.0**	**2,106,256.8**	**1,749,522.7**	**2,205,273.7**
Mortgages (4)	191.9	2,413.2	2,178.6	2,362.3	2,197.4
Total portfolio	**3,407,619.8**	**3,594,576.9**	**4,445,370.9**	**3,707,402.9**	**4,462,196.2**
Allowance for loan portfolio	167,057.2	134,862.4	135,997.6	134,359.6	140,232.9
Total portfolio, net	**3,240,562.6**	**3,459,714.5**	**4,309,373.3**	**3,573,043.3**	**4,321,963.3**

(1) General purpose commercial loans primarily include short-term loans (*créditos de tesorería),* trade finance loans, project finance loans and loans for capital expenditures.

(2) Corresponds to payroll loans (*libranzas*).

(3) General purpose consumer loans primarily include loans for capital expenditures.

(4) Mortgages related to mortgage loans given in the past to former employees. We do not currently engage in mortgage lending.

We classify our loan portfolio into the following categories:

- *Commercial loans:* Commercial loans are granted to companies or individuals to carry out economic activities.
- *Consumer loans:* Consumer loans are granted to individuals for the purchase of consumer goods or to pay for non-commercial or non-business services.
- *Mortgages:* Mortgages are loans granted to individuals for the purchase of new or used housing or to build a home, all in accordance with Law 546 of 1999. These loans include loans that are

denominated in *Unidad de Valor Real*, or "UVR," or local currency, that are guaranteed by a senior mortgage on the property and that are financed with a total repayment term of five to 30 years. We do not currently engage in mortgage lending. The current mortgage balances relate to mortgage loans of former employees.

We do not engage in any significant microcredit lending or financial leasing.

Maturity and interest rate sensitivity of loans and financial leases

The following tables present the maturities of our loan portfolio at December 31, 2011 and March 31, 2012.

	At December 31, 2011			
	Due in one year or less	**Due from one to five years**	**Due after five years**	**Total**
	(in Ps millions)			
Commercial				
General purpose loans	1,065,919.2	302,412.9	53,475.4	1,421,807.5
Loans funded by development banks	177,461.8	362,790.2	217,235.6	757,487.6
Working capital loans	132,956.6	5,109.7	0.0	138,066.3
Credit cards	12,050.0	0.0	58.8	12,108.8
Overdrafts	7,463.4	0.0	1.9	7,465.3
Total commercial	**1,395,851.0**	**670,312.8**	**270,771.7**	**2,336,935.5**
Consumer				
Credit cards	18,721.7	0.0	1,419.8	20,141.5
Personal loans	437,116.0	1,446,971.5	179,958.4	2,064,045.9
Automobile and vehicle loans	1,653.7	1,138.2	732.2	3,524.1
Overdrafts	608.7	0.0	9.9	618.6
General purpose loans	11,361.5	5,258.4	1,261.6	17,881.5
Working capital loans	43.5	0.0	0.0	43.5
Loans funded by development banks	1.7	0.0	0.0	1.7
Total consumer	**469,506.8**	**1,453,368.1**	**183,381.9**	**2,106,256.8**
Mortgages	326.9	955.7	869.0	2,178.6
Total loan portfolio	**1,865,684.7**	**2,124,636.6**	**455,049.6**	**4,445,370.9**

	At March 31, 2012			
	Due in one year or less	Due from one to five years	Due after five years	Total
	(in Ps millions)			
Commercial				
General purpose loan	1,058,975.0	344,977.4	59,904.5	1,463,856.9
Loans funded by development banks	160,421.0	356,835.7	226,219.8	743,476.5
Working capital loans	19,571.7	3,149.1	0.0	22,720.8
Credit cards	13,120.2	0.0	33.4	13,153.6
Overdrafts	11,517.3	0.0	0.0	11,517.3
Total commercial	**1,263,605.2**	**704,962.2**	**286,157.7**	**2,254,725.1**
Consumer				
Credit cards	17,867.5	0.0	563.1	18,430.6
Personal loans	442,265.4	1,482,616.4	240,690.9	2,165,572.7
Automobile and vehicle loans	1,527.6	726.8	394.7	2,649.1
Overdrafts	879.7	0.0	2.5	882.2
Loans funded by development banks	0.0	0.0	0.0	0.0
General purpose loans	11,212.7	5,767.4	718.9	17,699.0
Working capital loans	0.0	40.1	0.0	40.1
Total consumer	**473,752.9**	**1,489,150.7**	**242,370.1**	**2,205,273.7**
Mortgages	230.8	824.0	1,142.6	2,197.4
Total loan portfolio	**1,737,588.9**	**2,194,936.9**	**529,670.4**	**4,462,196.2**

The following table presents the interest rate sensitivity of our loan portfolio due after one year and within one year or less at December 31, 2011 and March 31, 2012.

	At December 31, 2011	At March 31, 2012
	(in Ps millions)	
Loans with terms of one year or less		
Variable rate		
Peso-denominated	574,951.2	600,366.6
Foreign currency-denominated	365,374.9	205,931.4
Total	**940,326.1**	**806,298.0**
Fixed rate		
Peso-denominated	925,304.7	931,290.9
Foreign currency-denominated	53.9	0.0
Total	**925,358.6**	**931,290.9**
Total loans with terms of one year or less	**1,865,684.7**	**1,737,588.9**
Loans with terms of more than one year		
Variable rate		
Peso-denominated	836,044.7	888,157.9
Foreign currency-denominated	58,914.0	50,660.2
Total	**894,958.7**	**938,818.1**
Fixed rate		
Peso-denominated	1,684,727.5	1,785,789.2
Foreign currency-denominated	0.0	0.0
Total	**1,684,727.5**	**1,785,789.2**
Total loans with terms of more than one year	**2,579,686.2**	**2,724,607.3**
Total loan portfolio	**4,445,370.9**	**4,462,196.2**

Loan portfolio by economic activity

The following table summarizes our loan portfolio, at the dates indicated, by the principal activity of the borrower using the United Nations system for classifying economic data, International Standard Industrial Classification of All Economic Activities (ISIC). Where we have not assigned a code to a borrower, classification of the relevant loan has been made based on the purpose of the loan as described by the borrower.

	At December 31,					
	2009	%	2010	%	2011	%
	(in Ps millions, except percentages)					
Agricultural	47,991.9	1.4%	66,331.3	1.8%	81,638.1	1.8%
Mining products and oil	6,754.2	0.2%	4,564.9	0.1%	4,774.0	0.1%
Food, beverage and tobacco	71,039.6	2.1%	66,317.9	1.8%	69,359.3	1.6%
Chemical production	86,864.8	2.5%	98,746.8	2.7%	123,182.4	2.8%
Other industrial and manufacturing products	286,536.0	8.4%	312,732.0	8.7%	308,748.6	6.9%
Government	124,574.7	3.7%	199,603.8	5.6%	184,473.0	4.1%
Construction	65,712.5	1.9%	60,694.8	1.7%	104,672.1	2.4%
Trade and tourism	16,585.1	0.5%	15,366.5	0.4%	30,755.3	0.7%
Transportation and communications	72,791.9	2.1%	88,254.0	2.5%	103,380.3	2.3%
Public services	60,225.5	1.8%	82,809.6	2.3%	80,389.1	1.8%
Consumer services (1)	215,708.5	6.3%	262,675.1	7.3%	374,968.5	8.4%
Commercial services (2)	809,361.3	23.8%	621,249.9	17.3%	785,899.1	17.7%
Payroll loans (*libranzas*)	1,448,951.2	42.5%	1,625,454.0	45.2%	2,064,045.9	46.4%
Other personal loans	94,522.6	2.8%	89,776.3	2.5%	129,085.2	2.9%
Total loan portfolio	**3,407,619.8**	**100.0%**	**3,594,576.9**	**100.0%**	**4,445,370.9**	**100.0%**

(1) Consumer services include loans to individuals, such as consumer loans (credit cards, vehicle, personal and others) and mortgage loans.

(2) Commercial services include wholesale trade and retail, consulting and business support services, health and social services, money lending and other activities.

	At March 31,			
	2011	%	2012	%
	(in Ps millions, except percentages)			
Agricultural	68,059.6	1.8%	93,705.8	2.1%
Mining products and oil	4,149.5	0.1%	3,940.8	0.1%
Food, beverage and tobacco	84,333.8	2.3%	71,140.9	1.6%
Chemical production	91,980.6	2.5%	146,310.3	3.3%
Other industrial and manufacturing products	294,901.8	8.0%	313,090.5	7.0%
Government	224,961.0	6.1%	179,580.2	4.0%
Construction	57,643.9	1.6%	217,759.7	4.9%
Trade and tourism	14,770.6	0.4%	32,296.8	0.7%
Transportation and communications	84,384.4	2.3%	132,646.1	3.0%
Public services	92,079.9	2.5%	98,206.6	2.2%
Consumer services (l)	275,442.8	7.4%	135,248.2	3.0%
Commercial services (2)	616,625.1	16.6%	745,592.5	16.7%
Payroll loans (*libranzas*)	1,706,707.2	46.0%	2,165,572.7	48.5%
Other personal loans	91,362.7	2.5%	127,105.1	2.8%
Total loan portfolio	**3,707,402.9**	**100.0%**	**4,462,196.2**	**100.0%**

(1) Consumer services include loans to individuals, such as consumer loans (credit cards, vehicle, personal and others) and mortgage loans.

(2) Commercial services include wholesale trade and retail, consulting and business support services, health and social services, money lending and other activities.

Credit categories

The following table presents our loan portfolio, for the purpose of credit risk evaluation, categorized in accordance with the regulations of the Superintendency of Finance, in effect at the relevant dates.

	Loan portfolio by type of loan				
	At December 31,				At March 31,
	2009	2010	2011	2011	2012
	(in Ps millions)				
Commercial loans	1,901,528.9	1,928,256.7	2,336,935.5	1,955,517.9	2,254,725.1
Consumer loans	1,505,899.0	1,663,907.0	2,106,256.8	1,749,522.7	2,205,273.7
Mortgages	191.9	2,413.2	2,178.6	2,362.3	2,197.4
Total loan portfolio	**3,407,619.8**	**3,594,576.9**	**4,445,370.9**	**3,707,402.9**	**4,462,196.2**
Allowance for loans and financial lease losses	167,057.2	134,862.4	135,997.6	134,359.6	140,232.9
Total loan portfolio, net	3,240,562.6	3,459,714.5	4,309,373.3	3,573,043.3	4,321,963.3

Risk categories

The Superintendency of Finance prescribes the minimum risk classifications for loans and financial leases. Management assigns loans and financial leases to these classifications on the basis of models developed by management and reviewed by the Superintendency of Finance. These models incorporate both subjective and objective criteria. See note 2 to our audited annual consolidated financial statements.

Category A—"*Normal risk*": Loans and financial leases in this category are appropriately serviced. The debtor's financial statements or its projected cash flows, as well as all other credit information available to us, reflect adequate paying capacity.

Category B—"*Acceptable risk, above normal*": Loans and financial leases in this category are acceptably serviced and guaranty-protected, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's paying capacity or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts.

Category C—"*Appreciable risk*": Loans and financial leases in this category have debtors with insufficient paying capacity or relate to projects with insufficient cash flow, which may compromise the normal collection of the obligations.

Category D—"*Significant risk*": Loans and financial leases in this category have the same deficiencies as loans in category C, but to a larger extent; consequently, the probability of collection is highly doubtful.

Category E—"*Risk of non-recoverability*": Loans and financial leases in this category are deemed uncollectible.

The following table presents the breakdown of our loan portfolio by risk classification in effect at December 31 of each year.

	At December 31,					
	2009	%	2010	%	2011	%
	(in Ps millions, except percentages)					
"A" Normal risk	2,980,594.7	87.5%	3,444,865.7	95.8%	4,285,419.7	96.4%
"B" Acceptable risk, above normal	265,784.2	7.8%	29,525.8	0.8%	63,534.2	1.4%
"C" Appreciable risk	33,959.7	1.0%	38,869.0	1.1%	23,660.8	0.5%
"D" Significant risk	108,172.5	3.2%	68,802.3	1.9%	65,875.5	1.5%
"E" Risk of non-recoverability	19,108.7	0.6%	12,514.1	0.3%	6,880.7	0.2%
Total loan portfolio	**3,407,619.8**	**100.0%**	**3,594,576.9**	**100.0%**	**4,445,370.9**	**100.0%**
Loan portfolio classified as "C," "D" or "E" as a percentage of total loan portfolio	161,240.9	4.7%	120,185.4	3.3%	96,417.0	2.2%

The following table presents the breakdown of our loan portfolio by risk classification in effect at March 31 of each year.

	At March 31,			
	2011	%	2012	%
	(in Ps millions, except percentages)			
"A" Normal risk	3,566,754.1	96.2%	4,280,841.7	95.9%
"B" Acceptable risk, above normal	26,598.1	0.7%	79,634.2	1.8%
"C" Appreciable risk	37,174.6	1.0%	26,459.1	0.6%
"D" Significant risk	64,261.6	1.7%	63,790.2	1.4%
"E" Risk of non-recoverability	12,614.5	0.3%	11,471.0	0.3%
Total loan portfolio	**3,707,402.9**	**100.0%**	**4,462,196.2**	**100.0%**
Loan portfolio classified as "C," "D" or "E" as a percentage of total loan portfolio	114,050.6	3.1%	101,720.3	2.3%

Suspension of accruals

The Superintendency of Finance mandates that interest, UVRs, lease payments and other items of income cease to be accrued in the statement of income and begin to be recorded in memorandum accounts until any payment is collected, once a loan or financial lease is in arrears for more than 90 days for commercial loans or financial leases, 60 days for mortgage and consumer loans or financial leases, and 30 days for microcredit loans.

Interest paid on non-accrued loans is recorded as "interest on loans" on our statement of income.

The following table presents the breakdown of our past due loans by type of loan in accordance with the criteria of the Superintendency of Finance in effect at December 31 of each year.

	At December 31,					
	2009	%	2010	%	2011	%
	(in Ps millions, except percentages)					
Performing past due loans: (1)						
Commercial loans past due from 31 days to 90 days	3,501.5	32.1%	520.2	8.4%	751.4	10.3%
Consumer loans past due loans from 31 days to 60 days	7,419.8	67.9%	5,611.1	90.8%	6,452.9	88.7%
Microcredit loans past due up to 30 days	0.0	0.0%	0.0	0.0%	0.0	0.0%
Mortgage loans past due from 31 days to 60 days	0.0	0.0%	45.9	0.7%	70.6	0.8%
Financial leases past due from 31 days to 60/90 days	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total performing past due loan portfolio	**10,921.3**	**19.9%**	**6,177.2**	**10.1%**	**7,274.9**	**10.3%**
Non-performing past due loans:						
Commercial loans past due more than 90 days	11,658.2	26.5%	16,963.0	31.0%	14,585.1	23.1%
Consumer loans past due more than 60 days	32,190.6	73.2%	37,541.3	68.6%	48,248.2	76.5%
Microcredit loans past due more than 30 days	0.0	0.0%	0.0	0.0%	0.0	0.0%
Mortgage loans past due more than 60 days	109.5	0.2%	233.0	0.4%	202.4	0.3%
Financial leases past due more than 60/90 days	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total non-performing past due loan portfolio	**43,958.3**	**80.1%**	**54,737.3**	**89.9%**	**63,035.7**	**89.7%**
Total past due loan portfolio	**54,879.6**	**100.0%**	**60,914.5**	**100.0%**	**70,310.6**	**100.0%**
Total non-performing past due loan portfolio	43,958.3	76.3%	54,737.3	81.0%	63,035.7	84.7%
Foreclosed assets	12,438.9	21.6%	11,044.4	16.3%	9,095.0	12.2%
Other accounts receivable more than 180 days past due	1,195.3	2.1%	1,774.1	2.6%	2,283.9	3.1%
Total non-performing assets	**57,592.5**	**100.0%**	**67,555.8**	**100.0%**	**74,414.6**	**100.0%**
Allowance for loan and financial lease losses	167,057.2	90.9%	134,862.4	90.9%	135,997.6	91.6%
Allowance for estimated losses on foreclosed assets	11,061.7	6.0%	9,233.1	6.2%	8,384.5	5.6%
Allowance for accounts receivable and accrued interest losses	5,697.1	3.1%	4,319.0	2.9%	4,029.7	2.7%
Total allowances	**183,816.0**	**100.0%**	**148,414.5**	**100.0%**	**148,411.8**	**100.0%**
Loans at least 31 days past due as a percentage of total loans		1.6%		1.7%		1.6%
Allowance for loan losses as a percentage of loans at least 31 days past due		304.4%		221.4%		193.4%
Allowance for loan losses as a percentage of loans classified as “C,” “D” or “E”		103.6%		112.2%		141.1%
Percentage of performing loans to total loans		98.4%		98.3%		98.4%

(1) Performing past due loans are loans upon which interest has not been received for the periods indicated, however we continue to recognize income. Once interest is unpaid on accrual loans for greater than the amount of days specified in the respective line item above, the loan is classified as non-performing.

The following table presents the breakdown of our past due loans by type of loan in accordance with the criteria of the Superintendency of Finance in effect at March 31 of each year.

	At March 31,			
	2011	%	2012	%
	(in Ps millions, except percentages)			
Performing past due loans: (1)				
Commercial loans past due from 31 days to 90 days	1,270.3	13.7%	2,216.5	22.6%
Consumer loans past due from 31 days to 60 days	7,876.3	84.8%	7,490.7	76.5%
Mortgage loans past due from 31 days to 60 days	139.2	1.5%	80.2	0.9%
Total performing past due loan portfolio	**9,285.8**	**14.0%**	**9,787.4**	**13.8%**
Non-performing past due loans:				
Commercial loans past due more than 90 days	18,980.5	33.4%	8,716.0	14.2%
Consumer loans past due more than 60 days	37,608.6	66.2%	52,247.1	85.4%
Mortgage loans past due more than 60 days	231.8	0.4%	214.0	0.3%
Total non-performing past due loan portfolio	**56,820.9**	**86.0%**	**61,177.1**	**86.2%**
Total past due loan portfolio	**66,106.7**	**100.0%**	**70,964.5**	**100.0%**
Total non-performing past due loan portfolio	56,820.9	81.4%	61,177.1	84.5%
Foreclosed assets	11,006.0	15.8%	8,981.3	12.4%
Other accounts receivable more than 180 days past due	2,007.3	2.9%	2,256.2	3.1%
Total non-performing assets	**69,834.2**	**100.0%**	**72,414.6**	**100.0%**
Allowance for loan and financial lease losses	134,359.6	91.1%	140,232.9	91.8%
Allowance for estimated losses on foreclosed assets	9,317.1	6.3%	8,319.5	5.4%
Allowance for accounts receivable and accrued interest losses	3,889.2	2.6%	4,127.2	2.7%
Total allowances	**147,565.9**	**100.0%**	**152,679.6**	**100.0%**
Loans at least 31 days past due as a percentage of total loans		1.8%		1.6%
Allowance for loan losses as a percentage of loans at least 31 days past due		203.2%		197.6%
Allowance for loan losses as a percentage of loans classified as “C,” “D” or “E”		117.8%		137.9%
Percentage of performing loans to total loans		98.2%		98.4%

(1) Performing past due loans are loans upon which interest has not been received for the periods indicated, however we continue to recognize income. Once interest is unpaid on accrual loans for greater than the amount of days specified in the respective line item above, the loan is classified as non-performing.

The following table presents the breakdown of the non-performing past due loans by type of loan in accordance with the criteria of the Superintendency of Finance for loans at the periods indicated.

	At December 31,			At March 31,	
	2009	2010	2011	2011	2012
			(in Ps millions)		
Non-performing past due loans:					
Commercial loans past due more than 90 days	11,658.2	16,963.0	14,585.1	18,980.5	8,716.0
Consumer loans past due more than 60 days	32,190.6	37,541.3	48,248.2	37,608.6	52,247.1
Mortgage loans past due more than 60 days	109.5	233.0	202.4	231.8	214.0
Total non-performing past due loan portfolio	**43,958.3**	**54,737.3**	**63,035.7**	**56,820.9**	**61,177.1**

The following tables present our past-due loans by type of loan.

	At December 31,					
	2009	%	2010	%	2011	%
	(in Ps millions, except percentages)					
Commercial						
General purpose loans	3,674.6	31.5%	5,561.2	32.8%	3,919.2	26.9%
Loans funded by development banks	7,855.9	67.4%	11,279.4	66.5%	10,615.2	72.8%
Working capital loans	0.0	0.0%	0.0	0.0%	0.0	0.0%
Credit cards	83.7	0.7%	95.2	0.6%	48.7	0.3%
Overdrafts	44.0	0.4%	27.2	0.2%	2.0	0.0%
Total commercial	**11,658.2**	**26.5%**	**16,963.0**	**31.0%**	**14,585.1**	**23.1%**
Consumer						
Credit cards	1,453.9	4.5%	1,065.0	2.8%	1,435.3	3.0%
Personal loans	28,040.6	87.1%	34,792.9	92.7%	44,963.6	93.2%
Automobile and vehicle loans	843.0	2.6%	823.8	2.2%	823.4	1.7%
Overdrafts	26.2	0.1%	7.0	0.0%	9.6	0.0%
Loans funded by development banks	0.0	0.0%	0.0	0.0%	0.0	0.0%
General purpose loans	1,826.9	5.7%	852.6	2.3%	1,016.3	2.1%
Working capital loans	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total consumer	**32,190.6**	**73.2%**	**37,541.3**	**68.6%**	**48,248.2**	**76.5%**
Mortgages	109.5	0.2%	233.0	0.4%	202.4	0.3%
Total past due loan portfolio	**43,958.3**	**100.0%**	**54,737.3**	**100.0%**	**63,035.7**	**100.0%**

	At March 31,			
	2011	%	2012	%
	(in Ps millions, except percentages)			
Commercial				
General purpose loans	8,164.9	43.0%	4,307.1	49.4%
Loans funded by development banks	10,764.0	56.7%	4,394.1	50.4%
Working capital loans	0.0	0.0%	0.0	0.0%
Credit cards	24.0	0.1%	14.7	0.2%
Overdrafts	27.5	0.1%	0.1	0.0%
Total commercial	**18,980.5**	**33.4%**	**8,716.0**	**14.2%**
Consumer				
Credit cards	1,110.5	3.0%	607.7	1.2%
Personal loans	34,578,5	91.9%	50,358.5	96.4%
Automobile and vehicle loans	956,4	2.5%	509.8	1.0%
Overdrafts	6.4	0.0%	2.3	0.0%
Loans funded by development banks	0.0	0.0%	0.0	0.0%
General purpose loans	956.8	2.5%	768.8	1.5%
Working capital loans	0.0	0.0%	0.0	0.0%
Total consumer	**37,608.6**	**66.2%**	**52,247.1**	**85.4%**
Mortgages	231.8	0.4%	214.0	0.3%
Total past due loan portfolio	**56,820.9**	**100.0%**	**61,177.1**	**100.0%**

The following tables present information with respect to our loan portfolio at least 31 days past due based on the nature of the collateral for the loan.

	At December 31,					
	2009	%	2010	%	2011	%
	(in Ps millions, except percentages)					
Secured						
Past due 31 to 360 days						
Commercial	9,290.3	0.8%	8,147.6	0.8%	2,052.2	0.2%
Consumer	1,934.1	0.2%	1,200.4	0.1%	1,016.2	0.1%
Mortgages	109.5	0.0%	195.5	0.0%	133.4	0.0%
Total 31 to 360 days	**11,333.9**	**0.9%**	**9,543.5**	**0.9%**	**3,201.8**	**0.3%**
Total past due more than 360 days	1,382.4	0.1%	3,519.2	0.3%	11,690.7	1.0%
Total current	1,211,244.1	99.0%	1,009,541.1	98.7%	1,145,375.0	98.7%
Total secured loan portfolio	**1,223,960.4**	**35.9%**	**1,022,603.8**	**28.4%**	**1,160,267.5**	**26.1%**
Unsecured (1)						
Past due 31 to 360 days						
Commercial	5,253.6	0.2%	1,950.3	0.1%	1,800.2	0.1%
Consumer	35,618.7	1.6%	37,047.3	1.4%	41,285.6	1.3%
Mortgages	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total 31 to 360 days	**40,872.3**	**1.9%**	**38,997.6**	**1.5%**	**43,085.8**	**1.3%**
Total past due more than 360 days	1,291.1	0.1%	8,854.1	0.3%	12,332.3	0.4%
Total current	2,141,496.0	98.1%	2,524,121.4	98.1%	3,229,685.3	98.3%
Total unsecured loan portfolio	**2,183,659.4**	**64.1%**	**2,571,973.1**	**71.6%**	**3,285,103.4**	**73.9%**
Total loan portfolio, gross	**3,407,619.8**	**100.0%**	**3,594,576.9**	**100.0%**	**4,445,370.9**	**100.0%**
Allowances	167,057.2	4.9%	134,862.4	3.8%	135,997.6	3.1%
Total loan portfolio, net	**3,240,562.6**	**95.1%**	**3,459,714.5**	**96.2%**	**4,309,373.3**	**96.9%**

	At March 31,			
	2011	%	2012	%
	(in Ps millions, except percentages)			
Secured				
Past due 31 to 360 days				
Commercial	13,500.4	1.3%	2,589.7	0.2%
Consumer	1,385.6	0.1%	1,101.8	0.1%
Mortgages	288.6	0.0%	214.1	0.0%
Total 31 to 360 days	**15,174.6**	**1.5%**	**3,905.6**	**0.3%**
Total past due more than 360 days	3,841.3	0.4%	5,440.2	0.5%
Total current	1,012,494.5	98.2%	1,158,967.8	99.2%
Total secured loan portfolio	**1,031,510.4**	**27.8%**	**1,168,313.6**	**26.2%**
Unsecured (1)				
Past due 31 to 360 days				
Commercial	2,093.5	0.1%	2,839.8	0.1%
Consumer	38,139.3	1.4%	41,921.3	1.3%
Mortgages	0.0	0.0%	0.0	0.0%
Total 31 to 360 days	**40,232.8**	**1.5%**	**44,761.1**	**1.4%**
Total past due more than 360 days	6,857.9	0.3%	16,857.6	0.5%
Total current	2,628,801.8	98.2%	3,232,263.9	98.1%
Total unsecured loan portfolio	**2,675,892.5**	**72.2%**	**3,293,882.6**	**73.8%**
Total loan portfolio, gross	**3,707,402.9**	**100.0%**	**4,462,196.2**	**100.0%**
Allowances	134,359.6	3.6%	140,232.9	3.1%
Total loan portfolio, net	**3,573,043.3**	**96.4%**	**4,321,963.3**	**96.9%**

(1) Includes loans with personal guarantees.

Non-accrual, non-performing loans, performing loans, and performing troubled restructured loans

Non-accrual loans

The following table presents loans accounted for on a non-accrual basis, the gross interest income that would have been recorded in the relevant period if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, and the amount of interest income on those loans that was included in net income for that period. The policy for placing loans on non-accrual status is explained in "Suspension of accruals" above.

	At and for the year ended December 31, 2011			At and for the three-month period ended a March 31, 2012		
	Amount	Gross interest income	Interest income included in net income for the period	Amount	Gross interest income	Interest income included in net income for the period
	(in Ps millions)					
Loans	61,539.1	9,444.7	3,424.4	60,542.0	2,844.1	702.8

Non-performing troubled debt restructured loans

The following tables present our non-performing troubled debt restructured loans, the gross interest income that would have been recorded in the relevant period if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, and the amount of interest income on those loans that was included in net income for that period.

	At and for the year ended December 31, 2011			At and for the three-month period ended a March 31, 2012		
	Amount	**Gross interest income**	**Interest income included in net income for the period**	**Amount**	**Gross interest income**	**Interest income included in net income for the period**
			(in Ps millions)			
Loans	21,440.1	2,524.2	685.7	17,773.7	735.3	227.5

Performing troubled restructured loans

The following table presents our performing troubled debt restructured loan portfolio, the gross interest income that would have been recorded in the period that ended if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination and the amount of interest income on those loans that was included in net income for the period.

	At and for the year ended December 31, 2011			At and for the three-month period ended March 31, 2012		
	Amount	**Gross interest income**	**Interest income included in net income for the period**	**Amount**	**Gross interest income**	**Interest income included in net income for the period**
			(in Ps millions)			
Loans	117,776.2	8,620.7	8,715.3	128,057.8	3,383.8	2,816.1

The following table presents a summary of our troubled debt restructuring loan portfolio, accounted for on a performing basis in accordance with the criteria of the Superintendency of Finance in effect at the end of each period.

	At December 31,			At March 30,	
	2009	**2010**	**2011**	**2011**	**2012**
			(in Ps millions)		
Loans	110,727.2	115,483.9	139,216.3	114,608.3	145,831.5

Roll forward of allowances for loan losses

Allowance for loan losses

We record allowance for loan losses in accordance with regulations established by the Superintendency of Finance. For further information regarding the regulation and methodologies for the calculation of such allowances, see note 2 to our audited annual consolidated financial statements.

The following table presents the changes in the allowance for loan and financial lease losses during the periods indicated.

	Year ended December 31,					Three-month period ended March 31,	
	2007	2008	2009	2010	2011	2011	2012
	(in Ps millions)						
Balance at beginning of period	58,201.5	82,227.6	112,993.2	167,057.2	134,862.4	134,862.4	135,997.6
Provisions for loan losses	52,301.3	66,319.8	104,701.7	95,403.5	97,070.4	33,702.2	31,471.2
Charge-offs	(11,976.3)	(17,530.7)	(37,853.1)	(19,733.1)	(7,901.8)	0.0	(2,531.3)
Effect of difference in exchange rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reclassification securitization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reversals of provisions	(16,298.9)	(18,023.5)	(12,784.6)	(107,865.2)	(88,033.4)	(34,205.0)	(24,704.6)
Balance at end of year (1)	**82,227.6**	**112,993.2**	**167,057.2**	**134,862.4**	**135,997.6**	**134,359.6**	**140,232.9**

(1) The allowance balance for accrued interest receivable, which is not included in this item, amounted to Ps 3,712.7 million and Ps 3,915.1 million for the three-month periods ended March 31, 2011 and 2012, and Ps 2,585.6 million, Ps 4,272.7 million, Ps 5,298.4 million, Ps 4,147.6 million and Ps 3,778.0 million for the years ended December 31, 2007, 2008, 2009, 2010 and 2011, respectively.

Recoveries of charged-off loans are recorded on the statement of income under recovery of charged-off assets and are not included in allowances for loan losses.

The following tables present the allocation of our allowance for loan losses by category of loan and financial lease losses.

	At December 31,					
	2009	%	2010	%	2011	%
	(in Ps millions, except percentages)					
Commercial						
General purpose loans	65,295.1	65.4%	30,070.2	54.1%	32,588.2	69.1%
Loans funded by development banks	30,126.2	30.2%	24,119.7	43.4%	12,430.4	26.4%
Working capital loans	3,726.1	3.7%	897.8	1.6%	1,694.2	3.6%
Credit cards	289.1	0.3%	292.4	0.5%	252.6	0.5%
Overdrafts	351.0	0.4%	201.7	0.4%	164.5	0.3%
Total commercial	**99,787.5**	**59.7%**	**55,581.8**	**41.2%**	**47,129.9**	**34.7%**
Consumer						
Credit cards	1,697.0	2.5%	1,536.6	1.9%	2,015.9	2.3%
Personal loans	62,804.8	93.4%	76,034.2	96.0%	84,586.9	95.3%
Automobile and vehicle loans	756.0	1.1%	676.9	0.9%	649.3	0.7%
Overdrafts	56.3	0.1%	24.3	0.0%	29.7	0.0%
Loans funded by development banks	0.3	0.0%	0.6	0.0%	0.0	0.0%
General purpose loans	1,945.6	2.9%	909.6	1.1%	1,486.5	1.7%
Working capital loans	3.5	0.0%	2.0	0.0%	0.7	0.0%
Total consumer	**67,263.5**	**40.3%**	**79,184.2**	**58.7%**	**88,769.0**	**65.3%**
Mortgages	4.3	0.0%	72.3	0.1%	77.0	0.1%
General	1.9	0.0%	24.1	0.0%	21.7	0.0%
Total allowance for loan losses	**167,057.2**	**100.0%**	**134,862.4**	**100.0%**	**135,997.6**	**100.0%**

	At March 31,			
	2011	%	2012	%
	(in Ps millions, except percentages)			
Commercial				
General purpose loans	30,214.1	56.6%	32,792.0	71.9%
Loans funded by development banks	21,412.1	40.1%	12,017.6	26.4%
Working capital loans	1,210.9	2.3%	286.0	0.6%
Credit cards	260.1	0.5%	257.6	0.6%
Overdrafts	321.5	0.6%	240.4	0.5%
Total commercial	**53,418.7**	**39.8%**	**45,593.6**	**32.5%**
Consumer				
Credit cards	1,505.6	1.9%	1,178.0	1.2%
Personal loans	77,410.2	95.7%	91,972.8	97.3%
Automobile and vehicle loans	713.7	0.9%	346.8	0.4%
Overdrafts	29.1	0.0%	34.6	0.0%
Loans funded by development banks	0.5	0.0%	0.0	0.0%
General purpose loans	1,185.7	1.5%	1,032.0	1.1%
Working capital loans	1.6	0.0%	0.6	0.0%
Total consumer	**80,846.4**	**60.2%**	**94,564.8**	**67.4%**
Mortgages	70.9	0.1%	52.5	0.0%
General	23.6	0.0%	22.0	0.0%
Total allowance for loan losses	**134,359.6**	**100.0%**	**140,232.9**	**100.0%**

Charge-offs

The following table presents the allocation of our charge-offs by type of loan for the years ended December 31, 2009, 2010 and 2011 and for the three-month periods ended on March 31, 2011 and 2012.

	Year ended December 31,			Three-month period ended March 31,	
	2009	2010	2011	2011 (1)	2012
			(in Ps millions)		
Commercial	**8,702.2**	**3,839.2**	**995.7**	**0.0**	**256.0**
Consumer:					
Payroll loans (*libranzas*)	27,337.9	13,583.3	6,906.1	0.0	773.4
Credit cards	1,747.1	595.9	0.0	0.0	796.7
Automobile and vehicle loans	0.0	195.1	0.0	0.0	246.3
Overdrafts	0.0	0.0	0.0	0.0	0.0
Consumer loans	65.9	1,519.6	0.0	0.0	436.7
Total consumer	**29,150.9**	**15,893.9**	**6,906.1**	**0.0**	**2,253.1**
Total commercial and consumer	**37,853.1**	**19,733.1**	**7,901.8**	**0.0**	**2,509.1**
Mortgages and other	0.0	0.0	0.0	0.0	22.0
Total charge-offs	**37,853.1**	**19,733.1**	**7,901.8**	**0.0**	**2,531.1**

(1) There were no charge-offs during the first three months of 2011.

The ratio of charge-offs to average outstanding loans for the periods indicated was as follows.

	Year ended December 31,			Three-month period ended March 31,	
	2009	2010	2011	2011	2012
	(in percentages)				
Ratio of charge-offs to average outstanding loans	1.1%	0.5%	0.2%	0.0%	0.1%

Loans are subject to charge-offs when all possible collection mechanisms have been exhausted and when they are one hundred percent (100%) provisioned.

Charge-offs do not, however, eliminate our obligation to continue to engage in collection efforts to accomplish recovery. The recovery of charged-off loans is accounted for in our consolidated statements of income under non-operating income, net.

Our board of directors is the only administrative body with legal authority to approve charge-offs of transactions deemed uncollectable.

Potential problem loans

In order to carefully monitor the credit risk associated with clients, we have established a committee that meets monthly to identify potential problem loans, which are then included on a watch list. In general, these are loans issued to clients that could face difficulties in the future repayment of their obligations, but who have had a good payment record with us in the past. These potential difficulties could be related to factors such as a decline in economic activity, financial weakness or any other event that could affect the client’s business. We also monitor the credit risk associated with these clients.

Potential problem loans are primarily those classified as “B” under the Superintendency of Finance’s credit classification and provisioning guidelines. See “Risk management—Credit classification and provisioning.” At March 31, 2012, Ps 79,634 million, or 1.8%, of our loan portfolio was classified as potential problem loans under these guidelines.

Deposits

The principal components of our deposits are customer demand (checking and saving accounts) and term deposits. The following table presents the composition of our deposits for the periods indicated.

	At December 31,			At March 31,	
	2009	2010	2011	2011	2012
	(in Ps millions)				
Interest-bearing deposits:					
Current accounts	221,967.6	223,174.8	399,430.2	178,610.1	331,623.2
Term deposits	2,535,578.7	2,610,857.9	2,717,506.7	2,562,617.4	3,210,535.2
Savings deposits	997,960.4	1,783,970.8	2,573,016.0	1,996,724.7	2,834,275.6
Total	**3,755,506.7**	**4,618,003.5**	**5,689,952.9**	**4,737,952.2**	**6,376,434.0**
Non-interest-bearing deposits:					
Current accounts	276,588.2	239,838.8	304,019.6	315,330.4	241,338.6
Other deposits (1)	40,794.7	60,231.6	59,681.5	29,276.9	33,925.2
Total	**317,382.9**	**300,070.4**	**363,701.1**	**344,607.3**	**275,263.8**
Total deposits	**4,072,889.6**	**4,918,073.9**	**6,053,654.0**	**5,082,559.5**	**6,651,697.8**

(1) Consists of deposits from correspondent banks, cashier checks and collection services.

The following table presents term deposits, by amount and maturity, at December 31, 2011 and at March 31, 2012.

	(in Ps millions)
At December 31, 2011	
Up to 3 months	1,291,221.4
From 3 to 6 months	700,408.2
From 6 to 12 months	432,992.9
More than 12 months	292,884.3
Total	**2,717,506.7**
At March 31, 2012	
Up to 3 months	1,737,458.0
From 3 to 6 months	768,375.0
From 6 to 12 months	309,300.8
More than 12 months	395,401.5
Total	**3,210,535.2**

Return on equity and assets

The following table presents certain unconsolidated selected financial ratios for the periods indicated.

	At December 31,			At March 31,
	2009	2010	2011	2012
	(in percentages)			
ROAA: Return on average total assets (l)	1.3%	1.4%	1.1%	0.9%
ROAE: Return on average shareholders' equity (2)	19.1%	20.3%	16.2%	14.1%
Average shareholders' equity as a percentage of average total assets	6.8%	7.1%	6.8%	6.6%
Period-end shareholders' equity and non-controlling interest as a percentage of period-end total assets	7.1%	7.2%	6.4%	6.6%
Dividend payout ratio (3)	45.0%	55.7%	45.0%	—

(1) For the years ended December 31, "ROAA" is calculated as net income divided by average of total assets (the sum of total assets at December 31 of the fiscal year and total assets at December 31 of the previous fiscal year, divided by two). For the three-month period ended March 31, ROAA is calculated as net income for the three-month period multiplied by four, divided by average assets (the sum of total assets at the end of the three-month period and total assets at the end of the previous fiscal year, divided by two).

(2) For the years ended December 31, "ROAE" is calculated as net income divided by average shareholders' equity (the sum of shareholders' equity at the end of the fiscal period plus shareholders' equity at the end of the prior period, divided by two). For the three-month period ended March 31, ROAE is calculated as net income for the three-month period multiplied by four, divided by average shareholders' equity (the sum of shareholders' equity at the end of the three-month period and shareholders' equity at the end of the previous fiscal year, divided by two).

(3) Dividend payout ratio (dividends declared per share divided by net income per share).

Short-term borrowings

The following table presents our short-term borrowings, consisting liability positions in money market and similar operations, for the periods indicated.

	At December 31,						At March 31,			
	2009		2010		2011		2011		2012	
	Amount	Nominal rate	Amount	Nominal rate	Amount	Nominal rate	Amount	Nominal rate	Amount	Nominal rate
	(in Ps millions, except percentages)									
Short-term borrowings, Liability positions in money market and similar operations										
End of period	1,449,025.3	2.7%	1,706,163.2	2.9%	2,041,671.6	4.6%	1,839,642.4	3.3%	1,456,768.1	5.0%
Average during period	1,406,461.6	5.2%	1,287,440.6	3.0%	1,451,298.3	3.8%	1,444,948.4	3.0%	1,092,215.3	4.8%
Maximum amount of borrowing at any month-end	1,847,479.7	4.2%	2,014,686.1	2.9%	2,058,188.3	4.6%	1,861,633.6	3.3%	1,849,744.4	5.0%
Interest paid during the period	72,774.3	—	37,607.6	—	55,745.9	—	11,011.6	—	13,178.8	—

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

The following discussion of our financial condition and results of operations should be read in conjunction with our audited annual consolidated financial statements at December 31, 2010 and 2011 and for the years ended December 31, 2009, 2010 and 2011, and the related notes thereto, our unaudited consolidated financial statements at March 31, 2012 and for the three-month periods ended March 31, 2011 and 2012 and the related notes thereto, and with the other financial information included in this listing particulars as well as the information under "Presentation of Financial and Other Information" and "Selected Financial And Operating Data." The preparation of the financial statements required use of estimates that affect the amounts recorded as assets, liabilities, revenue and expenses in the years and periods addressed and are subject to certain risks and uncertainties. Our future results may vary substantially from those indicated because of various factors that affect our business, including, among others, those identified under "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors" and other factors discussed in this listing particulars. Our consolidated financial statements and the related notes thereto are included in this listing particulars and have been prepared in accordance with Colombian Banking GAAP.

Overview

Banco GNB Sudameris S.A. is a universal bank in Colombia with special focus on small and medium enterprises, or SMEs, mid-corporates and personal banking. The Bank was created in August 1920 as a Colombian corporation. In 1924, it became a branch of Banque Francaise et Italienne para l'Amerique du Sud. On December 22, 2003, Banque Sudameris, Banca Intesa and other shareholders sold their aggregate 94.6% ownership interest to Gilex Holding B.V., our current controlling shareholder, which in turn is controlled by the Gilinski family. The Gilinski family had been a controlling shareholder of Banco Andino and Banco de Colombia (now known as Bancolombia).

As part of our operating strategy, we maintain a strong capital and liquidity position. We have the lowest non-performing loan ratio, the highest coverage ratio, the third-highest liquidity ratio and the twelfth-highest solvency ratio in the Colombian banking system at March 31, 2012. Our network of ATMs and branches spread throughout each of Colombia's 32 departments in more than 483 cities and towns, with particular emphasis on the wealthiest and largest cities in Colombia (Bogotá, Medellín, Cali and Barranquilla) covering nearly 90% of Colombia's population. Banco GNB Sudameris is one of Colombia's most efficient banking platforms as a result of its continuous focus on innovation and the second-largest ATM network in Colombia.

We are one of Colombia's largest providers of credit through payroll loans (*libranzas*), with agreements with more than 600 employers; reaching approximately 201,690 clients throughout Colombia at March 31, 2012. At March 31, 2012, we had a market share of 11.4% of the Colombian payroll loan (*libranza*) market. Payroll loans (*libranzas*) accounted for 46% of our total loan portfolio at March 31, 2012.

Through our subsidiaries, we also provide asset, cash and portfolio management services as well as other fiduciary services, ATM services for a wide range of transactions and stock brokerage and other securities market services.

In May 2012, we entered into an agreement with HSBC Latin America Holdings (UK) Ltd and other HSBC affiliates to acquire HSBC's banking operations in Colombia, Paraguay, Peru and Uruguay. These acquisitions, which are anticipated to occur over the next five to twelve months, will give us a footprint in the South American region. As a result of these acquisitions, we anticipate that our total assets will grow, on a pro forma basis, to Ps 18,179,930.4 million. See "Unaudited Pro Forma Condensed Consolidated Financial Information."

Principal factors affecting our financial condition and results of operations

Colombian economic conditions

The Colombian economy has expanded in recent years, driven by strong growth in fundamental areas including capital investment, domestic consumption and exports. Colombian GDP grew at a compound annual growth rate of 4.4% in the five-year period from 2007 to 2011.

Our operations are currently concentrated in Colombia, such that our results are linked to the country's economic performance. After peaking at 6.9% in 2007, the pace of economic growth declined in 2008 and 2009, in large part due to the effects of the global economic and financial crisis. Annual GDP grew by 3.5% in 2008 and 1.7% in 2009, while the level of gross capital formation reached a peak of 24.7% of GDP in 2008 and dropped slightly to 24.2% of GDP in 2009. In response to the global economic environment and in order to stimulate growth in Colombia, the Colombian Central Bank loosened its monetary policy by cutting interest rates by 700 basis points between December 2008 and April 2010.

The increase in the price of commodities, GDP (from 1.7% in 2009 to 4.0% in 2010), and inflation (from 2.0% in 2009 to 3.2% in 2010), resulted in the continuous adjustment of interest rates by the Colombian Central Bank, with certain pauses due to uncertainty about the global recovery. Interest rates increased 125 basis points between February 2010 and December 2011. Economic growth appears to have reignited in the third quarter of 2011, reaching an annual rate of 5.9% by the end of the year. The economic indicators currently published by DANE suggest moderate growth during the first quarter of 2012. As a result of the more moderate pace of economic growth, as well as the deterioration of the economic situation in Europe, the Colombian Central Bank has moved more slowly in making adjustment to interest rates during 2012.

Labor markets

The Colombian unemployment rate was 10.4% at March 31, 2012 as compared to 10.9% at March 31, 2011, according to DANE. The participation rate (i.e., economically active population divided by working age population) grew to 64.2% at March 31, 2012 from 62.6% at March 31, 2011, and the employment rate (i.e., employed population divided by working age population) increased to 55.8% at March 31, 2012 as compared to 57.5% at March 31, 2011. The increase in the employment rate derived primarily from increased employment in the trade, services and manufacturing economic sectors.

Interest rates

Since the implementation of an inflation-targeting regime in 1999, the Colombian Central Bank's overnight lending rate has been reduced from 26.0% in 1999 to 6.0% at the end of 2005, to 4.75% at the end of 2011, and increased to 5.25% at March 31, 2012.

Between 2006 and the summer of 2008, the Colombian Central Bank increased the overnight lending rate by 400 basis points to 10% in the face of accelerated growth and a series of perceived supply shortages. The conservative monetary policy of the Colombian Central Bank during this period, which included increases in reserve requirements, contributed to an increase in the fixed-term deposit rate (*Depositos a Término Fijo*), or "DTF," which reached a high of 10.33% in 2008, the first double-digit DTF rate in six years. The DTF is a benchmark interest rate that represents the financial system's average rate for 90-day term deposits.

A significant portion of our assets are linked to the DTF; accordingly, changes in the DTF affect our direct operating result. The average DTF was 7.96% during 2007, and 9.69% during 2008. With the loosening of monetary policy that began in late 2008, the DTF fell throughout 2009, reaching a low of 4.11% and an average of 6.22% during 2009, and a low of 3.39% and an average of 3.67% during 2010. As the economy recovered and the output gap began to close, the Colombian Central Bank increased its interest rate in the beginning of 2011. The average DTF was 4.2% during 2011 and 5.2% during the three-month period ended March 31, 2012.

Foreign exchange rates

In 2008 and early 2009, the peso depreciated against the dollar due to the global financial crisis. In February 2009, the exchange rate against the dollar peaked at Ps 2,596.37 per dollar. During the remainder of 2009, however, as the Colombian economy began to contract, foreign in-flows of currency caused the peso to appreciate against the dollar. The average exchange rate in 2009 was Ps 2,156.29 per dollar, higher than the 2008 average of Ps 1,966.26 per dollar.

In 2010 and 2011, there was an economic recovery due to rising commodity prices and the growth of the oil sector. As a result, the peso showed significant appreciation against the dollar. In 2010 and 2011, the average exchange rate was Ps 1,897.89 per dollar, and Ps 1,848.17 per dollar, respectively. During these two years, financial in-flows recovered substantially, especially in 2011, when foreign direct investment reached U.S. $13,297 million in Colombia, a figure that was 97% higher than in 2010, after Colombia was given an investment grade rating by the three principal international rating agencies. While during the first quarter of 2012, the peso continued to appreciate against the dollar, in May 2012, the peso depreciated against the dollar because of uncertainty in Europe and its effects on the global economy.

While we conduct the majority of our business in pesos, we occasionally make loans in foreign currencies. Additionally, we hold some cash and accounts receivables in foreign currency. Upon consummation of the HSBC acquisition, we will be exposed to additional exchange rates as we begin to conduct business in Paraguay, Peru and Uruguay. However, we intend to continue our hedging policies. See "Selected Statistical Data—Distribution of assets, liabilities, and shareholders' equity, interest rates and interest differential" for information on our foreign currency assets and liabilities. See also "Risk Management—Market risk—Tools for measuring and managing market risk—Trading instruments—Foreign exchange risk."

Inflation

Lower interest rates and stability in terms of inflation generally lead to increased consumer confidence and increased consumer demand for credit. Colombian Central Bank independence, and the adoption of an inflation-targeting regime and a free-floating currency in 1999, have contributed to declining inflation rates and increased price stability in Colombia. However, an increase in levels of economic activity in Colombia, combined with typical inflationary pressures in an expanding economic cycle, which inflated the price of basic food items, caused inflation to rise in 2007 and 2008, notwithstanding significant efforts by the Colombian Central Bank to control inflation. These efforts included increasing the intervention rate while maintaining reserve requirements, restrictions on foreign indebtedness and, as described above, increases in the overnight lending rate. Inflation rates reached 5.7% in 2007 and 7.7% in 2008, in excess of the Colombian Central Bank's target rate.

In 2009, declines in commodity prices as a result of the global economic downturn and the slowdown in aggregate demand led to a significant downward adjustment in the inflation rate to 2.0%, the lowest rate in 50 years and well below the Colombian Central Bank's target band of 4.5%-5.5%. Despite the economic recovery, the inflation rate increased only slightly to 3.2% in 2010. The inflation rate was 3.7% in 2011 and 1.5% in the three-month period ended March 31, 2012. The Colombian Central Bank's preemptive approach with respect to monetary policy has resulted in a decrease in inflation expectations.

Credit volumes

Credit volumes in Colombia have grown since 2005, mainly driven by the above-mentioned factors, including lower inflation rates, decreasing interest rates and consistent economic growth. According to the Superintendency of Finance, year-over-year bank credit volume growth, based on gross loans reported by all credit institutions to the Superintendency of Finance, was 24.1% in 2007 and 18.6% in 2008. However, the sharp slowdown in economic activity due to the global economic and financial crisis resulted in a significant decrease of bank credit volume growth in 2009 to 2.5%. In 2010, the pace of bank credit volume growth picked up gradually, along with a moderate recovery of economic activity and fueled by historic low interest rates. At December 31, 2010, year-over-year bank credit volume growth was 14.6% (includes credit volume growth of five financing companies that merged with commercial banks during the previous 12 months as reported by the Superintendency of Finance) and 15.9% when adjusted for securitized mortgage loans data, as reported by Titularizadora Colombiana. Year-over-year bank credit volume growth was 23.7% in 2011. We believe that Colombia offers significant opportunities to expand our business due to the country's strong economic fundamentals and low penetration rates of domestic credit to the private sector as a percentage of GDP for banking and other financial services and products of 43.4% as compared to 56.6% for Brazil and 86.3% for Chile in 2010 as reported in the 2012 World Bank Development Indicators.

In 2011, Colombia's bank loans-to-GDP ratio was 35%. See "Industry— Banking system during recent global economic and financial crisis—Credit volumes."

Reserve requirements

The Colombian Central Bank's reserve requirements significantly affect our results of operations. The raising or lowering of these requirements directly affects our results by increasing or decreasing the funds available for lending.

Colombian banks are required to maintain a determined level of reserves depending on the volume and mix of their deposits. These are reflected in the line item "cash and due from banks" on our balance sheet. During 2008, this level of cash reserves, referred to as the general minimum deposit requirement, was first increased by the Colombian Central Bank from 8.3% to 11.5% for checking and saving accounts and from 2.5% to 6.0% for term deposits. Near the end of 2008, the levels of cash reserves were decreased to their current requirements, 11.0% for checking and saving accounts and 4.5% for term deposits.

In May 2007, as a cautionary measure, the Colombian Central Bank forced banks to maintain, in addition to the general minimum deposit requirement, a marginal minimum deposit requirement of approximately 13% of total deposits that exceeded the level that each bank had at May 7, 2007. This marginal minimum deposit requirement (27% for current accounts, 12.5% for saving accounts and 5% for term deposits) was a temporary measure aimed at decreasing the level of liquidity in the market and was eliminated by the Colombian Central Bank in mid-2008. Reserve requirements have remained stable since late 2008, the Colombian Central Bank, however, has the power to modify these requirements.

Tax policies

Changes in Colombian tax policies can significantly affect our results of operations. According to the Ministry of Finance, the fiscal balance of the consolidated public sector improved from a deficit of 2.7% of GDP in 2001 to a deficit of 0.1% of GDP in 2008. At the Colombian central government level, the deficit fell from 4.8% in 2001 to 2.3% of GDP in 2008. As a result, net debt at the non-financial public sector decreased from 40.5% of GDP at December 31, 2001 to 31.7% of GDP at December 31, 2008. During the same period Colombian central government debt decreased from 40.4% to 36.2% of GDP. However, given the moderate scope for countercyclical fiscal policy during the downturn of 2009, the deficit of the consolidated public sector expanded to 2.7% of GDP in 2009 and 3.3% of GDP in 2010, and the deficit of the Colombian central government expanded to 4.1% of GDP in 2009 and 3.9% of GDP in 2010. In 2011, the deficits of the consolidated public sector and of the Colombian central government decreased to 2.0% and 2.8% of the GDP, respectively, mainly because of the growth of the economy, a substantial increase in tax collection and very favorable operating results of Ecopetrol.

In order to address weaknesses in fiscal accounts, the government enacted several laws to strengthen the fiscal regulatory regime, along with reforms on taxes and oil and mining royalties. The improvement in the fiscal regulatory regime requires expenses to grow in line with revenues and savings from excess oil revenues, with the goal of reducing Colombian central government public debt to below 30% of GDP by 2020.

In December 2009, the Colombian Government enacted Law 1370, creating a tax on equity (*Impuesto al Patrimonio*), or the "Equity Tax." The Equity Tax is levied based on net worth at January 1, 2011, subject to certain adjustments. The tax rate applicable to us and our subsidiaries is 4.8% of our net worth. In addition, in December 2010 the government enacted Decree 4825, creating a surcharge to the Equity Tax to fund certain costs associated with the natural disasters derived from rain. The surcharge rate applicable to us and our subsidiaries is 1.2%. This tax and the surcharge are payable in eight separate installments through 2014, resulting in an annual average rate of 1.5%. We accrued a consolidated liability of Ps 36,080.1 million at January 1, 2011, due to the application of this tax regulation.

In 2011, the Colombian Congress enacted the Fiscal Rules, the Royalty Law and the Fiscal Sustainability Law (*Regla Fiscal, Ley de Regalías y Ley de Sostenibilidad Fiscal*). These laws and regulations promote a countercyclical fiscal policy, greater fiscal discipline and sounder governmental finances in the medium and long term. In part due to the adoption of these laws and regulations, the three principal rating agencies gave Colombia an investment grade rating, after twelve years of non-investment grade rating.

In the future, declines in tax revenues and increasing public debt and administrative expenses may make it difficult for the Colombian central government to balance the budget and may result in higher levels of taxation, which can significantly affect our results of operations or financial condition.

Critical accounting policies under Colombian Banking GAAP

Our principal accounting policies are described in note 2 to our audited annual consolidated financial statements and note 2 to our unaudited three-month consolidated financial statements included in this listing particulars. The following discussion describes those policies, under Colombian Banking GAAP, that require the most significant management judgments and estimates. These accounting estimates require management to make assumptions about matters that are highly uncertain and affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In each case, if management had made other estimates, or if changes in these estimates occur from period to period, our results of operations and financial condition could be materially affected.

Management bases its estimates and judgments on historical experience, the regulations of the Superintendency of Finance and on other factors. Actual results may differ from these estimates if actual experience differs from our assumptions or our assumptions change. Judgments or changes in assumptions are submitted to the audit committee of the board of directors and/or to our regulatory authorities and are disclosed in the notes to our consolidated financial statements.

Allowance for loan losses and provisions

We perform qualitative and quantitative analysis to assign a risk category to individual assets, under the rules issued by the Superintendency of Finance. The qualitative loan analysis involves an evaluation of specific factors to determine potential deficiencies that may affect the borrower's payment capacity. For the quantitative evaluation, we first determine whether the loan has become due and then classify the loan according to the number of days past due. The Superintendency of Finance requires banks to maintain minimum allowance levels for each category of credit risk and each type of loan.

Commercial and consumer loans are provisioned according to models developed by the Superintendency of Finance, which take into consideration the number of days the credits are past due. The allowance for these loans calculated in these models is determined by considering the "expected loss." The expected loss for these loans is determined by multiplying the exposure to default of the credit by its "probability of default" (likelihood of a borrower defaulting on an obligation within the next 12 months) and its "loss given default" (an estimate of the amount the bank would expect to lose in the event a borrower defaults). For purposes of calculating "loss given default," loans collateralized are appraised by independent third parties. These appraisals may differ from the appraisals that would be calculated when the collateral finally would be recorded. Both the probability of default and the loss given default values are provided by the Superintendency of Finance depending on each category of credit risk and each type of loan. Furthermore, portfolios for which the Superintendency of Finance does not provide a standard model, specifically mortgage and microcredit loans, have a general allowance equal to 1.0% of the gross portfolio value in addition to specific provisions mandated according to the individual loans' risk category.

We consider the accounting estimates used in this evaluation to be part of our critical accounting policies because of the following factors: (1) we make qualitative judgments and assumptions regarding the quality of our loan portfolio to determine allowances and provisions; (2) our methods are dependent on the existence and magnitude of certain factors, which do not necessarily indicate future losses; and (3) we apply a discount percentage to each loan (based on its assigned risk category) that may not accurately reflect the future probability of loss.

Contingent liabilities

Contingent liabilities arise from the normal conduct of our business activities and include liabilities for judicial, regulatory and arbitration proceedings, and tax and other claims. We record contingent liabilities, pursuant to Article 52 of Decree 2649 of 1993, to cover certain of our liabilities including those pertaining to damage claims from third parties based on professional responsibility, torts, labor law, breach of contract and others for which the contingency for loss is probable and its value can be reasonably quantified.

Article 52 of Decree 2649 of 1993 establishes that provisions should be recorded to cover estimated liabilities and contingencies of probable losses and to decrease the restated value of assets when necessary, as required in accordance with accounting standards. The provisions must be justifiable, quantifiable and reliable. A contingency is a condition, situation or set of circumstances that exist, which involve questions regarding a potential gain or loss by an economic entity, and which will be resolved when one or more future events occur or fail to occur.

Lawyers and actuaries assist us in evaluating probabilities and estimating amounts which are recorded and updated at the end of each period.

We consider the estimates used in assessing contingent liabilities to be part of our critical accounting policies because of the high level of judgment that is necessary to assess the probability of their occurrence. Our judgment may not necessarily coincide with the outcome of the proceedings.

Pension plans

Our pension plans date from the time when there was no governmental system of social security and pensions. As a result, employees received instead lifetime pensions.

Relevant laws provided that pension obligations had to be fully funded by 2010. However, through Resolution 1555 of July 30, 2010, the Superintendency of Finance replaced the mortality tables used to make actuarial calculations and determined, pursuant to Decree 4565 of December 2010, that the effect of this change could be amortized gradually through 2029.

The Bank is obligated to include in its books the actuarial calculation of pensions such that the pension obligations would be fully funded by 2029. At December 31, 2011, the Bank had amortized 85.74% of its pension obligations (Ps 15,937.6 million of a total obligation of Ps 18,588.3 million).

The estimations made in relation to the actuarial calculation of pensions and the amounts amortized are based on determinations made by recognized experts considering, among other things, increases in pensions, variations in the base of eligible persons and their beneficiaries and the discount rates for adjustments of pensions (which consider weighted averages of past inflation rates, mortality rates and the average interest rates of certificates of deposit). These parameters are largely established by Colombian regulation and governmental authorities.

Recognition and measurement of financial instruments at fair value

Under Colombian Banking GAAP, the fair value of a financial instrument is defined as the estimated amount at which the instrument could be exchanged in a current transaction between willing and independent parties.

Some of our assets are carried at fair value for Colombian Banking GAAP purposes, including equity and debt securities with quotations available or quoted prices for similar assets. The majority of our assets reported at fair value are based on quoted market prices, which provide the best indication of fair value, or quoted market prices for similar assets.

For our remaining assets, if quoted market prices or quoted market prices for similar assets are not available, we calculate their fair value by discounting the expected cash flows using market interest rates which take into account the credit quality and duration of the investment or by utilizing internally developed valuation techniques. In particular, management is involved in estimating future cash flows, based on variable terms of the instruments and the inherent credit risk, and in defining the applicable interest rate to discount those cash flows.

We consider the determination of fair value for such assets to be part of our critical accounting policies because of the high degree of judgment and assumptions involved in developing and applying valuation methodologies.

Impairment evaluation of investment securities

Securities are classified according to a methodology defined by us and approved by the Superintendency of Finance. The securities are categorized as “A” except for when there is a risk associated with them, in which case they are rated from “B” to “E.” For securities rated from “B” to “E,” the Superintendency of Finance has established a specified level of provision for each category. Additionally, the Superintendency of Finance allows financial institutions to recognize, on a case by case basis and after receiving the appropriate approval by the regulator, cautionary provisions for equity securities on the basis of management expectations on future decreases in fair value. Information used by our management for the assessment consists of possible economic scenarios and expectations.

We consider the determination of the impairment of investments to be part of our critical accounting policies because of the high degree of judgment and assumptions involved in developing and applying valuation methodologies.

Equity tax

We are subject to an equity tax (*impuesto al patrimonio*) enacted in December of 2009 by Law 1370. This tax is imposed on liquid assets and is calculated based on our taxable net worth as defined by law at January 1, 2011. Given that our taxable net worth exceeded COP 5,000 million, the rate applicable to us was 4.8% of our taxable net worth. The accrued tax is to be paid in eight equal semiannual installments during years 2011 through 2014. Additionally, the Colombian government created, through Decree 4825 of 2010, a surcharge to the equity tax equivalent to 25% of the applicable equity tax rate, meaning that the effective equity tax rate applicable to us was 6%. We accrued the tax in compliance with the law, and timely paid our first installment in May 2011.

In January 2010, the Colombian government issued Decree 514, which stated that the equity tax can be amortized against the equity revaluation account (*cuenta de revalorización del patrimonio*) from 2011 through 2014, or if such account is insufficient, the corresponding installments could be annually accrued in our results, as they become due. Based on the relevant regulations, the accrued equity tax is accounted for as a deferred asset to be amortized in 48 months, starting on January 1, 2011.

Recent Colombian Banking GAAP pronouncements

In 2009, the Colombian Superintendency of Finance published External Circular No. 035, titled "Individual allowances for loans losses," effective April 1, 2010, for the purpose of enhancing risk management. According to the allowance methodology of External Circular No. 035, individual allowances are the sum of two components: counter-cyclical individual allowances (which reflect the possible changes in credit risk of debtors during a period of deteriorating loan quality) and procyclical individual allowances (which reflect the actual credit risk of the debtor).

Since July 15, 2009, and pursuant to Law 1328 of 2009, known as the "Financial Reform Law," banking institutions were authorized to perform leasing transactions. Consequently, the Bank adopted the specific accounting regulations established by the Superintendency of Finance for this type of operation, which up until then only related to commercial finance companies. Prior to the implementation of the Financial Reform Law, leasing operations were required to be conducted through subsidiaries.

On July 13, 2009, Law 1314 was signed by the President of Colombia. This law regulates the accounting, reporting and information assurance principles and standards that are generally accepted in Colombia and describes the procedure by which said principles and standards are to be issued by the oversight authorities. This law is generally expected to bring the current generally accepted accounting principles in Colombia in line with International Financial Reporting Standards; however, changes to current regulations will only become effective, at the earliest, in 2012.

Accounting for derivatives is regulated by External Circular 25 of 2008, Resolution 1420 of 2008 and Circular 66 of 2009 issued by the Superintendency of Finance. Before January 1, 2010, derivatives were recorded as a net asset at fair value, for both, positive or negative values. From January 1, 2010, derivatives with a positive fair value are recorded as an asset, while derivatives with a negative fair value are recorded as a liability.

Results of operations

Sources of income

We generate revenue through several sources. Our main source of income is the direct operating result that we earn by borrowing funds from customers at certain rates and lending them to customers at higher rates.

We also derive income from the different banking and financial services our subsidiaries provide, including fiduciary activities (such as asset management, asset administration, cash management and portfolio management), payment and collection services, stock brokerage and exchange services.

Results of operations for the year ended December 31, 2009 compared to the year ended December 31, 2010

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

	Year ended December 31,		Change	
	2009	2010		
	(in Ps millions, except percentages)			
Direct operating income	863,212.7	698,359.7	(164,853.0)	(19.0)%
Direct operating expenses	481,628.9	364,231.8	(117,397.1)	(24.4)%
Direct operating result	**381,583.8**	**334,127.9**	**(47,455.9)**	**(12.4)%**
Other operating income and expenses—net	(133,433.8)	(60,299.0)	73,134.8	54.8%
Operating income before provisions and depreciation and amortization	**248,150.0**	**273,828.9**	**25,678.9**	**10.3%**
Allowances	115,089.1	99,687.2	(15,401.9)	(13.4)%
Depreciation and amortization	16,727.6	19,623.6	2,896.0	17.3%
Net operating income	**116,333.3**	**154,518.1**	**38,184.8**	**32.8%**
Net non-operating income	8,191.0	17,413.4	9,222.4	112.5 %
Profit before income tax	**124,524.3**	**171,931.5**	**47,407.2**	**38.1%**
Income tax expense	37,496.0	58,730.5	21,234.5	56.6%
Net income	**87,028.3**	**113,201.0**	**26,172.7**	**30.1%**

Our consolidated net income increased by 30.1% or Ps 26,172.7 million from 2009 to 2010. The increase in net income in 2010 was due mainly to a Ps 117,397.1 million decrease in direct operating expenses and, to a lesser extent, a Ps 73,134.8 million decrease in other operating expense, net, offset in part by a Ps 164,853.0 million decrease in direct operating income.

Direct operating income

Our direct operating income decreased by 19.1%, from Ps 863,212.7 million in 2009 to Ps 698,359.7 million in 2010. The following table sets forth the variations in the principal items that constitute direct operating income.

	Year ended December 31,		Change	
	2009	2010		
	(in Ps millions, except percentages)			
Interest and amortization of discounts	496,728.6	432,416.8	(64,311.8)	(12.9)%
Gain on valuation and sale of investments	240,958.0	147,336.9	(93,621.1)	(38.9)%
Gains on valuation of money market positions	3,620.2	3,914.2	294.0	8.1%
Gain on valuation of derivatives	24,205.1	18,175.3	(6,029.8)	(24.9)%
Commissions and other fees	69,539.7	75,671.6	6,131.9	8.8%
Exchange	28,161.1	20,844.9	(7,316.2)	(26.0)%
Total direct operating income	**863,212.7**	**698,359.7**	**(164,853.0)**	**(19.1)%**

The decrease in our direct operating income is primarily due to:

- a 38.9%, or Ps 93,621.1 million, decrease in gain on valuation and sale of investments (which includes marked-to-market gains and losses) due to a Ps 142,457.0 million decrease in income from investments in debt securities resulting from the reduction in market interest rates from 9.5% in January 2009 to 3.0% in December 2010 due to the expansionist monetary policy adopted by the Colombian Central Bank. This decrease was offset in part by a Ps 39,487.7 million increase in income from investments and increases of Ps 8,739.7 million and Ps 5,289.5 million in income from investments in equity securities and held-to-maturity securities, respectively. These increases resulted from a shift in our investment portfolio towards these assets, reflecting our strategy of maintaining a highly liquid portfolio of investments to allow us to react quickly to interest rate volatility.

- a 12.9%, or Ps 64,311.8 million, decrease in interest and amortization of discounts, mainly resulting from the general decrease in interest rates in the Colombian market, including DTFs, notwithstanding a Ps 241,890.3 million increase in our average loan portfolio from Ps 3,213,449.5 million in 2009 to Ps 3,455,339.8 million in 2010. The increase in our average loan portfolio was primarily due to the continued increase in economic activity in Colombia, as well as the decrease in interest rates described above. The average interest rate on our loan portfolio for 2009 and 2010 was 15.3% and, 12.5%, respectively.

- a 24.9%, or Ps 6,029.8 million, decrease in gains on valuation of derivatives primarily due to a Ps 8,200.6 million decrease in revenues from our sale of currency forwards, partially offset by a Ps 3,994.2 million increase in revenues from our purchase of foreign currency forwards.

- a 26.0%, or Ps 7,316.2 million, decrease in gains on currency exchange primarily due to the effect of the appreciation of the peso relative to the U.S. dollar on the peso value of our foreign currency-denominated assets.

These decreases were offset in part by a Ps 6,131.9 million increase in commissions and other fees, mainly due to an increase in commissions from the use of ATM services.

Direct operating expense

Direct operating expenses decreased by 24.4%, from Ps 481,628.9 million in 2009 to Ps 364,231.8 million in 2010. The following table sets forth the variations in the principal items that constitute direct operating expense.

	Year ended December 31,		Change	
	2009	2010		
	(in Ps millions, except percentages)			
Interest on deposits	249,287.1	195,330.1	(53,957.0)	(21.6)%
Interest on bank borrowings and other financial obligations	151,544.7	100,849.8	(50,694.9)	(33.5)%
Loss on valuation of money market positions	2,844.8	509.3	(2,335.5)	(82.1)%
Loss on sale of investments	8,923.9	6,845.8	(2,078.1)	(23.3)%
Loss on valuation of derivatives	14,096.3	14,820.9	724.6	5.1%
Commissions and fees	23,589.9	24,948.0	1,358.1	5.8%
Exchange	31,342.2	20,927.9	(10,414.3)	(33.2)%
Total direct operating expense	**481,628.9**	**364,231.8**	**(117,397.1)**	**(24.4)%**

The decrease in our direct operating expense is primarily due to:

- a 21.6%, or Ps 53,957.0 million, decrease in interest on deposits, mainly due to a significant reduction in the cost of deposits because of the Colombian Central Bank’s expansionist monetary policy since mid-2009, which resulted in lower interest rates for the Colombian market.

The average interest rate we paid in 2009 was 7.0% as compared to 4.2% in 2010. This decrease in the cost of deposits more than offset a significant increase in the volume of deposits. Deposits increased by Ps 845,184.3 million, from Ps 4,072,889.6 million at December 31, 2009 to Ps 4,918,073.9 million at December 31, 2010;

- a 33.5%, or Ps 50,694.9 million, decrease in interest on bank borrowings and other financial obligations, primarily due to a reduction in the cost of financing from the Colombian Central Bank and other banks because of lower interest rates in the Colombian market generally as a result of the expansionist monetary policy of the Colombian Central Bank beginning in mid-2009; and

- a 33.2%, Ps 10,414.3 million, decrease in losses on currency exchange, mainly resulting from a decrease in our foreign currency liabilities due to the appreciation of the peso relative to the U.S. dollar and our hedging policy.

Other operating expenses, net

Other operating expenses, net decreased by 54.8%, from Ps 133,433.8 million in 2009 to Ps 60,299.0 million in 2010. The following table sets forth the variations in the principal items that constitute other operating expenses, net.

	Year ended December 31,			
	2009	**2010**	**Change**	
		(in Ps millions, except percentages)		
Other operating income:				
Dividends and other capital yields	197.5	287.1	89.6	45.4%
Recoveries of loans and accounts receivables	241.5	89,002.7	88,761.2	36,754.1%
Other	19,708.7	22,331.5	2,622.8	13.3%
Total other operating income	**20,147.7**	**111,621.3**	**91,473.6**	**454.0%**
Other operating expense:				
Payroll	60,596.5	65,624.6	5,028.1	8.3%
Other	92,985.0	106,295.7	13,310.7	14.3%
Total other operating expense	**153,581.5**	**171,920.3**	**18,338.8**	**11.9%**
Total other operating expense, net	**133,433.8**	**60,299.0**	**(73,134.8)**	**(54.8)%**

The decrease in other operating expense, net is mainly the result of a Ps 88,761.2 million increase in recoveries in excess of provisions in 2010 as compared to 2009 due to a change in the accounting of recoveries of loans and accounts receivables, as well as the reversion of provisions resulting from the effect of the prepayment of certain Panamanian credits, after they were given a higher than expected risk classification by the Superintendency of Finance. Through 2009, we netted recoveries against allowances and reported the net amount under “allowances.” Beginning in 2010, we started reflecting gross recoveries under “other operating income” and new allowances under “allowances.”

Allowances

Allowances include provisions made at the time of lending based on guidelines established by the Superintendency of Finance, or upon reclassification of an existing loan.

Allowances decreased on a net basis from Ps 115,089.1 million in 2009 to Ps 99,687.2 million in 2010. This decrease is due to an improvement of the risk profile of our loan portfolio, mainly because of the prepayment of certain Panamanian credits that had a relatively higher risk classification, and to a reduction in our coverage ratio. Our loan portfolio coverage ratio for December 2010 was 221.4% compared to 151.8% for the Colombian banking system. For December 2009, our coverage ratio was 304.4% as compared to 123.4% for the Colombian banking system.

The effect of the improvement of the risk profile of our loan portfolio and the reduction in our coverage ratio was offset in part by an increase in allowances resulting from (i) the effect of a change in the accounting of recoveries where, through 2009, recoveries were netted against allowances but, beginning in 2010, recoveries are recorded under "other operating income" and (ii) a Ps 209,452.3 million increase in our loan portfolio, from Ps 3,240,562.6 million at December 31, 2009 to Ps 3,459,714.5 million at December 31, 2010.

Depreciation and amortization

Depreciation and amortization increased by 17.3%, or Ps 2,896.0 million, from Ps 16,727.6 million in 2009 to Ps 19,623.6 million in 2010. This increase was largely due to a larger depreciable asset base due to the acquisition of real estate and the increase in amortization due to the renovation of offices.

Non-operating income, net

Non-operating income, net includes primarily recoveries of charged-off loans, gains on the sale of assets received in lieu of payment and casualty losses. Non-operating income, net increased by 112.6%, or Ps 9,222.4 million, from Ps 8,191.0 million in 2009 to Ps 17,413.4 million in 2010 largely due to an increase in recoveries of charged-off loans, from Ps 10,256.0 million in 2009 to Ps 18,980.0 million in 2010, through the application of improved collection strategies and the sale of assets received as payment.

Income tax expense

Income tax expense was Ps 58,730.5 million in 2010, as compared to Ps 37,496.0 million in 2009. Our effective tax rate was 30.1% and 34.2%, respectively, in 2009 and 2010. The lower effective tax rate in 2009 was due to a relatively lower taxable income in 2009 because the cost of purchase valuation of our investment portfolio, which is the methodology used for determining taxable income, yielded a lower value for our investment portfolio than the market valuation methodology used to prepare our accounts. This disparity was not significant in 2010.

Results of operations for the year ended December 31, 2010 compared to the year ended December 31, 2011

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

	Year ended December 31,			
	2010	2011	Change	
	(in Ps millions, except percentages)			
Direct operating income	698,359.7	732,861.5	34,501.8	4.9%
Direct operating expenses	364,231.8	401,430.9	37,199.1	10.2%
Direct operating result	**334,127.9**	**331,430.6**	**(2,697.3)**	**(0.8)%**
Other operating income and expenses—net	(60,299.0)	(83,521.5)	(23,222.5)	(38.5)%
Operating income before provisions and depreciation and amortization	**273,828.9**	**247,909.1**	**(25,919.8)**	**(9.5)%**
Allowances	99,687.2	100,966.4	1,279.2	1.3%
Depreciation and amortization	19,623.6	17,425.7	(2,197.9)	(11.2)%
Net operating income	**154,518.1**	**129,517.0**	**(25,001.1)**	**(16.2)%**
Net non-operating income	17,413.4	15,843.7	(1,569.7)	(9.0)%
Profit before income tax	**171,931.5**	**145,360.7**	**(26,570.8)**	**(15.5)%**
Income tax expense	58,730.5	45,614.5	(13,116.0)	(22.3)%
Net income	**113,201.0**	**99,746.2**	**(13,454.8)**	**(11.9)%**

Our consolidated net income decreased by 11.9%, or Ps 13,454.8 million, from 2010 to 2011. The decrease in net income in 2011 was due mainly to a Ps 23,222.5 million increase in other operating expenses and, to a lesser extent, a Ps 2,697.3 million decrease in direct operating result, offset in part by a Ps 13,116.0 million decrease in income tax expense.

Direct operating income

Our direct operating income increased by 4.9%, or Ps 34,501.8 million, from Ps 698,359.7 million in 2010 to Ps 732,861.5 million in 2011. The following table sets forth the variations in the principal items that constitute direct operating income.

	Year ended December 31,			
	2010	2011	Change	
	(in Ps millions, except percentages)			
Interest and amortization of discounts	432,416.8	451,277.3	18,860.5	4.4%
Gain on valuation and sale of investments	147,336.9	169,054.1	21,717.2	14.7%
Gains on valuation of money market positions	3,914.2	5,114.2	1,200.0	30.7%
Gain on valuation of derivatives	18,175.3	14,313.6	(3,861.7)	(21.2)%
Commissions and other fees	75,671.6	78,992.6	3,321.0	4.4%
Exchange	20,844.9	14,109.7	(6,735.2)	(32.3)%
Total direct operating income	**698,359.7**	**732,861.5**	**34,501.8**	**4.9%**

The increase in our direct operating income is primarily due to:

- a Ps 21,717.2 million, or 14.7%, increase in gain on valuation and sale of investments, primarily due to a Ps 31,204.6 million increase in income from investments in available-for-sale debt securities and, to a lesser extent, a Ps 6,948.8 million increase in income from investments in held-to-maturity securities. These increases were offset in part by a decrease of Ps 13,134.1 million in income from trading. Consistent with our strategy adopted in 2010 of realigning our investment portfolio to protect against market volatility, during 2011 we increased our participation in investments available-for-sale and held-to-maturity, and we decreased our participation in securities for trading. Our results also reflect a general increase in interest rates in the Colombian market. The average interest rate of our investment portfolio rose from 3.3% in 2010 to 5.1% in 2011. Likewise, the Colombian Central Bank increased interest rates from 3.0% at December 31, 2010 to 4.8% at December 31, 2011.

- a Ps 18,860.5 million, or 4.4%, increase in interest and amortization of discounts, mainly resulting from a substantial increase in our average loan portfolio from Ps 3,455,339.8 million in 2010 to Ps 3,933,600.3 million in 2011, mainly because of growth in the payroll (*libranza*) consumer loan and in the SME commercial loan segments. The average interest rate of our loan portfolio decreased from 12.5% in 2010 to 11.5% in 2011; and

- a Ps 3,321.0 million, or 4.4%, increase in commissions and other fees, primarily due to an increase in commissions related to the origination of *libranza* consumer loans, which increased substantially during 2011. Our commissions on the payroll loans (*libranzas*) increased from Ps 8,756.2 million in 2010 to Ps 11,050.9 million in 2011.

These increases were offset in part by (i) a 32.3%, or Ps 6,735.2 million, decrease in gains on currency exchange, mainly due to reduced asset positions in foreign currency, and (ii) a 21.2%, or Ps 3,861.7 million, decrease in gains on valuation of derivatives, primarily as a result of the effect of the valuation of forward transactions.

Direct operating expense

Direct operating expenses increased by 10.2%, or Ps 37,199.1 million, from Ps 364,231.8 million in 2010 to Ps 401,430.9 million in 2011. The following table sets forth the variations in the principal items that constitute direct operating expense.

	Year ended December 31,		Change	
	2010	2011		
	(in Ps millions, except percentages)			
Interest on deposits	195,330.1	233,464.9	38,134.8	19.5%
Interest on bank borrowings and other financial obligations	100,849.8	107,771.5	6,921.7	6.9%
Loss on valuation of money market positions	509.3	655.3	146.0	28.7%
Loss on sale of investments	6,845.8	5,128.4	(1,717.4)	(25.1)%
Loss on valuation of derivatives	14,820.9	14,890.0	69.1	0.5%
Commissions and fees	24,948.0	29,813.3	4,865.3	19.5%
Exchange	20,927.9	9,707.5	(11,220.4)	(53.6)%
Total direct operating expense	**364,231.8**	**401,430.9**	**37,199.1**	**10.2%**

The increase in our direct operating expense is primarily due to:

- a 19.5%, or Ps 38,134.8 million, increase in interest on deposits, primarily due to an increase in the volume of deposits and in financing costs due to the restrictive monetary policy adopted by the Colombian Central Bank in early 2011 to control economic growth. The Colombian Central Bank increased interest rates from 3.0% at December 31, 2010 to 4.8% at December 31, 2011. Average deposits increased Ps 671,422.8 million from Ps 4,660,137.7 million in 2010 to Ps 5,331,560.5 million in 2011. The increase in deposits was mainly due to an increase in our number of *convenios* (funding agreements), as well as in the average interest rates we paid on deposits. The average interest rate we paid increased from 4.2% in 2010 to 4.4% in 2011;

- a 6.9%, or Ps 6,921.7 million, increase in interest on bank borrowings and other financial obligations, primarily due to a combination of an increase in overall borrowings and the increase in financing costs due to the restrictive monetary policy adopted by the Colombian Central Bank described above; and

- a 19.5%, or Ps 4,865.3 million, increase in commissions and fees, mainly resulting from (i) an increase in the volume of cash management services provided to clients, which triggers a corresponding increase in the commissions payable to the entities that execute electronic payments such as ACH and CENIT, and (ii) the growth experienced in the payroll loans (*libranzas*) business segment, which brings with it an increase in commissions payable to the external sales force that places our *libranza* loan product.

These increases were offset in part by a Ps 11,220.4 million decrease in losses on currency exchange, mainly due to the effect of the appreciation of the peso relative to the U.S. dollar on our net U.S. dollar liability position.

Other operating expenses, net

Other operating expenses, net increased by 38.5%, from Ps 60,299.0 million in 2010 to Ps 83,521.5 million in 2011. The following table sets forth the variations in the principal items that constitute other operating expenses, net.

	Year ended December 31,			
	2010	**2011**	**Change**	
	(in Ps millions, except percentages)			
Other operating income:				
Dividends and other capital yields	287.1	317.0	29.9	10.4%
Recoveries of loans and accounts receivables	89,002.7	68,677.3	(20,325.4)	(22.8)%
Other	22,331.5	29,012.2	6,680.7	29.9%
Total other operating income	111,621.3	98,006.5	(13,614.8)	(12.2)%
Other operating expense:				
Payroll	65,624.6	68,044.1	2,419.5	3.7%
Other	106,295.7	113,483.9	7,188.2	6.8%
Total other operating expense	171,920.3	181,528.0	9,607.7	5.6%
Total other operating expense, net	**60,299.0**	**83,521.5**	**23,222.5**	**38.5%**

The increase in other operating expense, net is mainly the result of a 22.8%, or Ps 20,325.4 million, decrease in recoveries of loans and accounts receivables in 2011 as compared to 2010, primarily because of the prepayment of certain Panamanian credits in 2010, after they were assigned a higher risk classification by the Superintendency of Finance.

Allowances

Allowances increased 1.3%, or Ps 1,279.2 million, from Ps 99,687.2 million in 2010 to Ps 100,966.4 million in 2011. Although our total loan portfolio increased by 23.7%, from Ps 3,594,576.9 million in 2010 to Ps 4,445,370.9 million in 2011, allowances did not increase in a similar proportion because of an improvement in the risk profile of our total loan portfolio. Our coverage ratio (allowances as a percentage of past due loans) at December 31, 2011 was 193.4%, as compared to the average for the Colombian banking system of 160.3%. In 2010, our coverage ratio was 221.4% as compared to a 151.8% ratio for the Colombian banking system.

Depreciation and amortization

Depreciation and amortization decreased by 11.2%, or Ps 2,197.9 million, from Ps 19,623.6 million in 2010 to Ps 17,425.7 million in 2011. This decrease was largely due to the termination of the amortization period for renovations we made to our offices and, to a lesser extent, costs related to ATMs.

Non-operating income, net

Non-operating income, net decreased by 9.0%, or Ps 1,569.7 million, from Ps 17,413.4 million in 2010 to Ps 15,843.7 million in 2012 largely due to an increase in non-operating expenses related to payment losses (specifically on credit cards and loans).

Income tax expense

Income tax expense was Ps 45,614.5 million in 2011, as compared to Ps 58,730.5 million in 2010. Our effective tax rate was 34.2% and 31.4%, respectively, in 2010 and 2011. The lower effective tax rate in 2011 was due to a relatively lower taxable income in 2011 because the cost of purchase valuation of our investment portfolio, which is the methodology used for determining taxable income, yielded a lower value for our investment portfolio than the market valuation methodology used to prepare our accounts. This disparity was not significant in 2010.

Results of operations for three-month period ended March 31, 2011 compared to the three-month period ended March 31, 2012

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

	Three-month period ended March 31, 2011	Three-month period ended March 31, 2012	Change	
	(in Ps millions, except percentages)			
Direct operating income	164,037.2	241,828.7	77,791.5	47.4%
Direct operating expenses	87,294.9	160,918.2	73,623.3	84.4%
Direct operating result	**76,742.3**	**80,910.5**	**4,168.2**	**5.4%**
Other operating income and expenses—net	(8,701.5)	(14,184.4)	(5,482.9)	(63.0)%
Operating income before provisions and depreciation and amortization	**68,040.8**	**66,726.1**	**(1,314.7)**	**(1.9)%**
Allowances	36,614.9	33,073.5	(3,541.5)	(9.7)%
Depreciation and amortization	4,686.5	4,410.5	(276.0)	**(5.9)%**
Net operating income	**26,739.4**	**29,242.1**	**2,502.7**	**9.4%**
Net non-operating income	4,641.5	3,945.1	(696.4)	**(15.0)%**
Profit before income tax	**31,380.9**	**33,187.2**	**1,806.3**	**5.8%**
Income tax expense	13,779.5	11,551.2	(2,228.3)	**(16.2)%**
Net income	**17,601.4**	**21,636.0**	**4,034.6**	**22.9%**

Our consolidated net income increased by 22.9% from the three-month period ended March 31, 2011 to the same period in 2012. This increase was due mainly to (i) a 5.4% increase in direct operating result due to an increase in our overall operating activities and (ii) a 9.7% decrease in allowances due to an improvement in the risk profile of our loan portfolio. This was offset in part by a 63.0% decrease in our other operating income, net mainly due to an increase in administrative costs.

Direct operating income

Our direct operating income increased by 47.4%, or Ps 77,791.5 million, from Ps 164,037.2 million in the three-month period ended March 31, 2011 to Ps 241,828.7 million in the three-month period ended March 31, 2012. The following table sets forth the variations in the principal items that constitute direct operating income.

	Three-month period ended March 31, 2011	Three-month period ended March 31, 2012	Change	
	(in Ps millions, except percentages)			
Interest and amortization of discounts	102,789.6	125,954.9	23,165.3	22.5%
Gain on valuation and sale of investments	34,477.6	54,146.6	19,669.0	57.0%
Gains on valuation of money market positions	342.1	2,058.7	1,716.6	501.8%
Gain on valuation of derivatives	2,287.1	4,453.9	2,166.8	94.7%
Commissions and other fees	17,363.5	20,358.3	2,994.8	17.2%
Exchange	6,777.3	34,856.3	28,079.0	414.3%
Total direct operating income	**164,037.2**	**241,828.7**	**77,791.5**	**47.4%**

The increase in our direct operating income is primarily due to:

- a 414.3%, or Ps 28,079.0 million, increase in gains on currency exchange primarily due to the positive effect on our foreign currency liabilities of the appreciation of the peso as compared to the U.S. dollar. The representative market rate at March 31, 2012 was Ps 1,792.07 per U.S. dollar, compared to Ps 1,879.47 per U.S. dollar at March 31, 2011;

- a 22.5%, or Ps 23,165.3 million, increase in interest and amortization of discounts mainly due to the growth in our average loan portfolio from Ps 3,623,243.3 million in the first three months of 2011 to Ps 4,463,821.5 million in the first three months of 2012, particularly with respect to payroll loans (*libranza*s) and ordinary and development loans to the commercial sector. The average interest rate earned decreased slightly, from 11.4% for the first quarter of 2011 to 11.3% in the first quarter of 2012; and

- a 57.0%, or Ps 19,669.0 million, increase in gain on valuation and sale of investments because of the increase in the value of our investments in trading and available-for-sale securities and, to a lesser extent, investments in held-to-maturity securities, as a result of the decrease in the interest rates payable on Colombian-peso denominated sovereign debt during the first quarter of 2012. The Colombian Central Bank's interest rates increased from an average of 3.5% for the three months ended March 31, 2011 to 5.3% for the three months ended March 31, 2012.

Direct operating expense

Direct operating expenses increased by 84.3%, or Ps 73,623.3 million, from Ps 87,294.9 million in the three-month period ended March 31, 2011 to Ps 160,918.2 million in the three-month period ended March 31, 2012. The following table sets forth the variations in the principal items that constitute direct operating expense.

	Three-month period ended March 31,		Change	
	2011	2012		
	(in Ps millions, except percentages)			
Interest on deposits	46,650.6	83,037.9	36,387.3	78.0%
Interest on bank borrowings and other financial obligations	23,995.5	28,365.2	4,369.7	18.2%
Loss on valuation of money market positions	35.3	229.9	194.6	551.3%
Loss on valuation of derivatives	3,137.3	4,477.6	1,340.3	42.7%
Commissions and fees	6,014.1	7,658.1	1,644.0	27.3%
Exchange	5,712.5	34,827.3	29,114.8	509.7%
Loss on sale of investments	1,749.6	2,322.2	572.6	32.7%
Total direct operating expense	**87,294.9**	**160,918.2**	**73,623.3**	**84.3%**

The increase in our direct operating expense is primarily due to:

- a 78.0%, or Ps 36,387.03 million, increase in interest on deposits, mainly due to (i) a Ps 1,395,588.0 million increase in average deposits and obligations in the first three months of 2012 as compared to the first three months of 2011, particularly in savings and term deposits for commercial clients, and (ii) an increase in the average interest rate paid, which was 3.9%, for the three months ended March 31, 2011 as compared to 5.3% for the three months ended March 31, 2012;

- a 509.7%, or Ps 29,114.8 million, increase in losses on currency exchange mainly due to the negative effect on our foreign currency assets of the appreciation of the peso as compared to the U.S. dollar, as discussed above; and

- a 18.2%, or Ps 4,369.7 million, increase in interest on loans from banks and other financial obligations, mainly due to higher financing costs for interbank borrowings and funding through the Colombian Central Bank. The Colombian Central Bank's interest rates increased from an average of 3.3% for the three months ended March 31, 2011 to 5.0% for the three months ended March 31, 2012.

Other operating income, net

Other operating income, net decreased by 3.6%, from Ps 34,301.8 million in the three-month period ended March 31, 2011 to Ps 33,062.9 million in the three-month period ended March 31, 2012. The following table sets forth the variations in the principal items that constitute other operating income, net.

	Three-month period ended March 31,		Change	
	2011	2012		
	(in Ps millions, except percentages)			
Other operating income:				
Recoveries of loans and accounts receivables	27,207.4	25,085.8	(2,121.6)	(7.8)%
Dividends and other capital yields	301.6	16.7	(284.9)	(94.5)%
Other	6,792.5	7,960.4	1,167.9	17.2%
Total other operating income	**34,301.5**	**33,062.9**	**(1,238.6)**	**(3.6)%**
Other operating expense:				
Payroll	16,523.2	17,654.6	1,131.4	6.8%
Other	26,479.8	29,592.7	3,112.9	11.8%
Total other operating expense	**43,033.0**	**47,247.3**	**4,214.3**	**9.9%**
Total other operating expense, net	**(8,701.5)**	**(14,184.4)**	**(5,482.9)**	**(63.0)%**

The decrease in other operating income, net is mainly the result of a 7.8%, or Ps 2,121.6 million, decrease in recoveries of loans and accounts receivables in the first three months of 2012 as compared to the same period in 2011 largely due to a decrease in collections and a 9.9%, or Ps 4,214.3 million, increase in other operating expense mainly as a result of increases in administrative costs related to the growth of our business.

Allowances

Allowances decreased by 9.7%, or Ps 3,541.4 million, from Ps 36,614.9 million in the three-month period ended March 31, 2011 to Ps 33,073.5 million in the three-month period ended March 31, 2012, mainly because of an improvement in the risk profile of our loan portfolio. The coverage ratio (allowances as a percentage of past due loans) of the Bank at March 31, 2012 was 197.6%, which compares favorably with the average for the Colombian banking system of 143.8%. At March 31, 2011, our coverage ratio was 203.3% as compared to 142.8% for the Colombian banking system.

Depreciation and amortization

Depreciation and amortization decreased by 5.9%, or Ps 276.0 million, from Ps 4,686.5 million in the three-month period ended March 31, 2011 to Ps 4,410.5 million in the three-month period ended March 31, 2012. This decrease was largely due to a decrease in the amortization of computer equipment and the termination of the amortization period of certain software and office renovations.

Non-operating income, net

Non-operating income, net decreased by 15.0%, or Ps 696.4 million, from Ps 4,641.5 million in the three-month period ended March 31, 2011 to Ps 3,945.1 million in the three-month period ended March 31, 2012 largely due to a slight reduction in recoveries of past-due loans.

Income tax expense

Income tax expense was Ps 11,551.2 million in the three-month period ended March 31, 2012, as compared to Ps 13,779.5 million in the three-month period ended March 31, 2011. Our effective tax rate was 43.9% and 34.8%, respectively, in the three-month period ended March 31, 2011 and in the same period in 2012. The effective tax rates are generally higher for the first quarter of the fiscal year than for the full fiscal year because it is during this period that our subsidiaries pay dividends to the Bank, which are taxable.

Liquidity and capital resources

The following table sets forth our internal and external sources of funding at December 31, 2009, 2010 and 2011 and at March 31, 2012.

	At December 31,			At March 31,
	2009	2010	2011	2012
	(in Ps million)			
Liabilities and shareholders' equity:				
Deposits	4,072,889.6	4,918,073.9	6,053,654.0	6,651,697.8
Liability positions in money market and similar operations	1,449,025.3	1,706,163.2	2,041,671.6	1,456,768.1
Bankers' acceptances outstanding and derivatives	0.0	4,202.8	2,210.5	1,300.8
Bank borrowings and other financial obligations	1,064,639.9	872,867.4	963,542.3	929,776.7
Accounts payable	135,486.5	131,294.0	163,652.9	163,448.7
Other liabilities	27,832.1	29,058.0	35,641.3	221,818.1
Accrued liabilities and provisions	39,365.3	62,221.9	25,283.4	41,851.1
Total liabilities	**6,789,238.7**	**7,723,881.2**	**9,285,656.0**	**9,466,661.3**
Total shareholders' equity	**517,857.6**	**597,507.8**	**636,784.0**	**670,602.4**
Total liabilities and shareholders' equity	**7,307,096.3**	**8,321,389.0**	**9,922,440.0**	**10,137,263.7**

Shareholders' equity increased by 5.3%, or Ps 33,818.4 million, to Ps 670,602.4 million at March 31, 2012 compared to Ps 636,784.0 million at December 31, 2011. The increase was mainly due to a U.S.$100 million capitalization made by our shareholders in March 2012.

In connection with the acquisition of the banking operations of HSBC in Colombia, Paraguay, Peru and Uruguay, our shareholders injected an additional U.S.$30 million in May 2012. See "Business—Recent developments—HSBC acquisitions."

In 2010, the Superintendency of Finance modified the classification criteria for derivatives. Derivatives were previously required to be shown net of liabilities, under assets in the bankers' acceptances, spot operations and derivatives instruments line item. They are now shown gross, as assets and liabilities, and the liabilities are added in the bankers' acceptances and derivatives financial instruments line item. Pursuant to these rules and for the purposes of this section, derivatives (liabilities) are excluded from the bankers' acceptances outstanding line item and are included under "Other liabilities."

Capitalization ratios

The following tables present our consolidated capitalization ratios and, the average ratios for the Colombian system and the ratios required by regulation at December 31, 2011 and March 31, 2012.

	At December 31, 2011		
	Banco GNB Sudameris	Colombian banking system (4)	Requirement
		(in percentages)	
Tangible equity ratio (1)	6.5	12.7	n.a.
Tier I ratio (2)	10.2	10.7	n.a.
Solvency ratio (3)	11.0	14.2	9.0

(1) Tangible equity ratio is calculated as total shareholders' equity plus minority interest minus goodwill, divided by total assets minus goodwill.

(2) Tier I ratio is calculated as primary capital divided by risk-weighted assets.

(3) Solvency ratio is calculated as technical capital divided by risk-weighted assets. For a definition of technical capital, see "Colombian Banking Regulation—Capital adequacy requirements." Tangible solvency ratio differs from solvency ratio. Tangible solvency ratio is calculated as technical capital minus goodwill, divided by risk-weighted assets minus goodwill.

(4) Based on public information available from the Superintendency of Finance.

	At March 31, 2012		
	Banco GNB Sudameris	Colombian banking system (4)	Requirement
		(in percentages)	
Tangible equity ratio (1)	6.7	13.1	n.a.
Tier I ratio (2)	13.9	11.7	n.a.
Solvency ratio (3)	14.7	15.3	9.0

(1) Tangible equity ratio is calculated as total shareholders' equity plus minority interest minus goodwill, divided by total assets minus goodwill.

(2) Tier I ratio is calculated as primary capital divided by risk-weighted assets.

(3) Solvency ratio is calculated as technical capital divided by risk-weighted assets. For a definition of technical capital, see "Colombian Banking Regulation—Capital adequacy requirements." Tangible solvency ratio differs from solvency ratio. Tangible solvency ratio is calculated as technical capital minus goodwill, divided by risk-weighted assets minus goodwill.

(4) Based on public information available from the Superintendency of Finance.

We are required by the Superintendency of Finance to maintain a solvency ratio of at least 9.0% of total risk-weighted assets. The following table sets forth our reported capital adequacy information at December 31, 2010 and 2011 and at March 31, 2012. The reported figures are calculated using the methodology prescribed by the Superintendency of Finance.

	At December 31, 2010		At December 31, 2011		At March 31, 2012	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(in Ps millions, except percentages)					
Primary capital (Tier I)	453,266.7	10.8%	523,470.3	10.2%	736,034.0	13.9%
Secondary capital (Tier II)	35,195.8	0.8%	39,870.4	0.8%	41,569.5	0.8%
Primary and secondary capital (Tier I and II)	488,462.5	11.7%	563,340.8	11.0%	777,603.5	14.7%
Risk-weighted assets including regulatory value at risk (1)	4,185,592.9		5,116,989.9		5,279,207.9	

(1) Regulatory value at risk is calculated in accordance with the Superintendency of Finance guidelines, see "Colombian Banking Regulation—Capital adequacy requirements."

Dividends

Under the Colombian Commerce Code, after payment of income taxes and appropriation of legal and other reserves, and after setting off losses from prior fiscal years, we must distribute to our shareholders at least 50% of our annual net income or 70% of our annual net income if the total amount of reserves exceeds our outstanding capital. Such dividend distribution must be made to all shareholders, in cash or in issued stock of the Bank, as may be determined by the shareholders, and within a year from the date of the ordinary annual shareholders' meeting in which the dividend was declared. Under Colombian law, the minimum dividend per share may be waived by an affirmative vote of the holders of 78% of the shares present at the shareholders' meeting.

Dividend payments to shareholders for fiscal years 2009, 2010 and 2011 were Ps 36,229.6 million, Ps 60,723.2 million and Ps 45,486.6 million, respectively.

Funding

We fund most of our assets with local deposits, consistent with other Colombian banks. Other sources of funding include interbank borrowings and overnight funds and borrowings from development banks.

The following table summarizes our funding structure at the dates indicated.

	At December 31,			At March 31,
	2009	2010	2011	2012
	(in Ps millions)			
Deposits	4,072,889.6	4,918,073.9	6,053,654.0	6,651,697.8
Liability positions in money market and similar operations	1,449,025.3	1,706,163.2	2,041,671.6	1,456,768.1
Bank borrowings and other financial obligations	1,064,639.9	872,867.4	963,542.3	929,776.7
Bankers' acceptances outstanding and derivatives	—	4,202.8	2,210.5	1,300.8
Other (1)	202,683.9	222,573.9	224,577.6	427,117.9
Total funding	**6,789,238.7**	**7,723,881.2**	**9,285,656.0**	**9,466,661.3**

(1) "Other" refers to liabilities in the normal course of business, including taxes, labor costs and accrued interest on term deposits.

From year-end 2009 to year-end 2010, total funding increased by 13.8% primarily due to an increase in deposits, particularly savings deposits for commercial clients.

From year-end 2010 to year-end 2011, total funding increased by 20.2% mainly as a result of an increase in deposits (particularly savings and checking deposits for commercial clients), interbank borrowings and overnight funds and borrowings from banks and other.

From December 31, 2011 to March 31, 2012, total funding increased by 1.9%, mainly as a result of an increase in deposits (particularly time and savings deposits for commercial clients), partly offset by decreases in interbank borrowings and overnight funds and borrowings from banks and other because of a decreased need to access such sources of funding due to the increase in deposits.

Our funding base also benefits from the highest available credit ratings in the Colombian market, BRC1+ as assigned by BRC Investor Services S.A. S.C.V. Changes in credit ratings may affect the cost of our funding.

We believe that our working capital is sufficient to meet our present requirements and that our current level of funding is adequate to support our business and to meet our purchase obligations related to the acquisition of HSBC's operations. See "Business—Recent developments—HSBC acquisitions."

The following table presents the Bank's funding from deposits at the dates indicated.

	At December 31,			At March 31,
	2009	2010	2011	2012
	(in Ps millions)			
Interest-bearing deposits:				
Current accounts	221,967.6	223,174.8	399,430.2	331,623.2
Term deposits	2,535,578.7	2,610,857.9	2,717,506.7	3,210,535.2
Savings deposits	997,960.4	1,783,970.8	2,573,016.0	2,834,275.6
Total	**3,755,506.7**	**4,618,003.5**	**5,689,952.9**	**6,376,434.0**
Non-interest-bearing deposits:				
Current accounts	276,588.2	239,838.8	304,019.6	241,338.6
Other deposits	40,794.7	60,231.9	59,681.5	33,925.2
Total	317,382.9	300,070.4	363,701.1	275,263.8
Total deposits	**4,072,889.6**	**4,918,073.9**	**6,053,654.0**	**6,651,697.8**

Current accounts

The Bank's balance of current accounts was Ps 498,555.8 million at December 31, 2009, Ps 463,013.6 million at December 31, 2010, Ps 703,449.8 million at December 31, 2011 and Ps 572,961.8 million at March 31, 2012, representing 7.3%, 6.0%, 7.6% and 6.1% of total funding, respectively. The decrease in total funding share of deposits in the first quarter of 2012 was primarily due to cyclicality, as checking account balances tend to be larger at year end.

Term deposits

The Bank's balance of term deposits was Ps 2,535,578.7 million at December 31, 2009, Ps 2,610,857.9 million at December 31, 2010, Ps 2,717,506.7 million at December 31, 2011 and Ps 3,210,535.2 million at March 31, 2012, representing 37.3%, 33.8%, 29.3% and 33.9% of total funding, respectively. Term deposits have become relatively more relevant in recent months among the Bank's sources of funding, driven mainly by the general increase in interest rates in the Colombian market since early 2011.

The following tables present term deposits held at December 31, 2011 and March 31, 2012, by amount and maturity for deposits.

	(in Ps millions)
At December 31, 2011	
Up to 3 months	1,291,221.4
From 3 to 6 months	700,408.2
From 6 to 12 months	432,992.9
More than 12 months	292,884.3
Total	**2,717,506.7**

	(in Ps millions)
At March 31, 2012	
Up to 3 months	1,737,458.0
From 3 to 6 months	768,375.0
From 6 to 12 months	309,300.8
More than 12 months	395,401.5
Total	**3,210,535.2**

Savings deposits

The Bank's balance of savings deposits was Ps 997,960.4 million at December 31, 2009, Ps 1,783,970.8 million at December 31, 2010, Ps 2,573,016.0 million at December 31, 2011 and Ps 2,834,275.6 million at March 31, 2012, representing 14.7%, 23.1%, 27.7% and 29.9% of total funding, respectively.

Other deposits

The Bank's balance of other deposits, which consist of deposits from correspondent banks, cashier checks and collection services, was Ps 40,794.7 million at December 31, 2009, Ps 60,231.6 million at December 31, 2010, Ps 59,681.5 million at December 31, 2011 and Ps 33,925.2 million at March 31, 2012, representing 0.6%, 0.8%, 0.6% and 0.4% of total funding, respectively.

Liability positions in money market and similar operations

The Bank's balance of liability positions in money market and similar operations was Ps 1,449,025.3 million at December 31, 2009, Ps 1,706,163.2 million at December 31, 2010, Ps 2,041,671.6 million at December 31, 2011 and Ps 1,456,768.1 million at March 31, 2012, representing 21.3%, 22.1%, 22.0% and 15.4% of total funding, respectively.

The following table sets forth our short-term borrowings consisting of interbank borrowings and overnight funds for the periods indicated.

	At December 31,						At March 31,	
	2009		2010		2011		2012	
	Amount	Nominal rate	Amount	Nominal rate	Amount	Nominal rate	Amount	Nominal rate
	(in Ps millions, except percentages)							
End of period	1,449,025.3	2.7%	1,706,163.2	2.9%	2,041,671.6	4.6%	1,456,768.1	5.0%
Average during period	1,406,461.6	5.2%	1,287,440.6	3.0%	1,451,298.3	3.8%	1,092,215.3	4.8%
Maximum amount of borrowing at any month-end	1,847,479.7	4.2%	2,014,686.1	2.9%	2,058,188.3	4.6%	1,849,744.4	5.0%
Interest paid during the period	72,774.3	—	37,607.6	—	55,745.9	—	13,178.8	—

As part of our interbank transactions, we maintain a portfolio of government securities and private sector liquid debt instruments used to obtain overnight funds from other financial institutions or investment funds by selling such securities and simultaneously agreeing to repurchase them. Due to the short-term nature of this source of funding, these transactions are volatile and are generally composed of Colombian government securities.

Bank borrowings and other financial obligations

Borrowings from banks are provided by correspondent banks and by governmental entities to promote lending to specific sectors of the Colombian economy. This source of funding, which mainly has fully matched maturities and interest rates with related loans, totaled Ps 1,064,639.9 million at December 31, 2009, Ps 872,867.4 million at December 31, 2010, Ps 963,542.3 million at December 31, 2011 and Ps 929,776.7 million at March 31, 2012, representing 15.7%, 11.3%, 10.4% and 9.8% of total funding, respectively.

Bankers' acceptances outstanding and derivatives

The Bank's bankers' acceptances outstanding and derivatives balance was zero at December 31, 2009, Ps 4,202.8 million at December 31, 2010, Ps 2,210.5 million at December 31, 2011 and Ps 1,300.8 million at March 31, 2012, representing 0.0%, 0.1%, 0.0%, and 0.0% of total funding, respectively.

Other

Other refers to liabilities in the normal course of business, which include taxes, labor costs and accrued interest on term deposits, among other things. The significant increase between December 31, 2011 and March 31, 2012 was largely due to the U.S.$100 million capitalization made in the first quarter of 2012.

Capital expenditures

We incurred Ps 21,118.3 million and Ps 9,001.4 million of capital expenditures in property, plant and equipment in the year ended December 31, 2011 and the three-month period ended March 31, 2012, respectively. Our capital expenditures in 2011 and the first three months of 2012 relate mainly to the construction of our new headquarters in Bogotá.

Off-balance sheet arrangements

In the ordinary course of business, we have entered into various types of off-balance sheet arrangements, including lines and letters of credit and financial guarantees. We utilize these instruments to meet our customers' financing needs. The contractual amount of these instruments represents the maximum possible credit risk should the counterparty draw down the entire commitment or we fulfill our entire obligation under the guarantee, and the counterparty subsequently fails to perform according to the terms of the contract. We may hold cash or other liquid collateral to support these commitments, and we generally have legal recourse to recover amounts paid but not recovered from customers under these instruments. Most of these commitments and guarantees expire undrawn. As a result, the total contractual amount of these instruments does not represent our future credit exposure or funding requirements. In addition, some of these commitments, primarily those related to consumer financing, are cancelable by us upon notice.

The following table presents the maximum potential amount of future payments under these instruments at the dates presented on a consolidated basis.

	At December 31,			At March 31,
	2009	2010	2011	2012
	(in Ps millions)			
Civil demands against us	27,078.5	37,488.7	34,961.6	34,908.3
Issued and confirmed letters of credit	21,994.2	29,054.3	23,424.7	18,034.5
Bank guarantees	67,164.1	42,852.0	24,549.2	12,443.3
Approved credits not disbursed	5,821.6	4,330.0	8,504.4	7,421.4
Other	89,989.1	87,159.8	83,436.5	79,269.6
Total	**212,047.5**	**200,884.8**	**174,876.4**	**152,077.1**

Contractual obligations

The following table presents our contractual obligations at March 31, 2012.

	At March 31, 2012				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(in Ps millions)				
Liabilities:					
Term deposits	3,210,535.2	2,087,293.4	1,123,241.8	0.0	0.0
Long-term bank borrowings and other financial obligations	929,776.7	297,517.9	23,939.4	608,319.4	0.0
Total	**4,140,311.9**	**2,384,811.3**	**1,147,181.2**	**608,319.4**	**0.0**

The most important bank borrowings and other financial obligations at March 31, 2012 were with financial institutions that promote the development of the Colombian productive sector by providing resources to entrepreneurs through commercial banks. These include the Territorial Development Bank (*Financiera de Desarrollo Territorial—FINDETER*) to which we owe Ps 464,385.0 million, and the Bank for Foreign Trade (*Banco de Comercio Exterior—Bancoldex*), to which we owe Ps 203,300.1 million. We also have loans with foreign entities, including the Latin American Export Bank (*Banco Latinoamericano de Exportaciones*), Citibank N.A. New York and Standard Chartered Bank New York, which totaled Ps 255,161.8 million at March 31, 2012. These loans are primarily used to fund the foreign currency needs of our commercial customers.

RISK MANAGEMENT

General

Our guiding principles of risk management have been the following:

- Collective decision-making for commercial lending at the board level;
- Extensive and in-depth market knowledge, the result of our experienced, stable and seasoned senior management;
- Clear top-down directives with respect to:
    - Compliance with know-your-customer policies; and
    - Commercial loan credit structures based on the clear identification of sources of repayment and on the cash-flow generating capacity of the borrower;
- Use of common credit analysis tools and loan pricing tools;
- Diversification of the commercial loan portfolio with respect to industries and economic groups;
- Specialization in consumer product niches;
- Extensive use of continuously updated rating and scoring models to ensure the growth of high credit quality consumer lending; and
- Conservative policies in terms of:
    - the trading portfolio composition, with a bias towards instruments with higher liquidity;
    - proprietary trading; and
    - the variable remuneration of trading personnel.

Credit risk

General

Our credit-risk management process takes into consideration the requirements of the Superintendency of Finance, the guidelines of our credit-risk management and the composition of our loan portfolio.

The following sets forth our loan portfolio by principal category as a percentage of total loan portfolio for the periods indicated:

	At December 31,			At March 31,
	2009	2010	2011	2012
Consumer loans:				
Payroll loans (*libranzas*)	42.5%	45.2%	46.4%	48.5%
Credit card	0.7%	0.6%	0.5%	0.4%
Personal loans	1.0%	0.5%	0.6%	0.5%
Total consumer loans	44.2%	46.4%	47.4%	49.5%
SMEs and mid-corporate loans:				
Commercial lending	55.8%	53.0%	51.5%	49.1%
Total SMEs and mid-corporate loans	55.8%	53.0%	51.5%	49.1%
Institutional loans:				
Commercial lending	0.0%	0.7%	1.1%	1.4%
Total institutional loans	0.0%	0.7%	1.1%	1.4%
Total loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Lending policies and procedures

Lending policies, including the approval and review of credit procedures, are based upon conservative criteria that we have adopted. These policies are set within the guidelines established by the Superintendency of Finance and the guidelines set forth by our board of directors.

The credit approval process is based primarily on the evaluation of a borrower's repayment capacity and on commercial and banking references. A corporate borrower's repayment capacity is determined by analyzing the historical and projected financial condition of the corporate borrower and of the industry in which it operates. An analysis of the corporate borrower's current management, banking references and past experiences in similar transactions, as well as the collateral to be provided, are other important factors in the credit approval process.

For individual borrowers, the information that is presented by the prospective borrower is evaluated by a credit officer, and the application is passed through a scoring program for approval by a centralized credit unit. Credit risk management in personal banking involves assessing the client's credit history and other aspects in order to determine the borrower's ability to repay its debt. Additionally, loan approval is subject to a number of credit scoring models, which assign loan-loss probabilities related to expected returns in each market segment.

The credit committee, which is comprised of the President of the Bank, the Credit and Risk Advisor, the Vice President of Corporate Banking, the Vice President of Institutional Banking, the Vice President of Retail Banking, the National Business Manager and the National Credit Manager, was established in 2004 and is responsible for analyzing, evaluating, monitoring, reviewing and approving credit proposals that fall within its power. The credit committee also makes recommendations to the board of directors on credit proposals that, because of their amount, are subject to approval by the board of directors. Each loan application is classified according to its industry sector and is then reviewed by a credit officer. The board of directors has given authority to the credit committee to approve certain facilities on a tiered basis, as set forth in the table below.

	Authorized Limits	
Approving Person	**Corporate Banking**	**Personal Banking**
Board of Directors	Up to the legal limit[1]	Up to the legal limit[1]
President, with Corporate Banking Vice President or Risk and Credit National Manager or Credit Advisor	Up to Ps 5,000 million jointly	Not applicable
President, with Personal Banking Vice President or National Risk and Credit Manager or Credit Advisor	Not applicable	Up to Ps 5,000 million jointly
Corporate Banking Vice President with National Risk and Credit Manager Advisor	Up to Ps 500 million jointly	Not applicable
Personal Banking Vice President with National Risk and Credit Manager or Credit Advisor	Not applicable	Up to Ps 500 million jointly
National Corporate Banking Manager with National Risk and Credit Manager or Credit Advisor	Up to Ps 250 million jointly	Not applicable
National Personal Banking Manager with National Risk and Credit Manager or Credit Advisor	Not applicable	Up to Ps 150 million jointly
National Personal Banking Manager with National Risk and Credit Director	Not applicable	Up to Ps 25 million jointly

(1) This legal limit is based on the technical capital and individual credit limits as defined in Decree 2555.

Our general policy is to grant loans secured by collateral. At December 31, 2011, approximately Ps 1,160,267.5 million of our loan portfolio, representing 26.1% of our total loan portfolio, as compared to 28.4% at December 31, 2010, was secured by collateral. Liquid collateral is a small portion of the total collateral. In general, if we require collateral for the extension of credit, the value of such collateral must exceed the amount of the loan granted. The request for collateral is based on the particular financial situation of each customer, the term of the loan and the intended use for the funds, and is made after an evaluation is conducted by a loan officer. For example, when real property is given as collateral, we will usually request its value to be at least 142.8% of the loan; for standby letters of credit, 110%. Additionally, our general policy is to not accept machinery and equipment as collateral. If a borrower encounters difficulties, our policy is to obtain additional collateral. By regulation, we are required to have such collateral reappraised every three years.

We conduct unannounced internal audits of our financial statements and have an annual audit by external auditors of our books and credit records, in each case, consistent with Colombian banking regulations.

Credit classification and provisioning

We continually engage in the determination of risk factors associated with our credit related assets, through their duration, including restructurings. For such purposes, we have designed and adopted a unified System for Administration of Credit Risks, or “SARC,” in accordance with Superintendency of Finance guidelines. The SARC has integrated credit policies and procedures for the administration of credit risks, models of reference for the determination and calculation of anticipated losses, allowances for coverage of credit risks and internal control procedures.

We are required to classify the loan portfolio in accordance with the rules of the Superintendency of Finance, which established the following loan classification categories: “AA,” “A,” “BB,” “B,” “CC” and “Default,” depending on the strength of the credit and, after the loan is disbursed, its past due status.

We review outstanding loan portfolio components under the above-mentioned criteria and classify individual loans under the risk-rating categories below on the basis of minimum objective criteria, such as balance sheet strength, profitability and cash generation capacity. The classification of new commercial loans is made on the basis of these objective criteria. The criteria are also evaluated on an ongoing basis, together with loan performance, in reviewing the classification of existing commercial loans.

Category	Approval	Commercial loan portfolio	Consumer loan portfolio
“AA”	New loans with risk rating at approval of “AA.”	Outstanding loans and financial leases with past due payments not exceeding 29 days (i.e., between 0 and 29 days past due). The debtor’s financial statements or its projected cash flows, as well as all other credit information available to the financial subsidiaries, reflect excellent paying capacity.	Loans whose risk rating is “AA” according to the methodology of the Consumer Reference Model, or “MRCO,” as established by the Superintendency of Finance.
“A”	New loans with risk rating at approval of “A.”	Outstanding loans and financial leases with delayed payments in excess of 30 days but not exceeding 59 days (i.e., between 30 and 59 days past due). The debtor’s financial statements or its projected cash flows, as well as all other credit information available to the financial subsidiaries, reflect appropriate paying capacity.	Loans whose risk rating is “A” according to the methodology of the MRCO as established by the Superintendency of Finance.
“BB”	New loans with risk rating at approval of “BB.”	Outstanding loan and financial leases past due more than 60 days but less than 90 days (i.e., between 60 and 89 days past due). Loans in this category are acceptably serviced and collateralized, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor’s ability to pay or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts.	Loans whose risk rating is “BB” according to the methodology of the MRCO as established by the Superintendency of Finance.

Category	Approval	Commercial loan portfolio	Consumer loan portfolio
"B"	New loans with risk rating at approval of "B."	Outstanding loans and financial leases past due over 90 days but less than 120 days (i.e., between 90 and 119 days past due). The debtor shows insufficient paying capacity of its obligations.	Loans whose risk rating is "B" according to the methodology of the MRCO as established by the Superintendency of Finance.
"CC"	New loans with risk rating at approval of "CC."	Outstanding loans and financial leases past due more than 120 days but less than 150 days (i.e., between 120 and 149 days past due). Loans in this category represent grave insufficiencies in the debtors' paying capacity or in the project's cash flow, which may compromise the normal collection of the obligations.	Loans whose risk rating is "CC" according to the methodology of the MRCO as established by the Superintendency of Finance.
"Default"	—	Outstanding loans and financial leases past due for 150 days or more. This category is deemed uncollectible. These loans are considered in default.	Consumer loan portfolio past due over 90 days.

For new consumer loans, we use our internal statistical origination models to develop an initial classification category ("AA," "A," "BB," "B" and "CC"). Once the loan is disbursed, we use formulas provided by the Superintendency of Finance, which incorporate payment performance of the borrower to calculate a score which in turn is used to determine the loan classification.

For financial statement reporting purposes, the Superintendency of Finance requires that loans and leases be given a risk category on the scale of "A," "B," "C," "D" and "E." As a result, the risk classifications are aligned to the risk categories as follows.

	Risk classification	
Risk category	Commercial	Consumer
"A"	"AA"	"AA" "A"—between 0 and 30 days past due
"B"	"A" "BB"	"A"—more than 30 days past due "BB"
"C"	"B" "CC"	"B" "CC"
"D"	"Default"	"Default"—all other past due loans not classified in "E"
"E"	"Default"	"Default"—past due loans with a Loss given default ("LGD") of 100% (1)

(1) LGD is defined as a percentage to reflect the credit loss incurred if an obligor defaults. LGD for debtors depends on the type of collateral and would suffer a gradual increase in the percentage of loss according to the amount of days elapsing after being classified in each category. For this purpose, 100% of the collateral value is considered to cover the principal amount.

Credit collection

As part of our ongoing process to monitor risks, we monitor the credit collection process, which is the most important principle in our credit process. We analyze, evaluate and monitor each credit and, if applicable, its guarantees. Special attention is paid to non-performing loans and stricter measures are used for these loans. When expanding or restructuring a loan, we give consideration to the following key factors:

- Viability of the business as a going concern.
- Long-term cash flow consistency and sustainability of the business.
- Strengthening of the collateral underlying the loan.
- Contributions of partners or further capitalizations.
- Expectation of recovery and loss mitigation.

When a borrower fails to pay a loan on time, the credit is, after a specified number of days (depending upon the type of loan), classified as non-performing and transferred to the workout group, which analyzes and designs, together with the collection and legal departments, a collection plan. Any amendment to the original terms or conditions of the loan has to be approved by the workout group responsible for the loan. We do not make additional loans to a borrower in default.

Allowances for loan losses

We follow the norms of the Superintendency of Finance for the establishment of allowances for loan losses. There are separate rules for commercial loans and consumer loans.

For commercial loans, the process is as follows:

- Determination of the loan classification (“AA,” “A,” “BB,” “B,” “CC” or “Default”) based on the repayment capacity and payment record, among other considerations, of the borrower;
- Determination of the probability of default from tables provided by the Superintendency of Finance which take into account the loan classification (“AA” through “Default”) and the size of the borrower in terms of assets (large, medium or small business);
- Determining the loss given default based on the type of credit support (guarantees) and the past due status of the loan, using guides (tables) provided by the Superintendency of Finance; and
- Based on the expected loss given default and the exposure at default, the amount of the loan provision for the individual loan is determined and booked.

For consumer loans, the process is as follows:

- Determination of the loan classification (“AA,” “A,” “BB,” “B,” “CC” or “Default”) based on the score generated by the bank’s internal statistical origination model (for new loans) or on a score determined by a formula provided by the Superintendency of Finance, which incorporates the payment performance of the borrower;
- Determining the probability of default from tables provided by the Superintendency of Finance which take into account the loan classification (“AA” through “Default”);

- Determining the loss given default based on the type of credit support and past due status using tables provided by the Superintendency of Finance; and

- Based on the expected loss given default and the exposure at default, the amount of the loan provision for the individual loan is determined and booked.

Anti-Money Laundering

We have established a comprehensive set of policies and procedures to comply with all regulatory requirements related to anti-money laundering and terrorism financing risk. Our Anti-Money Laundering and Terrorism Financing Administration System, or SARLAFT, is based on the premise of risk management by means of the so-called "know-your-customer" checklists. We aim to learn about our customers and their operations, market segments, clients, products, distribution channels and jurisdictions to monitor transactions and report suspicious operations (those that may be connected to money laundering or the financing of terrorist activities) to the authorities, in accordance with External Circular 026 of June 2008 issued by the Superintendency of Finance.

Our SARLAFT is supported by our corporate culture, policies, controls and procedures that are of common knowledge and application to our organization. They are compliant with the Colombian regulatory framework, and include the recommendations and international best-practices on anti-money laundering, specifically those of the Financial Action Task Force. Specifically, prior to the rendering of a service or providing a product, personnel are required to obtain full identification from potential clients, including tax status, and to keep all such information in the account file. Any cash deposit with a value equal to or in excess of U.S.$ 5,000 is reported periodically to the authorities. Our employees are also required to identify and report any transaction that by their characteristics, origin, region or other attributes seem suspicious. Suspicious transactions include the exclusive use of cash or cash equivalents, especially old or damaged bills and documents that fail to identify completely the transactions. Our employees are trained to recognize suspicious transactions and, if appropriate, report them to the compliance officer in accordance with our policies.

In compliance with the applicable Colombian regulations, our board of directors has appointed a compliance officer and his alternate, who are duly registered before the Superintendency of Finance. Our compliance officer and his alternate are charged with overseeing the adoption and implementation of our anti-money laundering procedures as well as developing and promoting the staff training programs to educate employees on policies and regulations relating to the prevention of money laundering and acts of terrorism. Our conduct rules and procedures are outlined in our SARLAFT Manual, as required by Colombian law, as well as in our code of conduct, both of which are widely distributed and freely accessible to all our employees. We provide our employees with continuous training to meet our anti-money laundering risk management goals.

Liquidity risk

We are required to, and maintain adequate liquidity positions based on, the Superintendency of Finance's liquidity parameters, as follows:

- Until 2009, banks were required to determine liquidity gap, which is the difference between the expected cash flow disbursements from assets and the expected cash flow disbursements from liabilities, classified by time bracket, including both on- and off-balance sheet assets and liabilities as well as contingent assets and liabilities. Cumulative liquidity gap is defined as the sum of liquidity gap for the current and the previous periods. Banks were generally required to have a positive three-month cumulative liquidity gap and, if this measure was negative, its absolute value was accounted as "Liquidity Value at Risk." No bank was allowed to have two consecutive evaluations of Liquidity Value at Risk which exceeded its "Net liquid assets" defined as net interbank loans, tradable debt securities that mature in more than three months, and available cash.

- In 2009, a short-term liquidity index (*Indicador de Riesgo de Liquidez*), or "IRL," that measures 7-, 15- and 30-day liquidity was established. This index is defined as the difference between adjusted liquid assets and net liquidity requirements. Liquid assets include total debt securities adjusted by market liquidity and exchange rate, excluding investments classified as "held to maturity" different from mandatory investments, and available cash adjusted by reserve requirements. Net liquidity requirements are the difference between expected contractual asset and liability cash flows. Cash flows from past due loans are not included in this calculation.

The following table shows our IRL at December 31, 2010 and 2011 and at March 31, 2011 and 2012, as reported to the Superintendency of Finance based on consolidated figures.

	At December 31,		At March 31,	
	2010	2011	2011	2012
	(in Ps millions)			
IRL-7 days	1,819,907.4	1,281,937.7	1,517,320.7	2,774,648.9
IRL-15 days	1,529,462.0	906,362.9	1,199,699.6	2,269,910.1
IRL-30 days	0.0	950,465.6	0.0	2,312,519.3

The assets-liabilities (ALCO) committee, which was established in 2004, is governed by the ALCO committee regulation and comprised of the Vice President of Corporate Banking, the Vice President of Institutional Banking, the Vice President of Retail Banking, the Administrative Vice President, the National Manager of Risk Management, National Manager of Finance and Treasury Management, and is responsible for supporting the board of directors and the President of the Bank in the creation and control of the general policies on the management of assets and liabilities, specifically the monitoring of market risk and liquidity risk.

Operational risk

Our policies with respect to operational risk are directed at complying with the norms established by the Superintendency of Finance (which, in turn, follow the Basel II Accord of 2004). These norms require that Colombian banks establish a system for the administration of operational risks which includes the identification, measurement, control and monitoring functions as well as a business continuity plan.

In order to comply with these norms, we established within our organizational structure an operational risk unit independent of the operational and control areas of the Bank. The unit is responsible for the establishment and definition of policies and methodologies, and the procedures for communicating within our organization all information related to operational risk. In addition to the staff of the operational risk unit, we have established operational risk advisors, which are employees in key areas who, in addition to their functional responsibilities, are required to report events or situations which may result in operational losses. Additionally, we have an operational risk management committee composed of the Vice-President of Operations and Technology, the Chief Risk Manager and selected officers, which meets on a biannual basis to review operational risks policies and follow up on the execution of action plans.

The principal activities of our operational risk unit, are as follows:

- advisory in the engagement of external consultants for the identification of gaps with international standards and the development of work plans to close the gap;
- analysis of norms and their effect;
- identification and application of best practices;
- identification and implementation of operational risk management tools;
- unification of criteria in the search of business continuity tools;

- economies of scale in the engagement of consultants and the acquisition of tools; and
- coordination in the preparation of requests for proposals and the evaluation of proposals.

Market risk

General

We have substantial market risk, primarily as a result of our lending, trading and investments businesses. The primary market risks to which we are exposed are interest rate risk, foreign exchange rate risk, variations in stock price risk, and investment fund risk.

We are exposed to interest rate risk whenever there is a mismatch between interest rate sensitive assets and liabilities, subject to any hedging we have engaged in using interest rate swaps or other off-balance sheet derivative instruments. Interest rate risk arises in connection with both trading and non-trading activities.

We are exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities, and off-balance sheet items denominated in different currencies. We are exposed to variations in stock price risk in connection with investments in equity securities. We are exposed to fund risk primarily from investments in mutual funds.

We and our board of directors, through our risk management committee, are responsible for establishing policies, procedures and limits with respect to market risk. This committee also monitors overall performance in light of the risks assumed. These policies and procedures describe the control framework used by us to identify, to measure and to manage market risk exposures inherent in our activities. The main purpose of these policies and procedures is to set limits on risk. These policies and procedures are followed in market risk decision-making in all business units and activities. We comply with the requirements of the Liquidity Risk Management System (*Sistema de Administration de Riesgos de Mercado*) of the Superintendency of Finance.

We are responsible for setting market risk limits and monitoring market risk.

Risk management personnel are responsible for the following:

- identification, measurement and management of the market risk exposures inherent in their businesses;
- analyzing exposures under stress scenarios;
- confirming compliance with applicable risk management policies, reporting violations of such policies, and proposing new policies;
- designing methodologies for valuing securities and financial instruments; and
- reporting daily to senior management as to the levels of market risk associated with trading instruments.

Tools for measuring and managing market risk

We hold trading and non-trading instruments. Trading instruments are recorded in our “treasury books,” and non-trading instruments are recorded in our “banking books.”

Trading instruments

Trading instruments include our proprietary positions in financial instruments held for sale and/or acquired to take advantage of current and/or expected differences between purchase and sale prices. The tables in this section include certain investments recorded under Colombian Banking GAAP in “held to maturity.” As a result of trading fixed income and floating rate securities, equity securities, investment funds and foreign exchange, we are exposed to interest rate, variations in stock prices, investment fund and foreign exchange rate risks, as well as volatility risk when derivatives are used. We trade foreign exchange, fixed income instruments, floating rate securities, and basic derivative instruments (forwards, options, cross currency swaps and interest rates swaps).

We use a value at risk calculation, or “VaR,” to measure our exposure to market risk in trading instruments. VaR is an estimate of the expected maximum loss in market value of a given portfolio over a time horizon at a specific confidence interval, subject to certain assumptions and limitations discussed below.

VaR models have inherent limitations, including the fact that they rely on historical data, which may not be indicative of future market conditions or trading patterns. As a result, VaR models could overestimate or underestimate the value at risk and should not be viewed as predictive of future results. Furthermore, we may incur losses materially in excess of the amounts indicated by the VaR models on a particular trading day or over a period of time. VaR does not calculate the greatest possible loss. In addition, VaR models are subject to the reasonable judgment of our risk management personnel.

Our board of directors, assets and liabilities committee and risk management committee establish the maximum VaR for each type of investment and for each type of risk using their own internal VaR models as well as the Superintendency of Finance methodology, or the “regulatory VaR.” We use VaR estimates to alert senior management whenever the statistically estimated losses in the bank’s portfolios exceed pre-established levels. Limits on VaR are used to control exposure on a portfolio-by-portfolio basis.

In order to strictly control the trading portfolios, we have limits for every risk factor. To determine the limits, the effect of the variation (dollar value for 1 basis point or DV01) in each risk is taken into account. These risk limits are validated through stress testing based on historical extreme scenarios.

As described below, we measure interest rate risk, foreign exchange risk, variations in stock price risk and investment fund risk in accordance with VaR models. We use two types of approaches to measure VaR: (1) regulatory VaR methodology and (2) internal VaR models.

- The regulatory VaR used in the calculation of the capital ratio (solvency ratio) follows the methodology established by the Superintendency of Finance. The Superintendency of Finance methodology is based on the Basel II model. The Superintendency of Finance has not made publicly available technical information on how it determines the volatilities used in this model, and only limited information is available. The volatilities used in the Superintendency of Finance’s model are of a magnitude similar to those observed in very high volatility or stress periods. These parameters are seldom changed by the Superintendency of Finance. See “—Regulatory VaR” below.
- In addition, we use internal models to manage market risk. Parameters are set to adapt to the evolution of volatility of the risk factors over time using statistical methods to estimate them. We generally give recent data more weight in calculations to reflect actual market conditions. Our corporate governance bodies set limits based on this VaR measure in order to control the market risks. Parametric VaR and historical simulation methodologies are also used.

Regulatory VaR

The regulatory VaR calculation is primarily used for the Superintendency of Finance's solvency ratio calculations.

The Superintendency of Finance methodology is based on the Basel II model. This model applies only to the banks' investment portfolio and excludes investments classified as "held to maturity" and any other non-trading positions include trading and "available for sale" portfolios. Total market risk is calculated on a daily basis by aggregating the VaR for each risk exposure category on a ten-day horizon using risk factors calculated in extreme market stress scenarios. VaR at month-end comprises part of the capital adequacy ratio calculation (as set forth in Decree 2555 of 2010). The Superintendency of Finance's rules require us to calculate VaR for the following risk factors: interest rate risk, foreign exchange rate risk, equity price risk and investment fund risk. Correlations between risk factors are not considered. The fluctuations in the portfolio's VaR depend on sensitivity factors determined by the Superintendency of Finance, modified duration and changes in balances outstanding. The ten-day horizon is defined as the average time in which an entity could sell a trading position on the market.

Our VaR calculation is the aggregate of the VaR of our banking business and our subsidiaries.

Interest rate risk. Our exposure to interest rate risk in our trading portfolio primarily arises from investments in securities (floating and fixed rate) and derivative instruments. In accordance with the Superintendency of Finance rules, we calculate interest rate risk for positions in pesos, foreign currency and UVRs, separately. UVR is a Colombian inflation-adjusted monetary index calculated by the board of directors of the Colombian Central Bank and generally used for pricing home-mortgage loans. The interest rate risk model is designed to measure the risk of loss arising from changes in market interest rates. It includes the sum of the net short or long position in the whole trading book; a proportion of the matched positions in each time band (the "vertical disallowance") and a proportion of the matched positions across different time bands (the "horizontal disallowance"). The interest rate sensitivity factors and vertical and horizontal disallowances are not updated frequently by the Superintendency of Finance because those are calculated based on extreme historical market situations; the most recent update was made in November 2010 and published in External Circular 42.

The total interest rate exposure is calculated as the sum of the sensitivity for each band category.

Foreign exchange rate risk. We use a sensitivity factor to calculate the probability of losses as a result of fluctuations in currencies in which we hold positions. Regulatory VaR is computed daily by multiplying the net position by the maximum probable variation in the price of such positions on a ten-day horizon, determined by the Superintendency of Finance as shown in the following table.

U.S. dollar	5.5%
Euro	6.0%
Other currencies	8.0%

At December 31, 2010, the Superintendency of Finance updated the standard model for the market risk measurement parameters. Specifically, the exchange rate risk sensitivity factor for the calculation rose from 4.4% percent to 5.5%.

Our exposure to foreign exchange rate risk arises primarily from changes to the U.S. dollar/peso exchange rate. We use an approximation to estimate the risk in exchange rate-related option positions based on delta, gamma and vega sensitivities, which is included in foreign exchange risk.

The foreign exchange rate risk VaR calculation under the standard model of the Superintendency of Finance includes both the trading and non-trading book.

At December 31, 2011 and at March 31, 2012, our net foreign currency position was U.S.$356,372.2 of net assets, and U.S.$144,907.4 of net liabilities, respectively.

While we conduct the majority of our business in pesos, we occasionally make loans and financial leases in foreign currencies. Additionally, we hold some cash and accounts receivables in foreign currency. At March 31, 2012, we had Ps 301.7 million in foreign currency-denominated assets. We also have some bank borrowings and other financial obligations denominated in foreign currencies. At March 31, 2012, we had Ps 301.8 million in foreign currency-denominated liabilities. Our policy is to maintain limited foreign exchange rate exposure by seeking to match foreign currency-denominated assets and liabilities as closely as possible; however, variations in exchange rates may increase or decrease our holdings and liabilities. Upon consummation of the HSBC acquisition, we will be exposed to additional exchange rates as we begin to conduct business in Paraguay, Peru and Uruguay. However, we intend to continue our hedging policies.

Equity price risk. In determining regulatory VaR variations in equity price risk, certain investments are excluded: (a) equity investments in financial institutions that are supervised by the Superintendency of Finance and (b) equity investments derived from corporate restructuring processes (under Law 550 of 1999) or received as in-kind payment for non-performing loans. In addition, as part of the solvency ratio calculation, equity investments in entities supervised by the Superintendency of Finance that do not consolidate are deducted from primary capital. Investments in entities that consolidate but are not supervised by the Superintendency of Finance (non-financial investment) are included in VaR calculations.

In December 2010, the Superintendency of Finance issued a revised methodology that excludes from the VaR calculation investments that are available for sale and equity securities that are acquired as strategic investments and intended to be held on a long-term horizon.

Variations in equity price risk VaR are computed daily by multiplying the net position by the maximum probable variation in the price of such positions on a ten-day horizon, determined by the Superintendency of Finance as 14.7%. This coefficient is based on historic volatilities and is seldom adjusted.

The following table breaks down our investments subject to regulatory VaR by time since initial investment at December 31, 2010 and 2011 and March 31, 2012.

	At December 31,						At March 31,		
	2010			2011			2012		
	Investment subject to Regulatory VaR	Regulatory VaR	Percentage of portfolio	Investment subject to Regulatory VaR	Regulatory VaR	Percentage of portfolio	Investment subject to Regulatory VaR	Regulatory VaR	Percentage of portfolio
	(in Ps millions)		(%)	(in Ps millions)		(%)	(in Ps millions)		(%)
Less than 18 months	3,050,768.4	21,649.1	0.7%	2,855,272.9	31,905.4	1.1%	2,706,676.6	29,181.5	0.9%
18—36 months	265,449.3	12,457.6	0.4%	163,257.4	8,244.5	0.3%	533,318.5	24,020.1	0.7%
More than 36 months	9,313.0	538.1	0.0%	222.3	21.7	0.0%	867.8	83.2	0.0%
Total	**3,325,530.7**	**34,644.8**	**1.0%**	**3,018,752.6**	**40,171.6**	**1.3%**	**3,240,862.9**	**53,284.8**	**1.6%**

Investment fund risk. Investment fund risk comes from temporary investment of cash in portfolios managed by trust companies. Investment fund risk VaR is computed daily by multiplying the net position by the maximum probable variation in the price of such positions on a ten-day horizon, determined by the Superintendency of Finance as 14.7%.

The following tables show the VaR calculation relating to each of the risk factors described above and based on the Superintendency of Finance methodology for the years ended December 31, 2010 and 2011 and for the three-month period ended March 31, 2012, for a ten-day horizon. The averages, minimums and maximums are determined based on end of the month calculations.

	At December 31, 2010	Year ended December 31, 2011			
	Period end	Period end	Average	Maximum	Minimum
		(in Ps millions)			
Interest rate risk VaR	34,782.3	40,211.6	37,620.9	44,417.4	27,854.9
Foreign exchange rate risk VaR	321.4	457.0	219.1	851.1	7.7
Equity price risk VaR	1,362.7	412.2	1,229.8	1,777.0	334.9
Investment fund risk VaR	988.6	965.6	912.9	1,077.6	809.3
Total market risk VaR	**37,455.0**	**42,046.4**	**39,982.7**	**48,123.1**	**29,006.8**

	At December 31, 2011	Three month period ended March 31, 2012			
	Period end	Period end	Average	Maximum	Minimum
		(in Ps millions)			
Interest rate risk VaR	40,211.6	53,425.7	43,694.6	53,425.7	32,490.7
Foreign exchange rate risk VaR	457.0	22.4	63.4	493.5	8.9
Equity price risk VaR	412.2	471.6	428.0	485.1	359.2
Investment fund risk VaR	965.6	1,038.3	902.2	1,038.3	828.6
Total market risk VaR	**42,046.4**	**54,958.0**	**45,088.2**	**55,442.6**	**33,687.4**

Our interest rate risk VaR increased 15.6% between December 31, 2010 and 2011 as a result of an increased exposure to investments with a term beyond one year. A 32.9% increase at March 31, 2012 as compared to December 31, 2011 was due primarily to a reallocation of the portfolio towards longer-term, mainly two-year, investments.

Our foreign exchange risk VaR increased 42.2% between December 31, 2010 and 2011, and decreased 95.1% between December 31, 2011 and March 31, 2012. These decreases were mainly due to a reduction in our foreign currency position.

Our equity price risk VaR decreased 69.8% between December 31, 2010 and 2011 because we liquidated our equity investment positions. A 14.4% increase at March 31, 2012 as compared to December 31, 2011 was due primarily to an increase in our equity investments.

Our investment fund risk VaR decreased 2.3% between December 31, 2010 and 2011, mainly as a result of a decrease in the volume of funds. Our investment fund risk increased 7.5% between December 31, 2011 and March 31, 2012 primarily due to an increase in fund investments.

Internal models for VaR calculation

In addition to regulatory VaR, we use internal models to measure VaR in order to determine and control our main risks under normal operating conditions. In particular, we use internal models to oversee the interest rate risk of our full investment portfolio on daily basis.

We use methodologies such as parametric VaR and historical simulation. The parametric VaR, which is based on Riskmetrics Group, Inc.'s methodology, involves the identification of specific risks, such as interest and exchange rate risks that could affect the value of assets included in the trading book. The volatility of each factor, measured as a standard deviation, and the correlation with other factors are determined by using an exponentially weighted moving average model. Once this is determined, the expected cash flow of each security included in the portfolio is determined. These cash flows are classified into categories for each risk identified and multiplied by the corresponding volatility to calculate the VaR per factor. The VaR for the various factors is then aggregated using a correlation matrix to identify the overall standard deviation of the bank's treasury book. The VaR of our treasury book is determined based on the standard deviation subject to a confidence level of 95% and a ten-day horizon.

The historical simulation calculates daily Conditional Value at Risk, or "CVaR," based on the historical behavior of the one day variations of prices in the market. This methodology does not assume any statistical distribution function for the earnings and loss of a portfolio. This simulation is based on the calculation of the average of the upper and lower fifth percentile of the daily yield distribution. Therefore, VaR by CVaR will be larger than the common historical simulation VaR in all cases.

The following table shows the interest rate VaR calculation based on internal models for December 31, 2010 and 2011 and March 31, 2012 on a ten-day horizon (using an adjustment factor applied to VaR on a one-day horizon). Values presented are based on our internal models. The averages, minimums and maximums are determined based on daily calculations.

	(in Ps millions)
2010	
At December 31	15,028.6
Average	16,563.0
Maximum	24,377.2
Minimum	13,237.1
2011	
At December 31	7,029.9
Average	9,224.5
Maximum	15,591.3
Minimum	4,279.3
2012	
At March 31	4,860.0
Average	6,739.8
Maximum	8,351.4
Minimum	4,398.2

Non-trading instruments

Non-trading instruments consist primarily of loans and deposits. Our primary market risk exposure in our non-trading instruments is interest rate risk, which arises from the possibility of changes in market interest rates. Such changes in market interest rates affect our net direct operations income due to timing differences on the repricing of our assets and liabilities. We are also affected by gaps in maturity dates and interest rates in the different asset and liability accounts. As part of our management of interest rate risk, we analyze the interest rate mismatches between our interest earning assets and our interest-bearing liabilities.

Superintendency of Finance rules require us to measure foreign exchange rate risk VaR not only for treasury book positions but also for all assets and liabilities denominated in foreign currencies. Our non-trading instruments are exposed to foreign exchange rate risk primarily from loans and deposits denominated in dollars. This foreign exchange rate risk is monitored under the VaR methodology described above.

Sensitivity of fair value is determined using either one of two methodologies: (1) determining the difference between the fair value and the net present value of the expected cash flows using a discount rate of 50 basis points and 100 basis points higher than that used for the original calculation; or (2) determining the sensitivity of the remaining cash flows (modified duration), multiplied by the fair value, multiplied by the increase in discount rate for each scenario (50 basis points and 100 basis points). Methodology (1) is in some cases more precise while methodology (2) is a good approximation for moderate variations in the discount rate.

Sensitivity of certain instruments is assumed to be zero because its fair value is equal to its book value such as instruments with maturities of 90 days or less, or loans and borrowings from development banks.

Our sensitivity analysis methodology should be interpreted in light of the following limitations: (1) we have assumed a uniform interest rate change for assets and liabilities of varying maturities; and (2) we have assumed that the modified duration of variable rate assets and liabilities is the time remaining until the next interest reset date.

An increase in interest rates negatively affects the value of our assets and positively affects the value of our liabilities, as an increase in interest rates decreases the fair value of both assets and liabilities.

The following table presents our sensitivity analysis based on hypothetical changes of 50 and 100 basis point shifts in interest rates on the net present value of interest rate sensitive assets and liabilities for the periods indicated.

	December 31, 2010			December 31, 2011			March 31, 2012		
	Fair value	+50 basis points	+100 basis points	Fair value	+50 basis points	+100 basis points	Fair value	+50 basis points	+100 basis points
					(in Ps millions)				
Assets									
Held for trading securities	1,692,606.7	1,687,328.7	1,682,050.7	1,281,775.5	1,279,018.5	1,276,261.5	1,007,228.2	1,003,579.2	999,930.2
Available for sale securities	1,633,444.0	1,630,413.0	1,627,382.0	1,736,986.3	1,731,024.3	1,725,062.3	2,233,561.8	2,225,808.3	2,218,054.8
Held-to-maturity securities	559,536.6	557,041.6	554,546.6	942,049.2	939,659.7	937,270.2	778,332.5	776,434.0	774,535.5
Loans	3,594,576.9	3,579,200.8	3,563,824.7	4,445,370.9	4,425,676.4	4,405,981.8	4,462,196.2	4,442,646.9	4,423,097.7
Short-term funds	6,556.5	6,556.5	6,556.5	619,703.2	619,703.2	619,703.2	655,980.7	655,980.7	655,980.7
Customer's acceptances	4,771.3	4,771.3	4,771.3	2,073.0	2,073.0	2,073.0	1,893.4	1,893.4	1,893.4
Total interest rate sensitive assets	**7,491,491.9**	**7,465,311.8**	**7,439,131.7**	**9,027,958.1**	**8,997,155.1**	**8,966,352.0**	**9,139,192.9**	**9,106,342.7**	**9,073,492.5**
Liabilities									
Current accounts, saving deposits and other	2,007,145.6	2,007,145.6	2,007,145.6	2,972,446.2	2,972,446.2	2,972,446.2	3,165,898.8	3,165,898.8	3,165,898.8
Term deposits	2,610,857.9	2,614,630.5	2,618,403.1	2,717,506.7	2,721,425.6	2,725,344.4	3,210,535.2	3,215,162.5	3,219,789.7
Bank acceptances outstanding	4,202.8	4,202.8	4,202.8	2,210.5	2,210.5	2,210.5	1,300.8	1,300.8	1,300.8
Short-term funds	1,706,163.2	1,706,163.2	1,706,163.2	2,041,671.6	2,041,671.6	2,041,671.6	1,456,768.1	1,456,768.1	1,456,768.1
Borrowings from banks	872,867.4	881,688.8	890,510.2	963,542.3	975,399.3	987,256.2	929,776.6	940,417.9	951,059.2
Long-term debt	—	—	—	—	—	—	—	—	—
Total interest rate sensitive liabilities	**7,201,236.9**	**7,213,830.9**	**7,226,424.9**	**8,697,377.3**	**8,713,153.1**	**8,728,928.9**	**8,764,279.6**	**8,779,548.1**	**8,794,816.7**
Total net change	**290,255.0**	**251,480.9**	**212,706.7**	**330,580.8**	**284,002.0**	**237,423.1**	**374,913.4**	**326,794.6**	**278,675.8**

BUSINESS

Overview

Banco GNB Sudameris S.A. is a universal bank in Colombia with special focus on small and medium enterprises, or SMEs, mid-corporates and personal banking. The Bank was created in August 1920 as a Colombian corporation. In 1924, it became a branch of Banque Francaise et Italienne para l'Amerique du Sud. On December 22, 2003, Banque Sudameris, Banca Intesa and other shareholders sold their aggregate 94.6% ownership interest to Gilex Holding B.V., our current controlling shareholder, which in turn is controlled by the Gilinski family. The Gilinksi family had been a controlling shareholder of Banco Andino and Banco de Colombia (now known as Bancolombia).

As part of our operating strategy, we maintain a strong capital and liquidity position. We have the lowest non-performing loan ratio, the highest coverage ratio, the third-highest liquidity ratio and the twelfth-highest solvency ratio in the Colombian banking system at March 31, 2012. Our network of ATMs and branches spread throughout each of Colombia's 32 departments in more than 483 cities and towns, with particular emphasis on the wealthiest and largest cities in Colombia (Bogotá, Medellín, Cali and Barranquilla) covering nearly 90% of Colombia's population. Banco GNB Sudameris is one of Colombia's most efficient banking platforms as a result of its continuous focus on innovation and the second largest ATM network in Colombia.

We are one of Colombia's largest providers of credit through payroll loans (*libranzas*), with agreements with more than 600 employers; reaching approximately 201,690 clients throughout Colombia at March 31, 2012. At March 31, 2012, we had a market share of 11.4% of the Colombian payroll loan (*libranza*) market. Payroll loans (*libranzas*) accounted for 46% of our total loan portfolio at March 31, 2012.

Through our subsidiaries, we also provide asset, cash and portfolio management services as well as other fiduciary services, ATM services for a wide range of transactions and stock brokerage and other securities market services.

In May 2012, we entered into an agreement with HSBC Latin America Holdings (UK) Ltd and other HSBC affiliates to acquire HSBC's banking operations in Colombia, Paraguay, Peru and Uruguay. These acquisitions, which are anticipated to occur over the next five to twelve months, will give us a footprint in the South American region. As a result of these acquisitions, we anticipate that our total assets will grow, on a pro forma basis, to Ps 18,179,930.4 million. See "Unaudited Pro Forma Condensed Consolidated Financial Information."

The following table presents our key consolidated financial and operating data for the periods and at the dates presented:

	At and for the year ended December 31,			At and for the three-month period ended March 31,
	2009	2010	2011	2012
	(in Ps millions, except operating data or where otherwise indicated)			
Financial data:				
Total assets	7,307,096.3	8,321,389.0	9,922,440.0	10,137,263.7
Investments	3,303,495.7	3,925,352.5	4,001,730.7	4,061,720.9
Loan portfolio	3,240,562.6	3,459,714.5	4,309,373.3	4,321,963.3
Deposits	4,072,889.6	4,918,073.9	6,053,654.0	6,651,697.8
Total shareholders' equity	517,857.6	597,507.8	636,784.0	670,602.4
Direct operating result	381,583.8	334,127.9	331,430.6	80,910.5
Net income	87,028.3	113,201.0	99,746.2	21,636.0
ROAA (1)		1.4%	1.1%	0.9%
ROAE (2)		20.3%	16.2%	14.1%
Net interest margin (3)		4.0%	3.3%	3.0%
Cost-to-income ratio (4)	38.2%	38.6%	42.3%	41.5%
Operating expenses-to-asset ratio (5)		2.2%	2.0%	1.9%
Non-performing loan ratio (6)	1.6%	1.7%	1.6%	1.6%
Operational data (in units):				
Number of customers (7)	243,779	254,479	280,548	287,253
Number of branches	92	98	106	106
Number of ATMs	1,426	1,588	1,804	1,821

(1) For the years ended December 31,"ROAA" is calculated as net income divided by average of total assets (the sum of total assets at the end of the fiscal year and total assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, ROAA is calculated as net income for the three-month period multiplied by four, divided by average assets (the sum of total assets at the end of the three-month period and total assets at the end of the previous fiscal year, divided by two).

(2) For the years ended December 31, "ROAE" is calculated as net income divided by average shareholders' equity (the sum of shareholders' equity at the end of the fiscal year plus shareholders' equity at the end of the prior fiscal year, divided by two). For the three-month period ended March 31, ROAE is calculated as net income for the three-month period multiplied by four, divided by average shareholders' equity (the sum of shareholders' equity at the end of the three-month period and shareholders' equity at the end of the previous fiscal year, divided by two).

(3) For the years ended December 31, net interest margin is calculated as direct operating result (excluding commissions and fees, net and exchange, net), divided by average interest-earning assets (the sum of interest-earning assets at the end of the fiscal year and interest-earning assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, net interest margin is calculated as direct operating result (excluding commissions and fees, net and exchange, net) multiplied by four, divided by average interest-earning assets (the sum of interest-earning assets at the end of the three-month period and interest-earning assets at the end of the previous fiscal year, divided by two). Interest-earning assets are calculated as the sum of asset positions in money market and similar operations, plus investments, plus loan portfolio before allowances, plus bankers' acceptances, spot operations and derivative instruments.

(4) Calculated as other operating expenses divided by direct operating result plus other operating income.

(5) For the years ended December 31, operating expenses-to-assets ratio is calculated as other operating expenses divided by average of total assets (the sum of total assets at the end of the fiscal year and total

assets at the end of the previous fiscal year, divided by two). For the three-month period ended March 31, operating expenses-to-assets ratio is calculated as other operating expenses for the three-month period multiplied by four, divided by average assets (the sums of total assets at the end of the three-month period and total assets at the end of the previous fiscal year, divided by two).

(6) Non-performing loans as a percentage of total loans. Non-performing loans include all loans at least 31 days past due.

(7) Reflects only customers of the Bank.

History

The Bank was created in August 1920 as a Colombian corporation. In 1924, it became a branch of Banque Francaise et Italienne para l'Amerique du Sud. However, in 1975 foreign ownership restrictions were imposed in the Colombian banking sector and the Bank became Banco Sudameris Colombia. The foreign ownership restrictions were lifted in 1990 and Banque Sudameris became the controlling shareholder of the Bank.

On December 22, 2003, Banque Sudameris, Banca Intesa and other shareholders sold their aggregate 94.6% ownership interest to Gilex Holding B.V., our current controlling shareholder, which in turn is controlled by the Gilinski family. See "Share Ownership and Principal Shareholder." A year later, the Bank became the largest shareholder of Servibanca, one of the largest ATM networks in Colombia at the time.

In February 2005, the Gilinski family acquired Banco Tequendama from the Peruvian banking group Credicorp. Banco Tequendama had developed a significant consumer credit portfolio and had pioneered a credit structure in Colombia (payroll loans (*libranzas*)) under which loans were serviced by directly-sourced deduction from the salaries of the borrowers, who were generally governmental or other employees. In addition, Banco Tequendama provided fiduciary services to its clients, as did Banco Sudameris Colombia. In June 2005, Banco Sudameris Colombia and Banco Tequendama merged, resulting in what is today Banco GNB Sudameris S.A.

In February 2008, the Bank acquired 94.9% of a brokerage firm which later became Servivalores GNB Sudameris. In June 2010, the Bank strengthened its brokerage services position by acquiring broker Comisionista de Bolsa Nacional de Valores, which was later merged into Servivalores.

Finally, in May 2012, the Bank entered into an agreement with HSBC Latin America Holdings (UK) Ltd and other HSBC affiliates to acquire the banking operations of HSBC in Colombia, Paraguay, Peru and Uruguay. This latest milestone in the Bank's history represents the first step in its international expansion process.

Since the Gilinski family acquired a controlling interest in the Bank in 2003, total assets have increased by approximately fourteen-fold, shareholders' equity has increased by approximately ten-fold, our client base has increased by approximately thirteen-fold and our market participation has increased four-fold.

Recent developments—HSBC acquisitions

On May 11, 2012, we entered into a master share purchase agreement with HSBC Latin America Holdings (UK) Ltd and other HSBC affiliates to acquire HSBC's banking operations in Colombia, Paraguay, Peru and Uruguay. The total consideration for the four acquisitions is U.S.$400.0 million. The purchase price for each acquisition will be payable at closing of the relevant acquisition, adjusted for variations in net equity between a reference amount and the net equity existing at closing. Of the purchase price relating to Peru, U.S.$40.0 million will be deferred and payable on the one-year anniversary of the closing of the Peru acquisition.

We and our controlling shareholder agreed to cause capital injections of U.S.$130 million into the Bank (which capital injection was completed in May 2012) and U.S.$35 million into the Bank as conditions to the closings of each of the Paraguay and Uruguay acquisitions. We are also required to repay, or cause to repay, to HSBC on the one-year anniversary of the closing of the relevant acquisition, subordinated debt in the amount of U.S.$25 million in the case of Paraguay and U.S.$17 million in the case of Uruguay.

Although we anticipate that we will be consummating all four acquisitions, the master purchase agreement provides that the acquisitions are independent of each other, and the failure or delay in closing one acquisition does not affect the parties' obligations to close the remaining acquisitions. The acquisitions are subject to certain conditions to closing, the most important of which is the regulatory approvals of the different banking authorities. Based on our discussions with our legal counsels in the different jurisdictions, we anticipate that the acquisitions will close within the next five to twelve months.

The master share purchase agreement provides that if any of the four acquisitions has not been consummated by November 11, 2013, then either HSBC or we can move to terminate such acquisition. In the event that the failure to consummate the acquisition by November 11, 2013 is due to a reason other than a breach by HSBC (other than, in the case of the Colombia and Peru acquisitions only, the failure to obtain required governmental approvals), then we would be required to pay a break up fee ranging between U.S.$2.5 million and U.S.$8.2 million, depending on which is the affected acquisition.

The acquisition of HSBC's operations represents a significant opportunity for our international expansion process. It is the most important transaction in our history, given the opportunity to significantly expand its presence in South America, diversifying into countries with high growth potential. We believe that the assets are all well-positioned banks, mostly in investment grade countries (Peru, Colombia and Uruguay) and in relatively solid financial systems.

The following table presents some key information for the entities to be acquired. The financial information in the table below is derived from the financial statements of each of these entities included elsewhere in this listing particulars. Please note that the financial information included below is based on generally accepted accounting principles of each of Colombia, Paraguay, Peru and Uruguay and was converted to U.S. dollars from their original currency using different representative market rates, as a result, the information provided below is not directly comparable.

	Colombia[(1)]	**Paraguay**[(1)]	**Peru**[(1)]	**Uruguay**[(1)]
		(in Ps millions)		
Balance sheet[(2)]				
Total assets	2,211,410.0	1,126,031.5	2,505,584.6	2,078,739.8
Investments	503,524.0	172,854.7	68,929.5	142,616.3
Loan portfolio	1,329,030.0	574,614.8	1,471,164.5	1,022,603.1
Deposits	1,336,999.0	963,219.3	2,038,483.1	1,729,315.0
Total shareholders' equity	195,772.0	97,560.9	185,201.6	111,708.5
Income statement[(3)]				
Direct operating result	174,555.0	59,259.1	141,551.3	55,644.6
Net income	(43,844.0)	5,188.5	(38,454.9)	(14.469.7)
Other data[(2)]				
Branches	20	7	24	10

(1) The books and records of the HSBC Entities are maintained in their respective national currencies and their consolidated financial statements are prepared in accordance with accounting principles applicable to financial institutions in their respective countries. Local accounting principles differ in certain significant respects from U.S. GAAP and IFRS. We have made no attempt to identify or describe such differences.

(2) At March 31, 2012. Local financial statements were first translated into U.S. dollars using the following exchange rates per U.S. dollar: 2.668 Peruvian nuevos soles; 4,283.79 Paraguayan guaranies, and 19.542 Uruguayan pesos at March 31, 2012. The resulting U.S. dollar amounts were then translated into pesos using the representative market rates as computed and certified by the Superintendency of Finance of Ps 1,792.07 per U.S. dollar at March 31, 2012.

(3) For the year ended December 31, 2011. Local financial statements were first translated into U.S. dollars using the following exchange rates per U.S. dollar: 2.697 Peruvian nuevos soles; 4,392.68 Paraguayan guaranies, and 19.898 Uruguayan pesos at March 31, 2012. The resulting U.S. dollar amounts were then translated into pesos using the representative market rates as computed and certified by the Superintendency of Finance of Ps 1,942.7 per U.S. dollar at December 31, 2011.

HSBC Colombia S.A. offers general banking services, with a focus on premium services and a wider product base. HSBC Colombia S.A. also offers wealth management and trust services.

HSBC Bank Paraguay S.A. is a full service bank focused mainly on the commercial and corporate segments with a premium retail offering. The commercial and corporate banking business is focused on regional customers and aimed at increasing its presence in the agribusiness and cattle ranching sectors. In retail banking, the bank targets high-end customers and also other segments through corporate payroll relationships.

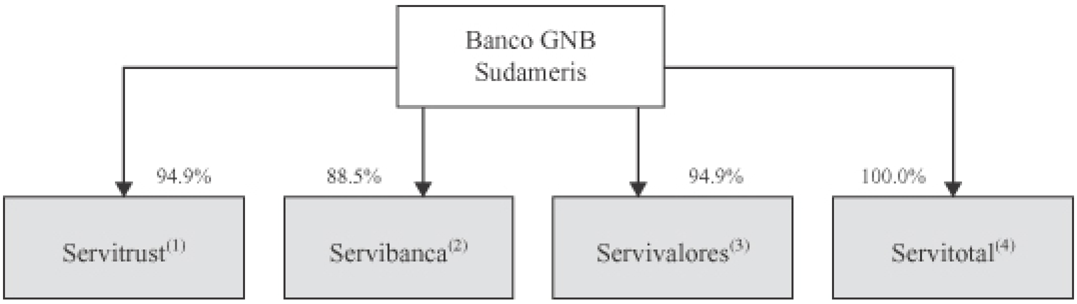
HSBC Bank Peru S.A. offers commercial and retail banking services. The commercial banking business provides mainly working capital and trade related products. The retail banking business is focused on premium and mass affluent customers, providing mainly mortgages and payroll loans.

HSBC Bank (Uruguay) S.A. is a full service bank with a focus on higher-end segments. The retail banking segment is mainly focused on high value local and regional market segments, providing mainly wealth management services, mortgages and personal loans. It has an incipient business on mass market through clients driven by corporate payroll relationships. The commercial banking segment focuses mainly on companies involved in international trade and agribusiness, with an important number of regional business customers from Brazil and Argentina. It has a strong presence in capital markets, as a local market maker with an active sales unit.

Organizational Structure

Company organization

The Bank conducts its business directly and through its subsidiaries. The following diagram describes our principal subsidiaries, including our direct and indirect ownership interests.



(1) Servitrust GNB Sudameris S.A., or "Servitrust," provides fiduciary services such as asset management and administration, cash management and portfolio management and has its principal place of business at Carrera 8 #15-42, piso 7, Bogotá, Colombia. See "—Other Services and Products—Fiduciary Services-Servitrust." Servitrust represented 1.7% and 2.5% of our direct operating result in 2011 and the three-month

period ended March 31, 2012, respectively; represented 1.0% and 0.8% of our revenues in 2011 and the three-month period ended March 31, 2012, respectively; and represented 0.4% and 0.4% of our total assets in 2011 and the three-month period ended March 31, 2012, respectively. A 3.02% interest in Servitrust is held by Gilex Holding B.V., our principal shareholder.

(2) Sociedad al Servicio de la Tecnología y Sistematización Bancaria Tecnibanca S.A.—Servibanca S.A., or "Servibanca," is the only independent ATM network in Colombia and has its principal place of business at Carrera 7 #26-20, piso 3, Bogotá, Colombia. See "—Other Services and Products—ATM services—Servibanca." Servibanca represented 14.7% and 14.7% of our direct operating result in 2011 and the three-month period ended March 31, 2012, respectively; represented 8.0% and 6.5% of our revenues in 2011 and the three-month period ended March 31, 2012, respectively; and represented 0.6% and 0.8% of our total assets in 2011 and the three-month period ended March 31, 2012, respectively.

(3) Servivalores—GNB Sudameris S.A.—Comisionista de Bolsa, or "Servivalores," provides securities brokerage, market and risk analysis, fund administration and foreign exchange intermediation services and has its principal place of business at Carrera 7 #71-52, Torre B, Local 101, Interior 2, Bogotá, Colombia. See "—Other Services and Products Brokerage Services—Servivalores." Servivalores represented 1.2% and 2.9% of our direct operating result in 2011 and the three-month period ended March 31, 2012, respectively; represented 0.6% and 0.7% of our revenues in 2011 and the three-month period ended March 31, 2012, respectively; and represented 0.3% and 0.3% of our total assets in 2011 and the three-month period ended March 31, 2012, respectively.

(4) Servitotal GNB Sudameris, or "Servitotal," is a newly-created subsidiary that will develop technological solutions in a strategic alliance with Bantotal, a technological solutions company focused on the banking sector. The Bank holds 94.8% of Servitotal directly and the remaining 5.2% indirectly through its other subsidiaries.

Our strengths

We believe that we have achieved and we are able to maintain, our strong position in the Colombian banking industry through the following competitive strengths.

We are a significant player in Colombia's banking sector with a strong exposure to key attractive segments with focus on highly profitable risk-adjusted products

We are a universal bank with special focus on SMEs, mid-corporates and personal banking. We believe these segments are attractive because they yield relatively higher margins than large corporate clients.

Our banking business is focused on three principal areas that are highly profitable in relation to the risk involved: payroll loans (*libranzas*), *carteras de fomento* (development loans) and *convenios* (funding agreements). Payroll loans (*libranzas*), which represent the substantial majority of our consumer loan portfolio, are consumer loans serviced through directly-sourced deductions from the client's salary. Development loans are credit lines funded by governmental development entities that we on-lend to companies at an intermediation margin ranging between 2-4% for long term funding for domestic development projects. Funding agreements are arrangements we enter into with governmental entities and pension funds where they agree to deposit their funds with us in exchange for certain services. These deposit arrangements represent low-cost funding for us and reduce our reliance on wholesale funding. See "—Our banking operations—General."

Superior risk management culture with high asset quality and strong liquidity

We have the lowest non-performing loan ratio of the Colombian banking system (1.6% at March 31, 2012 compared to 3.2% for the Colombian banking system). Our strong focus on payroll loans (*libranzas*) significantly reduces our consumer portfolio risk. We also maintain a strong liquidity position. At March 31, 2012, our investment-to-assets ratio was 40.1% as compared to 19.1% for the Colombian banking system, while our loans-to-deposits ratio was 65.3% as compared to 108.4% for the Colombian banking system. Our solvency ratio, which is calculated as our technical capital divided by our risk-weighted assets, was 14.7%, as compared to 15.3% for the Colombian banking system. The minimum solvency ratio required by Colombian banking regulations is 9.0%. Our coverage ratio (allowances as a percentage of past due loans) at March 31, 2012 was 197.6%, which compares favorably with the average for the Colombian banking system of 143.8%.

Our strong asset quality and capital and liquidity position has resulted in our local rating of AA+ by Fitch Inc. and by BRC, the Colombian rating agency. These ratings have also allowed us to secure and maintain our *convenios* (funding agreements) with governmental entities and pension funds. In addition, we are one of only nine recognized market makers for Colombian sovereign debt, and the fifth-largest market maker in the Colombian banking system at March 31, 2012. As a recognized market maker, we have access to the liquidity of the Colombian electronic trading system (*Sistema Electrónico de Negociación*, or "SEN"). See "—Treasury operations."

We have one of the most efficient banking platforms nationwide with focus on alternative channels to reach clients throughout Colombia.

We have a nationwide network of 106 branches and the second-largest ATM network in Colombia with 1,821 ATMs at March 31, 2012. In addition, we have payroll loans (*libranzas*) centers onsite at the premises of 23 employers. Our network covers each of the 32 departments of Colombia and is in approximately 483 cities and towns throughout Colombia, with a focus on the wealthiest and largest cities of Colombia (Bogotá, Medellín, Cali and Barranquilla). Our distribution network covers nearly 90% of the Colombian market.

Our focused approach to distribution through *libranza* centers and the use of next-generation ATMs, as well as our focus on development loans and funding arrangements, makes the use of the relatively more expensive branch format less critical to our banking business. As a result, we believe we are one of the most efficient banks in Colombia. At March 31, 2012, our efficiency ratio was 42.8%, as compared to 43.5% for the Colombian banking the system. See "—Other services and products—ATM services-Servibanca."

Our sophisticated technological backbone improves efficiency while enhancing processes and transactions

Our business model relies on the widespread presence of, and access to, highly-functional ATMs that provide a wide array of services to our clients in an efficient and hassle-free manner. We believe that the proper management of technology is key to the efficient management and growth of our business. We maintain a scalable technological infrastructure designed to facilitate processes while maximizing safety and privacy. Our central platform is Bantotal, a central system that acts as depositary of information regarding clients' activities and processes transactions in both domestic and foreign currency. We also maintain up-to-date information systems for processing, safety and contingencies. In 2011, we incorporated Servitotal, whose purpose is to develop new technological platforms and solutions for our banking business, in a strategic alliance with Bantotal, a technological solutions company focused on the banking sector. Our sophisticated information technological platform allows us to provide the services that our institutional clients require or demand. See "—Technology."

Our experienced management team has a strong track record of growing both organically and through acquisitions

The majority of our management has been with us from the time the Gilinski family became controlling shareholders in 2003. In particular, Mr. Jaime Gilinski Bacal, our Chairman of the board of directors, was also previously a member of the board of directors of Banco Andino and Banco de Colombia. Our President, Camilo Verástegui Carvajal, was also an executive officer of those banks at the same time as Mr. Gilinski. Their combined experience in the banking sector, as well as that of other officers of the Bank, positions us well to continue growing and to integrate efficiently our planned acquisitions. See "Management."

Under the stewardship of our current senior management, since 2003 we have undergone the integration of Banco Tequendama and the acquisition of two brokerage companies. During that time, our assets have increased by approximately fourteen-fold, our shareholders' equity has increased by approximately ten-fold, our client base has increased by approximately thirteen-fold and our market participation has increased four-fold. See "—History."

The acquisition of HSBC's banking operations in Colombia, Paraguay, Peru and Uruguay will provide us access to countries with substantial potential where we expect to replicate our success in Colombia

The acquisition of HSBC's banking operations in Colombia, Paraguay, Peru and Uruguay represent a significant opportunity for our international expansion. These acquisitions will allow us to diversify into countries that we believe have high economic growth potential and relatively low bank penetration rates. We believe that the assets are well-positioned banks, mostly in investment grade countries (Colombia, Peru and Uruguay) and in relatively solid financial systems. We believe that our management has the experience and technical expertise to replicate in those new markets our success in Colombia, and to exploit synergies in the Colombian market. See "—Recent developments—HSBC acquisitions."

Our strategy

Our overall objectives are to build upon our competitive strengths to pursue opportunities for growth and to enhance our long-term financial performance. To achieve these objectives, we intend to pursue a strategy with the following principal elements:

Continue our conservative risk management approach

We seek to maintain high quality assets and strong capital and liquidity positions. We believe that this policy has allowed us and will continue to allow us to enjoy an excellent reputation in the Colombian banking system. This has resulted in the development of a significant portfolio of *convenios* (funding arrangements), which provide us a stable, long-standing and reliable source of funds and reduces our reliance on wholesale funding. Our policy of maintaining a high level of liquidity, including by investing in highly liquid instruments, also allows us to react quickly to, and minimize the risk of, any volatility in the market. See "—Our banking operations—General."

Increase presence in the profitable libranza consumer loan and SMEs commercial loan segments

We seek to increase our presence in the *libranza* segment of consumer loans, where we believe there is significant opportunity for growth. This type of loan has historically yielded relatively high margins and low non-performing loan ratios. We plan to continue to grow this business segment by having our sales force target employers and offering them our wide array of transactional services and our ATM network for their specific needs.

We also plan to focus on expanding our SME commercial loan portfolio by targeting smaller and medium-sized enterprises, which generally yield higher margins than large corporate clients. In our marketing efforts, we are able to offer not only loan products but a wide array of transactional services and our ATM network for their specific needs.

Continue to innovate and develop alternative distribution channels to reach clients efficiently in Colombia and beyond

We plan to continue building out and innovating our distribution channels. In particular, we plan to grow and enhance our ATM network, as well as internet banking. Currently, through our ATM network we are able to provide not only traditional transactional services such as withdrawals, transfers between accounts and payments of utility bills and other, but also provide non-traditional services such as payment of taxes, traffic violation fines, newspaper subscriptions, airline reservations and liability insurance premiums. We believe that our ability to provide a wide array of services at our ATMs results in increased client referrals. See “—Other services and products—ATM services-Servibanca” and “—Distribution.”

Improve our cross-selling efforts by offering clients our diverse set of products

In addition to our traditional banking products, we are able to offer other products through our subsidiaries, including payment and collection services through our ATM network; fiduciary services, such as asset administration and management, portfolio management and cash management through Servitrust; and brokerage and exchange services and mutual fund management through Servivalores. We plan to continue to focus on the cross-selling of our wide range of products and services. For example, we can offer our *libranza* clients credit card and other services beyond lending, and our institutional banking clients an ATM network located in their premises with services tailored to their specific needs. We believe that by cross-selling our products and services we are able to develop greater customer loyalty, which results in increased revenues.

Leverage our ATM platform and client service oriented culture to better serve clients

We seek to leverage our ATM platform to better serve our clients. We believe that a widespread ATM network is a much more efficient and service-friendly platform than the traditional branch network. Clients have more convenient access to ATMs than to branches because there will generally be many more ATMs than branches in the general location of the client. Through ATMs, clients are able to conduct banking and other transactions 24 hours a day, unlike branches, which serve clients only during business hours. Also, the transaction execution time for most transactions is generally faster through ATMs than at branches. By incorporating more services to our ATM system and increasing our ATM network, which currently covers nearly 90% of the Colombian market as measured by population, we believe we will continue to attract clients and develop more customer loyalty.

Achieve profitable growth in South America by exporting our proven business model to new markets

As part of our integration plan for the HSBC Entities, we plan to introduce our business model of conservative risk management, high liquidity, focus on profitable and high credit segments of consumer and commercial lending, diversified funding and an efficient distribution channel with emphasis on highly-functional ATMs. We believe that the different markets we will be entering (Paraguay, Peru and Uruguay) offer appropriate conditions for the successful development of our business model. We also believe that our management, together with the existing management at the different HSBC Entities, is fully capable of replicating our business model in the HSBC Entities to be acquired given its experience integrating Banco Tequendama, a fiduciary services company and two brokerage houses into our operations.

Our banking operations

General

We have strengthened our position in the Colombian banking market through selective growth and increased liquidity driven by strict risk policies. In particular, we have focused on the following three products:

- Payroll loans (*libranzas*), which are consumer loans serviced through directly-sourced deductions from the client’s salary. We have agreements with approximately 600 employers for the commercialization of payroll loans (*libranzas*). Employees are able to have credit approved and drawn within 48 hours. The loan amounts per employee range between the peso equivalent of U.S.$2,000 and U.S.$10,000. The average term of the payroll loans (*libranzas*) is between five and six years. If the employee leaves its employer, we generally renegotiate the loan terms either converting it into an ordinary secured or unsecured loan, or by establishing a new *libranza* arrangement with the new employer. These types of loans have historically yielded relatively low non-performing loan ratios. Our distribution of this loan product is made mainly through lending desks established within the employers' premises. Our payroll loans (*libranzas*) loan portfolio at March 31, 2012 was Ps 2,165,572.7 million, with approximately 201,690 clients.

- *Cartera de Fomento*, or development loans, which are long-term funding for domestic development projects. Credit lines are provided by governmental development entities like Bancoldex (*Banco de Comercio Exterior*), Finagro and FINDETER (*Financiera de Desarrollo Territorial S.A.*) and we act as intermediation bank and earn a commission for the service. Our development loan portfolio at March 31, 2012 was Ps 743,476.5 million, with approximately 399 clients.

- *Convenios*, or funding agreements, with governmental and financial institutions. Pursuant to these funding agreements, various governmental institutions such as the army, the police department, universities and judge associations, as well as certain financial institutions (mainly pension funds), agree to deposit their funds with us, and we manage their payment transactions, such as public utilities collection, tax collection and pension payments. These funding agreements, which have been in place on average for ten years, provide us with a stable, long-standing and reliable source of funds and reduce our reliance on wholesale funding. An investment grade rating is required for securing these funding agreements. We obtained a AA+ rating in 2007, which has allowed us to increase significantly our institutional business. At March 31, 2012, we had approximately 308 funding agreements which, in the first three months of 2012, have collected Ps 726,837.0 million for our clients.

The following table presents our loan portfolio at the dates indicated, before allowances.

	At December 31,			At March 31,
	2009	2010	2011	2012
		(in Ps millions)		
Commercial	1,901,529.0	1,928,257.6	2,336,935.5	2,254,725.1
Consumer	1,506,090.8	1,666,320.2	2,108,435.5	2,207,471.0
Total	**3,407,619.8**	**3,594,576.8**	**4,445,370.9**	**4,462,196.2**

The following table presents our direct operating income at the dates indicated.

	At December 31,			At March 31,
	2009	2010	2011	2012
		(in Ps millions)		
Commercial	221,992.4	167,237.2	159,244.5	49,297.1
Consumer	274,736.2	265,179.6	292,032.8	76,657.8
Total	**496,728.6**	**432,416.8**	**451,277.3**	**125,954.9**

We offer customers current accounts, savings accounts, term deposits (CDs) and other deposits. The following table presents a breakdown of our deposits by product type at the dates indicated.

	At December 31,			At March 31,
	2009	2010	2011	2012
		(in Ps millions)		
Current accounts	498,555.8	463,013.6	703,449.8	572,961.8
Savings accounts	997,960.4	1,783,970.8	2,573,016	2,834,275.6
Term deposits	2,535,578.7	2,610,857.9	2,717,506.7	3,210,535.2
Other deposits	40,794.7	60,231.6	59,681.5	33,925.2
Total	**4,072,889.6**	**4,918,073.9**	**6,053,654.0**	**6,651,697.8**

Our banking operations are divided into three main business segments: consumer banking, small and medium enterprise and mid-corporate banking, and institutional banking.

Consumer banking

Our consumer banking operations serve individuals and small enterprises with annual revenues below the peso equivalent of U.S.$1 million. At March 31, 2012, we had a total of approximately 270,000 clients in this segment. Our consumer banking operations accounted for Ps 292,032.8 million and Ps 76,657.8 million of our direct operating income in the year ended December 31, 2011 and for the three months ended March 31, 2012, respectively.

Payroll loans (*libranzas*) account for the vast majority of our consumer lending (98.2% at March 31, 2012). We also grant mortgage, credit card, personal, car and education loans. The average term of our consumer loans is 24 months. Our consumer loans represented 49.4% of our total loan portfolio at March 31, 2012.

We offer current account, savings account and term deposits to our clients. Our consumer banking deposits represented 10.5% of our total deposits at March 31, 2012.

The distribution network for our consumer banking services includes our 106-branch network, 24 specialized payroll loans (*libranzas*) centers in the main cities of Colombia, some of which are located inside the employer's place of business, and our 1,821-ATM network.

Commercial banking

Our commercial banking operations serve small and medium enterprises, mid-corporates and banking institutions and accounted for Ps 159,244.5 million and Ps 49,297.1 million of our direct operating income in the year ended December 31, 2011 and for the three months ended March 31, 2012, respectively. We offer current account, savings account and term deposits to our clients. Our commercial banking deposits represented 14.5% of our total deposits at March 31, 2012. At March 31, 2012, we had a total of approximately 8,768 clients in this segment. Our commercial loans represented 50.6% of our total loan portfolio at March 31, 2012.

SMEs and mid-corporate banking

Our SMEs and mid-corporate banking operations serve small and medium enterprises and mid-corporates with annual revenues higher than the peso equivalent of U.S.$1 million. At March 31, 2012, we had approximately 8,011 clients in this segment. Our client selection criteria is strict, and is based in part on minimum indebtedness, incremental revenues, operating profits, working capital, inventory and receivables turnover standards. Our strategy is to focus mainly on manufacturing, wholesale and retailers and service industry clients, to avoid client concentration and to seek high-quality guarantees.

We offer loans for working capital and capital expenditure needs, treasury credits, *cartera de fomento* (development loans) and foreign trade financing. Treasury credits have an average term of 45 days, while development loans, which are provided with government funding, have terms of three to five years. Our SMEs and mid-corporate loans represented 42.0% of our total loan portfolio at March 31, 2012.

We offer current account, savings and term deposits and fixed income investments. Our deposits from SMEs and mid-corporate clients represented 18.3% of our total deposits at March 31, 2012.

The distribution network for our SMEs and mid-corporate banking services includes our 106-branch network.

Institutional banking

Our institutional banking operations serve governmental entities (the army, the police department, municipalities, central government, state-owned companies and public hospitals, schools and universities) and financial institutions (mainly pension funds). At March 31, 2012 we have 757 clients in this segment.

We offer long-term loans to our customers for infrastructure development of cities and municipalities. We also offer institutional banking short-term loans for banking capital needs. Our institutional banking loans represented 7.3% of our total loan portfolio at March 31, 2012.

We offer current account, savings and term deposits. Our deposits from institutional banking clients represented 76.0% of our total deposits at March 31, 2012, making institutional banking clients an important source of our funding. Of those deposits from institutional banking clients, 23.4% correspond to *convenios* (funding agreements).

We also offer our institutional banking clients additional services such as collection of payments for public services, tax collection and pension payments.

The distribution network for our institutional banking services is made through agents located at 48 collection points. These collection points provide customer service and are dedicated to the collections of payments for utilities, taxes and customs duties, among other things.

Other services and products

In addition to traditional banking services, we also offer the following other services and products through our subsidiaries:

Fiduciary services-Servitrust

Our subsidiary Servitrust provides fiduciary services including asset management, asset administration, cash management and portfolio management, among others. Servitrust is the nineteenth-largest fiduciary in Colombia as measured by net income and the twenty-third largest as measured by assets under management at March 31, 2012. Servitrust has a AAA rating from Value and Risk Rating S.A., a Colombian rating agency.

We offer fiduciary services through our branch network and are able to cross-sell our fiduciary services to our banking clients and vice versa.

The acquisition of HSBC Colombia, if consummated, we believe would strengthen our market position, as HSBC has a significant fiduciary services operation in Colombia.

ATM services-Servibanca

Our subsidiary Servibanca operates the second-largest automated teller machine (ATM) network in the Colombian banking system in terms of numbers, with 1,821 ATMs at March 31, 2012.

Servibanca handles traditional transactions such as withdrawals from checking and savings accounts, cash advances on credit cards, balance inquiries, transfers between accounts, payments of bank obligations and credit card debt and payment of utility bills, mobile telephone, cable television, school tuition and healthcare. Servibanca also processes non-traditional transactions such as donations and payments of taxes, traffic violation fines, newspaper subscriptions, airline reservations and liability insurance premiums.

For institutional clients such as financial institutions, we process interbank transactions, offer cash withdrawals and collections. We install satellite ATMs in our institutional client’s premises and maintain and monitor the ATM network. We are also a primary electronic banking member for the Visa and MasterCard franchises.

Brokerage services-Servivalores

Our subsidiary Servivalores provides brokerage services, market and risk analysis, exchange services and mutual fund management. Servivalores is the result of the acquisition of two brokerage firms, Suma Valores S.A., a brokerage firm, in 2008 and the acquisition and merger in 2010 of Nacional de Valores S.A. in 2010. Through these acquisition Servivalores has become the 11th-largest exchange firm in Colombia in terms of net income at March 31, 2012. Servivalores has a AA+ rating from Value and Risk Rating S.A., the Colombian rating agency. See "—Treasury operations."

Servivalores' assets under management have increased substantially, from Ps 9,447.2 million at December 31, 2008 to Ps 271,740.5 million at March 31, 2012. In the same period, our client base has increased from approximately 1,130 to 3,103. At March 31, 2012, of all the assets under management, 80.7% were under commission contract and 19.3% were mutual funds.

Distribution

The following table presents transaction volumes by number of transactions made by our clients through our physical distribution channels in Colombia at the dates indicated.

	Transactions			% of total transactions		
	At December 31,		At March 31,	At December 31,		At March 31,
	2010	2011	2012	2010	2011	2012
	(in thousands)					
Branches	23,511	24,959	6,116	86.07%	86.00%	85.86%
ATMs (1)	2,365	2,545	631	8.66%	8.77%	8.86%
Other	1,440	1,519	376	5.27%	5.23%	5.28%
Total	**27,316**	**29,023**	**7,123**	**100.00%**	**100.00%**	**100.00%**

(1) Includes transactions from our clients in ATMs owned by us and by third parties.

We have a market share in Colombia of approximately 2.2% of all branches and 14.7% of all ATMs at December 31, 2011.

The transaction volume by number of transactions made by users of our ATMs (regardless of whether the user is a client) was approximately 47.0 million in 2010, 51.7 million in 2011 and 12.5 million in the first three months of 2012.

The following table presents transaction volume by number of transactions for the online banking channel in Colombia at the dates indicated.

	Transactions		
	At December 31,		At March 31,
	2010	2011	2012
	(in thousands)		
Online banking	4,233	6,070	1,820

Competition

The following market share and other data comparing us to our competitors is based on information derived from unconsolidated financial information reported to the Superintendency of Finance by commercial banks based on Colombian Banking GAAP.

Deposits

We have the eleventh-largest market share of total deposits in Colombia, with an aggregate of 3.4% of all deposits in Colombia at March 31, 2012. Our market ranking for checking, savings and term deposits was thirteenth, twelfth and seventh, respectively, at March 31, 2012.

Loans

We have the fourteenth-largest market share of loans in Colombia, with an aggregate of 2.2% of all loans in the Colombian banking system at March 31, 2012. Our market ranking for consumer and commercial loans was tenth and eleventh, respectively, at March 31, 2012.

Loan portfolio quality

We have the lowest non-performing loan ratio of the Colombian banking system. Our non-performing loan ratio was 1.6% and 1.6%, while the average ratio for the Colombian banking system was 2.8% and 3.2%, at December 31, 2011 and at March 31, 2012, respectively. At December 31, 2011, the non-performing loan ratio for our commercial loan portfolio was 0.7%, while the average for the Colombian banking system was 1.6%. At the same date, for consumer loans, our non-performing loan ratio was 2.6%, while the average for the Colombian banking system was 4.2%. At March 31, 2012, the non-performing loan ratio for our commercial loan portfolio was 0.5%, while the average for the Colombian banking system was 1.8%. At the same date, for consumer loans, our non-performing loan ratio was 2.7%, while the average for the Colombian banking system was 4.8%. We believe that our leading ranking is due largely to our strict policy regarding loan intake and our focus on payroll loans (*libranzas*) and development loans, which we believe are less risky than other loan products.

Regulatory capital

Banks in Colombia are required to have regulatory capital of at least 9.0% of risk-weighted assets plus a risk premium calculated pursuant to the rules of the Superintendency of Finance. For a description of these requirements, see "Colombian Banking Regulation—Capital adequacy requirements." We are well-capitalized under Colombian regulatory capital requirements, and we believe that our current capitalization provides us with substantial flexibility to expand our operations.

The tables below present our capitalization ratios at December 31, 2011 and March 31, 2012.

	December 31, 2011	**March 31, 2012**
	(in percentages)	
Primary capital (Tier I) (1)	10.2%	13.9%
Secondary capital (Tier II) (2)	0.8%	0.8%
Total capitalization	**11.0%**	**14.7%**

(1) Includes primary capital and reserves. See "Colombian Banking Regulation—Capital adequacy requirements."

(2) Includes primarily subordinated debt and unrealized gains on certain assets, including real estate. See "Colombian Banking Regulation—Capital adequacy requirements."

The average capitalization ratios for the Colombian banking system were 14.2% and 15.3% at December 31, 2011 and March 31, 2012, respectively.

Liquidity

We had a liquidity ratio of 44.4% and 48.9%, as compared to an average ratio for the Colombian banking system of 9.6% and 8.9%, at December 31, 2011 and at March 31, 2012, respectively. Our ratio, which was the third-highest in the Colombian system, reflects our conservative policy of maintaining a high level of liquidity to protect us against severe market changes.

Treasury operations

Our treasury unit is an active participant in money market and foreign exchange trading. The unit manages our foreign exchange positions and reserves, is involved in analyzing liquidity and other asset/liability matters, and develops and executes new products for our banking clients.

Our proprietary trading consists of trading and short-term investments in securities. At March 31, 2012, we maintained an investment portfolio of Ps 4,061,720.9 million. The vast majority of our investments are in Colombian sovereign debt (89.8% at March 31, 2012) and have an average maturity of approximately eight months. This reflects our policy of maintaining an investment profile of short maturity and high liquidity.

We are one of nine recognized market makers for Colombian sovereign debt, and as such, we have access to the liquidity of the SEN. This allows us to carry out investment strategies directly in the secondary market, without having to incur the costs of intermediation by other agents. Our status as a market maker also allows us to participate and have a voice at meetings of the Ministry of Finance where sovereign debt management and Colombian sovereign debt market issues are discussed. We also have access to non-competitive bids for Colombian sovereign debt instruments.

We are currently ranked as the fifth-largest market maker in the Colombian system at March 31, 2012.

Technology

We continuously invest in new technology and the renewal of equipment and infrastructure in order to serve customers effectively, improve our profitability and grow our business. We believe that proper management of technology is key to the efficient management of our business. Our scalable technology architecture focuses on our customers and supports our business model.

Our central platform is Bantotal, a central system that acts as depositary of information regarding clients' activities and processes transactions in both domestic and foreign currency. We also use the Web Bantotal information system for our payroll loans (*libranzas*) operations; Dialogo for the administration of investment portfolios; Creditotal for the processing of credit cards; Pointer for the analysis of transactional behavior of clients; and Tivoli for the management of our technological infrastructure.

For technological safety, we use Bantotal Firewall for the detection of possible attacks or intrusions; McAffe for antivirus; Websense for control and filtering of internet navigation; and CriptoVault FTP Seguro for the ciphering and deciphering of archives for the exchange of information. In addition, we have contingency platforms designed to permit the smooth functioning of systems within four hours of any interruption of service.

In 2011, we incorporated a new subsidiary, Servitotal, whose purpose is to develop new technological platforms and solutions for our banking business, in a strategic alliance with Bantotal, a technological solutions company focused on the banking sector.

We incurred Ps 2,691.7 million and Ps 853.1 million of capital expenditures relating to information technology in the year ended December 31, 2011 and the three-month period ended March 31, 2012, respectively, and expect to invest an additional U.S.$ 3.2 million in the remaining nine months of 2012.

Employees

The following table presents our employee count as of the dates specified.

	December 31,			March 31,
	2009	2010	2011	2012
GNB Sudameris	935	970	992	1,007
Servitrust	44	47	36	38
Servibanca	56	54	56	56
Servivalores	9	14	11	11
Servitotal	0	0	0	0
Total	1,044	1,085	1,095	1,112

Approximately 15% of our employees are unionized and approximately 74% are included in a collective bargaining agreement. None of the employees at the subsidiaries are unionized or subject to a collective bargaining agreement.

We believe that our relations with our employees is good. No strikes or other work stoppages have occurred in recent years and none are currently threatened.

Properties

We own properties for corporate purposes only. At March 31, 2012, the value of our properties was Ps 87,325.7 million. At March 31, 2012, the Bank owned two properties (which it rented to third parties) and held leases on 40 properties.

Legal proceedings

We are subject to judicial and administrative proceedings incidental to the ordinary course of our business. None of our pending proceedings is material to our financial condition and results of operations.

INDUSTRY

Overview

During the 1990s, Colombia's financial system consisted of a large number of specialized financial entities, which focused on specific areas of finance and the majority of which were separately regulated. However, following the enactment of a series of laws promoting the deregulation of the financial system, including the enactment of Law 45 of 1990, Law 35 of 1993 and Decree 663 of 1993, as amended (*Estatuto Orgánico del Sistema Financiero*), or "EOSF," the financial system transformed from a system consisting of several smaller financial institutions providing a limited set of services to a system consisting of several large financial conglomerates with multiple capabilities within the same organization.

The economic crisis of the late 1990s affected most countries in Latin America, including Colombia. Many financial companies were acquired by large commercial banks, while others were nationalized or liquidated. In the aftermath of the crisis and partly as a result of it, the foundation for the current Colombian financial system was developed with the establishment of solid regulatory principles and strengthened financial groups operating under a single regulatory framework.

In recent years, the financial system in Colombia has continued the consolidation process, leading to relatively high merger and acquisition activity during the last six years, particularly between 2005 and 2011: the merger of Corporación Nacional de Ahorro y Vivienda S.A., Corporación Financiera Nacional y Suramericana S.A. and Bancolombia S.A.; the acquisition of Banco Aliadas S.A. by Banco de Occidente; the merger of Banco Tequendama S.A. and the Bank; the merger of Banco Colmena S.A. and Banco Caja Social S.A. to form BCSC S.A.; the acquisition of Bansuperior S.A. by Banco Davivienda; the acquisition of Banco Granahorrar S.A. by BBVA Colombia; and the acquisition of Banco Unión Colombiano S.A. by Banco de Occidente.

Also, during 2006, Banco de Bogotá acquired Megabanco S.A. and Davivienda acquired Gran Banco—Bancafé S.A. In 2007, Bancolombia completed the acquisition of Banagrícola in El Salvador, and in 2008, ABN AMRO Bank Colombia S.A. became Royal Bank of Scotland (Colombia) S.A. following the acquisition of ABN AMRO Bank NV by a consortium led by Royal Bank of Scotland, Fortis and Banco Santander S.A. Also, in 2008, General Electric Money purchased a 49.7% share in Banco Colpatria. In 2010, Scotiabank acquired Royal Bank of Scotland (Colombia) S.A., and five financing companies merged with their respective commercial banks (BBVA Leasing, Leasing Popular, Leasing de Occidente, Leasing Bogotá, and Helm Leasing). In 2011, Scotiabank agreed to acquire a 51% stake in Banco Colpatria and Corpbanca acquired Banco Santander Colombia. At the same time, Banco WWB S.A., Banco Coomeva S.A., Banco Finandina S.A., Banco Falabella S.A. and Banco Pichincha S.A. entered the banking market in Colombia.

This consolidation cycle continued with Colombian financial entities acquiring other banks and financial services companies abroad. During 2011, Grupo de Inversiones Suramericana (a Colombian based financial group and controlling shareholder of Bancolombia) acquired the ING Group pension business across the region which also included some insurance and asset management and Davivienda announced the acquisition of HSBC's Central America businesses.

While the Colombian government has been promoting consolidation and expansion of the scope of activities of Colombian financial institutions, it has simultaneously been strengthening corporate governance, risk management and supervision. See "Colombian Banking Regulation."

Banking system during the recent global economic and financial crisis

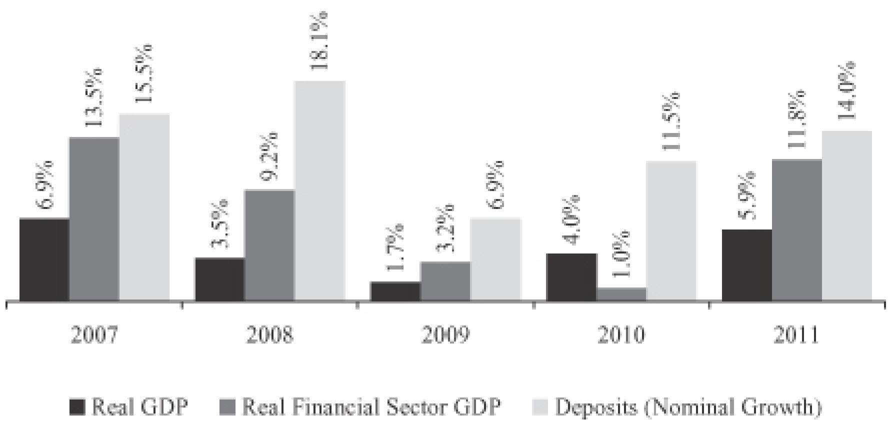
Following the bankruptcy of Lehman Brothers in September 2008, international financial markets faced extraordinary levels of volatility. Colombia's financial system was comparatively less vulnerable to the effects of the global economic and financial crisis due to a combination of factors, including high capitalization ratios, lack of exposure to complex financial products such as credit default swaps and collateralized debt obligations, and a strong foundation of domestic deposits with little dependence on capital markets or external funding. Overall, the Colombian banking system benefited from these factors and from the Colombian Central Bank's ability to adopt a countercyclical monetary policy. In the aftermath of the global crisis the system's profitability measures remained stable.

Recent growth of financial sector

From a macroeconomic perspective, the Colombian financial sector has been one of the primary engines of economic growth in the country in recent years. Economic stability, improvements in security conditions, increased employment rates, and enhanced purchasing power on the part of the Colombian population, have contributed to an increase in the penetration of financial services.

According to DANE, Colombian real GDP per capita grew by 16.9% in the five-year period ending in 2011. Also, Colombia's unemployment rate fell by 1.2 percentage points, from a rate of 12.0% at December 31, 2006 to 10.8% at December 31, 2011. At the same time, deposits in the banking system grew at a compound annual growth rate of 14.4% in nominal terms during the five-year period ending in 2011.

The following chart presents the sector evolution and annual growth of total GDP and GDP of the financial sector for the periods indicated.

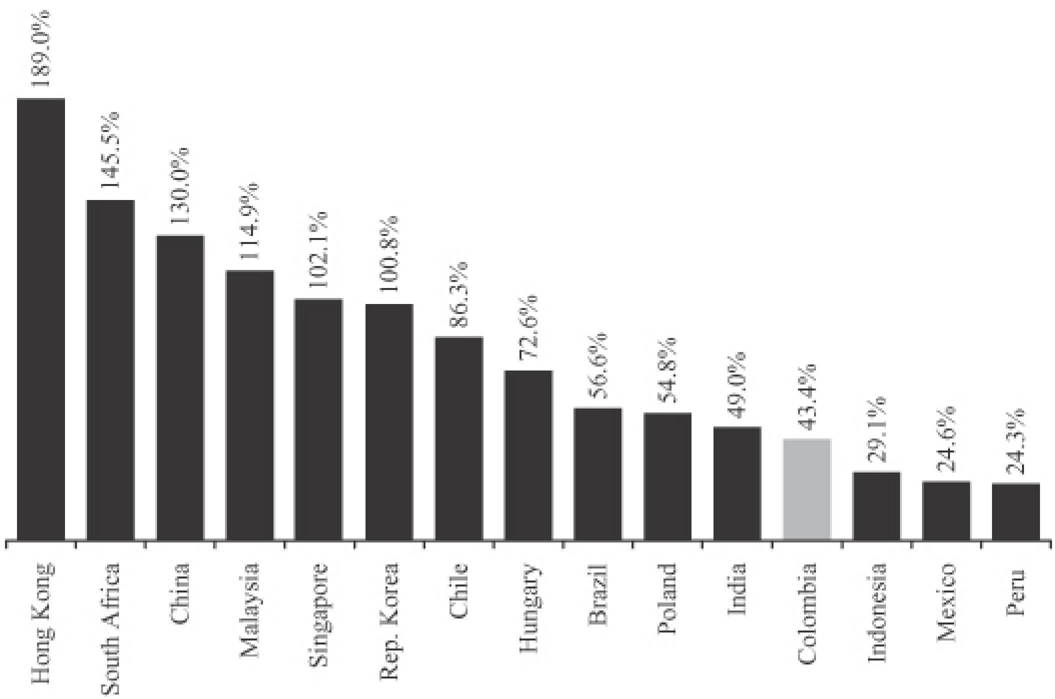


Source: DANE and the Superintendency of Finance (June 2012). Real seasonally adjusted GDP figures based on 2005 constant prices. Financial sector GDP includes financial intermediation, insurance and related services.

Credit volume

Credit volume in Colombia has grown steadily since 2004. Despite this increase in lending, the Colombian market still has a relatively low credit penetration rate as compared to that of other developed and emerging market countries. The following chart presents domestic credit to the private sector as a percentage of GDP of specified countries at December 31, 2011.

Domestic credit to the private sector/GDP



Source: 2010 World Bank Development Indicators.

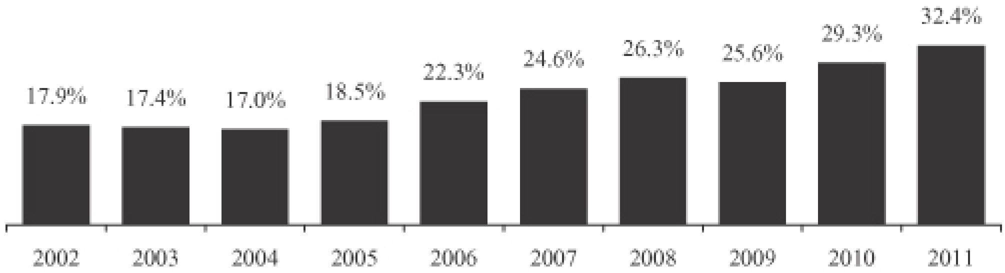
Domestic credit to the private sector as a percentage of GDP, as defined by the World Bank Development Indicators, refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. This definition encompasses a broad range of entities that provide credit, and is not limited to banking institutions. It is widely used for comparison purposes across countries due to its reliability and homogeneity. The World Bank Development Indicators cover 209 countries from 1960 to 2008.

When referring to bank credit penetration, bank credit refers to gross loans and leasing operations provided by commercial banks in Colombia, according to data from the Superintendency of Finance, and GDP refers to nominal GDP in Colombian Pesos, according to data from DANE. We believe these definitions and the calculation resulting therefrom reflect more appropriately Colombia's domestic credit to GDP situation and render a 32.4% for the year ended December 31, 2011.

The Colombian bank credit market consists of the extension of loans to individuals and corporations through four main business lines: commercial, consumer, microcredit and mortgage. According to the Superintendency of Finance, at December 31, 2011, a total of Ps 199,795 trillion of gross loans granted by Colombian banks were outstanding, of which 6% were commercial loans, 31% were consumer loans, 8% were mortgages, and 3% were microcredit loans.

Gross bank loans in the Colombian banking sector as a percentage of GDP also increased in the past five years from 24.6% in 2007 to 32.4% in 2011, and to 33.1% for the three-month period ended March 31, 2012. The following chart presents bank credit as a percentage of GDP over the last ten years.

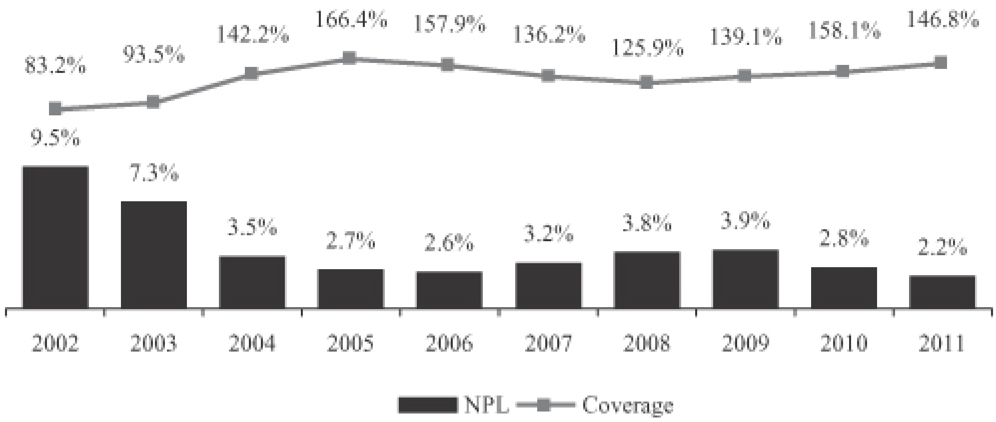
Total Credit as a Percentage of GDP Evolution



Source: DANE and Superintendency of Finance metric refers to total loans, including leases divided by GDP at current prices.

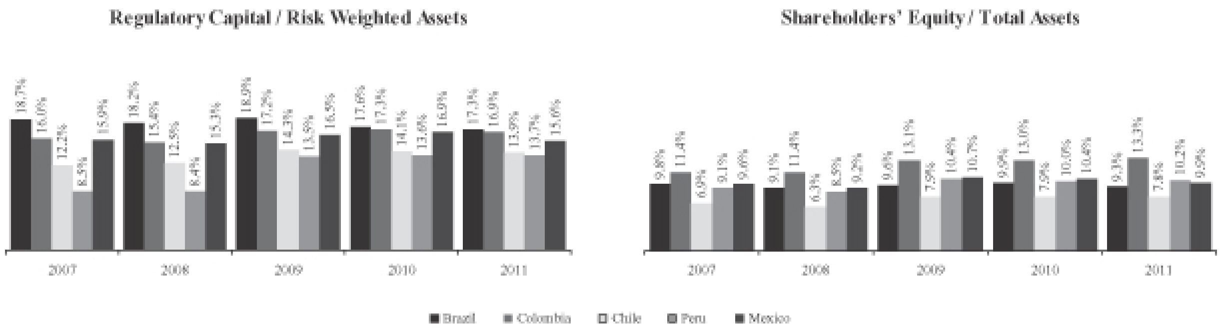
Although loan quality and loan loss coverage ratios deteriorated between 2007 and mid-2009 as a result of the economic slowdown preceding the global crisis, overall loan quality and coverage ratios have improved significantly during the last ten years in Colombia. The following chart illustrates this trend showing non-performing loan ratio and the loan loss coverage ratio from December 2002 to December 2011.

Non-Performing Loans and Loan Loss Coverage Ratio Evolution



Source: Superintendency of Finance. Past-due loans refers to loans overdue more than 30 days, as defined by the Superintendency of Finance. Loan loss coverage ratio refers to loan loss allowances divided by past-due loans.

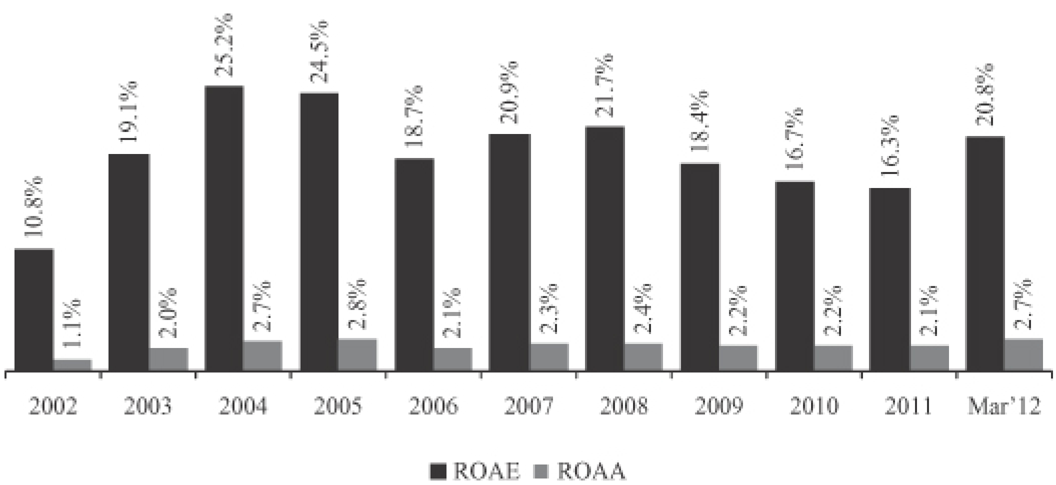
Colombia's banking system is well-capitalized, with an average risk-based capital ratio of 15.3% at March 31, 2012, significantly above the minimum regulatory requirement of 9.0%, as reported by the Superintendency of Finance. The capital-to-total assets ratio and the risk-based capital ratio have increased since 2007. The former currently exceeds that of comparable countries in Latin America, while the latter is at a level similar to that of Chile and Peru. The following charts present capital as a percentage of risk-weighted assets, and capital as a percentage of total assets over the last five years (2007-2011) for the banking sector in Brazil, Colombia, Chile, Peru and Mexico.



Source: IMF Global Financial Stability Report for all countries and Superintendency of Banks, Insurances and Pension Funds of Peru *(Superintendencia de Banca, Seguros y AFP de Peru).*

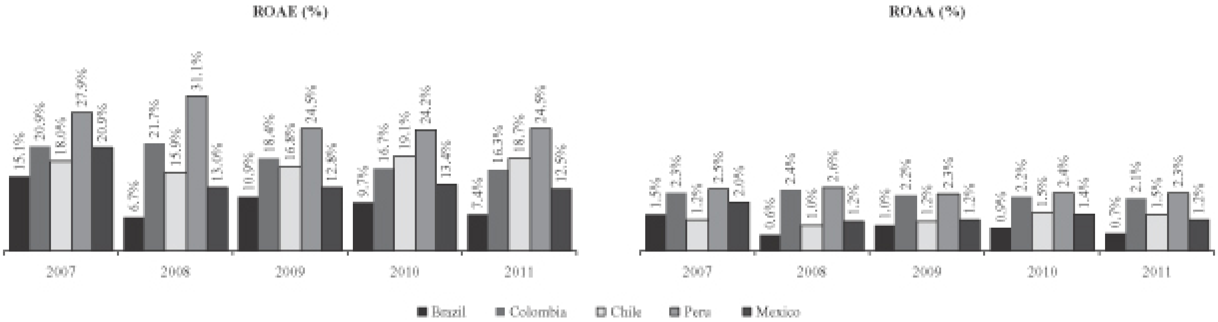
At the same time, the profitability of the financial sector improved significantly during the first half of the decade starting in 2000 and has remained relatively stable in the second half of the decade, including during the global economic and financial crisis. The following chart presents ROAA and ROAE, for the Colombian financial sector from December 2002 to March 2012.

Return on Average Equity and Return on Average Assets Evolution



Source: Superintendency of Finance. ROAA refers to 12-month profits divided by the average of assets in the current month and in the same month of the prior year. Similarly, ROAE refers to 12-month profits divided by the average of shareholders' equity in the current month and in the same month of the prior year.

The profitability of Colombia’s banking system also compares well to that of its regional competitors. The following charts present ROAA and ROAE over the last five years (2007-2011) for the banking sectors in Brazil, Colombia, Chile, Peru and Mexico.



Source: Central Bank of Brazil (*Banco Central do Brasil*), Superintendency of Finance, Superintendency of Bank and Financial Institutions of Chile (*Superintendencia de Bancos e Instituciones Financieras de Chile*), Superintendency of Banks, Insurances and Pension Funds of Peru and National Commission, Bank and Securities of Mexico (*Comision Nacional Bancaria y de Volores de Mexico*). ROAE has been calculated as each period’s annual net income divided by the average shareholder’s equity of the current and previous periods. Similarly, ROAE has been calculated as each period’s annual net income divided by the average assets of the current and previous periods.

Main market participants

According to the Superintendency of Finance, at March 31, 2012, the principal participants in the Colombian financial system were the Colombian Central Bank, 19 commercial banks (13 domestic banks, five foreign banks and one state-owned bank), 26 financing companies and four finance corporations. In addition, trust companies, cooperatives, insurance companies, insurance brokerage firms, bonded warehouses, special state-owned institutions that provide credit to specific segments of the population who generally lack normal access to commercial and retail banking, pension and severance pay funds also participate. For a description of the roles of these entities, see “Colombian Banking Regulation—Regulatory framework for Colombian financial institutions.” For information about our competitive position, see “Business—Competition.”

Recent developments in the Colombian stock market

Colombia’s stock market has been one of the top performers worldwide following the global economic and financial crisis of 2008. The Colombian Stock Market Index (*Indice General de la Bolsa de Colombia*), or “IGBC,” increased 53.5% in 2009, 33.6% in 2010, decreased by 18.3% in 2011 and increased18.7% in the first three months of 2012, after falling 29.3% in 2008. Colombia’s stock market capitalization stood at Ps 460.8 trillion at March 31, 2012. Simultaneously, the daily average trading volume in the stock market was Ps 351.4 billion in the first three months of 2012.

The recent increase in trading volumes and moderated returns have been mainly driven by the following factors: (1) the tightening of monetary policy conducted by Colombia’s Central Bank, which increased its overnight lending rate by 406 bps to 5.3% from December 2007 to March 2012; (2) a moderate increase in global risk aversion since March 2009; (3) expectations of a healthy recovery in local economic activity since the second semester of 2009, which intensified during 2010 and 2011 due to the release of positive economic data suggesting a stronger recovery than initially expected by local authorities and analysts; and (4) a limited supply of local stock market securities to match a fast growing demand. Some of the main participants in the local stock market are the private pension fund managers, individual investors and brokerage firms (*Sociedades Comisionistas de Bolsa*).

COLOMBIAN BANKING REGULATION

Colombian banking regulators

Pursuant to the Colombian Constitution, Colombia's Congress has the power to prescribe the general legal framework within which the government and other authorities may regulate the financial system. The Colombian Constitution also permits the Congress to authorize government intervention in the economy by statute. The agencies vested with the authority to regulate the financial system are the board of directors of the Colombian Central Bank, the Colombian Ministry of Finance, the Superintendency of Finance, the Superintendency of Industry and Commerce and the Securities Market Self-Regulatory Organization.

Colombian Central Bank

The Colombian Central Bank exercises the customary functions of a central bank, including price stabilization, legal currency issuance, regulation of currency circulation, credit and exchange rate monitoring and administration of international reserves. Its board of directors is the regulatory authority for monetary, currency exchange and credit policies, and is responsible for the direction and execution of the Colombian Central Bank duties. The Colombian Central Bank also acts as a last resort lender to financial institutions.

Pursuant to the Colombian Constitution, the Colombian Central Bank is autonomous and independent from the government in the formulation of monetary policy and currency exchange and credit policies. Specifically, the Constitution provides administrative, technical, budgetary and legal autonomy for the Colombian Central Bank and its board of directors in respect of monetary, credit and foreign exchange matters. The Colombian Central Bank reports to the National Congress. Its board of directors has seven members, one of whom is the Minister of Finance and Public Credit, one member is the General Manager of the Colombian Central Bank, and the other five members, who are full-time employees of the Colombian Central Bank, are appointed by the President of Colombia for four-year terms that can be extended.

Ministry of Finance and Public Credit

The Ministry of Finance designs, coordinates, regulates and executes economic policy, seeking to create an optimal administration of public finances for the economic and social development of the country. The Ministry of Finance regulates all aspects of finance, securities and insurance activities, pursuant to powers conferred by the Colombian Constitution. As part of its duties, the Ministry of Finance issues decrees related mainly to financial, taxation, customs, public credit and budgetary matters that may affect banking transactions in Colombia. In particular, the Ministry of Finance is responsible for regulations relating to financial institutions' capital adequacy, risk limitations, authorized transactions, disclosure of information and accounting.

Superintendency of Finance

The Superintendency of Finance was created as a result of the merger between the Superintendency of Banking and the Superintendency of Securities in 2005. All of the powers and responsibilities of the former Superintendency of Banking and Superintendency of Securities were assigned to the newly created Superintendency of Finance.

The Superintendency of Finance is a technical entity affiliated with the Ministry of Finance that acts as the inspection, supervision and control authority of persons involved in financial, insurance and securities exchange activities, and any other operations related to the management, use or investment of resources collected from the public. The Superintendency of Finance is responsible for supervising the Colombian financial system with the purpose of preserving its stability and trustworthiness, as well as promoting, organizing and developing the Colombian securities market and protecting the users of financial and insurance services and investors in general.

Financial institutions must obtain the authorization of the Superintendency of Finance before commencing operations. In addition, all public offering of securities require the prior approval of the Superintendency of Finance.

Violations of the financial system rules and regulations are subject to administrative, and in some cases, criminal sanctions. The Superintendency of Finance may inspect Colombian financial institutions on a discretionary basis and has the authority to impose fines on such institutions and their directors and officers for violations of Colombian laws or regulations, or such financial institutions' by-laws.

The Superintendency of Finance exerts its supervisory powers over the financial sector on a consolidated and comprehensive basis. The consolidated supervision extends to all financial institutions including banks operating in Colombia and their subsidiaries abroad, in the latter case to the extent permitted by the laws of the respective country of incorporation. For these purposes, the Superintendency of Finance has executed several memorandums of understanding with foreign financial sector regulators and is currently negotiating the execution of additional memorandums of understanding with other financial regulators, to promote an exchange of information and enhance its consolidated and comprehensive supervision.

According to Colombian law (Decree 2555 of 2010 and Basic Accounting Circular), and in order to facilitate the Superintendency of Finance's supervision, financial institutions are required to consolidate the results of operations of all of their subsidiaries in order to present consolidated financial statements of the controlling entity and its subsidiaries, consolidated solvency ratios and capital adequacy requirements of the group. As financial institutions, the Bank, Servitrust and Servivalores are required to comply with these requirements.

The Superintendency of Finance may also conduct onsite inspections of Colombian financial institutions and even of their subsidiaries located abroad, in the latter case, subject to the applicable laws of the subsidiary's country of incorporation.

The Bank and its Colombian subsidiaries are subject to the regulatory supervision of the Superintendency of Finance. Additionally, as an issuer of securities traded on the Colombian Stock Exchange, the Bank is subject to the supervision of the Superintendency of Finance.

FOGAFIN

FOGAFIN was created in 1985 pursuant to Law 117. The primary function of FOGAFIN is to administer the deposit insurance system, with the objective of guaranteeing the deposits and savings held by the general public in Colombian financial institutions. See "—Troubled financial institutions—Deposit insurance." The other primary purposes for which FOGAFIN was formed were to support the banking industry, to facilitate the privatization of financial institutions by the Colombian government, and to liquidate financial institutions under receivership.

FOGAFIN has tools and mechanisms that enable it to administer and temporarily take equity stakes in troubled financial institutions in order to allow it to determine whether a financial institution is viable or requires liquidation.

Securities market self-regulatory organization

Self-regulation in the capital markets was formally introduced in Colombia by Law 964 of 2005, and the securities market self-regulatory organization (*Autoregulador del Mercado de Valores),* or "SRO," was created in June 2006.

The SRO has the power to supervise, sanction and regulate the entities subject to self-regulation (i.e., including securities intermediaries and any entity that voluntarily submits itself to self-regulation).

The SRO's supervisory powers entitle it to review compliance with applicable laws and regulations and impose sanctions in the case of violations. The SRO may also propose regulation aimed at various matters, including conflicts of interest and improving the integrity and quality of the capital markets.

Superintendency of Industry and Commerce

According to Law 1340 of 2009, the Superintendency of Industry and Commerce is the competent national authority for all antitrust matters in every sector of the economy, including the financial sector.

As such, the Superintendency of Industry and Commerce is responsible for advancing administrative investigations of antitrust violations to financial and non-financial corporations, and has the power to impose corresponding sanctions.

The Superintendency of Industry and Commerce is responsible for approving economic mergers, acquisitions and integrations between and among enterprises, except for mergers, acquisitions or integrations between financial entities. The Superintendency of Finance is the authority responsible for approving mergers, acquisitions and integrations between financial institutions. For such approvals, the Superintendency of Finance must obtain a prior written opinion by the Superintendency of Industry and Commerce.

Regulatory framework for Colombian financial institutions

The basic regulatory framework for the operations of the Colombian financial sector is set forth in the EOSF, as amended by Laws 510 of 1999, 546 of 1999, 795 of 2003, 964 of 2005 and 1328 of 2009, issued by the National Congress, as well as in Decree 2555 of 2010, Resolution 8 of 2000 (exchange control regulation statute) and Resolution 4 of 2006 issued by the board of directors of the Colombian Central Bank.

The EOSF (*Estatuto Orgánico del Sistema Financiero*) defines the structure of the Colombian financial system and establishes various business entities, including (1) credit institutions (which are further categorized into banks, finance corporations, financing companies and finance cooperatives), (2) financial services entities, (3) capitalization corporations, (4) insurance companies and (5) insurance intermediaries.

The EOSF also provides that no financial, banking or credit institution may operate in Colombia without the prior approval of the Superintendency of Finance. Subject to prior approval of the Superintendency of Finance, foreign banks may operate in Colombia through their subsidiaries established and incorporated in Colombia. Under Law 1328 of 2009, foreign banks, starting in July 2013, will be permitted to operate through their "branches" and will not be required to incorporate a Colombian subsidiary. Operations through these branches will be subject to prior approval by the Superintendency of Finance.

The main role of banks, finance corporations and financing companies is to receive deposits. Banks place funds back into circulation by means of loans or any active credit operation; finance corporations place funds into circulation by means of active credit operations or investments, with the purpose of promoting the creation or expansion of enterprises; and financing companies place funds back into circulation by means of active credit operations, with the purpose of fostering the sale of goods and services including the development of leasing operations.

Each credit institution must be separately authorized before it may develop and provide financial services. Furthermore, the activities of credit institutions are subject to limitations and restrictions, including limitations and restrictions relating to the extension of credit, risk concentration, investments, conditional operations, foreign currency loans and negotiations, and the administration of third-party funds. One of the principal restrictions on financial activities is that banks may not acquire or hold products, merchandise, shares of corporations, income bonds, or other similar securities, except (1) when the bank has received those goods or securities as collateral for loans it has made or (2) with respect to shares, when they are issued by companies where banks are permitted to hold investments (mainly financial affiliates).

Laws 510 of 1999, 546 of 1999, 795 of 2003 and 1328 of 2009 substantially modified the control, regulation and surveillance powers of the Superintendency of Finance. In addition, Law 510 of 1999 and Law 1328 of 2009 streamlined the procedures and powers for FOGAFIN.

The main purpose of Law 510 of 1999 was to increase the solvency and stability of Colombia's financial institutions by establishing rules regarding their incorporation, as well as the permitted investments of credit institutions, insurance companies and investment companies. Law 546 of 1999 was enacted in order to regulate the system of long-term home loans.

Law 795 of 2003 was enacted with the purpose of broadening the scope of activities to be performed by financial institutions and to update Colombian regulations with the latest principles of the Basel Committee at that time. Law 795 of 2003 also increased the minimum capital requirements needed to incorporate a financial institution (see "—Minimum capital requirements") and authorized the Superintendency of Finance to take precautionary measures with respect to financial institutions whose capital falls below certain thresholds. For example, in order to avoid a temporary taking of possession by the Superintendency of Finance, troubled financial institutions must submit a restructuring program to the Superintendency of Finance.

Law 1328 of 2009 provided a new set of rights and responsibilities for customers of the financial system and a set of obligations for financial institutions, in order to minimize disputes. This law also broadened the scope of permitted business activities by regulated entities. Following its adoption, banks were allowed to operate leasing businesses and to extend loans to third parties so that borrowers may acquire control of other companies.

In order to implement and enforce the provisions related to Colombia's financial system, the Superintendency of Finance issues periodic circulars and resolutions. External Circular 007 of 1996, as amended, consolidates all of the rules and regulations applicable to financial institutions, including rules and regulations relating to the management, operations, investments, lending activities and money laundering prevention activities of financial institutions. External Circular 100 of 1995, or the Basic Accounting "Circular", as amended, consolidates all of the regulations applicable to the accounting and financial rules of financial institutions. Furthermore, the Basic Accounting Circular regulated the assessment of credit institutions' investments, risk management, financial statements, information disclosure and inter-banking credits.

Violations of Laws 510 of 1999, 546 of 1999, 795 of 2003 or 1328 of 2009, as well as of specific provisions of Decree 663 of 1993 and their relevant regulations, are subject to administrative sanctions and, in some cases, criminal sanctions.

To prepare for the implementation of the Basel III accords in Colombia, the Ministry of Finance, in consultation with the Superintendency of Finance, has initiated an internal review of regulations applicable to financial institutions. Although it is expected that the Ministry of Finance will review all such regulations, to date it has focused its review on:

- the cyclical and countercyclical effects of changes in the financial environment: the Ministry of Finance has appointed a special committee to track financial developments, which is currently evaluating macroprudential instruments based on the Basel III accord;
- regulatory capital adequacy requirements: the Ministry of Finance is evaluating the different components of Tier 1 and Tier 2 capital and expects to issue a proposal shortly, which it will discuss with the financial industry; and
- the need for further adjustments to manage liquidity risk: the Ministry of Finance is currently reviewing the links and interactions between different market agents for how this could affect the liquidity of financial institutions.

The Colombian government is actively working on implementing the Basel III accord and changes to current regulations will likely begin as early as the second half of 2012.

Key interest rates

Colombian commercial banks, finance corporations and financing companies are required to report data to the Colombian Central Bank on a weekly basis regarding the total volume (in pesos) of certificates of deposit issued during the prior week and the average interest rates paid for certificates of deposit with maturities of 90 days. Based on such reports, the Colombian Central Bank calculates the DTF rate, which is published at the beginning of the following week for use in calculating interest rates payable by financial institutions. The DTF is the weighted average interest rate paid by commercial banks, finance corporations and financing companies for certificates of deposit with maturities of 90 days. For the week of July 2, 2012, the DTF was 5.48%.

The Colombian Central Bank also calculates the interbank rate (*Interés Bancario de Referencia*), or "IBR," which acts as a reference of overnight and one-month interbank loans, based on quotations submitted each business day by eight participating banks to the Colombian Central Bank. Using a weighted average of the quotations submitted, the Colombian Central Bank calculates the overnight IBR each business day. The one-month IBR is calculated each Tuesday.

Article 884 of the Colombian Commercial Code provides for a limit on the amount of interest that may be charged in commercial transactions. The limit is 1.5 times the current banking interest rate (*Interés Bancario Corriente)*, calculated as the average of the interest ordinarily charged by banks within a set period of time. The current banking interest rate is certified by the Superintendency of Finance.

Capital adequacy requirements

Capital adequacy requirements for Colombian credit institutions (as set forth in Decree 2555 of 2010) are based on the Basel Committee standards. The regulations establish five categories of assets, which are each assigned different risk weights, and require that a credit institution's technical capital (as defined below) be at least 9.0% of that institution's total risk-weighted assets.

The Colombian government, through the Ministry of Finance and the Superintendency of Finance, is currently preparing for the implementation of the Basel III Accord in Colombia. These entities are currently reviewing the relevant local laws and regulations and amendments to such regulations are likely to be introduced during the course of the following months. Nonetheless, the Colombian government has not published any drafts of amendments to the current regulation and, therefore, we cannot confirm what implications such amendments may have on our operations and on the regulatory capital adequacy requirements currently in force.

"Technical capital" (*patrimonio técnico*), for the purposes of the regulations consists of the sum of basic capital (*patrimonio básico*), or primary capital (Tier I), and secondary capital (*patrimonio adicional*) (Tier II). Primary capital (Tier I) consists mainly of the following:

- outstanding and paid-in share capital;
- legal and other reserves;
- profits retained from prior fiscal years;
- the total value of the revaluation of the equity account (*revalorizaciôn del patrimonio*), if positive, and of the foreign currency translation adjustment account (*ajuste por conversion de estados financieros*);
- current fiscal year profits in a proportion equal to the percentage of prior fiscal year profits that were capitalized, or allocated to increase the legal reserve, or all profits that must be used to cover accrued losses;

- any representative shares held as security by FOGAFIN when the entity is in compliance with a recovery program aimed at bringing the institution back into compliance with capital adequacy requirements (if the Superintendency of Finance establishes that such recovery program has failed, these shares shall not be taken into account when determining primary capital (Tier I));
- subordinated bonds issued by financial institutions and subscribed by FOGAFIN when they comply with the requirements stated in the regulations;
- the part of the surplus capital account from donations that complies with the requirements set forth in the applicable regulation;
- the value of dividends declared to be paid in shares; and
- the value of the liabilities owned by non-controlling interests.

Items deducted from primary capital (Tier I) consist of the following:

- losses of any prior or current period;
- the total value of the capital revaluation account (*revalorizaciôn del patrimonio),* if negative;
- accumulated inflation adjustment on non monetary assets; provided that the respective assets have not been transferred;
- investments in subordinated debt instruments issued by entities (excluding subsidiaries) that are subject to the supervision of the Superintendency of Finance, but excluding appraisals and investments in Finagro credit establishments and investments undertaken pursuant to Article 63 of Decree 663 of 1993; and
- investments in shares, mandatory convertible bonds, subordinated bonds that may be convertible into shares or subordinated debt instruments issued by foreign financial institutions where the investor directly or indirectly holds at least 20.0% of the capital of said institution (excluding subsidiaries). This amount includes foreign currency translation and excludes appraisals.

Secondary capital (Tier II), consists of other reserves and retained earnings, which are added to primary capital (Tier I) to calculate technical capital. Secondary capital (Tier II) includes:

- 50.0% of the accumulated inflation adjustment of non-monetary assets (provided that such assets have not been disposed of);
- 50.0% of asset reappraisal (excluding revaluations of foreclosed assets or assets received as payment of credits); excluded from said amount is (1) the reappraisal of direct or indirect capital investments and investments in subordinated debt in entities subject to the supervision of the Superintendency of Finance, excluding subsidiaries, in compliance with the requirements set forth in the applicable regulation and (2) the reappraisal of direct or indirect capital investments and investments in subordinated debt in foreign financial entities with respect to which the bank’s share is or exceeds 20% of the entity’s subscribed capital;
- mandatory convertible bonds effectively subscribed and paid, with maturities of up to five years (provided that the terms and conditions of their issuance were approved by the Superintendency of Finance and subject to the conditions set forth by the Superintendency of Finance);

- subordinated monetary obligations not in excess of 50.0% of primary capital (Tier I) and in compliance with the following additional requirements:
  - Only the amount effectively received by the issuer will be used to calculate the Tier II Capital;
  - The prospectus or the agreements, as the case may be, shall irrevocably establish that in case of liquidation of the issuer, the payment of the bond will be subordinated to the payment of all external liabilities of the issuer;
  - The minimum maturity shall not be less than five years. No prepayment option in favor of the debtor reducing the term to less than five, or any option in favor of creditors allowing a prepayment before five years, shall be included;
  - Acceleration clauses are prohibited;
  - If prepayment options are included, the first call date would be considered the maturity date;
  - During the five years immediately prior to the maturity date or the first call date, as the case may be, the registered value of the Tier II Capital will be reduced 20% each year.
- the part of the surplus capital account from donations in compliance with the requirements set forth in the applicable regulations; and
- general allowances made in accordance with the instructions issued by the Superintendency of Finance.

The following items are deducted from secondary capital (Tier II):

- 50% of the direct or indirect capital investments in entities subject to the supervision of the Superintendency of Finance, excluding subsidiaries, and mandatory convertible bonds reappraisal that complies with the requirements set forth in the applicable regulation;
- 50% of the direct or indirect capital investments (excluding subsidiaries) and mandatory convertible bonds reappraisal of foreign financial entities with respect to which the bank's share is or exceeds 20% of the entity's subscribed capital; and
- the value of the devaluation of equity investments with low exchange volume or which are unquoted.

In computing technical capital, secondary capital (Tier II) may not exceed the total amount of primary capital (Tier I).

The following tables set forth our reported and as-adjusted consolidated capital adequacy information at December 31, 2010 and 20011 and at March 31, 2012. The reported figures are calculated using the methodology prescribed by the Superintendency of Finance, which requires that we subtract investments in non-consolidated entities from our regulatory capital.

	At December 31,		At March 31,
	2010	2011	2012
	(in Ps millions, except ratios)		
Subscribed capital	44,649.4	44,649.4	48,758.9
Reserves and profits	320,091.7	369,533.1	488,784.1
Less:			
Inflation adjustments on non monetary assets	(16,808.9)	(16,531.2)	(16,528.6)
Unconsolidated financial sector investments	(1,947.0)	(960.6)	(966.4)
Less/more others	107,281.5	126,779.6	215,986.0
Primary capital (Tier I)	**453,266.7**	**523,470.3**	**736,034.0**
Inflation adjustments on non-monetary assets	8,404.6	8,265.8	8,264.4
Unrealized gains/losses on securities available for sale (1)	651.7	274.8	1,886.4
Valuations	26,375.2	31,405.3	31,495.0
Less:			
Devaluations	(259.8)	(97.3)	(98.3)
Less/more others	24.1	21.8	22.0
Computed secondary capital (Tier II)	**35,195.8**	**39,870.4**	**41,569.5**
Technical capital	488,462.5	563,340.8	777,603.5
Risk-weighted assets	3,769,425.1	4,649,807.1	4,668,564.7
Value at risk	37,455.1	42,046.5	54,957.9
Regulatory value at risk (2)	416,167.9	467,182.8	610,643.2
Risk-weighted assets including regulatory value at risk	4,185,593.0	5,116,989.9	5,279,207.9
Primary capital (Tier I) to risk-weighted assets including regulatory value at risk	11.7	11.0	14.7
Secondary capital (Tier II) to risk- weighted assets including regulatory value at risk	0.8	0.8	0.8
Solvency ratio (3)	10.8x	10.2x	13.9x

(1) Unrealized gains/losses on securities available for sale do not flow through the statement of income until such securities are disposed of and the gain or loss is realized.

(2) Regulatory value at risk consists of value at risk multiplied by (100/9) as required by the Superintendency of Finance. See "—Capital adequacy requirements."

(3) Solvency ratio is calculated as technical capital to risk-weighted assets including regulatory value at risk.

At March 31, 2012, our technical capital ratio was 14.73%, exceeding the requirement of the Colombian government and the Superintendency of Finance by 573 basis points. At December 31, 2011 and 2010, our technical capital ratio was 11.01% and 11.67%, respectively.

The Basic Accounting Circular contains provisions relating to liquidity risk, interest rate risk, foreign exchange rate risk and market risk. Colombian banks are required to calculate a VaR based on a methodology provided by the Superintendency of Finance. VaR is used in assessing a banks' solvency. Future changes in VaR requirements could have a material effect on our operations in the future.

Our combined loan portfolio, net of allowances, is 84.5% and 82.1% weighted as risk-weighted assets at December 31, 2011 and at March 31, 2012, respectively. Provisions corresponding to our operations are determined by measuring credit risk. For this purpose, credit extensions are rated according to their risk level ("A," "B," "C," "D" or "E"); the Superintendency of Finance has established minimum provision levels for each rating.

Mandatory investments

Colombian banking institutions are required to invest in agricultural development bonds (*Titulos de Desarrollo Agropecuario*) issued by Finagro, a government entity, according to External Resolution 3 of 2000 of the Colombian Central Bank, as amended by External Resolution 6 of 2008. The Colombian Central Bank requires that each bank maintains a total investment in these bonds equal to 5.8% of its checking and saving deposits, plus 4.4% of its term deposits with a maturity of up to 18 months. Finagro may issue two different types of agricultural development bonds, Class A with an interest rate of 4 percentage points below the DTF rate and Class B with an interest rate of 2 percentage points below DTF-2. If the DTF interest rate falls to 4% or less, the profitability of the Class A TDAs will be 0%, and if the DTF interest rate falls to 2% or less, the profitability of the Class B TDAs will be 0%. Banks are required to invest 37% of the total mandatory investment in Class A TDAs and 63% in Class B TDAs.

Until 2006, banking institutions were required to invest in debt reduction bonds (*Titulos de Reducción de Deuda*), issued by the Colombian government. These bonds are no longer a mandatory investment but are still outstanding in the portfolios of bank institutions until maturity.

Under government discretion, authorities may extend the scope of current regulations or require additional disbursements on current or new types of mandatory investments.

Minimum capital requirements

Article 80 of Decree 663 of 1993, as amended by Law 795 of 2003, establishes minimum incorporation capital requirements for different financial institutions. When a financial institution fails to comply with the minimum required capital after a cure period granted by law, it may be intervened by the Superintendency of Finance, by virtue of which it may be liquidated, merged into another institution or its corporate form may be converted into another category of financial institution, notwithstanding the fact that the institution may be subject to fines imposed by the Superintendency of Finance.

The minimum incorporation capital requirement for banks on an unconsolidated basis for 2012 is Ps 73,750.0 million. Through March 31, 2012, we have consistently satisfied this incorporation capital requirement. At March 31, 2012, our incorporation capital was 561,373.4 million.

Capital investment limit

All investments in subsidiaries and other authorized capital investments, other than those carried out in order to fulfill legal provisions, may not exceed 100% of the total aggregate of the capital, equity reserves and the equity revaluation account of the respective bank, financial corporation or financing company, excluding unadjusted fixed assets and including deductions for accumulated losses.

Foreign currency position requirements

According to External Resolution 4 of 2005 issued by the Board of Directors of the Colombian Central Bank, as amended by External Resolutions 12 of 2007, 13 of 2008, 1 and 7 of 2009 and 3 of 2011, a financial institution's foreign currency position is the difference between such institution's foreign currency-denominated assets and liabilities (including any off-balance sheet items), realized or contingent, including those that may be sold in Colombian legal currency.

Resolution 4 of 2007 (as amended) of the Board of Directors of the Colombian Central Bank provides guidelines for foreign currency positions of financial institutions, including the following:

- the average of a bank's foreign currency position for three business days cannot exceed the equivalent in foreign currency of 20.0% of the bank's technical capital. Currency exchange intermediaries such as the Bank are permitted to hold a three business days' average negative foreign currency position not exceeding the equivalent in foreign currency of 5.0% of its technical capital (with penalties being payable after the first business day). At March 31, 2012, we had a consolidated foreign currency position of U.S.$0.2 million, in compliance with these regulatory guidelines;

- foreign currency position in cash is defined as the difference between all foreign currency-denominated assets and liabilities. A bank's three business days' average foreign currency position in cash cannot exceed 50.0% of the bank's technical capital. In accordance with Resolution 4 of 2007 (as amended by Resolution 3 of 2008) of the Board of Directors of the Colombian Central Bank, the three-day average must be calculated on a daily basis and the foreign currency position in cash cannot be negative. At March 31, 2012, we had a consolidated foreign currency position in cash of U.S.$10.4 million, in compliance with these regulatory guidelines; and

- gross position of leverage, defined as (1) the value of term contracts denominated in foreign currency, plus (2) the value of transactions denominated in foreign currency to be settled in cash within one or more days, and (3) the value of the exchange rate risk exposure associated with exchange rate options and derivatives. Resolution 4 of 2007 (as amended by Resolution 3 of 2011) of the Board of Directors of the Colombian Central Bank establishes that the average of a bank's gross position of leverage for three business days cannot exceed 550.0% of the technical capital of such bank. In calculating the gross position of leverage, Resolution 3 of 2011 of the Board of Directors of the Colombian Central Bank excludes any foreign exchange transactions that intermediaries of the FX Market perform as local suppliers of liquidity of foreign currency using the Systems of Compensation and Liquidation of Currencies when there is a breach of payment by a participant. At March 31, 2012, we had a consolidated gross position of leverage of U.S.$60.5 million, in compliance with these regulatory guidelines.

Reserve requirements

Commercial banks are required by the Board of Directors of the Colombian Central Bank to satisfy reserve requirements with respect to deposits and other cash demands. These reserves are held by the Colombian Central Bank in the form of cash deposits. According to Resolution 11 of 2008, the reserve requirements for Colombian banks are measured bi-weekly and the amounts depend on the class of deposits.

The reserves of credit institutions range between zero and 11.0%. For example, credit institutions must maintain reserves of 11.0% for current accounts deposits and saving accounts deposits, reserves of 4.5% for term deposits with a maturity of less than 540 days, and no reserves for term deposits with a maturity of more than 540 days.

Credit institutions may maintain these reserves in their accounts at the Colombian Central Bank.

Foreign currency loans

Colombian residents may only obtain foreign currency loans from non-residents or from Colombian financial institutions. Foreign currency loans must be either channeled through foreign exchange intermediaries (such as Colombian financial institutions) or deposited in offshore compensation accounts (including specially designated accounts at foreign banks held by Colombian residents and registered before the Colombian Central Bank).

Under regulations issued by the Colombian Central Bank, every Colombian resident and institution borrowing funds in foreign currency is generally required to post with the Colombian Central Bank non-interest-bearing deposits for a specified term; however the size of the required deposit is currently zero. No such deposits would be required for foreign currency loans aimed at financing Colombian investments abroad or for short-term export loans (provided the loan is disbursed against the funds of Bancoldex).

In addition, pursuant to Law 9 of 1991, the Board of Directors of the Colombian Central Bank is entitled to impose conditions and limitations on the incurrence of foreign currency indebtedness in order to avoid pressure in the foreign exchange market.

To reduce pressure on the foreign exchange market, the Colombian central government issued Decree 4145 dated November 5, 2010, which provides that interest payments on new foreign indebtedness (or on new disbursements of previously-agreed loans) are subject to a 33% withholding tax and, thereafter, Law 1430 of 2010 reduced the rate to 14%. Nevertheless, certain exceptions apply to this rule, including (1) foreign indebtedness incurred by entities controlled by the Colombian government and (2) loans obtained abroad incurred by Colombian banks and financial corporations.

Restrictions on foreign investment in Colombia

Colombia's foreign investment statute regulates the manner in which non-residents are permitted to invest in Colombia and participate in the Colombian securities market. Among other requirements, Colombian law requires foreign investors to register certain foreign exchange transactions with the Colombian Central Bank and obtain authorization for certain types of investments. Certain foreign exchange transactions, including those between residents and non-residents, must be made through authorized foreign exchange market participants.

Non-residents are permitted to hold portfolio investments in Colombia, through either a registered stock brokerage firm, a trust company or an investment firm. Investors would only be allowed to transfer dividends abroad after the foreign investment registration procedure with the Colombian Central Bank has been completed. The failure of a non-resident investor to report or register foreign exchange transactions with the Colombian Central Bank relating to investments in Colombia on a timely basis may prevent the investor from remitting dividends, or an investigation that may result in a fine, may be commenced.

Allowance for loan losses

The Superintendency of Finance has issued guidelines relating to allowances for loan losses in the Basic Accounting Circular, as amended, and External Circular 054 of 2009, which refer to the adoption of the SARC, by credit institutions.

As previously mentioned, the SARC system adopted by each credit institution must contain policies and procedures defining the manner in which the institution assesses, evaluates, classifies, grades, controls and covers credit risk. Management must adopt policies and procedures to ensure adequate risk management in connection with the establishment of allowances and of lending and continuous monitoring standards.

Under the current model of allowances for loan losses, loans must be classified and graded in five different categories, from "A" to "E" as established by the Superintendency of Finance. Loans classified in category "A'" are considered "normal" or "ordinary," with a regular credit risk. Loans classified in category "B" are those considered to have an acceptable risk. In category "C," institutions must include loans with an appreciable risk, while in category "D," loans with a significant or material credit risk. Finally, loans that are not able to be recovered, or that have a reduced chance of being recovered, must be classified in category "E." Each bank must follow this system.

The Superintendency of Finance's guidelines specify the criteria for classifying loans, including type of loan (i.e., commercial, consumer, mortgage or microcredit loans), age of loan, term of default and variation of the credit risk of the debtor (by determining repayment capability and payment record). Credit institutions are also required to apply specific allowances to particular categories of loans, which are calculated as a percentage of the outstanding balance.

For mortgage loans and microcredit loans a general allowance for loan losses of 1% of the principal amount must be established for each mortgage and microcredit loan.

In addition to the general allowance, individual allowances for loan losses must be established.

The following table presents the minimum individual allowance for mortgage loan losses, as established by the Superintendency of Finance.

Credit category	Percentage of allowance over the guaranteed portion of the loan	Percentage of allowance over the non-guaranteed portion of the loan
A	1.0	1.0
B	3.2	100.0
C	10.0	100.0
D	20.0	100.0
E	30.0	100.0

The following table presents the minimum individual allowance for microcredit loan losses.

Credit grade	Minimum Allowance Percentage (1)	Minimum Allowance Percentage (2)
A	0.0	1.0
B	1.0	2.2
C	20.0	0.0
D	50.0	0.0
E	100.0	0.0

(1) Allowance percentage that will be applied over the balance due on the loan, after discounting the value of acceptable guarantees, taking into account the rules provided in Annex 1 of Chapter II of Basic Accounting Circular.

(2) Allowance percentage that will be applied over the balance due on the loan without discounting the value of acceptable guarantees.

In any case, the minimum individual allowance for credit losses corresponds to the sum of:

- The allowance percentage applicable to the balance due, net of the value of acceptable guarantees; and
- The allowance percentage applicable to the entire balance due on the loan. See note 2(i) to our audited annual consolidated financial statements and note 2(e) to our unaudited three-month consolidated financial statements.

In the case of consumer and commercial loans, Annex 3 to Chapter II of the Basic Accounting Circular (as amended by External Circular No. 22 of 2008) issued by the Superintendency of Finance, establishes that financial institutions which provide consumer and commercial loans may prepare lending internal models which classify and qualify all consumer and commercial loans granted by said entity, in order to constitute non-performing loan allowances (that includes countercyclical parameters) reflecting the classification and qualification set in the model.

Under this regulation, each financial institution may submit its own internal models for the review (and non-objection opinion) of the Superintendency of Finance. However, if an entity does not propose such internal models or if they are objected to by the Superintendency of Finance, the reference models contained in the Basic Accounting Circular must be applied to their lending activities.

Lending limits

Title II, Book I of Part II of Decree 2555 of 2010, provides that a financial institution may not lend to a single borrower an amount in excess of 10% of such institution's technical capital, or 25% if amounts above 5% are secured by collateral in accordance with the financial institution's guidelines.

Pursuant to Title VI, Book 36 of Part II of Decree 2555 of 2010, a bank may not make a loan to any shareholder that holds directly more than 10% of its share capital for one year after such shareholder reaches the 10% threshold. In no event may a loan to a shareholder holding, directly or indirectly, 20% or more of a bank's share capital exceed 20% of a bank's technical capital. In addition, no loan to a single financial institution may exceed 30% of a bank's technical capital, with the exception of loans funded by Colombian development banks for which no limit exists.

If a financial institution exceeds these limits, the Superintendency of Finance may impose a fine equal to up to twice the amount by which any such loan exceeded the limit and, in some cases, there may be criminal sanctions.

At March 31, 2012, our lending limit per borrower was Ps 78,303.7 million for unsecured loans and Ps 313,214.7 million for secured loans.

Decree 2555 of 2010 sets a maximum limit for risk concentrated in one single party, equivalent to 30% of a bank's technical capital, the calculation of which includes loans, leasing operations and equity and debt investments.

The Colombian Central Bank also has the authority to establish maximum limits on the interest rates that commercial banks and other financial institutions may charge on loans.

Intervention powers of the Superintendency of Finance—Bankruptcy considerations

Pursuant to the Colombian Banking Law, the Superintendency of Finance has the power to intervene in the operations of a bank in order to prevent it from, or to control and reduce the effects of, a bank failure.

The Superintendency of Finance may intervene in a bank's business (1) prior to the liquidation of the bank, by taking precautionary measures in order to prevent the bank from being taken over by the Superintendency of Finance, or (2) to take possession of the bank to either administer the bank or order its liquidation, depending on the severity of the situation.

The purpose of taking possession is to allow the Superintendency of Finance to decide (1) whether the entity-should be liquidated, (2) whether it is possible to place it in a position to continue doing business in the ordinary course, or (3) whether other measures may be adopted to secure better conditions so that depositors, creditors and investors may obtain the full or partial payment of their credits.

If the Superintendency of Finance takes possession of a bank, FOGAFIN must appoint a special agent (who must be accepted by the Superintendency of Finance) to administer the affairs of the bank during such process and until the bank is ordered to be liquidated or the entity is reestablished to continue doing business in the ordinary course.

During the period of the Superintendency of Finance's possession (which period ends when the liquidation process begins), Colombian banking laws prevent any creditor of the bank from (1) initiating any procedure for the collection of any amount owed by the bank, (2) enforcing any judicial decision rendered against the bank to secure payment of any of its obligations, (3) placing a lien or attachment on any of the assets of the bank to secure payment of any of its obligations, or (4) making any payment, advance or compensation or assuming any obligation on behalf of the bank, with the funds or assets that may belong to it and are held by third parties, except for payments that are made by way of set-off between regulated entities of the Colombian financial and insurance systems.

In the event that the bank is liquidated, the Superintendency of Finance must, among other measures, provide that all term obligations of the bank are due and payable at the date when the order to liquidate becomes effective.

Troubled financial institutions—Deposit insurance

Subject to specific limitations, FOGAFIN is authorized to provide equity and/or secured loans to troubled financial institutions, and to insure deposits of commercial banks and certain other financial institutions. In 1998 and 1999, to address the adverse effects of the economic crisis, certain regulations were adopted, among others, Law 546 of 1999 (*Ley de Vivienda*) and Law 550 of 1999 (*Ley de Reactivacion Económica*).

To protect the customers of commercial banks and certain financial institutions, Resolution No. 1 of 1988 of FOGAFIN, as amended by Resolution No. 1 of 2010, as amended by Resolution No. 2 of 2011, requires mandatory deposit insurance. Under this resolution, banks must pay an annual premium of 0.3% of total funds received on savings accounts, current accounts and certificates of deposit. If a bank is liquidated, the deposit insurance will cover the funds deposited by an individual or corporation with such bank, up to a maximum of Ps 20 million, regardless of the number of accounts held.

Anti-money laundering provisions

The regulatory framework to prevent and control money laundering is contained in, among others, the EOSF and Chapter XI, title I of External Circular 007 of 1996 issued by the Superintendency of Finance, as well as Law 599 of 2000 (the Colombian Criminal Code).

Colombian laws adopt the latest guidelines related to anti-money laundering and other terrorist activities established by the Financial Action Task Force on Money Laundering, or “FATF.” Colombia, as a member of the GAFI-SUD (a FATF style regional body) follows all of FATF’s 40 recommendations and eight special recommendations.

Anti-money laundering provisions have been complemented with provisions aimed at deterring terrorism financing. For that purpose, by means of Circular 26 of 2008, the Superintendency of Finance has issued regulations requiring the implementation by financial institutions of a system of controls for money laundering and terrorism financing.

The requirements include “know your customer” rules and procedures to protect financial institutions from being used directly by shareholders and executives in money laundering activities, for channeling funds for terrorist activities, or for the concealment of assets from such activities; those rules and procedures set forth detailed instructions for monitoring these risks.

Circular 60 of 2008, issued by the Superintendency of Finance and applicable to issuers of securities in the capital markets, provides rules and guidelines regarding the prevention of money laundering and terrorism financing.

Finally, the Colombian Criminal Code introduced criminal rules and regulations to prevent, control, detect, eliminate and prosecute all matters related to financing terrorism and money laundering. The criminal rules and regulations cover the omission of reports on cash transactions, mobilization or storage of cash, and the lack of controls.

Regulatory framework for non-financial subsidiaries

Subsidiaries that are not part of the financial sector are governed by the laws and regulations of the Colombian Civil Code and the Colombian Code of Commerce, as well as any regulations issued by the Colombian Superintendency of Industry and Commerce and the Superintendency of Corporations or any other type of special regulations that may be applicable to the commercial and industrial activities carried out by these subsidiaries.

MANAGEMENT

Board of directors

The board of directors of the Bank is composed of five principal members each of whom serves for a one-year term and may be reelected indefinitely. The board currently consists of four members plus one vacancy. The business address for each of the members of the board of directors is Carrera 7a. No. 75-85/87, Bogotá, Colombia.

The current members of the board of directors were appointed at a shareholders' meeting held on February 29, 2012. The following table presents the names of the current principal and alternate members of the board of directors.

Board Member	Position
Mr. Jaime Gilinski Bacal	Chairman
Mr. Ricardo Diaz	Member
Mr. Oliverio Lew	Member
Ms. Carolina Mazuera	Member

Luz Elena Novoa Sepulveda is the secretary of our board.

Biographical information of the members of our board of directors is set forth below

Mr. Jaime Gilinski Bacal

Mr. Gilinski holds a masters degree in business administration from Harvard University. Mr. Gilinski is the Chairman of the board of directors of the Bank and has held this position since January 14, 2010. In addition, he is the Chairman of the board of directors of JGB Holding Financial Company. Prior to joining the Bank, Mr. Gilinski was a member of the board of directors of Banco Andino S.A. and Banco de Colombia S.A.

Mr. Ricardo Diaz

Mr. Diaz holds an accounting degree from the Universidad Jorge Tadeo Lozano—Bogotá . Mr. Diaz is a member of the board of directors of the Bank and has held this position since May 6, 2004. In addition, he is the controller of PBZ Ltda. Prior to joining the Bank, Mr. Diaz was the accountant of Serviaseo S.A., the CEO of Volta S.A., controller of Bancol & Cia. S. en. C and Administradora El Progreso Ltda.

Mr. Oliverio Lew

Mr. Lew received his juris doctorate from the University of Buenos Aires, School of Law in 1993 and holds a masters degree in law from Columbia University. Mr. Lew is a member of the board of directors of the Bank and has held this position since November 8, 2008. In addition, Mr. Lew was a member of the board of directors of Phone 1 Global Wide Inc. until 2008. Prior to joining the Bank, Mr. Lew worked for Proskauer Rose LLP, a law firm in New York City.

Ms. Carolina Mazuera

Ms. Mazzuera holds an industrial engineering degree from Universidad de Los Andes—Bogotá and a masters degree in business administration from Columbia University. Ms. Mazzuera has been a member of the board of directors of the Bank since October 1, 2009. In addition, Ms. Mazzuera is an independent consultant. Prior to joining the Bank, Ms. Mazzuera worked for McKinsey & Company.

Executive officers

The executive officers of the Bank are responsible for the day-to-day management of the Bank. The executive officers serve until removed.

The following table lists the names and positions of our executive officers.

Name	Position
Mr. Camilo Verástegui Carvajal	Chief Executive Officer
Ms. Catalina Falquez	Vice-President, Institutional Banking
Mr. Carlos Ivan Vargas	Vice-President, Consumer Banking
Mr. Edilberto Sanchez	Vice-President, Corporate Banking
Ms. Angelica Muñoz	Finance Manager
Ms. Lesbia Benavides Leon	Vice-President, Operations and Technology
Mr. Efrain Castro Alvarez	Credit Manager
Mr. Luis Hernando Aguilera	Vice-President, Administration
Mr. Luis Guillermo Rozo Diaz	Business Manager
Mr. Gerardo Terán Malagón	General Auditor
Ms. Luz Elena Novoa Sepulveda	General Secretary

Biographical information of our executive officers and key employees who are not directors is set forth below.

Mr. Camilo Verástegui Carvajal

Mr. Verástegui holds a degree in economics from Universidad de los Andes, Colombia. Mr. Verástegui is the Chief Executive Officer of the Bank and has held this position since January, 2004. In addition, he is the Chief Executive Officer of the Board of Servitrust, Servibanca and Servivalores. Mr. Verástegui has over 30 years of experience in the financial industry. Previously, Mr. Verástegui has served as the International and Finance Vice-President of Banco Andino, Banco de Colombia and President of Banco de Colombia in Ecuador, and GNB Sudameris Bank in Panamá. In addition, he served as an Operations Officer of the World Bank for 10 years.

Ms. Catalina Falquez

Ms. Falquez holds a degree in psychology from Universidad del Norte, Colombia. Ms. Falquez has been the Vice-President, Institutional Banking of the Bank since December 2005. In addition, she was the Commercial Vice-President of Fiduciaria La Previsora. In addition, Ms. Falquez has served as the President of Fiduciaria Union and the General Manager of Servitrust.

Mr. Carlos Ivan Vargas

Mr. Vargas holds a degree in economics from Universidad del Valle, Colombia. Mr. Vargas has been the Vice-President, Consumer Banking of the Bank since June 2005. Mr. Vargas has over 20 years of experience in the financial industry. Prior to joining the Bank, Mr. Vargas was the Vice-President, International Business and Vice-President, Trading of Banco Construcción de Venezuela.

Mr. Edilberto Sánchez

Mr. Sánchez holds a degree in business administration from Universidad EAN—Escuela de Administración de Negocios, Colombia. Mr. Sánchez has been the Vice-President, Corporate Banking of the Bank since June 2005. Prior to joining the Bank, Mr. Sánchez was Current accounts Manager of Banco Santander and Branch Manager of Bank of America. He also acted as Office Manager and Commercial Manager of Banco Real de Colombia.

Ms. Angelica Muñoz

Ms. Muñoz holds a degree in economics from Universidad Externado de Colombia and has a postgraduate degree in finance from Universidad de los Andes, Colombia. Ms. Muñoz has been the Finance Manager of the Bank since September 2008. Prior to joining the Bank, Mr. Muñoz worked in the Civil Aeronautics field.

Ms. Lesbia Benavides Leon

Ms. Benavides holds a degree in business administration from Universidad de la Salle, Colombia. Ms. Benavides has been the Vice-President, Operations and Technology of the Bank since December 2005. Ms. Benavides joined the Bank in 1981.

Mr. Efrain Castro Alvarez

Mr. Castro holds a degree in economics from Universidad Central de Bogotá, Colombia. Mr. Castro has served as Credit Manager of the Bank since June 2005. Mr. Castro has over 20 years of experience in the financial industry. Prior to joining the Bank, Mr. Castro worked for Banco Latino. Mr. Castro joined the Bank in 1994.

Mr. Luis Hernando Aguilera

Mr. Aguilera holds a degree in business administration and a postgraduate degree from Universidad Politécnico Gran Colombiano, Colombia. In addition, he has an MBA from INALDE, Colombia. Mr. Aguilera has been the Vice-President, Administration of the Bank since June 2005. Mr. Aguilera has over 25 years of experience in the financial industry. He joined the Bank in 1991. Prior to joining the Bank, Mr. Aguilera worked for Corporación de Ahorro y Vivienda Ahorramás.

Mr. Luis Guillermo Rozo Diaz

Mr. Rozo holds a degree in business administration from Universidad Externado de Colombia, Colombia and has a major in finance from Universidad EAFIT, Colombia. Mr. Rozo has been the Business Manager of the Bank since June 2005. Mr. Rozo has 20 years of experience in the financial industry. Prior to joining the Bank, Mr. Rozo worked for Bancomercio.

Mr. Gerardo Terán Malagón

Mr. Terán is an accountant from Universidad Libre de Colombia, Colombia and has a major in financial regulations form Universidad de los Andes, Colombia. In addition, he holds a major in taxes from Universidad Central de Bogotá, Colombia. Mr. Terán has been the General Auditor of the Bank since August 2008. Mr. Terán has over 30 years of experience in the financial industry. Prior to joining the Bank, Mr. Terán worked for Bancafé, AV Villas and KPMG. Mr. Terán currently sits on the board of directors of the Colombian Institute of Internal Auditors (*Instituto de Auditores Internos de Colombia*).

Ms. Luz Elena Novoa Sepulveda

Ms. Novoa is a lawyer from Universidad Javeriana, Colombia. Ms. Novoa has been the General Secretary of the Bank since September 2005. Ms. Novoa has 25 years of experience in the financial industry. Prior to joining the Bank, Ms. Novoa worked for Banco Comercial Antioqueño.

Audit committee

Our audit committee advises the board of directors generally on internal control matters, and it specifically undertakes to:

- review financial statements prior to their submission to the board of directors and to the general shareholders' meeting;
- supervise the internal auditor to verify if its actions address the internal control needs of the Bank and to identify limitations with respect to its duties;
- review all internal control reports of the Bank and supervise compliance with such reports by the Bank's management;
- issue its opinion on the independence of the external auditor, based on standards set forth by Colombian regulations;
- monitor the Bank's levels of risk exposure at least every six-months and propose mitigation measures as needed;
- propose to the board of directors control systems to prevent, detect and adequately respond to the risk of fraud and improper conduct by Bank employees;
- provide assistance to our board of directors in fulfilling its responsibilities with respect to our compliance with legal and regulatory requirements;
- make recommendations to the general shareholders meeting concerning the engagement of the independent accounting firm; and
- issue reports to the board of directors on matters deemed relevant.

Pursuant to regulations of the Superintendency of Finance, the audit committee has a charter approved by the board of directors, which sets forth the main aspects related to the operation of such committee, including, among others, its composition and duties. The audit committee was last appointed by the board of directors pursuant to its Directive 706, signed on March 16, 2012. The audit committee, whose members are appointed by the board of directors, consists of three members of the board of directors, two of which must be independent, the President of the Bank and the Bank's Auditor General.

SHARE OWNERSHIP AND PRINCIPAL SHAREHOLDER

Our only class of outstanding share capital consists of our common shares. We have 151,147,182 common shares issued and outstanding each with a nominal value of Ps 400.00. Our share capital is fully paid up. No convertible or exchangeable debt securities nor debt securities with warrants attached have been issued.

Gilex Holding B.V. is the registered holder of 94.7% of our issued and outstanding share capital at the date of this listing particulars. Gilex Holding B.V. is controlled, directly and indirectly, by the Gilinski family. Our principal shareholder, as a common shareholder, does not have any different or special voting rights in comparison to any other common shareholder.

RELATED PARTY TRANSACTIONS

General

We currently engage in, and expect from time to time in the future to engage in, financial and commercial transactions with "related parties". Such transactions are conducted on an arm's-length basis in the ordinary course of business, on terms no more favorable than those offered to third parties.

In accordance with Colombian banking regulations, related parties include directors, principal executive officers and holders that own, directly or indirectly, more than 10% of our shares, and companies controlled by any of them. Under Colombian banking regulations, all loans to related parties must be made on terms no more favorable than those offered to third parties. The Superintendency of Finance regulates and closely monitors related-party transactions and establishes limits on related-party transactions. For example, for unsecured loans to shareholders holding 20% or more of the Bank's shares, the maximum aggregate amount of the loans is limited to 20% of the Bank's technical capital. For unsecured loans to shareholders holding less than 20% of the Bank's shares, the maximum aggregate amount of the loans is limited to 10% of the Bank's technical capital per borrower, which is the same limit Colombian banking regulations impose on unsecured loans to third-parties.

Our related-party exposure (as measured in accordance with Colombian banking regulations) equaled 9.6% of our technical capital, at December 31, 2011. As described in more detail below, the only loans to related parties (as defined under Colombian banking regulations) are our loans to Gilex Holding B.V., our principal shareholder.

Loans to Shareholders

From time to time, we have made loans to Gilex Holding B.V. and Glenoaks Investment S.A., a shareholder who holds 4.7% of our issued and outstanding common shares. These loans are generally of short-term maturity.

At December 31, 2009 and 2011, we had loans outstanding with Gilex Holding B.V. in pesos and/or U.S. dollars in aggregate amounts of Ps 36,771.0 million and Ps 53,812.8 million, respectively. We had no loans outstanding with Gilex Holding B.V. at December 31, 2010 and March 31, 2012. Accrued interest on these loans was Ps 2,806.0 million, Ps 3,250.8 million, Ps 832.3 million and Ps 560.0 million in 2009, 2010 and 2011 and in the three-month period ended March 31, 2012.

At December 31, 2009, 2010 and 2011, we had loans outstanding with Glenoaks Investment S.A. in pesos and/or U.S. dollars in aggregate amounts of Ps 41,086.0 million, Ps 44,978.5 million and Ps 53,424.2 million, respectively. We had no loans outstanding to Glenoaks Investment S.A. at March 31, 2012. Accrued interest on these loans was Ps 2,992.0 million, Ps 2,513.2 million, Ps 2,157.0 million and Ps 587.5 million in 2009, 2010 and 2011 and in the three-month period ended March 31, 2012.

We currently have no loans outstanding with any of our shareholders.

Other transactions

At December 31, 2009, 2010 and 2011, and at March 31, 2012, the Bank had a checking account with a balance of Ps 1,100.5 million, Ps 1,851.7 million, Ps 1,988.2 million and Ps 181,347.1 million, respectively, in GNB Bank, Panamá, a banking institution controlled by the Gilinski family.

DESCRIPTION OF THE NOTES

As used below in this "Description of the Notes" section, the "Bank" means Banco GNB Sudameris S.A., a *sociedad anónima* organized and existing under the laws of Colombia, and its successors, but not any of its subsidiaries. The Bank issued the Notes (as defined herein) described in this listing particulars under an indenture dated as of July 30, 2012 (the "Indenture") executed between the Bank and The Bank of New York Mellon, as trustee (the "Trustee"), transfer agent, paying agent and security registrar. The terms of the Notes include those set forth in the Indenture. You may obtain a copy of the Indenture from the Bank at its address set forth elsewhere in this listing particulars and, for so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange (the "LSE") and to trading on the Euro MTF Market, at the office of the paying agent in Luxembourg.

The following is a description of the material terms and provisions of the Notes. For further detailed provisions the Indenture should be consulted. You can find definitions of certain terms used in this description under the heading "—Certain Definitions."

General

The 7.50% Subordinated Notes due 2022 (the "Notes") are being issued by the Bank as *bonos subordinados* under the laws of Colombia (with the effects set forth in Article 2.1.1.1.7 of Decree 2555). The Notes are not treated under the banking laws and regulations of Colombia as bank deposits, and Holders are not required to open accounts with the Bank. Holders will not have recourse to deposit insurance or any other protections afforded to depositors in financial institutions under the laws of any jurisdiction. The Notes are treated under Colombian and New York law as debt instruments.

According to Colombian banking laws, banks are permitted to issue subordinated debt, including the Notes, and to include the outstanding aggregate principal amount of such subordinated debt as a component of Tier Two Capital, provided that: (i) the instrument creating or evidencing such subordinated debt or pursuant to which the same is outstanding expressly provides that, in the event of the Bank's mandatory liquidation, such subordinated debt will rank junior in right of payment to the prior payment in full of all of the Bank's existing and future Senior Liabilities; (ii) (a) such subordinated debt has a term to maturity equal to or greater than five (5) years and (b) there are no optional prepayments or any other rights conferred upon the creditors of such subordinated debt that reduce such term to less than five (5) years; and (iii) there is no right of acceleration conferred upon the creditors of such subordinated debt.

Technical Capital is comprised of Tier One Capital, which consists of different types of capital, such as Capital Stock and capital reserves, and Tier Two Capital, which includes subordinated debt which satisfies the requirements set forth above, such as the Notes. However, commencing on the fifth anniversary prior to the final maturity date, the amount of subordinated debt that will be eligible to be included in Tier Two Capital will decrease by 20% of the aggregate outstanding amount of such subordinated debt on an annual basis. As a result, after July 30, 2017, the outstanding aggregate principal amount of the Notes that will qualify as Tier Two Capital will decrease by 20% annually. See "Colombian Banking Regulation."

Principal, Maturity and Interest

The Notes will mature on July 30, 2022 and will be redeemable for 100% of their principal amount on such date. The Notes will bear interest at the rate of 7.50% per year, payable semi-annually on January 30 and July 30 of each year (each, an "interest payment date"), commencing on January 30, 2013, to Holders of record at the close of business on January 15 or July 15, as the case may be, immediately preceding the relevant interest payment date. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months. If any interest payment date or final maturity date is a day that is not a Business Day, the related payment of the principal and interest will be made on the next succeeding Business

Day as if it were made on the date the payment was due, and no interest will accrue on the amounts so payable for the next period from and after the interest payment date or the final maturity date, as the case may be, to the next succeeding Business Day.

The Notes will be issued in registered form, without interest coupons, and in minimum denominations of U.S.$10,000 and integral multiples of U.S.$1,000. Each book-entry note will be represented by one or more notes registered in the name of The Depository Trust Company ("DTC" or the "depositary") or its nominee. Beneficial interests in the Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "—Book-Entry System; Delivery and Form."

The Bank will pay the principal of and interest on the Notes and any Additional Amounts (as defined below) in U.S. Dollars.

An aggregate principal amount of Notes equal to U.S.$250,000,000 is being issued in this offering. The Bank may issue additional Notes having identical terms and conditions (other than issue date, issue price and in certain cases, first interest payment date) to the Notes being issued in this offering (the "Additional Notes"). Any Additional Notes will be part of the same issue as the Notes being issued in this offering and will be treated as one class with the Notes being issued in this offering, including for purposes of voting, redemptions and offers to purchase; provided, however, that if the Additional Notes are not fungible with the Notes for U.S. federal income tax purposes, the Additional Notes will have a separate CUSIP, ISIN and Common Code. Holders of Additional Notes would have the right to vote together with Holders of the Notes issued hereby as one class. For purposes of this "Description of the Notes," references to the Notes include Additional Notes, if any.

Additional Amounts

All payments made by the Bank under or with respect to the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future Taxes imposed or levied by or on behalf of any Taxing Authority in any jurisdiction in which the Bank is organized or is otherwise resident for tax purposes or any jurisdiction from or through which payment is made (each a "Relevant Taxing Jurisdiction"), unless the Bank is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. If the Bank is required to withhold or deduct any amount for or on account of Taxes imposed by a Relevant Taxing Jurisdiction, from any payment made under or with respect to the Notes, the Bank will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by each Holder (including Additional Amounts) after such withholding or deduction (including withholding or deduction with respect to Additional Amounts payable hereunder) will equal the amount the Holder would have received if such Taxes had not been withheld or deducted; provided, however, that no Additional Amounts will be payable with respect to any Tax:

(1) to the extent such Tax is imposed by reason of any present or former connection between the Holder and the Relevant Taxing Jurisdiction (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, the Relevant Taxing Jurisdiction) other than the mere holding of the Notes or enforcement of rights thereunder or the receipt of payments in respect thereof;

(2) to the extent such Tax is imposed due to the failure to satisfy any certification, identification or other reporting requirements whether imposed by statute, treaty, regulation or administrative practice, provided, however, that the Bank has delivered a request to the Holder to comply with such requirements at least 30 days prior to the date by which such compliance is required; or

(3) to the extent such Tax is imposed due to the failure by the Holder to present the Notes (where presentation is required) for payment within 30 days after the date such payment was due and

payable or was duly provided for, whichever is later, provided that the Bank will pay Additional Amounts to which a Holder would have been entitled had the Notes been surrendered on the last day of such 30-day period;

(4) where such Tax is an estate, inheritance, gift, value added, use or sales Tax or any similar Tax;

(5) where such Tax is imposed on a payment on the Notes to an individual and is required to be made pursuant to any European Union directive on the taxation of savings implementing the conclusions of the Economic and financial Council of Ministers of the member states of the European Union (ECOFIN) Council meeting of November 26-27, 2000 or any law implementing or complying with that directive; or

(6) where the Holder could avoid such Tax by requesting that a payment on the Notes be made by, or is able to avoid such tax by presenting the relevant Notes for payment to, another paying agent in the European Union.

In addition, Additional Amounts will not be payable if the registered holder of a Note is a fiduciary, partnership or any other person other than the sole beneficial owner of, or Person ultimately entitled to obtain an interest in, such Notes had been the Holder and such beneficiary or settlor with respect to a fiduciary, a member of a partnership or the beneficial owner of such payment would not be entitled to the payment of Additional Amounts by reason of clauses (1) to (6) above if it had been the registered holder of such Note. In addition, Additional Amounts will not be payable with respect to any Tax which is payable otherwise than by withholding from payments of, or in respect of principal of, or any interest or other amounts payable on or with respect to, the Notes.

Whenever in the Indenture or in this “Description of the Notes” there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or of any other amount payable under or with respect to any of the Notes, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Taxes are, were or would be payable in respect thereof.

Within 30 days after any request, the Bank will provide the Trustee with documentation satisfactory to the Trustee evidencing the payment of Additional Amounts.

The Bank will pay any present or future stamp, court or documentary taxes, or any other excise or property taxes, charges or similar levies which arise in any jurisdiction from the execution, delivery or registration of the Notes or any other document or instrument referred to therein, or the receipt of any payments with respect to the Notes, excluding any such taxes, charges or similar levies imposed by any jurisdiction other than a jurisdiction in which the Bank is organized or is otherwise resident for tax purposes, the United States of America or any jurisdiction in which a paying agent is located, but not excluding those resulting from, or required to be paid in connection with, the enforcement of the Notes or any other such document or instrument following the occurrence of any Event of Default with respect to the Notes.

Methods of Receiving Payments on the Notes

The Bank will make payments of principal of and interest on the Notes and any Additional Amounts represented by global securities by wire transfer of U.S. dollars to DTC or to its nominee as the registered holder of the Notes, which will receive the funds for distribution to the owners of beneficial interests in the Notes. The Bank has been informed by DTC that the owners will be paid in accordance with the procedures of DTC and its participants. Neither the Bank, the Trustee, nor the paying agent shall have any responsibility or liability for any of the records of, or payments made by, DTC or its nominee.

Notices

Notices to be given to Holders of a global note will be given only to DTC in accordance with its applicable policies as in effect from time to time. If Notes are issued in individual definitive form, notices will be sent by mail to the respective addresses of the Holders as they appear in the security register maintained by the security registrar, and the Bank will consider such a notice to be given at the time it is mailed. Neither the failure to give any notice to a particular Holder, nor any defect in a notice given to a particular Holder, will affect the sufficiency of any notice given to another Holder.

In addition, so long as the Notes are listed on the LSE for trading on the Euro MTF Market and the rules of such exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or on the website of the LSE (www.bourse.lu). Any such notice will be deemed to have been delivered on the date of first publication.

Subordination of Notes

The payment of all obligations on or relating to the Notes will be subordinated in right of payment to the prior payment in full in cash or cash equivalents of all obligations due in respect of Senior Liabilities of the Bank, whether outstanding on the Issue Date or incurred after that date and will be senior only to all classes of the Bank's Capital Stock. The Notes will rank *pari passu* with all other unsecured and subordinated Indebtedness of the Bank, if any, that complies with the requirements set forth in Decree 2555. Pursuant to Colombian banking laws, the Notes will constitute "subordinated bonds" (*bonos subordinados*) in compliance with the requirements of Decree 2555.

The creditors holding Senior Liabilities will be entitled to receive payment in full in cash or cash equivalents of all obligations due in respect of Senior Liabilities before the Holders will be entitled to receive any payment or distribution of any kind or character with respect to any obligations on or relating to the Notes in the event of any distribution to creditors of the Bank:

- in a total or partial liquidation, dissolution or winding up of the Bank; and
- in the event that the SFC takes possession of the Bank and determines to liquidate the Bank.

As a result of the subordination provisions described above in the event of a liquidation of the Bank, the Notes will be senior only to the Bank's Capital Stock, and accordingly, Holders may recover less ratably than creditors of the Bank who are creditors of Senior Liabilities.

Optional Redemption

The Notes may not be redeemed prior to the final maturity date.

Certain Covenants

The Indenture will contain, among others, the following covenants:

Mergers, Consolidations, Etc.

The Bank will not consolidate with or merge into, or sell, lease, convey or transfer, in one transaction or a series of transactions, all or substantially all of the Bank's properties and assets to any Person, unless:

(1) the surviving entity, if other than the Bank, is organized and existing under the laws of Colombia or the United States and assumes via supplemental indenture all of the obligations under the Notes and the Indenture;

(2) the Bank, or the surviving entity, as the case may be, is not immediately after such transaction in Default under the Notes and the Indenture; and

(3) the Bank or the surviving entity will have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each, in form and substance satisfactory to the Trustee, stating that such consolidation, merger, sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Notes constitute legal, valid and binding obligations of the continuing person, enforceable in accordance with their terms; provided that the Bank will not be required to comply with this clause (3) in connection with a consolidation or merger with HSBC Colombia S.A. so long as the Bank is the surviving entity.

Maintenance of Office or Agent for Service of Process

The Bank shall maintain an office or agent for service of process in the Borough of Manhattan, The City of New York, where notices to and demands upon the Bank in respect of the Notes and the Indenture may be served. Initially this agent will be CT Corporation System, and the Bank will agree not to change the designation of such agent without prior notice to the Trustee and designation of a replacement agent in the Borough of Manhattan, The City of New York.

Provision of Financial Statements and Reports

So long as any Notes are outstanding, the Bank will furnish to the Trustee:

(1) Within 120 days following the end of each of the Bank's fiscal years, an English version (or accompanied by an English translation thereof) of the Bank's consolidated audited income statements, balance sheets, statements of shareholders equity and cash flow statements and the related notes thereto for the two most recent fiscal years in accordance with Colombian Banking GAAP, together with an audit report thereon by the Bank's independent auditors and with corresponding notes to the financial statements in English; and

(2) Within 60 days following the end of the first three fiscal quarters in each of the Bank's fiscal years, an English version (or accompanied by an English translation thereof) of the Bank's quarterly reports containing unaudited consolidated balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with Colombian Banking GAAP, and with corresponding notes to the financial statements in English.

In addition, if and so long as the Notes are admitted to listing on the Official List of the LSE and to trading on the Euro MTF Market and the rules of the LSE so require, copies of such reports and information furnished to the Trustee will also be made available at the specified office of the paying agent in Luxembourg.

The Bank shall furnish to any Holder of Notes or to any prospective purchaser designated by such Holder, upon request of such Holder, financial and other information described in paragraph (d)(4) of Rule 144A with respect to the Bank to the extent required in order to permit such Holder to comply with Rule 144A with respect to any resale of its Notes, unless, at the time of such request, the Bank is subject to the reporting requirements of Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") or is exempt from such requirements pursuant to Rule 12g3-2(b) under the Exchange Act (as amended from time to time and including any successor provision).

Delivery of such reports, information and documents to the Trustee shall be for informational purposes only and the Trustee's receipt of such reports, information and documents shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Bank's compliance with any of the covenants contained in the Indenture (as to which the Trustee will be entitled to conclusively rely upon an Officers' Certificate).

Further Actions

The Bank will, at its own cost and expense, satisfy any condition or take any action (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required, as may be necessary or as the Trustee may reasonably request, in accordance with applicable laws and/or regulations, to be taken, fulfilled or done in order to (i) enable the Bank to lawfully enter into, exercise its rights and perform and comply with its obligations under the Indenture and the Notes, as the case may be; (ii) ensure that its obligations under the Indenture and the Notes are legally binding and enforceable; (iii) make the Indenture and the Notes admissible in evidence in the courts of the State of New York and Colombia; (iv) preserve the enforceability of, and maintain the Trustee's rights under, the Indenture; and (v) respond to any reasonable requests received from the Trustee to enable the Trustee to facilitate the Trustee's exercise of its rights and performance of its obligations under the Indenture and the Notes, including exercising and enforcing its rights under and carrying out the terms, provisions and purposes of the Indenture and the Notes.

Events of Default

Each of the following is an "Event of Default":

(1) failure by the Bank to pay interest or Additional Amounts, if any, on any of the Notes when it becomes due and payable and the continuance of any such failure for thirty (30) days;

(2) failure by the Bank to pay the principal on any of the Notes when it becomes due and payable, whether at stated maturity or otherwise and the continuance of any such failure for seven (7) days;

(3) the Bank pursuant to or within the meaning of any Bankruptcy Law:

(a) commences a voluntary case;

(b) consents to the entry of an order for relief against it in an involuntary case;

(c) consents to the appointment of a Custodian of it or for all or substantially all of its assets;

(d) makes a general assignment for the benefit of its creditors; or

(e) is subject to any other Intervention Measure or Preventive Measure; or

(4) a court of competent jurisdiction or relevant entity enters an order or decree under any Bankruptcy Law that:

(a) is for relief against the Bank as debtor in an involuntary case;

(b) appoints a Custodian of the Bank or a Custodian for all or substantially all of the assets of the Bank; or

(c) orders the liquidation of the Bank, and the order or decree remains unstayed and in effect for sixty (60) days.

If the Bank fails to make payment of principal of or interest or Additional Amounts, if any, on the Notes (and, in the case of payment of principal, such failure to pay continues for seven (7) days or, in the case of payment of interest or Additional Amounts, such failure to pay continues for thirty (30) days), each Holder has the right to demand and collect under the Indenture and the Bank will pay to the Holders the applicable amount of such due and payable principal, accrued interest and Additional Amounts, if any, on the Notes; provided, however, that to the extent that the SFC has adopted an Intervention Measure in connection with the Bank, under the Bankruptcy Law, the Holders would not be able to commence proceedings to collect amounts owed outside the intervention proceeding.

There is no right of acceleration in the case of a Default in any payment on the Notes (whether when due or otherwise) or the performance of any of the Bank's other obligations under the Indenture or the Notes. Notwithstanding the immediately preceding sentence, the Holders shall have the right to accelerate the payments due under the Notes during the occurrence of an Event of a Default; provided that there shall have been a change, amendment or modification to Colombian banking laws that would permit such right without disqualifying the Notes from Tier Two Capital status and the Holders exercise such right in accordance with applicable Colombian banking law. Subject to the subordination provisions of the Notes, if any Event of Default occurs and is continuing, the Trustee may pursue any available remedy (excluding acceleration, except as provided herein) to collect the payment of principal and interest on the Notes or to enforce the performance of any provision under the Indenture. See "Risk Factors—Risks Relating to the Notes—Holders of notes will not have the right to accelerate the notes."

The Trustee is not to be charged with knowledge of any Default or Event of Default (other than a payment default under (1) or (2) above) or knowledge of any cure of any Default or Event of Default unless an authorized officer of the Trustee with direct responsibility for the Indenture has received written notice of such Default or Event of Default by the Bank or any Holder.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to rights of registration of transfer or exchange of Notes, which shall survive until all Notes have been canceled) as to all outstanding Notes when:

(a) either:

(1) all the Notes that have been authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has been deposited in trust or segregated and held in trust by the Bank and thereafter repaid to the Bank or discharged from this trust) have been delivered to the Trustee for cancellation; or

(2) all Notes not delivered to the Trustee for cancellation otherwise have become due and payable and the Bank has irrevocably deposited or caused to be deposited with the Trustee trust funds in trust in an amount of money sufficient to pay and discharge all principal and accrued interest on the Notes not theretofore delivered to the Trustee for cancellation, and the Bank has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity;

(b) the Bank has paid all sums payable by it under the Indenture; and

(c) the Bank has delivered an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent to satisfaction and discharge have been complied with.

Transfer and Exchange

A Holder will be able to register the transfer of or exchange Notes only in accordance with the provisions of the Indenture. The security registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. Without the prior consent of the Bank, the Registrar is not required to register the transfer or exchange of a Note between a record date and the next succeeding interest payment date.

The Notes will be issued in registered form and the registered Holder will be treated as the owner of such Note for all purposes.

Purchase of Notes

The Bank may at any time purchase Notes at any price in the open market, in privately negotiated transactions or otherwise. Notes so purchased by the Bank may be held, resold in accordance with the Securities Act, or any exemption therefrom, or surrendered to the Trustee for cancellation.

Amendment, Supplement and Waiver

Subject to certain exceptions, the Indenture or the Notes may be amended with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding, and any existing Default under, or compliance with any provision of, the Indenture may be waived (other than any continuing Default in the payment of the principal or interest on the Notes) with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of a majority in aggregate principal amount of the Notes then outstanding; provided, that without the consent of each Holder affected, no amendment or waiver may:

(1) reduce, or change the maturity of, the principal of any Note;

(2) reduce the rate of or extend the time for payment of interest on any Note;

(3) change the currency or place of payment of principal of or interest on the Notes;

(4) modify or change the related definitions affecting the subordination of the Notes or any provision of the Indenture (including the covenants in the Indenture) in a manner that adversely affects the Holders;

(5) reduce the percentage of Holders necessary to consent to an amendment or waiver to the Indenture or the Notes;

(6) impair the rights of Holders to receive payments of principal of or interest on the Notes; or

(7) make any change in these amendment and waiver provisions.

Notwithstanding the foregoing, the Bank and the Trustee may amend the Indenture or the Notes without the consent of any Holder to cure any ambiguity, defect or inconsistency, to provide for uncertificated notes in addition to or in place of certificated notes, to provide for the assumption of the Bank’s obligations to the Holders in the case of a merger, consolidation or sale of all or substantially all of the assets in accordance with “—Certain Covenants—Mergers, Consolidations, Etc.,” to add to the covenants of the Bank, or to surrender any right or power under the Indenture conferred upon the Bank, for the benefit of the Holders, to conform the text of the Indenture or the Notes to any provision in this “Description of the Notes,” to provide for the issuance of Additional Notes and to set forth the terms thereof, to add to the rights of the Holders, to provide for the acceptance of a successor trustee, and to make any change that does not adversely affect the rights of any Holder.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Bank will have any liability for any obligations of the Bank under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws. It is the view of the SEC that this type of waiver is against public policy.

Concerning the Trustee

The Bank of New York Mellon has been appointed by the Bank as the Trustee under the Indenture and as security registrar and paying agent with regard to the Notes. The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Bank, to obtain payment of claims in certain cases, or to realize on certain assets received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest (as defined in the Indenture), it must eliminate such conflict or resign.

The Holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that, in case an Event of Default occurs and is not cured, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in similar circumstances in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to the Trustee in its sole discretion. The Indenture does not require the Trustee to submit to the jurisdiction of any non-U.S. court or enforce remedies outside of the United States. A co-Trustee may be appointed for such purposes.

Unclaimed Amounts

Any money deposited with the Trustee or paying agent or held by the Bank, in trust, for the payment of principal, premium, interest or any Additional Amounts, that remains unclaimed for two (2) years after such amount becomes due and payable shall be paid to the Bank or its requestor or, if held by the Bank, shall be discharged from such trust. The Holder will look only to the Bank for payment thereof, and all liability of the Trustee, paying agent or of the Bank shall thereupon cease. However, the Trustee or paying agent may at the expense of the Bank cause to be published once in a newspaper in each place of payment, or to be mailed to Holders, or both, notice that the money remains unclaimed and any unclaimed balance of such money remaining, after a specified date, will be repaid to the Bank.

No Sinking Fund

The Notes will not be entitled to the benefit of a sinking fund.

Listing

In the event that the Notes are admitted to listing on the Official List of the LSE and to trading on the Euro MTF Market, the Bank will use its reasonable best efforts to maintain such listing, provided that if, as a result of the European Union regulated market amended Directive 2001/34/EC (the “Transparency Directive”) or any legislation implementing the Transparency Directive the Bank could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information, or the Bank determines that it is unduly burdensome to maintain a listing on the LSE, the Bank may delist the Notes from the Euro MTF Market in accordance with the rules of the LSE and seek an alternative admission to listing, trading and/or quotation for the Notes on a different section of the LSE if reasonably available. Although the Bank cannot assure Holders as to the liquidity that may result from a listing on the LSE, delisting the Notes from the LSE may have a material effect on the ability of Holders of the Notes to resell the Notes in the secondary market.

Governing Law; Submission to Jurisdiction

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York. The Bank consents to the non-exclusive jurisdiction of any court of the State of New York or any United States Federal court sitting, in each case, in the Borough of Manhattan, New York, New York, United States of America, and any appellate court from any court thereof, and to the courts of its own corporate domicile, in respect of actions brought against it as a defendant, and waives, to the maximum extent permitted by law, any immunity from the jurisdiction of such courts over any suit, action or proceeding that may be brought in connection with the Indenture or the Notes and any right to which it may be entitled on account of place of residence or domicile.

Currency Rate Indemnity

U.S. Dollars are the sole currency of account and payment for all sums payable by the Bank under or in connection with the Indenture and the Notes. Therefore, the Bank has agreed that, if a judgment or order made by any court for the payment of any amount in respect of any Notes is expressed in a currency other than U.S. dollars, the Bank will indemnify the Trustee and/or relevant Holder against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. Any amount received or recovered in a currency other than U.S. Dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Bank or otherwise) by Trustee and/or any Holder in respect of any sum expressed to be due to it from the Bank will only constitute a discharge of the Bank to the extent of the U.S. Dollar amount that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). This indemnity will constitute a separate and independent obligation from the Bank's other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the Notes.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms.

"*amend*" means to amend, supplement, restate, amend and restate or otherwise modify; and "*amendment*" shall have a correlative meaning.

"*Bankruptcy Law*" means the U.S. Bankruptcy Code or the provisions of the Financial Statute concerning intervention (*toma de posesión*), administrative liquidation and bankruptcy of financial institutions, the Decree 2555, as amended, and any other Colombian law or regulation regulating the insolvency of financial entities from time to time.

"*Board of Directors*" shall mean, with respect to any Person, (i) in the case of any corporation, the board of directors of such Person, (ii) in the case of any limited liability company, the board of managers of such Person, (iii) in the case of any partnership, the Board of Directors of the general partner of such Person and (iv) in any other case, the functional equivalent of the foregoing.

"*Business Day*" means a day other than a Saturday, Sunday or other day on which banking institutions in New York or Colombia are authorized or required by law to close.

"*Capital Stock*" means any and all classes of shares a Colombian financial institution is authorized to issue under applicable Colombian laws including, but not limited to, common shares, non-voting preferred shares, privileged shares and *acciones representatitvas de capital garantía* set forth in Decree 2555 and issued in favor of Fogafin.

"*Colombian Banking GAAP*" means generally accepted accounting principles as prescribed by the SFC for banks licensed to operate in Colombia, consistently applied, as in effect on the Issue Date.

"*Custodian* " means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

"*Decree 2555* " means Decree 2555 of 2010, as amended from time to time, of Colombia.

"*Default* " means (1) any Event of Default or (2) any event, act or condition that, after notice or the passage of time or both, would be an Event of Default.

"*Financial Statute*" means Decree 663 of 1993, as amended from time to time, of Colombia.

"*Fogafin* " means the *Fondo de Garantías de Instituciones Financieras*.

"*Holder* " means any registered holder, from time to time, of the Notes.

"*Indebtedness* " means, with respect to any Person, without duplication: (i) money borrowed and premiums (if any) and accrued interest in respect thereof, (ii) liabilities under or in respect of any acceptance or credit, (iii) the principal and premium (if any) and any accrued and unpaid interest in respect of any bonds, notes, debentures, debenture stock, loan stock, certificates of deposit or other securities whether issued for cash or in whole or in part for a consideration other than cash, (iv) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable in the ordinary course of business), (v) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (i) through (iv) above, and (vi) any other obligation that would appear or be treated as indebtedness upon a balance sheet if such Person prepared it in accordance with Colombian Banking GAAP as applicable to financial institutions.

"*Intervention Measures*" means the measures described in article 114 of the Financial Statute that allow the SFC to take possession of a financial institution.

"*Issue Date*" means July 30, 2012, the date on which the Notes are originally issued.

"*Officer*" means any of the following of the Bank: the Chief Executive Officer, the Chief Financial Officer, the President, any Vice President, the Treasurer or the Secretary.

"*Officers' Certificate*" means a certificate signed by two Officers.

"*Opinion of Counsel*" means a written opinion of counsel, who may (except as otherwise expressly provided in the Indenture) be an employee of, or counsel to, the Bank. Such opinion shall be in form and substance satisfactory to the Trustee.

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof or other entity of any kind.

“*Preventive Measures*” means the measures described in article 113 of the Financial Statute, as amended from time to time, that the SFC can take with respect to a financial institution prior to and in order to avoid having to take an Intervention Measure.

“*principal* ” means, with respect to the Notes, the principal of, and premium, if any, on the Notes.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Securities Act*” means the U.S. Securities Act of 1933, as amended.

“*Senior Liabilities*” means any liabilities to third parties that constitute external debt of the Bank (*pasivo externo*) under Colombian banking laws and accounting principles whether outstanding on the Issue Date or thereafter created, incurred or assumed, unless, the instrument creating or evidencing the same or pursuant to which the same are outstanding complies with the subordination requirements set forth under Decree 2555. Under Colombian banking laws and accounting principles, “external debt” (*pasivo externo*) means, in the case of the Bank, any and all liabilities to third parties, as reflected in the financial statements of the Bank from time to time or any and all liabilities to third parties in the event of liquidation.

“*SFC*” means the Superintendence of Finance of Colombia.

“*Tax*” shall mean any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other liabilities related thereto).

“*Taxing Authority*” shall mean any government or political subdivision or territory or possession of any government or any authority or agency therein or thereof having power to tax.

“*Technical Capital*” means, in respect of a Colombian bank, the *patrimonio técnico* of such bank comprised of Tier One Capital and Tier Two Capital.

“*Tier One Capital*” means, as of any date of determination, the “*Patrimonio Básico*” as the same is defined in article 2.1.1.1.5 of Decree 2555 or any other Colombian law or regulation regulating the *Patrimonio Básico* in effect from time to time.

“*Tier Two Capital*” means, as of any date of determination, the “*Patrimonio Adicional*” as the same is defined in article 2.1.1.1.7 of Decree 2555 or any other Colombian law or regulation regulating the *Patrimonio Adicional* in effect from time to time.

Book-Entry System; Delivery and Form

The Notes are being offered and sold in connection with the initial offering thereof solely to “qualified institutional buyers,” as that term is defined in Rule 144A under the Securities Act, pursuant to Rule 144A, and in offshore transactions to persons other than “U.S. persons,” as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following the initial offering of the Notes, the Notes may be resold (a) to the Bank or any of its subsidiaries, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A, (c) outside the United States in compliance with Rule 903 or 904 of Regulation S, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States and other jurisdictions. See “Transfer Restrictions.”

The Global Notes

Rule 144A Global Note

Notes offered and sold to qualified institutional buyers pursuant to Rule 144A will initially be issued in the form of one or more registered Notes in global form, without interest coupons. The Rule 144A global note will be deposited on the date of the closing of the sale of the Notes with, or on behalf of, DTC and registered in the name of Cede & Co., as nominee of DTC, and will remain in the custody of The Bank of New York Mellon, as custodian pursuant to the FAST Balance Certificate Agreement between DTC and The Bank of New York Mellon, as custodian. Interests in the Rule 144A global note will be available for purchase only by qualified institutional buyers.

Regulation S Global Note

Notes offered and sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act will initially be issued in the form of one or more registered notes in global form, without interest coupons. The Regulation S global note will be deposited upon issuance with, or on behalf of, a custodian for DTC in the manner described in the preceding paragraph for credit to the respective accounts of the purchasers.

Except as set forth below, the Rule 144A global note and the Regulation S global note, collectively referred to in this section as the "global notes," may be transferred, in whole and not in part, solely to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in respect of the global notes may not be exchanged for Notes in physical, certificated form (referred to as "certificated notes") except in the limited circumstances described below.

The Notes will be subject to certain restrictions on transfer and will bear a restrictive legend as set forth under "Transfer Restrictions."

All interests in the global notes, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

Exchanges Among the Global Notes

Prior to the 40th day after the later of the commencement of the offering of the Notes and the date of the closing of the sale of the Notes (through and including the 40th day, the "Restricted Period"), transfers by an owner of a beneficial interest in respect of the Regulation S global note to a transferee who takes delivery of this interest through the Rule 144A global note will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest in the form provided in the Indenture to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A. Such written certification will no longer be required after the expiration of the Restricted Period.

Transfers by an owner of a beneficial interest in respect of the Rule 144A global note to a transferee who takes delivery of such interest through the Regulation S global note, whether before or after the expiration of the Restricted Period, will be made only upon receipt by the Trustee of a certification from the transferor in the form provided in the Indenture to the effect that such transfer is being made in accordance with Regulation S.

Any beneficial interest in respect of one of the global notes that is transferred to a person who takes delivery in the form of an interest in another global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Certain Book-Entry Procedures for the Global Notes

The descriptions of the operations and procedures of DTC, Euroclear and Clearstream set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. Neither the Bank, the

Trustee, any paying agent, security registrar, transfer agent nor the initial purchasers take any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised us that it is (i) a limited purpose trust company organized under the laws of the State of New York, (ii) a "banking organization" within the meaning of the New York Banking Law, (iii) a member of the Federal Reserve System, (iv) a "clearing corporation" within the meaning of the Uniform Commercial Code, as amended, and (v) a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC's participants include securities brokers and dealers (including the initial purchasers), banks and trust companies, clearing corporations and certain other organizations, including Euroclear and Clearstream. Indirect access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies, or indirect participants that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants.

We expect that pursuant to procedures established by DTC (i) upon deposit of each global note, DTC will credit the accounts of participants designated by the initial purchasers with an interest in the global note and (ii) ownership of the Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the interests of participants) and the records of participants and the indirect participants (with respect to the interests of persons other than participants).

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Accordingly, the ability to transfer interests in the Notes represented by a global note to such persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in Notes represented by a global note to pledge or transfer such interest to persons or entities that do not participate in DTC's system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the global note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in respect of a global note will not be entitled to have Notes represented by such global note registered in their names, will not receive or be entitled to receive physical delivery of certificated Notes, and will not be considered the owners or holders thereof under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee thereunder. Accordingly, each holder owning a beneficial interest in respect of a global note must rely on the procedures of DTC and, if such holder is not a participant or an indirect participant, on the procedures of the participant through which such holder owns its interest, to exercise any rights of a holder of Notes under the Indenture or such global note. We understand that under existing industry practice, in the event that we request any action of holders of Notes, or a holder that is an owner of a beneficial interest in respect of a global note desires to take any action that DTC, as the holder of such global note, is entitled to take, DTC would authorize the participants to take such action and the participants would authorize holders owning through such participants to take such action or would otherwise act upon the instruction of such holders. Neither we nor the Trustee or any paying agent, security registrar or transfer agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of Notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to such Notes.

Payments with respect to the principal of, premium, if any, and interest on any Notes represented by a global note registered in the name of DTC or its nominee on the applicable record date will be payable by the

Trustee to or at the direction of DTC or its nominee in its capacity as the registered holder of the global note representing such Notes under the Indenture. Under the terms of the Indenture, we and the Trustee, the paying agents, the security registrar and the transfer agents may treat the persons in whose names the Notes, including the global notes, are registered as the owners thereof for the purpose of receiving payment thereon and for any and all other purposes whatsoever. Accordingly, neither we nor the Trustee, any paying agent, security registrar or transfer agent has or will have any responsibility or liability for the payment of such amounts to owners of beneficial interests in respect of a global note (including principal, premium, if any, liquidated damages, if any, and interest). Payments by the participants and the indirect participants to the owners of beneficial interests in respect of a global note will be governed by standing instructions and customary industry practice and will be the responsibility of the participants or the indirect participants and DTC.

Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary. However, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant global notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the global notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the Trustee or any paying agent, security registrar or transfer agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If (i) we notify the Trustee in writing that DTC is no longer willing or able to act as a depositary or DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depositary is not appointed within 90 days of such notice or cessation, (ii) we, at our option, notify the Trustee in writing that we elect to cause the issuance of certificated notes under the Indenture, (iii) upon the request of any holder subsequent to the occurrence of any Default under the Indenture or (iv) upon the occurrence of certain other events as provided in the Indenture, then, upon surrender by DTC of the global notes, certificated notes will be issued to each person that DTC identifies as the beneficial owner of the Notes represented by the global notes. Upon any such issuance, the Trustee is required to register such certificated notes in the name of such person or persons (or the nominee of any thereof) and cause the same to be delivered thereto.

Neither we nor the Trustee, any paying agent, security registrar or transfer agent shall be liable for any delay by DTC or any participant or indirect participant in identifying the beneficial owners of the related Notes and each such person may conclusively rely on, and shall be protected in relying on, instructions from DTC for all purposes (including with respect to the registration and delivery, and the respective principal amounts, of the Notes to be issued).

Replacement of Notes

In case of mutilated, destroyed, lost or stolen Notes, application for replacement thereof may be made to the Trustee or us. Any such Note shall be replaced by the Trustee in compliance with such procedures, on such terms as to evidence and indemnification as the Trustee and we may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

TAX CONSIDERATIONS

Certain U.S. Federal Income Taxation Considerations

U.S. Treasury Department Circular 230 Disclosure*: This discussion is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this discussion and that could affect the U.S. federal tax treatment of the notes. This discussion was written in connection with the promotion or marketing of the notes, and it cannot be used by any person for the purpose of avoiding penalties that may be asserted under the Internal Revenue Code of 1986, as amended "Code"). Potential acquirors of notes should seek their own advice based on their particular circumstances from an independent tax adviser.*

This section describes the material United States federal income tax consequences of acquiring, holding and disposing of the notes. It applies to you only if you acquire your notes in this offering at their issue price on the issue date for U.S. federal income tax purposes, and you hold your notes as capital assets for U.S. federal income tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a tax-exempt organization,
- a life insurance company,
- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of our voting stock,
- a person that holds notes as part of a straddle or a hedging or conversion transaction, or
- a U.S. Holder (as defined below) whose functional currency is not the U.S. dollar.

This section is based on the Code, its legislative history, existing and proposed regulations, published rulings and court decisions all as currently in effect, These laws are subject to change, possibly on a retroactive basis. There is currently no comprehensive income tax treaty between the United States and Colombia,

You are a "U.S. Holder" if you are a beneficial owner of notes and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

A "non-U.S. Holder" is a beneficial owner of notes that is not a United States person for United States federal income tax purposes.

In addition, if a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A beneficial owner of notes that is a partnership, and partners in such partnership, should consult their own tax advisors regarding the tax consequences of owning and disposing of the notes.

You should consult your own tax advisor regarding the United States federal, state, local and other tax consequences of owning, holding and disposing of notes in your particular circumstances.

This section addresses only United States federal income taxation. Please see “Certain Colombian Tax Considerations”, below, for a discussion of certain Colombian tax considerations that may be applicable to you.

Taxation of U.S. Holders

Payments of interest on the notes

The notes will be issued without original issue discount for U.S. federal income tax purposes. As a result, stated interest paid on the notes, including any Additional Amounts paid pursuant to the obligations described under “Description of the Notes – Additional Amounts”, will be taxable to you as ordinary interest income at the time it accrues or is received, in accordance with your method of accounting for U.S. federal income tax purposes.

The amount of interest taxable as ordinary income will include any amounts withheld in respect of Colombian taxes. Interest income earned with respect to a note generally will be foreign-source income, and will be treated as “passive” category income for foreign tax credit limitation purposes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. In addition, Colombian taxes, if any, withheld from interest paid on a note may be eligible for credit against your U.S. federal income tax liability. Subject to generally applicable limitations and conditions. A U.S. Holder may make an election to treat all foreign taxes paid as deductible expenses in computing taxable income, rather than as a credit against tax, subject to generally applicable limitations. The rules governing foreign tax credits are complex, and you should consult your tax adviser regarding the availability of foreign tax credits and the possibility of electing to treat foreign taxes paid as deductions in your particular circumstances.

Sale, exchange or retirement of the notes

Upon the sale, exchange or retirement of a note, you will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and your adjusted tax basis in the note, which will generally be your cost for the note. Gain or loss, if any, will generally be U.S.-source income for purposes of computing your foreign tax credit limitation. For these purposes, the amount realized does not include any amount attributable to accrued interest, which is treated as described under “Payments of Interest on the Notes” above.

Gain or loss realized on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement your holding period in such Note is greater than one year. Long-term capital gain of non-corporate taxpayers is currently subject to reduced U.S. federal income tax rates, although in the absence of a change in current law, such rates will increase on January 1, 2013 from 15% to 20%. The deductibility of capital losses is subject to limitations.

Medicare contribution tax on unearned income

Legislation enacted in 2010 will require certain U.S. Holders who are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale, retirement or other taxable disposition of our notes for such a U.S. Holder’s taxable years that begin after December 31, 2012. You should consult your own tax advisor concerning the effect, if any, of this legislation on holding your notes in your particular circumstances.

Disclosure of information with respect to foreign financial assets

Certain U.S. individuals who hold any interest in "specified foreign financial assets," including the notes, during such holders' taxable year must attach to their U.S. tax return for such year certain information with respect to each such asset if the aggregate value of all of such assets exceeds $50,000 (or a higher dollar amount prescribed by the Internal Revenue Service), unless such notes are held in an account maintained by a U.S. payor, such as a U.S. financial institution or the U.S. branch of a foreign bank or insurer. For this purpose, a "specified foreign financial asset" includes any depositary, custodial or other financial account maintained by a foreign financial institution, and certain assets that are not held in an account maintained by a financial institution, including any stock or security issued by a person other than a U.S. person. A taxpayer subject to these rules who fails to furnish the required information may be subject to a penalty of $10,000, and an additional penalty may apply if the failure continues for more than 90 days after the taxpayer is notified of such failure by the Internal Revenue Service, unless the taxpayer demonstrates a reasonable cause for such failure to comply. An accuracy-related penalty of 40% is imposed for an underpayment of tax that is attributable to an "undisclosed foreign financial asset understatement," which for this purpose is the portion of the understatement of gross income for any taxable year that is attributable to any transaction involving an "undisclosed foreign financial asset," including any asset that is subject to the information reporting requirements of this legislation, which would include our notes if the dollar threshold described above were satisfied.

The applicable statute of limitations for assessment of U.S. federal income taxes is extended to six years if a taxpayer omits from gross income more than $5,000 and such omission is attributable to a foreign financial asset as to which reporting is required under the rules described in the preceding paragraph or would be so required if such rules were applied without regard to the dollar threshold or any other exceptions specified by the Internal Revenue Service. In addition, the statute of limitations will be suspended if a taxpayer fails to provide in a timely manner either information with respect to specified foreign financial assets required to be reported. You should consult your own tax advisor concerning any obligation you may have to furnish information to the Internal Revenue Service as a result of holding the notes.

Non-U.S. Holders

If you are a non-U.S. Holder, stated interest paid to you on, as well as any gain recognized on the sale or other disposition of, the notes will not be subject to United States federal income tax unless such interest is either (a) "effectively connected" with your conduct of a trade or business within the United States, and such interest is attributable to a permanent establishment that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis or (b) with respect to any gain recognized on a sale or other disposition of the notes, you are an individual, you are present in the United States for 183 or more days in the taxable year of the sale and certain other conditions exist. In such cases you generally will be taxed in the same manner as a U.S. Holder. If you are a corporate non-U.S. Holder, "effectively connected" interest may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

Backup withholding and information reporting

If you are a noncorporate U.S. Holder, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to:

- interest payments made to you within the United States; and
- the payment of proceeds to you from the sale of notes effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if you are a noncorporate U.S. Holder that:

- fails to provide an accurate taxpayer identification number;
- is notified by the Internal Revenue Service that you have failed to report all interest and dividends required to be shown on your federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

If you are a non-U.S. Holder, you are generally exempt from backup withholding and information reporting requirements with respect to:

- interest payments made to you outside the United States by us or another non-United States payor; and
- other interest payments and the payment of the proceeds from the sale of notes effected at a United States office of a broker, as long as the income associated with such payments is otherwise exempt from United States federal income tax, and
- the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished the payor or broker:
    - an Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are a non-United States person, or
    - other documentation upon which it may rely to treat the payments as made to a non-United States person in accordance with U.S. Treasury regulations, or
- you otherwise establish an exemption.

Payment of the proceeds from the sale of notes effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale of notes that is effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

- the proceeds are transferred to an account maintained by you in the United States;
- the payment of proceeds or the confirmation of the sale is mailed to you at a United States address; or
- the sale has some other specified connection with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, a sale of notes effected at a foreign office of a broker will be subject to information reporting if the broker is:

- a United States person;
- a controlled foreign corporation for United States tax purposes;
- a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period; or

- a foreign partnership, if at any time during its tax year:
  - one or more of its partners are "U.S. persons," as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or
  - such foreign partnership is engaged in the conduct of a United States trade or business,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

Backup withholding is not an additional tax. You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the United States Internal Revenue Service.

Certain Colombian taxation considerations

The following summary contains a description of the principal Colombian income tax considerations in connection with the purchase, ownership and sale of the notes, but does not purport to be a comprehensive description of all Colombian tax considerations that may be relevant to a decision to purchase the notes. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than those of Colombia.

This summary is based on the tax laws of Colombia as in effect on the date of this listing particulars, as well as regulations, rulings and decisions in Colombia available on or before such date and now in effect. All of the foregoing is subject to change, which change could apply retroactively and could affect the continued validity of this summary.

Prospective purchasers of the notes should consult their own tax advisors as to Colombian tax consequences of the purchase, ownership and sale of the notes, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, foreign or other tax laws.

Article 25-a(3) and Article 266(3) of the Colombian Tax Code (*Estatuto Tributario*) provide that indebtedness obtained abroad by banks do not generate income for Colombian tax purposes and is not deemed to be held in Colombia. Furthermore, Article 266(6) generally provides that debt securities issued by a Colombian issuer and traded abroad are not deemed to be held in Colombia.

As a result, under current Colombian law, payments of principal and interest on the notes to Holders of the notes who are not resident or domiciled in Colombia are not subject to Colombian income tax, and no income tax will be withheld from payments by us to Holders of the notes not resident or domiciled in Colombia.

In addition, and given that the notes will be deemed to be a loan possessed abroad, gains realized on the sale or other disposition of the notes will not be subject to Colombian income tax or withholdings as long as the Holder of the notes is not a Colombian resident for tax purposes or is not domiciled in Colombia.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement between us and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the initial purchaser, we have agreed to sell to the initial purchaser, and the initial purchaser has agreed to purchase from us, U.S. $250,000,000 aggregate principal amount of notes.

Subject to the terms and conditions set forth in the purchase agreement, the initial purchaser has agreed to purchase all of the notes sold under the purchase agreement if any of these notes are purchased.

We have agreed to indemnify the initial purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the initial purchaser may be required to make in respect of those liabilities.

The initial purchaser is offering the notes, subject to prior sale, when, as and if issued to and accepted by it, subject to approval of legal matters by its counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchaser of officer's certificates and legal opinions. The initial purchaser reserves the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and discounts

The initial purchaser proposes initially to offer the notes at the offering price set forth on the cover page of this listing particulars. After the initial offering, the offering price or any other term of the offering may be changed.

Notes are not being registered

The notes have not been registered under the Securities Act or any state securities laws. The initial purchaser proposes to offer the notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The initial purchaser will not offer or sell the notes except to persons it reasonably believes to be qualified institutional buyers or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S. In addition, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

New issue of notes

The notes are a new issue of securities with no established trading market. Although applied to have the notes listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market, we cannot assure you that an active market for the notes will develop. We have been advised by the initial purchaser that it presently intends to make a market in the notes after completion of the offering. However, it is under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

Delivery of the notes was made to investors on July 30, 2012, which will be the business day following the date of this listing particulars.

No sales of similar securities

We have agreed that we will not, for a period of 90 days after the date of this listing particulars, without first obtaining the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, directly or indirectly, sell, offer, contract or grant any option to sell, pledge, transfer or establish an open “put equivalent position” within the meaning of Rule 16a-1 under the Exchange Act, or otherwise dispose of, or transfer, any debt securities of the Bank or securities exchangeable for or convertible into debt securities of the Bank, except for the notes sold to the initial purchaser pursuant to the purchase agreement.

Short positions

In connection with the offering, the initial purchaser may purchase and sell the notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchaser of a greater principal amount of notes than it is required to purchase in the offering. The initial purchaser must close out any short position by purchasing notes in the open market. A short position is more likely to be created if the initial purchaser is concerned that there may be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the initial purchaser’s purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the initial purchaser make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor the initial purchaser make any representation that the initial purchaser will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Notice to prospective investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), no offer of notes may be made to the public in that Relevant Member State other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than “qualified investors” as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives of the Bank; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of notes shall require the Bank or its representatives to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

This listing particulars has been prepared on the basis that any offer of notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of notes. Accordingly any person making or intending to make an offer in that Relevant Member State of notes which are the subject of the offering contemplated in this listing particulars may only do so in circumstances in which no obligation arises for the Bank or the initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the Bank nor the initial purchaser have authorized, nor do they authorize, the making of any offer of notes in circumstances in which an obligation arises for the Bank or the initial purchaser to publish a prospectus for such offer.

For the purpose of the above provisions, the expression “an offer to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

Notice to prospective investors in the United Kingdom

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are “qualified investors” (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”) and/or (ii) who are high net-worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

Notice to prospective investors in Switzerland

This listing particulars does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the notes will not be listed on the SIX Swiss Exchange. Therefore, this listing particulars may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the notes with a view to distribution. Any such investors will be individually approached by the initial purchaser from time to time.

Notice to prospective investors in the Dubai International Financial Centre

This listing particulars relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (“DFSA”). This listing particulars is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this listing particulars nor taken steps to verify the information set forth herein and has no responsibility for the listing particulars. The notes to which this listing particulars relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the notes offered should conduct their own due diligence on the notes. If you do not understand the contents of this listing particulars you should consult an authorized financial advisor.

Other relationships

The initial purchaser and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the initial purchaser and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The initial purchaser or its affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such parties would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such short positions could adversely affect future trading prices of the notes offered hereby. The initial purchaser and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

TRANSFER RESTRICTIONS

The notes have not been registered, and will not be registered, under the Securities Act or any state securities laws, and the notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

Purchasers' representations and restrictions on resale and transfer

Each purchaser of notes (other than the initial purchaser in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

(1) it is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;

(2) it acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any state and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(3) it understands and agrees that notes initially offered in the United States to qualified institutional buyers will be represented by a global note and that notes offered outside the United States pursuant to Regulation S will also be represented by a global note;

(4) it will not resell or otherwise transfer any of such notes except (a) to us or any of our subsidiaries, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 of Regulation S under the Securities Act, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States and other jurisdictions;

(5) it agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;

(6) it acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture, including with respect to notes sold or transferred pursuant to Rule 144A or Regulation S;

(7) it acknowledges that the trustee, registrar or transfer agent for the notes may not be required to accept for registration or transfer of any notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;

(8) it acknowledges that we, the initial purchaser and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify us and the initial purchaser; and

(9) if it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note and which will be used to notify transferees of the foregoing restrictions on transfer. This legend will only be removed with our consent. If we so consent, it will be deemed to be removed.

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A "QUALIFIED INSTITUTIONAL BUYER" (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 903 OR 904 OF REGULATION S AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

THIS LEGEND MAY ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2A(V) ABOVE, THE ISSUER RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS, OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S ("REGULATION S") UNDER THE SECURITIES ACT), THIS SECURITY MAY NOT BE REOFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

LISTING AND GENERAL INFORMATION

The Bank has applied to admit the notes for listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. If listed and so long as the rules of the Luxembourg Stock Exchange require, any notice with respect to the notes will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu (or if the rules so require, in a leading daily newspaper of general circulation in Luxembourg, which the Bank expects to be *Luxemburger Wort*).

The Bank accepts responsibility for the information contained in this listing particulars. To the best of our knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this listing particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Bank has appointed The Bank of New York Mellon (Luxembourg) S.A. as the Luxembourg paying agent, transfer agent and listing agent for the notes in Luxembourg. The address of The Bank of New York Mellon (Luxembourg) S.A. is Vertigo Building—Polaris, 2-4 rue Eugène Ruppert, L-2453 Luxembourg. The Bank reserves the right to vary such appointment. So long as the notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange, the Bank will maintain a paying agent in Luxembourg.

Copies of the indenture and the Bank' bylaws will be available free of charge at the corporate trust office of the trustee and at the offices of the Luxembourg paying agent.

Clearing Information

The global notes representing the notes have been accepted into the applicable systems used by DTC, Euroclear and Clearstream. The common code, ISIN and CUSIP number for the notes are as follows:

144A note Common Code	144A note ISIN	144A note CUSIP Number
081111987	US059593AA15	059593 AA1
Regulation S note Common Code	**Regulation S note ISIN**	**Regulation S note CUSIP Number**
081101035	USP1265VAA00	P1265V AA0

Authorization

The Bank's board of directors authorized the issuance of the notes on June 27, 2012. The Bank has obtained all other consents and authorizations necessary under Colombian law for the issuance of the notes.

Litigation

Other than as set forth in this listing particulars, the Bank is not involved in any litigation or arbitration proceeding that is material in the context of the issuance of the notes. The Bank is not aware of any material litigation or arbitration proceeding that is pending or threatened other than as set forth in this listing particulars.

Registered Office

The registered office and principal address of the Bank is Carrera 7, No. 71-52, Piso 19, Torre B, Bogotá, Colombia.

Financial Information

The Bank intends to prepare audited fiscal year-end consolidated financial statements and quarterly unaudited interim condensed consolidated financial statements while the notes are outstanding, in conformity with Colombian Banking GAAP. There has been no material adverse change in the Bank's business, financial condition, results of operations or prospects since December 31, 2011, the date of the last audited financial statements.

Copies of the Bank's latest audited consolidated annual and unaudited consolidated interim reports may be obtained, and copies of offering documents referred to herein (including the forms of the notes) will be available free of charge at the corporate trust office of the trustee, the offices of the Luxembourg paying agent and the Bank's principal office, at the addresses listed on the inside back cover page of this listing particulars.

Listing Information

Servibanca represented 14.7% and 14.7% of our direct operating result in 2011 and the three-month period ended March 31, 2012, respectively. The Bank holds 88.5% of Servibanca's 151,147,182 shares outstanding, which shares are fully paid up. The Bank received Ps 9,462,833,085 in dividends from Servibanca in 2012 corresponding to 2011. Servibanca is the only independent ATM network in Colombia and has its principal place of business at Carrera 7 #26-20, piso 3, Bogotá, Colombia. Servibanca's reserves at December 31, 2011 were Ps 10,937.4 million. Servibanca's profit before income tax for the year ended December 31, 2011 was Ps 18,978.2 million.

Other than as expressly provided in this listing particulars, the financial information included in the listing particulars has been presented on a consolidated basis, in accordance with Colombian banking regulations. The following subsidiaries are included in the consolidation: Servitrust, Servibanca and Servivalores. See "Business—Organizational Structure" for additional information on each subsidiary.

LEGAL MATTERS

The validity of the notes being offered hereby is being passed upon for us by Proskauer Rose LLP, New York, New York. Certain legal matters will be passed upon for the initial purchaser by Milbank, Tweed, Hadley & McCloy LLP, New York, New York.

Matters of Colombian law are being passed upon for us by Cardenas & Cardenas Abogados Ltda., our special Colombian counsel, and for the initial purchaser by Prieto & Carrizosa, S.A., Colombian counsel for the underwriters.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of Banco GNB Sudameris S.A. and its subsidiaries at December 31, 2010 and 2011 and for each of the years in the three-year period ended December 31, 2011 have been audited by KPMG Ltda., independent auditors, as stated in their reports appearing elsewhere herein.

The consolidated financial statements of HSBC Colombia S.A. and its subsidiary as of December 31, 2011 and 2010 and for the years then ended, as well as the financial statements as of December 31, 2010 and 2009 and for the years then ended have been audited by KPMG Ltda., independent auditors, as stated in their reports appearing elsewhere herein.

The financial statements of HSBC Bank Paraguay S.A. as of December 31, 2011 and for the year then ended have been audited by Benitez Codas & Asociados., independent auditors, as stated in their report appearing elsewhere herein.

The financial statements of HSBC Bank Peru S.A. as of December 31, 2011 and 2010 and for each of the years in the three-year period ended December 31, 2011 have been audited by Caipo y Asociados, S. Civil de R. L., a member firm of the KPMG network of independent member firms affiliated with KPMG International a Swiss cooperative, independent auditors, as stated in their report appearing elsewhere herein.

The financial statements of HSBC Bank (Uruguay), S.A. as of December 31, 2011, 2010 and 2009 and for the years then ended have been audited by KPMG, independent auditors, as stated in their report appearing elsewhere herein.

INDEX TO FINANCIAL STATEMENTS

	Page
Unaudited consolidated financial statements of Banco GNB Sudameris S.A. and its subsidiaries as of December 31, 2011 and March 31, 2012 and for the three-month periods ended March 31, 2011 and 2012	
Unaudited consolidated balance sheets as of December 31, 2011 and March 31, 2012	F-4
Unaudited consolidated statements of income for the three month periods ended March 31, 2011 and 2012	F-6
Unaudited consolidated statements of shareholders' equity for the three month periods ended March 31, 2011 and 2012	F-7
Unaudited consolidated statements of cash flows for the three month periods ended March 31, 2011 and 2012	F-8
Notes to the unaudited consolidated financial statements at December 31, 2011 and March 31, 2012	F-9
Audited consolidated financial statements of Banco GNB Sudameris S.A. and its subsidiaries at December 31, 2010 and 2011 and for each of the years ended December 31, 2009, 2010 and 2011	
Independent Auditors' Report	F-52
Consolidated balance sheets at December 31, 2010 and 2011	F-53
Consolidated statements of income years ended on December 31, 2009, 2010 and 2011	F-55
Consolidated statements of shareholders' equity years ended on December 31, 2009, 2010, and 2011	F-56
Consolidated statements of cash flows for the years ended on December 31, 2009, 2010, and 2011	F-57
Notes to the consolidated financial statements as of December 31, 2010 and 2011	F-58
Unaudited consolidated financial statements of HSBC Colombia S.A. and its subsidiary at March 31, 2012 and December 31, 2011 and for the three-month periods ended March 31, 2011 and 2012	
Unaudited consolidated balance sheets at March 31, 2012 and December 31, 2011	F-98
Unaudited consolidated statements of income for the three month periods ended March 31, 2012 and 2011	F-100
Unaudited consolidated statements of shareholders' equity for the three month periods ended March 31, 2012 and 2011	F-101
Consolidated statements of cash flow for the three month periods ended March 31, 2012 and 2011	F-102
Notes to the unaudited consolidated financial statements	F-103
Audited consolidated financial statements of HSBC Colombia S.A. and its subsidiary as of December 31, 2011 and December 31, 2010 and for the years then ended	
Independent auditors' report	F-177
Consolidated balance sheets at December 31, 2011 and 2010	F-178
Consolidated statements of income for years ended December 31, 2011 and 2010	F-180
Consolidated statements of shareholders' equity for years ended on December 31, 2011 and 2010	F-181
Consolidated statements of cash flows for years ended on December 31, 2011 and 2010	F-182
Notes to the consolidated financial statements	F-183

Page

Unaudited consolidated financial statements of HSBC Colombia S.A. and its subsidiary as of December 31, 2010 and December 31, 2009 and for the years then ended

Independent auditors' report . . . F-252

Consolidated balance sheets at December 31, 2010 and 2009 . . . F-253

Consolidated statements of income for years ended December 31, 2010 and 2009 . . . F-255

Consolidated statements of shareholders' equity for years ended December 31, 2010 and 2009 . . . F-256

Consolidated statements of cash flows for years ended December 31, 2010 and 2009 . . . F-257

Notes to the consolidated financial statements . . . F-258

HSBC Bank Paraguay S.A. interim report March, 2012

Financial statements as at March 31, 2012 and December 31, 2011 . . . F-332

Income statement for the quarter ended March 31, 2012 and March 31, 2011 . . . F-334

Statement of cash flows for the first quarter 2012 and 2011 . . . F-335

Notes to the financial statements . . . F-336

HSBC Bank Paraguay S.A. audited financial statements as at December 31, 2011

Independent auditor's report . . . F-352

Financial statements as at December 31, 2011 . . . F-354

Income statement for the year ended December 31, 2011 . . . F-356

Statement of cash flows for the year ended December 31, 2011 . . . F-357

Notes to the financial statements . . . F-358

Unaudited condensed financial statements of HSBC Perú S.A. at December 31, 2011 and March 31, 2012 and for the three-month periods ended March 31, 2011 and 2012

Condensed interim balance sheet at March 31, 2012 and December 31, 2011 . . . F-369

Condensed interim income statement for the three-month period ended March 31, 2012 and 2011 . . . F-370

Condensed interim statement of changes in equity for the three-month period ended March 31, 2012 and 2011 . . . F-371

Condensed interim statement of cash flows for the three-month period ended March 31, 2012 and 2011 . . . F-372

Notes to the condensed interim financial statements as of March 31, 2012 (unaudited), December 31, 2011 (audited) and March 31, 2011 (unaudited) . . . F-373

HSBC Bank Perú S.A. audited financial statements as of December 31, 2011 and 2010

Independent auditors' report . . . F-387

Balance sheet as of December 31, 2011 and 2010 . . . F-389

Income statement for the years ended December 31, 2011 and 2010 . . . F-390

Statement of changes in equity for the years ended December 31, 2011 and 2010 . . . F-391

Statement of cash flows for the years ended December 31, 2011 and 2010 . . . F-392

Notes to the financial statements as of December 31, 2011 and 2010 . . . F-393

Page

HSBC Bank Perú S.A. audited financial statements as of December 31, 2010 and 2009

Independent auditors' report . . . F-426

Balance sheet as of December 31, 2010 and 2009 . . . F-428

Income statement for the years ended December 31, 2010 and 2009 . . . F-429

Statement of changes in equity for the years ended December 31, 2010 and 20009 . . . F-430

Statement of cash flows for the years ended December 31, 2010 and 2009 . . . F-431

Notes to the financial statements as of December 31, 2010 and 2009 . . . F-432

Unaudited Consolidated financial statements of HSBC Bank (Uruguay) S.A. as of March 31, 2012 and for the three-month period ended March 31, 2011

Balance sheet as of March 31, 2012 . . . F-464

Income statement for the three-month period ended March 31, 2012 . . . F-466

Statements of changes in shareholders' equity for the three-month period ended March 31, 2012 . . . F-470

Statement of cash flows for the three-month period ended March 31, 2012 . . . F-471

Notes to the financial statements . . . F-472

HSBC Bank (Uruguay) S.A. unaudited financial statements for the three-months ended March 31, 2011

Balance sheet as of March 31, 2011 . . . F-492

Income statement for the three-month period ended March 31, 2011 . . . F-494

Statements of changes in shareholders' equity for the three-month period ended March 31, 2011 . . . F-498

Statement of cash flows for the three-month period ended March 31, 2012 . . . F-499

Notes to the financial statements . . . F-500

HSBC Bank (Uruguay) S.A. audited financial statements for the year ended December 31, 2011

Balance sheet as of December 31, 2011 . . . F-521

Income statement for the year December 31, 2011 . . . F-523

Statement of changes in shareholders' equity for the year ended December 31, 2011 . . . F-527

Statement of cash flows for the year ended December 31, 2011 . . . F-528

Notes to the financial statements. . . . F-529

Independent auditor's report . . . F-549

HSBC Bank (Uruguay) S.A. audited financial statements for the year ended December 31, 2010

Balance sheet as of December 31, 2010 . . . F-551

Income statement for the year December 31, 2010 . . . F-553

Statement of changes in shareholders' equity for the year ended December 31, 2010 . . . F-556

Statement of cash flows for the year ended December 31, 2010 . . . F-557

Notes to the financial statements. . . . F-558

Independent auditor's report . . . F-578

HSBC Bank (Uruguay) S.A. audited financial statements for the year ended December 31, 2009

Balance sheet as of December 31, 2009 . . . F-580

Income statement for the year December 31, 2009 . . . F-583

Statement of changes in shareholders' equity for the year ended December 31, 2009 . . . F-588

Statement of cash flows for the year ended December 31, 2009 . . . F-589

Notes to the financial statements. . . . F-590

Independent auditor's report . . . F-610

BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIES

Unaudited Consolidated Balance Sheets
As of December 31, 2011 and March 31, 2012
(Millions of Colombian pesos)

			Dec-11		Mar-12
ASSETS					
CASH AND DUE FROM BANKS	**(Note 3)**		$ 702,754.7		777,281.1
ASSET POSITIONS IN MONEY MARKET AND SIMILAR OPERATIONS	**(Note 4)**		619,703.2		655,980.7
INVESTMENTS	**(Note 5)**		4,001,730.7		4,061,720.9
Trading debt securities		416,912.3		513,190.6	
Trading equity securities		39,364.6		38,949.3	
Held to maturity		942,049.2		778,332.5	
Available for sale—debt securities		638,267.8		1,361,395.7	
Available for sale—equity securities		1,555.1		3,649.0	
Repurchase rights in trading investments, debt securities		864,066.9		493,053.1	
Repurchase rights, investments available for sale, debt securities		1,098,718.4		870,173.8	
Investments in guarantee of derivatives and others		796.4		2,976.9	
LOAN PORTFOLIO	**(Notes 6)**		4,309,373.3		4,321,963.3
Mortgage loans		2,178.6		2,197.4	
Consumer loans, suitable guarantees		31,045.2		26,169.9	
Consumer loans, other guarantees		2,075,211.6		2,179,103.8	
Commercial loans, suitable guarantees		536,771.3		602,092.8	
Commercial loans, other guarantees		1,800,164.2		1,652,632.3	
Allowance		(135,997.6)		(140,232.9)	
BANKERS' ACCEPTANCES, SPOT OPERATIONS AND DERIVATIVE INSTRUMENTS			2,073.0		1,893.4
Debtors for bank acceptances		713.5		531.9	
Spot operations	**(Note 7)**	0.0		0.4	
Derivatives	**(Note 7)**	1,359.5		1,361.1	
ACCOUNTS RECEIVABLE			39,666.6		41,157.3
Interest		34,951.3		34,472.1	
Commissions and fees		487.4		410.3	
Payments for customer account		3,124.8		3,957.3	
Other	**(Note 8)**	4,959.7		6,358.4	
Allowance	**(Note 8)**	(3,856.6)		(4,040.8)	
FORECLOSED ASSETS	**(Note 9)**		710.5		661.8
Foreclosed assets		9,095.0		8,981.3	
Allowance		(8,384.5)		(8,319.5)	
PROPERTY AND EQUIPMENT	**(Note 10)**		97,051.0		102,450.6
Land, buildings, construction in progress		82,494.9		87,325.7	
Furniture, equipment and fixture		24,469.4		24,540.8	
Computer equipment		92,804.6		96,431.3	
Other		631.1		631.1	
Accumulated depreciation and amortizations		(103,349.0)		(106,478.3)	
OTHER ASSETS			81,455.1		105,126.3
Permanent contributions	**(Note 11)**	379.7		379.5	
Prepaid expenses and deferred charges	**(Note 11)**	55,971.4		53,735.0	
Other	**(Note 11)**	26,233.7		52,119.0	
Allowance		(1,129.7)		(1,107.2)	
REAPPRAISAL OF ASSESSTS, NET	**(Note 12)**		67,921.9		69,028.3
TOTAL ASSETS			$9,922,440.0		10,137,263.7

BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIES

Unaudited Consolidated Balance Sheets (continued)
As of December 31, 2011 and March 31, 2012
(Millions of Colombian pesos)

			Dec-11		Mar-12
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES					
DEPOSITS			$ 6,053,654.0		6,651,697.8
Current accounts		$ 703,449.8		572,961.8	
Term deposits	**(Note 13)**	2,717,506.7		3,210,535.2	
Savings deposits		2,573,016.0		2,834,275.6	
Other	**(Note 13)**	59,681.5		33,925.2	
LIABILITY POSITIONS IN MONEY MARKET AND SIMILAR OPERATIONS			2,041,671.6		1,456,768.1
BANKERS' ACCEPTANCES OUTSTANDING AND DERIVATIVES			2,210.5		1,300.8
Bank acceptances outstanding		713.5		531.9	
Derivatives	**(Note 14)**	1,497.0		768.9	
BANK BORROWINGS AND OTHER FINANCIAL OBLIGATIONS	**(Note 15)**		963,542.3		929,776.7
ACCOUNTS PAYABLE			163,652.9		163,448.7
Interest		34,881.0		42,547.2	
Commissions and fees		559.1		529.0	
Other	**(Note 16)**	128,212.8		120,372.5	
OTHER LIABILITIES			35,641.3		221,818.1
Consolidated labor obligations		6,287.1		3,200.8	
Income received in advance		468.6		442.8	
Pensions Plan	**(Note 17)**	15,937.6		16,177.6	
Other	**(Note 18)**	12,948.0		201,996.9	
ACCRUED LIABILITIES AND PROVISIONS			25,283.4		41,851.1
Employment liabilities		1,490.9		2,806.3	
Taxes		8,231.1		22,491.0	
Minority interest		6,542.0		6,983.6	
Other	**(Note 19)**	9,019.4		9,570.2	
TOTAL LIABILITIES			9,285,656.0		9,466,661.3
SHAREHOLDERS' EQUITY					
CAPITAL	**(Note 20)**		44,649.4		48,758.9
RESERVES			369,533.2		488,784.2
Legal reserve	**(Note 21)**	368,817.3		471,966.2	
Voluntary reserves		715.9		16,818.0	
SURPLUS ACCOUNT			102,135.0		91,005.5
Accumulated unrealized profit (loss) on investments available for sale		549.7		3,772.7	
Reappraisal of assets		65,057.6		65,967.3	
Equity revaluation		32,371.9		21,265.5	
Donations		4,155.8		0.0	
EARNINGS FROM PRIOR PERIODS			20,720.2		20,417.8
NET INCOME			99,746.2		21,636.0
TOTAL SHAREHOLDERS' EQUITY			636,784.0		670,602.4
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$ 9,922,440.0		10,137,263.7
CONTINGENT AND MEMORANDUM ACCOUNTS	**(Note 22)**		$50,426,084.8		48,373,532.8

The accompanying notes form an integral part of these Consolidated Financial Statements.

BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIES

Unaudited Consolidated Statements of Income
For the three month periods ended March 31, 2011 and 2012
(Millions of Colombian pesos)

			Mar-11		Mar-12
DIRECT OPERATING INCOME:			$ 164,037.2		241,828.7
Interest and amortization of discount		$102,789.6		125,954.9	
Gain on valuation and sale of investments		34,477.6		54,146.6	
Gain on valuation of money market positions		342.1		2,058.7	
Gain on valuation of derivatives		2,287.1		4,453.9	
Commissions and fees		17,363.5		20,358.3	
Exchange		6,777.3		34,856.3	
DIRECT OPERATING EXPENSES:			87,294.9		160,918.2
Interest on deposits		46,650.6		83,037.9	
Interest on bank borrowings and other financial obligations		23,995.5		28,365.2	
Loss on valuation of money market positions		35.3		229.9	
Loss on sale of investments		1,749.6		2,322.2	
Loss on valuation of derivatives		3,137.3		4,477.6	
Commissions and fees		6,014.1		7,658.1	
Exchange		5,712.5		34,827.3	
DIRECT OPERATING RESULT			76,742.3		80,910.5
OTHER OPERATING INCOME AND EXPENSES—NET			(8,701.5)		(14,184.4)
OTHER OPERATING INCOME			34,301.5		33,062.9
Dividends and other capital yields		301.6		16.7	
Recoveries of loans and accounts receivables		27,207.4		25,085.8	
Other	**(Note 25)**	6,792.5		7,960.4	
OTHER OPERATING EXPENSES			43,003.0		47,247.3
Payroll		16,523.2		17,654.6	
Other	**(Note 25)**	26,479.8		29,592.7	
OPERATING RESULT BEFORE PROVISIONS, DEPRECIATION AND AMORTIZATIONS			68,040.8		66,726.1
ALLOWANCES			36,614.9		33,073.5
Loans losses		33,702.1		31,471.1	
Accounts Receivable		1,127.7		1,372.3	
Other		1,785.1		230.1	
DEPRECIATION			2,820.1		3,158.4
AMORTIZATIONS			1,866.4		1,252.1
NET OPERATING INCOME			26,739.4		29,242.1
NON-OPERATING INCOME	**(Note 26)**		6,968.5		6,277.6
NON-OPERATING EXPENSES	**(Note 26)**		2,327.0		2,332.5
NET NON-OPERATING INCOME			4,641.5		3,945.1
PROFIT BEFORE INCOME TAX			31,380.9		33,187.2
INCOME TAX EXPENSE	**(Note 23)**		13,779.5		11,551.2
NET INCOME			17,601.4		21,636.0
Net income per share (in pesos)			$ 157.7		$ 191.9
Weighted average number of common shares outstanding			111,623,534		121,897,182

The accompanying notes form an integral part of these Consolidated Financial Statements.

BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIES

Unaudited Consolidated Statements of Shareholders' Equity
For the three month periods ended March 31, 2011 and 2012
(Millions of Colombian pesos except per share information)

		Reserves		Surplus				
	Paid in Capital	Legal and additional paid in capital	Voluntary	Unrealized (losses) gains on investments	Reappraisal of assets	Donations	Equity revaluation	Ear f p pe
Balance at December 31, 2010	$44,649.4	298,270.6	21,821.1	1,303.3	55,990.8	4,155.8	41,524.6	16,
Appropriation of Bank´s profits to increase reserves	0.0	48,334.4	0.0	0.0	0.0	0.0	0.0	
Cash dividends paid by the Bank in March 2011, on 111,623,534 shares outstanding at $544 (pesos) per share	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Transfer from voluntary reserves to legal reserve	0.0	20,531.7	(20,531.7)	0.0	0.0	0.0	0.0	
Movement in the period and elimination with Subsidiaries	0.0	1,680.6	(573.5)	(3,045.3)	694.2	0.0	0.0	5,
Net Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Balance at March 31, 2011	$44,649.4	368,817.3	715.9	(1,742.0)	56,685.0	4,155.8	41,524.6	22,
Balance at December 31, 2011	$44,649.4	368,817.3	715.9	549.7	65,057.6	4,155.8	32,371.9	20,
Issuance of 8,792,500 shares at par value of $400.0 (pesos) and additional paid in capital of $6,000 (pesos) each one	3,517.0	49,238.0	0.0	0.0	0.0	0.0	0.0	
Issuance of equity revaluation	592.5	8,294.4	0.0	0.0	0.0	0.0	(8,886.9)	
Appropriation of Bank´s profits to increase reserves	0.0	39,844.5	15,733.4	0.0	0.0	0.0	0.0	
Cash dividends paid by the Bank in March 2012, on 111,623,534 shares outstanding at $407.5 (pesos) per share	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Movement in the period and elimination with Subsidiaries	0.0	5,772.0	368.7	3,223.0	909.7	(4,155.8)	(2,219.5)	(
Net Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Balance at March 31, 2012	$48,758.9	471,966.2	16,818.0	3,772.7	65,967.3	0.0	21,265.5	20,

The accompanying notes form an integral part of these Consolidated Financial Statements.

BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows
For the three month periods ended March 31, 2011 and 2012
(Millions of Colombian pesos)

	Mar-11	Mar-12
Cash flows from operating activities		
Net income	$ 17,601.4	21,636.0
Adjustments to reconcile net income to net cash used in operating activities:		
Allowance for:		
Loans Losses	33,702.1	31,471.1
Accounts receivable	1,127.7	1,372.3
Foreclosed assets	89.3	26.0
Other assets	22.5	39.1
Provision for:		
Severance and holidays	1,584.5	1,726.6
Pensions plans	240.0	240.0
Depreciations	2,820.1	3,158.4
Amortizations	1,866.4	1,252.1
(Gains) losses, net on sale of:		
Sale of investments	40.7	673.9
Foreclosed assets	0.0	(52.9)
Losses on valuation of derivatives	850.2	23.7
Recovery of allowance:		
Loans	(26,618.8)	(24,130.0)
Accounts receivable	(588.6)	(955.8)
Foreclosed assets	0.0	(91.0)
Gain on valuation investments, net	(32,768.7)	(52,498.1)
	(17,632.6)	(37,744.6)
Changes in operating assets and liabilities		
Loan purchases	(70,929.5)	(118,015.4)
Increase (Decrease) in loans	(49,482.5)	98,084.3
Increase in accounts receivable	(4,622.9)	(1,907.2)
Increase in other assets	(17,996.6)	(24,962.4)
Decrease in accounts payable	(22,335.8)	(7,870.4)
(Decrease) Increase in other liabilities	(3,292.7)	186,352.8
Increase in accruals liabilities and provisions	11,717.8	16,723.1
Payment of pensions plan	(405.1)	(416.0)
Payment of severance	(972.3)	(1,882.0)
(Decrease) Increase in interest payable	(1,820.9)	7,666.2
Increase in deposits	164,485.5	598,043.8
	4,345.0	751,816.8
Net cash provided by operational activities	4,313.8	735,708.2
Cash flows from investment activities		
Increase in investments	(23,178.2)	(4,358.3)
Decrease in banker's acceptances, spot operations and derivative instruments	2,884.8	155.8
Decrease in foreclosed assets	33.0	166.6
Additions to property and equipment	(4,762.2)	(8,558.0)
Net cash used in investment activities	(25,022.6)	(12,593.9)
Cash flows from financing activities		
Increase (Decrease) in money market and similar operations	133,479.2	(584,903.5)
Decrease in banker's acceptances outstanding and derivatives	(3,357.8)	(909.7)
Decrease in bank borrowings and other financial obligations	(18,576.8)	(33,765.6)
Issuance of share	0.0	52,755.0
Payment of cash dividends	(60,723.2)	(45,486.6)
Net cash provided by (used in) financing activities	50,821.4	(612,310.4)
Net increase in cash and cash equivalents	30,112.6	110,803.9
Cash and cash equivalents at the beginning of the period	690,697.5	1,322,457.9
Cash and cash equivalents at the end of the period	$720,810.1	1,433,261.8

The accompanying notes form an integral part of these Consolidated Financial Statements.

Banco GNB Sudameris S.A. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements
At December 31, 2011 and March 31, 2012
(Millions of Colombian pesos)

(1) Reporting entity

Banco GNB Sudameris S. A. (the "Bank") is a stock corporation incorporated by Public Deed 8067 of December 10, 1976, Notary 5, Bogota D.C. According to its Articles of Incorporation, the Bank's legal existence will expire on January 1, 2076, but this term may be reduced by dissolution or increased by extension. The business of the Bank is to perform all operations and enter into all contracts permitted for commercial banks, subject to the requirements and limitations of Colombian law.

The Colombian Superintendency of Finance for Financial Institutions (the "Superintendency of Finance") Resolution 3140 of September 24, 1993 renewed the Bank's operating license. The latest amendments to the Articles of Incorporation were formalized by Deed 1029 of March 5, 2012 Notary 13, Bogota, increasing authorized capital to $75,000 divided into 187,500,000 nominative shares at a par value of $400 (pesos) each.

Other most significant changes to its Articles have been:

Public Deed 3725 of April 22, 2009, Notary 72, Bogota to adjust the Articles to requirements of law (Superintendency Circular 54/2008) and Superintendency recommendations in Communication 2008017272-004-0000 and other matters within the competency of the shareholders, constituting a reform and compilation of the Articles.

Sudameris Colombia absorbed Banco Tequendama S.A., which was then dissolved but not liquidated (Deed 6432, June 29, 2005, Notary 29, Bogota).

Change of name from Banco Sudameris Colombia S.A. to Banco GNB Sudameris S.A. authorized to use the name Banco GNB Sudameris S.A. without losing its nature as a stock corporation (Deed 6520, Notary 29 Bogota, June 29, 2005).

The Bank increased its capital from $40,000 to $50,000, divided into 125 million nominative shares of $400 (pesos) each, with a corresponding amendment to Article 5 (Deed 6011, Notary 29, Bogota, May 23, 2006).

Articles 25(a), 29, 31 and 32 were amended to suppress the appointment of personal alternates for the principal Directors, as required by Article 44 of Law 964/2005 (Deed 4679, Notary 29 Bogota, April 2, 2007).

The Bank's holding company is Gilex Holding BV, an entity incorporated in the Netherlands, with offices located in Locatellikade 1, (1076AZ), Amsterdam.

Subsidiaries

There are four subsidiaries: Servitrust GNB Sudameris S.A., Sociedad al Servicio de la Tecnología y Sistematización Bancaria Tecnibanca S.A. -Servibanca S.A. and Servivalores GNB Sudameris S.A. Comisionista de Bolsa, and Servitotal GNB Sudameris S.A., all with registered offices in Bogota D.C.

Servivalores GNB Sudameris S.A. Comisionista de Bolsa was incorporated by Deed 767 of March 14, 2003 as a securities broker on the Colombian stock exchange BVC, authorized by Superintendency Resolution 133 of March 11, 2003. It may also trade for its own account, manage securities for its customers and act as intermediary in placements, among other things.

Servitrust GNB Sudameris S.A. is a private stock corporation incorporated by Deed 3847 of July 9, 1992 Notary 18, Bogota. It is a general trust company in the financial services sector, and may undertake any business permitted by local regulations.

Sociedad al Servicio de la Tecnología y Sistematización Bancaria Tecnibanca S.A.—Servibanca S.A.— is a Colombian corporation whose corporate purpose is to provide services related to the automation and modernization of banking and financial services and to carry out replenishment, withdrawal, payment and checking transactions, among others. Operations to provide replenishment of ATMs, pay and clear cash. Superintendency Resolution 872 of May 25, 2006 required organizations engaged in low-value payment systems to adopt the Uniform Plan of Accounts (PUC) of Resolution 3600/1998 as of January 2006.

Servitotal GNB Sudameris S.A. is a stock corporation incorporated by Deed 7177 of December 26, 2011 whose objective is to engage in technical and administrative services, IT service and services such as the definition, analysis, design, construction, configuration, certification, testing, implementation, support and maintenance of software and hardware for ICT.

The subsidiary Servitotal GNB Sudameris S.A. is not consolidated because it is not supervised by the Colombian Financial Superintendency. It has not yet commenced operations.

At December 31, 2011 and March 31 2012, the assets, liabilities, equity and income of the Bank and its subsidiaries, and the Bank´s holding in its subsidiaries, are as follows:

	December 31, 2011					
	Banco GNB Sudameris S.A.	Servitrust GNB Sudameris S.A.	Servibanca S.A.	Servivalores GNB Sudameris S.A.	Net elimination	Consolidated figures
Assets	$9,888,487.9	41,565.3	63,931.5	26,739.2	(98,283.9)	9,922,440.0
Liabilties	9,252,203.5	24,023.0	21,367.6	1,204.1	(13,142.2)	9,285,656.0
Equity	636,284.4	17,542.3	42,563.9	25,535.1	(85,141.7)	636,784.0
Interest of Bank in subsidiaries		94.89%	88.50%	94.99%		
Interest of Gilex Holding B.V. in subsidiaries		3.02%				

	March 31, 2012					
	Banco GNB Sudameris S.A.	Servitrust GNB Sudameris S.A.	Servibanca S.A.	Servivalores GNB Sudameris S.A.	Net elimination	Consolidated figures
Assets	10,083,938.3	42,875.8	82,766.1	29,246.1	(101,562.6)	10,137,263.7
Liabilities	9,414,734.1	24,694.3	37,336.9	1,741.3	(11,845.3)	9,466,661.3
Equity	669,204.2	18,181.6	45,429.3	27,504.9	(89,717.6)	670,602.4
Interest of Bank in subsidiaries		94.89%	88.50%	94.99%		
Interest of Gilex Holding B.V. in subsidiaries		3.02%				

(2) Accounting Policies

a. Basic Accounting Policies

The accounting policies and preparation of the financial statements of the Bank and its subsidiaries are in conformity with generally accepted accounting principles in Colombia and the regulations of the Colombian Superintendency of Finance for Financial Institutions (collectively, “Colombian Banking GAAP”).

b. Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements, according to Colombian Banking GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

c. Real Value Unit Rate (UVR)

The transactions that the Bank's banking subsidiaries carry out with regard to mortgage loans linked to the Unidad de Valor Real (the "Real Value Unit" or "UVR") are adjusted on a daily basis based on the daily value of the UVR, as published by the Central Bank. The values assigned by the Central Bank to the UVR, in Colombian pesos, at December 31, 2011 and March 31, 2012 were $198.4467 and $201.5023, respectively. The UVR reflects the monthly variance of the IPC (Colombian Consumer Price Index).

d. Cash and Cash Equivalents

Cash flows are prepared using the indirect method. Money-market asset positions are considered to be cash equivalents for this purpose.

e. Asset and Liability Positions in Money Market and Similar Operations

Money market operations include repos, simultaneous operations, interbank funds and temporary transfers of securities.

Ordinary interbank funds

These are funds placed or received by the Bank directly with another financial entity, with no agreement to transfer securities or loans. They are current business operations of no more than 30 calendar days, designed to use surplus liquidity or make up liquidity deficits, including overnight operations with banks abroad, using Bank funds held by foreign financial institutions.

Interest yields of these operations are recorded in income.

Repurchase and resale (repo) transaction

In a repo, the Bank or its subsidiary acquires or transfers securities in exchange for cash, also committing itself to transfer to, or reacquire from, the counterparty that same day or later (but not more than a year later), with securities of the same kind and characteristics, at a given price.

The initial amount may be calculated at a discount from the market value of the securities; in the course of the operation the securities initially traded may be replaced by others, and restrictions may be set on the mobility of the securities involved.

Simultaneous operations

In a simultaneous operation, the Bank or a subsidiary acquires or transfers securities in exchange for cash with the simultaneous commitment to re-transfer or re-acquire them on the same date or within one year, at a defined price for securities of the same kind and characteristics.

In these operations, no initial discount of the market price and no substitution of the original securities are allowed; nor may restrictions be placed on the mobility of the securities.

Yields accrued by the buyer (“acquirer”) and paid by the seller are recorded as a cost of the operation over its term.

The difference between present value (delivery of cash) and future value (final transfer price) constitutes financial yield, calculated exponentially over the term of the operation and recorded in the earnings statement.

f. Investments

This account includes investments acquired by the Bank or a subsidiary for the acquisition of direct or indirect control of a company in the financial sector or engaged in services, or to meet requirements of law or regulation, or solely to eliminate or reduce market risk affecting assets, liabilities or other items in the financial statements.

The purpose of valuation is basically to provide calculations, book entries and disclosure of the fair price at which a security may be traded on a given date, depending on its particular characteristics and the prevailing market conditions on that date.

The following are the bases for the classification, valuation and recording of investments, as required by the Superintendency:

Classification	Term	Characteristics	Valuation	Recording
Trading	Short term	Acquired to make profits from price fluctuations.	Uses fair prices, reference rates and margins published daily by the Colombian Stock Exchange BVC.	The difference between book and market value is charged or credited to the value of the investment with a credit or charge to earnings. Changes are recorded daily.
			On days when a valuation price cannot be found or estimated for a debt security, an exponential valuation is made on the basis of the internal rate of return (“IRR”).	For debt securities, yields receivable and pending collection are recorded as an increased value of the investment. Therefore, when the yield is collected, it is recorded as a lower value of the investment.
			Valuations are made daily.	For equity investments, if dividends or profits are distributed in kind, including the capitalization of the equity revaluation account, no income is recorded and the value of the investment is not affected; in this case, the number of shares held is updated in the books. Cash dividends or distributions are recorded as a lower value of the investment.
				The procedure is followed daily.
				Investments are valued at market as of the day of their acquisition and therefore changes between cost and market are recorded as of the date of purchase.

Classification	Term	Characteristics	Valuation	Recording
Held to maturity	Until maturity	Securities over which the Bank or a subsidiary have the serious to hold to maturity or redemption and have the legal, contractual and financial capacity to do so. The securities may not be the object of liquidity operations, repos or simultaneous operations, or temporary transfers, mandatory investments or obligations underwritten in the primary market and the counterparty is the Central Bank, the National Treasury or—an institution by the Superintendency of Finance. The securties may also be delivered as guarantee to a central counterparty clearing chamber to support the performance of offset and settlement obligations on securities accepted by the Chamber.	Exponentially based on the IRR calculated at the time of purchase. Valuations are made daily.	Present value is calculated as an increase to the value of the investment and the difference with the previous value is recorded in the earnings statement. This procedure is followed daily.
Available for sale—Debt securities	One year.	The Bank or a Subsidiary has the intention and legal, financial, operational and contractual capacity to hold these investments for a year from being classified in this category. After a year, these securities can be reclassified into one of the above categories. Investments classified in this category may be used as a guarantee in operations involving derivatives when the counterparty is a central risk clearing house. These investments may also be used in liquidity operations, including repos, simultaneous operations or temporary transfers of securities.	Using fair prices, reference rates and margins published daily by the Colombian Stock Exchange. Valuations are made daily.	Changes to the value of low/minimum turnover or unquoted securities are recorded as follows: —The difference between present value on valuation date and the existing book value is recorded as an increase to the value of the investment, which is credited to earnings. —The difference between market value and present value is recorded as an unrealized accumulated gain or loss in the equity section. —This procedure is followed daily.

Classification	Term	Characteristics	Valuation	Recording
Equity securities available for sale	None.	Investments made by the Bank or a Subsidiary as a co—owner of the issuer. Low/minimum turnover or unquoted held by the Bank as bank or controlling interest.	• Securities on the National Securities and issuers register (RNVE) Valued at the price published by agents authorized by the Superintendency of Finance. If there are no operations to mark the price, the equity method is used. • If quoted only on a foreign exchange: Valued at the closing price on valuation date or the most recent closing price in the last five days including the valuation date. If there is trading on more than one exchange abroad, the quotation for the market of origin will be taken. The price is then expressed in pesos. Unquoted shares will be valued monthly for a maximum of three months after the Bank´s closing date. Acquisition cost is increased or decreased to account for variations in value in respect of its percentage holding of the equity, as calculated from certified financial statements at June 30 and December 31 each year, or more recently if known.	Low/minimum trading or unquoted —The difference between the latest updated market value and current book value is recorded as follows: If the new market value is higher, the difference is used to reduce any allowance or downward adjustment made until it is exhausted, and any excess is then recorded as a revaluation surplus. If the new market value is lower, any surplus is reduced until it is exhausted, and any excess is a downward adjustment. —If dividends or profits are distributed in kind, including those corresponding to the capitalization of the equity revaluation account, then the portion recorded as revaluation surplus is treated as income, charged to the investment and the surplus is reversed. —If dividends or profits are distributed in cash, the amount recorded as valuation surplus is treated as income, reducing the surplus, and the amount of dividends that exceeds this is recorded as a reduction in the value of the investment. High and Medium Trading The updating of the value of high— and medium—trading securities or securities listed on internationally—recognized exchanges abroad is recorded as an accumulated unrealized gain or loss in the equity section, and credited or charged to the investment. This process is effected daily. Dividends or profits distributed in cash or in kind, including those derived from the capitalization of the equity revaluation account, are recorded as income for up to the amount corresponding to the investor in respect of dividends or the equity revaluation of the issuer recorded by the latter from the date of acquisition of the investment, charged to accounts receivable.

Investment repurchase rights

This corresponds to restricted investments which have been pledged as collateral for certain funding operations.

The Bank and the subsidiaries retain economic rights and benefits and continue to assume the risks related to these securities, even after ownership has legally been passed in the repo.

The securities are valued daily and recorded in the balance sheet and earnings statement using methods and procedures applicable to trading investments, investments held to maturity, and investments available for sale according to their classification.

Allowance due to credit risk classification

The price of debt securities classified as trading or available for sale for which no fair price or margin is available at the valuation date, but there are reference rates that may be used in the valuation model or a valuation can be made based on IRR (internal rate of return); and for debt securities held to maturity with low/ minimum trading or unquoted equity investments, an allowance is made at each reporting date based on the exposure to credit risk.

Externally-rated securities or issuers

Securities that carry one or more ratings made by a rating agency recognized by the Superintendency of Finance and debt securities issued by issuers rated by them, may not be booked for amounts that exceed the following percentages of par value net of amortizations so far made, up to the valuation date.

Long-term rating	Maximum Amount	Short term ranking	Maximum Amount
BB+, BB, BB-	**90%**	**3**	**90%**
B+, B, B-	**70%**	**4**	**50%**
CCC	**50%**	**5 and 6**	**0%**
DD, EE	**0%**	**5 and 6**	**0%**

Allowance against investments classified as to be held to maturity for which a fair price can be estimated in accordance with the conditions for debt securities for trading or available for sale correspond to the difference between book value and the market price.

Securities of issuances or issuers without a credit rating

The maximum percentage of net value, as defined by the Superintendency of Finance, at which these investments may be recorded, according to their category, is as follows:

Category	Risk	Investment characteristics	Maximum percentage of net value
A	Normal	Comply with the agreed terms for the security and have sufficient debt service capacity for both principal and interest	None.
B	Acceptable	Refers to issuances that present factors of uncertainty that could affect the capacity to continue adequately making principal and interest payments. Also, the financial statements and other information available present weaknesses that may affect their financial condition.	Net value must not exceed eighty percent (80%) of its acquisition cost.
C	Appreciable	Refers to issuances that present medium-high probabilities of default on the timely payments of principal and interests. Also, the financial statements and other information available evidence deficiencies in the financial condition that compromises the recovery of the underlying investment.	Net value must not exceed sixty percent (60%) of its acquisition cost.
D	Significant	Refers to issuances that present default on agreed terms on the security; also, the financial statements and other information available evidence marked deficiencies in their financial condition and, as a result, probability of recovery is highly questionable.	Net value may not exceed forty percent (40%) of its acquisition cost.
E	Unrecoverable	Issuers that as per their financial statements and other information available deem the investment uncollectible. Also, there are no financial statements as of the closing of June 30 and December 31 of each year.	The full value of this item must be entirely reserved.

g. Loan Portfolio

This account records various types of loans, which are funded with internal resources, deposits from the pubic and other external and internal sources of finance.

Loans are recorded at their face value, including for acquisition of loans (factoring operations) which are recorded at acquisition cost, and foreign currency operations, which are converted into local currency. The agreed interest rate does not affect the value for which the loans are recorded.

The Bank adopted a credit risk management system (SARC) to implement clear and precise policies and procedures to define criteria and models for the Bank to evaluate, assume, classify, control and cover credit risk; not only from the allowance coverage standpoint but also through the administration of the process of granting loans and their ongoing follow-up.

There are three types of loans:

Commercial loans

Loans granted to individuals or corporate entities for development of economic activities different from those extended as microcredit transactions.

Consumer loans

Loans which, regardless of the amount, are extended to individuals for the purchase of consumer goods or payment of services for non-commercial or entrepreneurial purposes and different from those disbursed as microcredit transactions.

Mortgage loans

Loans granted, regardless of amount, to individuals, and used to acquire new or used housing, or the construction of personal housing. They are denominated in UVR or pesos; they are guaranteed by a first mortgage on the housing unit financed. The term of amortization is between five and 30 years. Loans may be fully or partially prepaid at any time without penalty; in the event of partial prepayment, the debtor is entitled to choose whether application is to be made against outstanding capital installments or to a reduction in the tenure of the obligation. They carry ordinary interest on outstanding balances in UVR or pesos, depending on the denomination of the loan. Interest is charged in default and may not be capitalized. The loan may be for a maximum of 70% of the value of the property. The value must be either the purchase price or that of a professional valuation made within the last six months. Loans for social interest housing may be for up to 80% of the value of the property. Property financed in this way must be insured against fires and earthquakes.

Frequency of evaluation

The Bank evaluates all types of loans. Loan performance is updated monthly for partial payments, cancellations, charge-offs and aging of default.

For this, the Bank has adopted analytical methods and techniques to measure the credit risk inherent in a loan and possible future changes in conditions of debt servicing. These methods and techniques are based on information held of patterns of behavior of the portfolio and loans, the particular characteristics of debtors and loans and guarantees supporting them; the debtor´s credit record with other lenders and financial information about the debtor or alternative information to establish its financial situation appropriately; and sector and macroeconomic variables affecting their normal development.

Criteria for the evaluation of credit risk

The Bank permanently evaluates the risks inherent in its credit assets when it grants loans and through the lives of the loans, including restructurings. It has designed a Credit Risk Management System (SARC) composed of policies and processes of credit risk management, reference models for estimates or quantifications of expected losses, systems of allowances to cover credit risks and internal control systems.

The granting of credit is based on knowledge of the borrower, its capacity to pay and the characteristics of the contract to be made including, among other things, the financial conditions of the loan, sources of repayment and macroeconomic conditions to which it might be exposed.

The loan approval process has for each portfolio rules that contain variables to discriminate between borrowers who match the Bank´s risk profile. Segmentation and discrimination in the loan portfolios and the potential borrowers in them are the basis for classification. The methods and procedures used in the process enable the credit exposure of each portfolio to be monitored and controlled as well as the aggregate portfolio, avoiding an excessive concentration of credit per debtor, economic sector, risk factor, etc.

The Bank engages in continuous monitoring and classification of loan operations in accordance with the process for granting them, based among other things on the information on the historical performance of the portfolios and loans; the particular characteristics of the debtor and their loans and guarantees; the credit record of the debtor in other entities and his financial information, in order to establish his financial situation, and sector and macroeconomic variables that might affect the course of the business.

Credit risk rating

Commercial and consumer loans are classified by risk category with the following minimum objective conditions:

Category	Approval	Commercial loan portfolio	Consumer loan portfolio
"AA"	New loans whose assigned classification at approval is "AA".	Outstanding loans and financial leases past due payments not exceeding 29 days (i.e., between 0 and 29 days past due). The debtor's financial statements or its projected cash flows, as well as all other credit information available to the financial subsidiaries, reflect excellent paying capacity.	Loans whose risk rating is "AA" according to the methodology of the Consumer Reference Model (MRCO) as established by the Superintendency of Finance.
"A"	New loans whose risk rating at approval is "A".	Outstanding loans and financial leases with delayed payments in excess of 30 days but not exceeding 59 days (i.e., between 30 and 59 days past due). The debtor's financial statements or its projected cash flows, as well as all other credit information available to the financial subsidiaries, reflect appropriate paying capacity.	Loans whose risk rating is "A" according to the methodology of the MRCO as established by the Superintendency of Finance.
"BB"	New loans whose risk rating at approval is "BB".	Outstanding loan and financial leases past due more than 60 days but less than 90 days (i.e., between 60 and 89 days past due). Loans in this category are acceptably serviced and collateralized, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's ability to pay or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts.	Loans whose risk rating is "BB" according to the methodology of the MRCO as established by the Superintendency of Finance.
"B"	New loans whose risk rating at approval is "B".	Outstanding loans and financial leases past due over 90 days but less than 120 days (i.e., between 90 and 119 days past due). The debtor shows insufficient paying capacity of its obligations.	Loans whose risk rating is "B" according to the methodology of the MRCO as established by the Superintendency of Finance.
"CC"	New loans whose risk rating at approval is "CC".	Outstanding loans and financial leases past due more than 120 days but less than 150 days (i.e., between 120 and 149 days past due). Loans in this category present grave insufficiencies in the debtors' paying capacity or in the project's cash flow, which may compromise the normal collection of the obligations.	Loans whose risk rating is "CC" according to the methodology of the MRCO as established by the Superintendency of Finance.
"Default"	—	Outstanding loans and financial leases past due for 150 days or more. This category is deemed uncollectible. These loans are considered in default.	Consumer loan portfolio past due over 90 days.

The Bank applies the following equivalents for purposes of compatibility of risk classifications in indebtedness reports and recording in the financial statements:

Consolidated financial statements risk category	Reporting category	
	Commercial	Consumer
"A" Normal Risk	AA	AA
		A—between 0 and 30 days past due
"B" Acceptable Risk	A	A—more than 30 days past due
	BB	BB
"C" Appreciable Risk	B	B
	CC	CC
		C
"D" Significant Risk	"Default"—all other past due loans not classified in "E"	
"E" Uncollectible	"Default"—past due loans with a LGD (explained below) of 100%	

Mortgages loans portfolio, on the basis of past due loans, are classified as follows:

Category	Mortgage
"A" Normal Risk	In compliance or with up to 60 days past due
"B" Acceptable Risk	Past due between 61 and 150 days
"C" Appreciable Risk	Past due between 151 and 360 days
"D" Significant Risk	Past due between 361 and 540 days
"E" Uncollectible	Past due over 540 days

Restructured loans

A restructured loan is one for which a legal agreement exists with the intention or effect to modify the terms of the credit, so as to enable the debtor to pay. Before restructuring a credit, it must be established that there is a reasonable probability of recovery under the new conditions.

Rules for restructured loans reclassification

Loans may maintain their risk rating category after restructuring only if the restructuring agreement shows an improvement in the debtor´s capacity to pay and/or the probability of default. If the restructuring agreement provides a grace period for capital repayments, that classification may only be preserved where the grace period is no longer than one year after signature.

For restructurings under Law 550/1999, Law 617/2000 and Law 1116/2006 and special restructurings, the following considerations apply:

Law 550/99 restructurings

Law 550/99, upon the commencement of restructuring negotiations, the Bank ceases to accrue interest and maintains the classification then given to the debtor.

Upon the effectiveness of Law 1116/2006, which regulates business insolvencies, the Bank considers that the debtor is in default.

Fiscal restructuring (Law 617/2000)

The Colombian Government guarantees the financial obligations that governmental entities have with financial institutions supervised by the Superintendency of Finance upon fulfillment of all requirements established under Law 617 of 2000, including, among others, fiscal adjustment agreements signed with the Government before June 30, 2001. For loans outstanding as of December 31, 1999, the Government guarantees up to 40.0%, and for all new loans intended to fulfill the signed fiscal adjustment agreement, the Government guarantees up to 100.0%.

Previously established allowances for restructured loans under Law 617 of 2000 were reversed for the portion guaranteed by the Government. The portion of the loan not guaranteed by the Government maintained the credit risk category that it had as of June 30, 2001.

Special restructurings

For restructured loans under Superintendency Circular 39/1999, it is considered unadvisable to reverse the allowance or improve the credit risk category if compliance with the restructured agreement is not demonstrated. When a debtor defaults on a restructuring agreement, the debtor must be immediately reclassified to its risk level prior to the restructuring, or a higher-risk category.

Loans charged off

A loan may be charged off if management considers that it is unrecoverable or that recovery would be a remote or uncertain event, after exhausting actions to collect in accordance with the opinion of legal counsel and debt collection agencies, and subject to the prior approval of the Directors.

The charge off does not relieve the Bank from continuing to seek collection in the manner the Bank considers adequate and requires that principal, interest and other concepts under the loan be 100% provisioned.

Allowance for loans losses

The Bank covers credit risk with a system of allowances charged to earnings, calculated on unpaid balances, aging and risk categories for mortgage and micro credits and as a function of expected loss produced by the reference models for commercial and consumer loans, or on outstanding balances as a function of default and the risk categories applicable to home mortgage and micro credits.

Individual allowance using reference models

They and allowances that reflect the individual credit rating of each debtor and combine a “pro-cyclical” individual allowance component and “counter-cyclical” individual allowance component. Both the MRC and MRCO Reference Models are used to calculate both components of the allowance. Until March 31, 2010 holding provisions that have a reference model were calculated without considering the individual countercyclical component accumulation phase.

The **procyclical component** is the portion of the individual loan allowance that reflects the debtor´s credit risk today.

The **counter cyclical component** is the portion that reflects possible changes in debt risk should there be greater deterioration in this type of loan. It is charged today in order to reduce the impact on earnings of a future situation of this kind.

The counter cyclical portion may not be less than zero nor more than the expected loss in Matrix B. The sum of the two components may not be greater than the value of exposure.

The individual countercyclical allowance will be the result of calculating the difference between the total individual allowance and the individual allowance, as shown below:

Matrix A: The individual countercyclical allowance will be the difference between the total individual allowance and the individual allowance.

Matrix B: The individual countercyclical allowance will be the difference between the individual allowance and the total individual allowance.

General allowance

The Bank set up a general allowance corresponding to 1% of the total value of microcredit and mortgage loans.

When counter cyclical components are incorporated from the reference models, the Bank may apply a proportional part of the general allowance made prior to the application of the models, to the requirement for individual allowance.

Commercial and consumer loan models

The Bank has adopted the Superintendency of Finance's Reference Model to calculate allowances against these loans.

Expected losses (allowances) are calculated as:

Expected loss = [probability of default (%)] x [Asset Value Exposure to default] x [Loss given default]

The segmentation and discrimination of loan portfolios and possible borrowers is the basis for estimating expected losses in the reference models.

Segmentation is effected as follows for commercial borrowers:

Commercial Portfolio Classification by Asset Level

Company Size	Asset Level (Minimum Salaries)
Large Companies	More than 15,000
Medium Companies	Between 5,000 and 15,000 minimum monthly wage
Small Companies	Less than 5,000

Minimum Salaries: $ 535,600 (Colombian Pesos)

For consumer loans, the discrimination of portfolios is based on segments differentiated by products and the lenders that provide them, in order to preserve particular market niches and products.

Segmentation of consumer loans is effected with the following criteria from the Model:

- General—Automobile. Loans made by finance companies other than consumer finance companies to purchase vehicles.
- General—Other. Loans made by finance companies other than consumer finance companies to purchase items other than vehicles. Credit card purchases are not included.
- Credit card. Revolving credit for the purchase of consumer goods through plastic cards.

The reference models for commercial and consumer loans define the components of expected loss with the following parameters.

a. Probability of Default

This is the probability that debtors will go into default within the next 12 months.

The probability of default is defined using the matrices shown below, which are compiled by the Superintendency of Finance:

Commercial loans

	Major companies		Medium companies		Small companies		Individuals	
	Matrix A	Matrix B	Matrix A	Matrix B	Matrix A	Matrix B	Matrix A	Matrix B
AA	1.53%	2.19%	1.51%	4.19%	4.18%	7.52%	5.27%	8.22%
A	2.24%	3.54%	2.40%	6.32%	5.30%	8.64%	6.39%	9.41%
BB	9.55%	14.13%	11.65%	18.49%	18.56%	20.26%	18.72%	22.36%
B	12.24%	15.22%	14.64%	21.45%	22.73%	24.15%	22.00%	25.81%
CC	19.77%	23.35%	23.09%	26.70%	32.50%	33.57%	32.21%	37.01%
Default	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Consumer loans

	Matrix A			Matrix B		
Classification	Automobiles	Other	Credit Card	Automobiles	Other	Credit Card
AA	0.97%	2.10%	1.58%	2.75%	3.88%	3.36%
A	3.12%	3.88%	5.35%	4.91%	5.67%	7.13%
BB	7.48%	12.68%	9.53%	16.53%	21.72%	18.57%
B	15.76%	14.16%	14.17%	24.80%	23.20%	23.21%
CC	31.01%	22.57%	17.06%	44.84%	36.40%	30.89%
Default	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Each commercial and consumer loan client segment thus has the possibility of migrating from a category and falling into default in the next 12 months, depending on the general cycle of credit risk.

b. Loss Given Default (LGD)

This is defined as the economic loss to the Bank if any event of default takes place. The loss given default for borrowers in the "default" category will undergo a slow increase as a function of the days elapsed since classification into that category. The expected loss by type of guarantee is the following:

Commercial loans

Type of security	Loss on default	Days default	New loss on default	Days default	New loss on default
Not Admissible guarantee	55%	270	70%	540	100%
Subordinated loans	75%	270	90%	540	100%
Admissible financial collateral	0–12%	—	—	—	—
Commercial and residential real state	40%	540	70%	1080	100%
Property leasing assets	35%	540	70%	1080	100%
Non-property leasing assets	45%	360	80%	720	100%
Other collateral	50%	360	80%	720	100%
Collection rights	45%	360	80%	720	100%
Unsecured	55%	210	80%	420	100%

Consumer loans

Type of security	Loss on default	Days default	New loss on default	Days default	New loss on default
Not Admissible guarantee	60%	210	70%	420	100%
Admissible financial collateral	0–12%	—	—	—	—
Commercial and residential real state	40%	360	70%	720	100%
Property leasing assets	35%	360	70%	720	100%
Non-property leasing assets	45%	270	70%	540	100%
Other collateral	50%	270	70%	540	100%
Collection rights	45%	360	80%	720	100%
Unsecured	65%	180	85%	360	100%

As of October 2011 the Bank has applied the following LGD for unsecured loans:

Guarantee type	LGD	Days default	New LGD	Days' default	New LGD
None	75%	30	85%	90	100%

As a result of this change, an additional provision of $550 was recorded at December 31, 2011.

c. Asset value exposure

Under the Commercial Reference Model, asset value exposure refers to the outstanding balance of principal, interest and interest and other accounts receivable for commercial loans.

Mortgage loans

The Bank maintains allowance against outstanding balances no lower than the percentages shown below.

	Mortgage		
Category	**Capital on % secured**	**Capital on % unsecured**	**Interest & Other**
A—Normal	1	1	1
B—Acceptable	3.2	100	3.2
C—Appreciable	10	100	100
D—Significant	20	100	100
E—Unrecoverable	30	100	100

For mortgage loans, if the account has been in Category "E" for two consecutive years, the percentage allowance on the secured portion is raised to 60%. If the account is still "E" after another year, the allowance is raised to 100% of the secured portion.

Alignment rules

The Bank aligns debtor classifications as follows:

Before making allowances and compatibilizing classifications, the Bank makes individual internal alignments each month, taking all credit operations to the highest risk category applicable, unless it can show the Superintendency of Finance that there is good reason not to do so.

b. If a financial institution is required to consolidate its financial statements, it must give the same classification to all loans of a given type to the same debtor, unless it can show the Superintendency of Fiannce that there are good reasons not to do so.

The effect of guarantee on individual allowances

For purposes of the establishment of individual allocation, guarantees secure only the principal portion of a loan. Therefore, the outstanding balances of secured loans are subject to allowance appropriate to their classification:

- For mortgage loans, the difference between the outstanding unpaid balance and the value of the security interest. For the secured portion, 100% of the balance guaranteed.

Security other than mortgages	
Arrears	% cover
0-12 months	70%
12-24 months	50%
Over 24 months	0%

Mortgage or Escrow security	
Arrears	% cover
0-18 months	70%
18-24 months	50%
24-30 months	30%
30-36 months	15%
Over 36 months	0%

h. Bankers' Acceptances and Derivative Instruments

Acceptances

Bank acceptances have a maximum term of one year and are only issued as part of import and export transactions, or for the purchase and sale of movable goods within Colombia.

At the time of accepting a bill, the amount is entered as an asset and a liability as "Current Bank Acceptances." If not presented for payment at maturity, it is reclassified as "Non-Current." If unpaid at maturity by the purchaser of the goods, it is reclassified to a loan account "Bank Acceptances Covered."

After maturity, acceptances are subject to cash reserve requirements for demand liabilities for payment within 30 days.

Derivatives and spot operations

Spot operations entail clearing and settlement within three working days of being closed.

The Bank and its subsidiaries record derivatives, which are contracts whose essence is that the fair price of exchange depends on one or more underlying assets, and performance or settlement occurs subsequently. There may be several purposes for such operations.

- The offer of products required by clients to hedge financial risk, among other things.
- The structuring of Bank portfolios to make use of arbitrage between curves, assets and markets to obtain high profitability with low levels of equity commitment.

Types of derivative

The Bank and its subsidiaries work with the following derivatives:

- Forwards (peso-dollar, peso-other currencies)
- Basic and combined options
- Futures—standardized derivatives traded on the Colombian Stock Exchange (Futures on notional bond, exchange rate futures)

The Bank and its subsidiaries apply different strategies through a combination of basic derivatives (call and put forwards and options) or combinations between them and other financial instruments, These strategies can be put together and sold as a "product" with a wide range of solutions and different functions of costs and results, within established limits and without incurring risks other than those authorized.

Combinations and strategies are valued, managed, controlled and booked on the basis of their basic components.

Forwards

A forward is a tailor-made derivative in which the two parties agree to purchase/sell a specific quantity of an underlying asset at some future date. The basic conditions are established—mainly, price, date and mode of delivery of the underlying asset. At due date, the operation is liquidated by the delivery of the underlying asset or through settlement of differences, depending on the underlying asset and the mode of delivery agreed. This latter condition may be changed during the term of the agreement through mutual agreement of the parties.

Superintendency circular 004/2010 establishes that derivatives traded on the over the counter ("OTC") market may be offset and settled in the Central Counterparty Risk Clearing House ("CRCC"), which intervenes as a counterparty under Decree 2893/2007.

Options

An option is an agreement that allows the holder the option or right—but not the obligation—to buy or sell a specific quantity of assets at a certain price and on a certain date, or over a certain period of time. The agreement binds the other party to buy or sell the asset on the date on which the holder exercises the option on conditions of quantity, quality and price contained in the agreement.

Futures

Futures are standardized contracts for settlement dates, size or face value, the characteristics of the underlying assets, and the place and manner of delivery (cash or in kind). They are negotiated on the CRCC. The parties agree to buy or sell an underlying asset at some future date (due date) at a price agreed at the time the deal is struck.

The standardized financial derivatives are traded on the Stock Exchange BVC, which in turn has set rules for dealing and membership in the market. The BVC manages the dealing system, which is called X-Stream.

The CRCC manages the settlement and control of operational risks. It also acts as the central counterparty for Colombian Stock Exchange—traded standardized derivatives.

When a transaction is registered on the trading system, the CRCC comes between the parties to act as simultaneous buyer and seller of all open positions in the market.

The Bank acts with the Colombian Stock Exchange as a General Settlement Member, which allows it to clear and settle its own commitments and those of Non-Settlement Members and Third Parties of Non-Settlement Members under specific agreements.

Recording and valuation of derivatives

Derivatives are classified according to their trading:

- Hedging risks of other positions
- Speculation, seeking profit
- Arbitrage

The recording of derivatives depends on the purpose of the business.

Until December 31, 2009, derivatives were recorded as assets and changes in the fair value were recorded in the income statement.

Beginning on January 1, 2010 and regardless of purpose, derivatives with a positive fair value (i.e., favorable to the Bank) are recorded as assets, separating the right from the obligation, except for options, for which accounting movement takes place in a single account. However, transactions with a negative fair price—unfavorable to the Bank—are recorded as liabilities, and separated in the same manner. Favorable and unfavorable balances of different transactions are not netted, even if they are of the same type.

Derivatives trading is recorded in the balance sheet from the date the business is closed, at the fair price of exchange. If on the initial date the fair value of the contracts is zero—that is, there are no physical payments or deliveries made between the parties—there is no effect on profit and loss. For subsequent valuations, the variations in the fair price of exchange are recorded in the earnings statement.

i. Accounts Receivable

This account records amounts due such as commissions for services rendered and payments made for customer accounts, and amounts derived from the sale of goods and services and advances to contractors, suppliers and staff.

The Bank and its subsidiaries evaluate commission receivables on an aging basis established for commercial loans, as required by Schedule 1 Chapter II of Superintendency Circular 100/1995.

Commissions receivable are classified as follows:	Allowance required
Category A, current, up to 1 month overdue	0%
Category B, 1-3 months overdue	1%
Category C, 3-6 months overdue	20%
Category D, 6-12 months overdue	50%
Category E, more than 12 months overdue	100%

j. Foreclosed Assets

This account records the adjusted value of assets received by the Bank in lieu of payment of unpaid loan balances.

Foreclosed assets received as real estateproperty are professionally appraised upon receipt, and personal property including shares, are valued at market value.

The recording of foreclosed assets takes the following considerations into account:

- The initial record is for the value determined by the court or agreed with the debtor.
- If the foreclosed asset is not in a fit state to be sold, its cost is increased by the expenses required to make it so.
- If there is a balance in favour of the debtor between the price for which the asset is received against the loan and the price for which it is sold, the difference is an account payable. If there is a shortfall, an allowance is made in the group of accounts where the obligation is recorded.

k. Allowance for Foreclosed Assets

Real Estate property

Foreclosed assets must be sold within two years of acquisition. A provision of 30% of acquisition cost (that is, value received) is made in monthly instalments during the year following foreclosure. This provision increases another 30% during the second year, to make a total provision of 60%.

When the regulatory limit of two years is reached and the property has not been sold and no extension of time has been granted by the Superintendency of Finance, the provision is further increased to cover 80% of acquisition cost. If an extension of the period is granted, the remaining 20% is provided throughout the term of the extension on a straight line basis.

If acquisition cost is lower than the amount of the debt on the balance sheet, the difference is charged immediately to profit and loss.

If the market value of the property is lower than book value, a provision is made for the difference.

Assets other than real estate

An allowance is made for 35% of acquisition cost of the asset during the first year after receiving the asset. This allowance is increased in monthly instalments by an additional 35% until reaching 70% in the second year. Once the regulatory deadline for sale has passed, the allowance is increased to 100%. If an extension is granted, the remaining 30% is provisioned during the extension period.

In relation to foreclosed assets in the form of securities, these should follow the rules of valuation of the Superintendency of Finance, taking into account their classification as trading, available for sale or held to maturity investments, as well as the above mentioned rule of allowance for assets other than real estate.

l. Property and Equipment

This account records tangible assets acquired, constructed or in the process of importation or construction and permanently used in the course of the Bank's business whose useful life exceeds one year. Values include direct and indirect costs and expenses incurred up to the time that the asset is in a usable condition.

Additions, improvements and non-routine repairs which significantly prolong the useful life of assets are capitalized. Payments for routine maintenance and repairs are charged to expense in the period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The annual rates used are:

Buildings	5%
Equipment, furniture and fittings	10%
Computer equipment	20%
Vehicles	20%

m. Prepaid Expenses and Deferred Charges

Prepaid expenses are payments made in the normal course of business, the benefits of which are recovered over more than one period and are recoverable assuming continuous delivery of services.

- Interest, during the period prepaid
- Insurance, over the life of the policy
- Equipment maintenance, three years
- Loan premium pending amortization, over the life of the promissory note
- Prepaid expenses under loan agreements, up to one year
- Other prepaid expenses, over the period services are received or costs or expenses accrue

Deferred charges are costs and expenses which benefit future periods and cannot be recovered. Amortization is calculated from the date which they contribute to the generation of income. Amortizations are made as follows:

- Equity tax, over four years
- Deferred tax (debit), while the timing differences exist
- Remodelling charges are amortized over a maximum of two years.
- Software is amortized over a maximum of three years
- Stationery is amortized as and when consumed
- Leasehold improvements to rented property are amortized over the shorter of the remaining life of the lease not including extensions, or the probable useful life of the improvements
- Contributions and affiliations, over the period prepaid
- Other items, over the estimated recovery period or the period for obtaining the expected benefits

n. Reappraisal of Assets

This account records the revaluation of investments available for sale in equity securities and property and equipment, particularly real estate property.

The reappraisal of assets on investments available for sale in equity securities are based on the variations in the equity of the issuer.

Real estate property is revalued on the basis of independent professional appraisals. The difference between the net cost and the appraisal constitutes the adjustment to the reappraisal account.

Works of art are recorded on the basis of independent professional market appraisals.

It there is a loss on valuation, the Bank follows a prudence standard in making individual allowances for each property.

o. Income Received in Advance

This account records the Bank's deferred income and income received in advance in the course of business, which is amortized over the period in which they accrue or services are rendered.

p. Pensions

Up to August 11, 2009, the Bank applied the provisions of Decree 2783/2001, amended by Decree 2984 of August 12, 2009, which states that the percentage pending amortization will be charged in a straight line through to 2023.

As of December 7, 2010 the Bank has applied Decree 4565 amending the method used to determine the proportion of the calculation amortized. The provision is amortized on a straight-line basis so that amortization will be complete at December 31, 2029.

At December 31, 2011, 85.74% of the calculation had been provided for.

Pension payments are charged to the provision.

q. Accrued Liabilities and Provisions

The Bank records provisions to cover estimated liabilities, where:

- the Bank has acquired a right, and therefore an obligation,
- payment may be demanded or is probable, and
- the provision is justifiable, quantifiable and verifiable.

This account also records estimates for taxes, contributions and affiliations.

r. Foreign Currency Conversion

Transactions in currencies other than dollars are converted into dollars and then expressed in Colombian pesos using the method established for the financial system in the Uniform Plan of Accounts (PUC) at the rate for the closing date. At December 31, 2011 the rate was $1,942.7 per U.S. dollar and at March 31, 2012 the rate was $1,792.07 per U.S. dollar.

These rates are published by the Superintendency of Finance, and exchange differences are credited or charged to earnings.

The exchange "own position" is the difference between all demand and term foreign currency assets and liabilities, including currency purchase derivatives outside the exchange market, and contingency accounts.

s. Revenue Recognition

Interest income is recognized when accrued.

Suspension of interest accruals

The Bank ceases to accrue interest, monetary correction, exchange adjustment and other income on loans that are in default as shown below:

Loan	Default exceeds
Commercial	3 months
Consumer	2 months
Mortgage	2 months

Therefore, there is no movement in profit and loss accounts until the money is actually collected. Until that time, these amounts are controlled in Memorandum Accounts.

Where a restructuring agreement or agreement of another kind provides for the capitalization of interest recorded in memorandum accounts or of loan balances written off, including principal, interest and other items, these are accounted as deferred income and are amortized to profit and loss in proportion to amounts actually collected.

t. Contingent and Memorandum Accounts

Contingent accounts

These accounts record operations in which the Bank or any of its subsidiaries acquire rights or assume obligations conditioned by possible future events of varying degrees of probability. Likewise, financial yields are recorded in this account when loans are placed on non-performing status.

Memorandum accounts

These accounts record third-party transactions whose nature does not affect the financial situation of the Bank and its subsidiaries. They also include tax memorandum accounts, which record the figures used in preparing tax returns, and memorandum accounts used for internal control or management information.

u. Income Taxes

Income taxes payable are recognized in the financial statements as an amount that approximates the amount due on the respective income generated in the period pursuant to Colombian tax legislation. Deferred income taxes are generally recognized for temporary timing differences mainly relating to goodwill and the valuation of investment portfolios.

Banco GNB Sudameris S.A. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

(3) Cash and Due from Banks

The detail of Cash and Due from Banks in local currency and foreign currency expressed in local currency at December 31, 2011 and March 31, 2012 is as follows:

	2011	2012
Local currency:		
Cash	$161,010.8	156,480.7
Central Bank	522,307.5	412,130.9
Banks and other financial institutions	434.8	1,143.8
Remittances of domestic negotiated checks in transit	36.1	112.7
Clearing	21.4	317.5
Allowance	(5.3)	(5.3)
	$683,805.3	570,180.3
Foreign currency denominated		
Cash	$ 3,717.0	3,232.8
Central Bank	30.2	27.9
Correspondents	14,983.5	203,636.2
Remittances of domestic negotiated checks in transit	218.7	203.9
	18,949.4	207,100.8
	$702,754.7	777,281.1

Local currency cash and deposits at Central Bank include $683,318.3 and $568,611.6 at December 31, 2011 and March 31, 2012, respectively; these amounts form part of the mandatory cash reserve held by the Bank against customer deposits.

At December 31, 2011 and March 31, 2012, there are no foreign currency reconciliation items outstanding for more than 60 days or local currency reconciliation ítems pending for more than 30 days. There are no restrictions on these funds.

In Colombia, according to Resolution 11 of 2008, reserve requirements are measured bi-weekly and the amounts depend on the type of deposit (11.0% for checking and saving accounts and 4.5% for time deposits with a maturity of less than 540 days).

(4) Asset Positions in Money Market and Similar Operations

The balance of asset positions in money market operations at December 31, 2011 and March 31, 2012 is $619,703.2 and $655,980.7, respectively. At December 31, 2011 the balance was composed of $609,005.8 of Banco GNB Sudameris S.A. and $10,697.4 of Servivalores GNB Sudameris S.A.

At March 31, 2012, the balance was composed of $645,901.8 of Banco GNB Sudameris S.A. and $10,078.9 of Servivalores GNB Sudameris S.A.

Banco GNB Sudameris S.A. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

(5) Investments

At December 31, 2011 and March 31, 2012, investments consisted of the following:

	December 2011	March 2012
Trading—Debt Securities		
Treasury bonds—TES	$ 400,766.3	498,136.9
Bonds issued by multilaterals credit institutions	14,737.5	14,196.1
Bonds of Empresa Acueducto Barranquilla	848.9	837.5
TIDIS	33.7	0.0
Debt reduction securities—TRD	0.7	0.7
Term deposits	525.2	19.4
	$ 416,912.3	513,190.6
Trading—Equity Investments		
Collective portfolios	37,334.1	37,800.1
Bolsa de Valores de Colombia	2,030.5	1,149.2
	$ 39,364.6	38,949.3
Held to maturity		
Treasury bonds—TES	608,802.5	421,255.4
Debt reduction securities—TRD	34,011.0	34,494.7
Term deposits—CDT	58,977.2	58,965.3
Bonds issued by Superintendency-supervised institutions	357.8	0.0
Bonds issued by multilaterals	14,548.4	14,380.6
Agricultural development securities—TDA Class “A” / Class “B” FINAGRO	225,352.3	249,236.5
	$ 942,049.2	778,332.5
Available for sale—debt securities		
Treasury bonds—TES	$ 638,267.8	1,361,395.7
Available for sale—equity securities		
Bolsa Valores de Colombia	594.2	2,184.2
Units in Fondo de Garantías—FOGACOL	305.1	311.0
Deceval S.A.	141.4	141.4
Servitotal GNB Sudameris S.A.	0.0	498.0
Cámara de Riesgo Central de Contraparte de Colombia S.A.	366.7	366.7
ACH Colombia S. A.	36.5	36.5
Currency Clearing House	111.2	111.2
	$ 1,555.1	3,649.0
Repurchase rights		
Trading—debt securities	864,66.9	493,053.1
Investments available for sale	1,098,718.4	870,173.8
	$1,962,785.3	1,363,226.9
Investments in guarantee of derivatives and other structured products, debt securities		
Operations with derivatives, debt securities	796.4	984.6
Available for sale securities in guarantee	0.0	1,992.3
	$ 796.4	2,976.9

Banco GNB Sudameris S.A. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

(6) Loan Portfolio

At December 31, 2011 and March 31, 2012, the Bank evaluated all loans, interest and other items as required by Superintendency Circular 100/1995, and the minimum allowances required by regulations were made. The result of the review was as follows:

December 31, 2011						Allowance		
Commercial—Suitable Guarrantee	Capital	Interest	Other items	Total	Guarantees	Capital	Interest and other	Total
A—Normal	$ 511,571.2	4,168.6	2.9	515,742.7	394,440.5	7,121.0	62.6	7,183.6
B—Acceptable	3,144.0	19.5	0.3	3,163.8	2,290.0	90.7	0.6	91.3
C—Appreciable	10,142.3	295.5	0.0	10,437.8	6,373.8	1,127.9	284.0	1,411.9
D—Significant	11,850.0	432.7	29.9	12,312.6	8,817.2	7,505.6	415.1	7,920.7
E—Unrecoverable	63.8	1.1	0.0	64.9	63.8	63.7	1.3	65.0
	$ 536,771.3	4,917.4	33.1	541,721.8	411,985.3	15,908.9	763.6	16,672.5
Commercial—Other Guarantees								
A—Normal	$1,738,987.7	15,057.6	1,378.9	1,755,424.2	0.0	22,746.5	218.6	22,965.1
B—Acceptable	49,271.8	762.9	11.4	50,046.1	0.0	1,047.9	16.0	1,063.9
C—Appreciable	3,259.2	43.8	23.4	3,326.4	0.0	455.6	56.1	511.7
D—Significant	6,782.0	98.2	6.4	6,886.6	0.0	5,107.4	90.0	5,197.4
E—Unrecoverable	1,863.5	54.0	22.9	1,940.4	0.0	1,863.5	77.0	1,940.5
	$1,800,164.2	16,016.5	1,443.0	1,817,623.7	0.0	31,220.9	457.7	31,678.6
Consumer—Suitable Guarantee								
A—Normal	$ 29,519.6	373.5	11.8	29,904.9	28,228.8	570.7	10.4	581.1
B—Acceptable	191.7	3.5	0.5	195.7	141.4	17.0	0.8	17.8
C—Appreciable	210.8	2.4	6.1	219.3	210.8	35.1	6.4	41.5
D—Significant	686.3	17.3	17.3	720.9	671.1	399.4	33.7	433.1
E—Unrecoverable	436.8	9.7	9.9	456.4	210.7	436.8	19.6	456.4
	$ 31,045.2	406.4	45.6	31,497.2	29,462.8	1,459.0	70.9	1,529.9
Consumer—Other Guarantees								
A—Normal	$2,003,364.9	11,700.8	1,480.6	2,016,546.3	0.0	50,223.6	336.1	50,559.7
B—Acceptable	10,868.5	159.8	23.9	11,052.2	0.0	1,181.1	29.8	1,210.9
C—Appreciable	10,044.0	189.4	29.3	10,262.7	0.0	1,865.2	153.9	2,019.1
D—Significant	46,479.1	1,410.2	428.4	48,317.7	0.0	29,585.0	1,817.7	31,402.7
E—Unrecoverable	4,455.1	145.5	62.6	4,663.2	0.0	4,455.1	208.2	4,663.3
	$2,075,211.6	13,605.7	2,024.8	2,090,842.1	0.0	87,310.0	2,545.7	89,855.7
Mortgage								
A—Normal	$ 1,976.3	4.3	1.3	1,981.9	1,976.3	19.8	0.5	20.3
B—Acceptable	58.2	0.2	0.1	58.5	58.2	1.9	0.3	2.2
C—Appreciable	4.5	0.1	0.1	4.7	4.5	0.5	0.2	0.7
D—Significant	78.1	0.5	0.3	78.9	78.2	15.5	0.8	16.4
E—Unrecoverable	61.5	0.2	3.1	64.8	61.5	39.3	3.3	42.6
	$ 2,178.6	5.3	4.9	2,188.8	2,178.7	77.0	5.2	82.1
General Allowance						21.8		21.8
	2,178.6	5.3	4.9	2,188.8	2,178.7	98.8	5.2	103.9
Grand Total	$4,445,370.9	34,951.3	3,551.4	4,483,873.6	443,626.8	135,997.6	3,843.0	139,840.6

Banco GNB Sudameris S.A. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

December 31, 2011

Restructurings	Capital	Interest	Other items	Total	Guarantees	Allowance Capital	Allowance Interest and other	Allowance and other	Total Allowances
A—Normal	$ 14,234.8	136.7	0.0	14,371.5	12,209.0	111.6	0.0	0.0	111.6
B—Acceptable	508.5	0.0	0.0	508.5	369.2	35.4	0.0	0.0	35.4
C—Appreciable	11,136.4	292.1	0.0	11,428.6	5,971.7	1,351.5	292.1	0.0	1,643.6
D—Significant	13,168.8	378.0	29.9	13,576.8	7,277.1	8,356.0	337.3	29.9	8,723.2
E—Unrecoverable	1,415.0	1.3	1.6	1,418.0	0.0	1,415.0	1.3	1.6	1,418.0
Total Laws 550 and 617	**$ 40,463.7**	**808.2**	**31.5**	**41,303.5**	**25,827.2**	**11,269.5**	**630.8**	**31.5**	**11,931.9**
A—Normal	27,667.5	108.5	6.4	27,782.5	1,084.6	2,062.3	8.8	0.8	2,072.0
B—Acceptable	51,393.1	784.1	2.9	52,180.2	127.5	1,615.5	23.4	1.1	1,640.1
C—Appreciable	6,058.4	94.4	9.7	6,162.6	121.2	1,220.1	41.0	5.9	1,267.1
D—Significant	13,361.5	279.9	27.0	13,668.6	1,361.8	8,877.7	247.5	26.3	9,151.5
E—Unrecoverable	271.9	4.8	1.0	277.8	58.5	271.9	4.8	1.0	277.8
Total Restructurings	**$ 98,752.6**	**1,272.0**	**47.1**	**100,071.8**	**2,753.8**	**14,047.6**	**325.6**	**35.3**	**14,408.6**
Grand Total	**$139,216.3**	**2,080.3**	**78.7**	**141,375.4**	**28,581.0**	**25,317.2**	**956.5**	**66.9**	**26,340.6**

March 31, 2012

Commercial—Suitable Guarantee	Capital	Interest	Other items	Total	Secured	Allowance Capital	Allowance Interest and other	Allowance Total
A—Normal	$ 547,666.7	5,388.0	3.3	553,058.0	410,250.3	7,648.8	71.3	7,720.1
B—Acceptable	32,909.4	530.1	0.2	33,439.7	6,546.0	783.0	12.6	795.6
C—Appreciable	13,328.9	282.9	0.0	13,611.8	11,099.3	1,562.0	267.5	1,829.5
D—Significant	8,150.7	379.3	33.0	8,563.0	4,514.8	5,249.4	403.2	5,652.6
E—Unrecoverable	37.1	0.6	0.0	37.7	37.1	37.1	0.7	37.8
	$ 602,092.8	6,580.9	36.5	608,710.2	432,447.5	15,280.3	755.3	16,035.6
Commercial—Other Guarantees								
A—Normal	$1,606,665.6	15,160.1	2,847.7	1,624,673.4	0.0	20,792.5	226.5	21,019.0
B—Acceptable	33,359.8	407.9	6.2	33,773.9	0.0	1,152.9	9.1	1,162.0
C—Appreciable	3,799.8	70.9	4.1	3,874.8	0.0	506.4	45.3	551.7
D—Significant	2,978.7	94.0	28.2	3,100.9	0.0	2,033.2	109.0	2,142.2
E—Unrecoverable	5,828.4	50.2	22.0	5,900.6	0.0	5,828.3	72.2	5,900.5
	$1,652,632.3	15,783.1	2,908.2	1,671,323.6	0.0	30,313.3	462.1	30,775.4
Consumer—Suitable Guarantee								
A—Normal	$ 24,979.2	300.7	6.0	25,285.9	23,795.3	480.6	6.9	487.5
B—Acceptable	159.7	3.8	0.5	164.0	159.7	14.5	0.8	15.3
C—Appreciable	359.6	6.6	2.5	368.7	312.0	49.7	5.4	55.1
D—Significant	547.8	15.3	14.1	577.2	524.3	319.8	29.4	349.2
E—Unrecoverable	123.6	2.9	0.3	126.8	123.6	123.5	3.2	126.7
	$ 26,169.9	329.3	23.4	26,522.6	24,914.9	988.1	45.7	1,033.8
Consumer—Other Guarantees								
A—Normal	$2,099,546.8	9,704.3	1,299.7	2,110,550.8	0.0	51,969.8	279.8	52,249.6
B—Acceptable	13,117.2	203.6	27.1	13,347.9	0.0	1,399.4	28.5	1,427.9
C—Appreciable	8,925.0	161.6	31.7	9,118.3	0.0	1,618.9	161.9	1,780.8
D—Significant	52,072.1	1,517.4	457.0	54,046.5	0.0	33,145.8	1,941.9	35,087.7
E—Unrecoverable	5,442.7	185.9	96.2	5,724.8	0.0	5,442.8	282.1	5,724.9
	$2,179,103.8	11,772.8	1,911.7	2,192,788.3	0.0	93,576.7	2,694.2	96,270.9

Banco GNB Sudameris S.A. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

March 31, 2012

	Capital	Interest	Other items	Total	Secured	Allowance Capital	Allowance Interest and other	Allowance Total
Mortgage								
A—Normal	$ 1,983.4	4.9	1.3	1,989.6	1,983.4	20.0	0.8	20.8
B—Acceptable	88.1	0.3	0.3	88.7	88.1	3.0	0.6	3.6
C—Appreciable	45.8	0.2	0.1	46.1	45.8	4.1	0.3	4.4
D—Significant	40.9	0.4	0.3	41.6	40.9	8.2	0.7	8.9
E—Unrecoverable	39.2	0.2	2.2	41.6	39.2	17.2	2.4	19.6
	$ 2,197.4	6.0	4.2	2,207.6	2,197.4	52.5	4.8	57.3
General Allowance						22.0		22.0
	2,197.4	6.0	4.2	2,207.6	2,197.4	74.5	4.8	79.3
Grand Total	$4,462,196.2	34,472,1	4,884.0	4,501,552.3	459,559.8	140,232.9	3,962.1	144,195.0

March 31, 2011

Restructurings	Capital	Interest	Other items	Total	Secured	Allowance Capital	Allowance Interest and other
A—Normal	$ 13,125.6	$ 0.0	$ 0.0	$ 13,125.6	$11,421.1	$ 95.0	$ 0.0
B—Acceptable	$ 469.1	$ 0.0	$ 0.0	$ 469.1	$ 340.6	$ 32.5	$ 0.0
C—Appreciable	$ 14,820.0	$ 292.1	$ 0.0	$ 15,112.1	$10,881.0	$ 1,829.8	$292.1
D—Significant	$ 5,108.6	$ 295.8	$32.9	$ 5,437.3	$ 3,010.0	$ 2,849.7	$295.8
E—Unrecoverable	$ 5,431.8	$ 2.0	$ 1.7	$ 5,435.5	$ 0.0	$ 5,431.8	$ 2.0
Subtotal Laws 550 and 617	**$ 38,955.1**	**$ 589.9**	**$34.6**	**$ 39,579.6**	**$25,652.7**	**$10,238.8**	**$589.9**
A—Normal	$ 23,541.0	$ 88.4	$ 5.3	$ 23,634.7	$ 961.8	$ 1,741.0	$ 6.8
B—Acceptable	$ 60,786.0	$ 864.4	$ 3.8	$ 61,654.2	$ 2,880.7	$ 2,391.7	$ 25.6
C—Appreciable	$ 4,872.3	$ 74.0	$ 6.9	$ 4,953.2	$ 172.7	$ 960.6	$ 41.7
D—Significant	$ 17,380.9	$ 351.7	$42.0	$ 17,774.6	$ 1,272.6	$11,311.7	$313.2
E—Unrecoverable	$ 296.2	$ 8.4	$ 2.2	$ 306.8	$ 54.9	$ 296.2	$ 8.4
Subtotal Restructurings	**$106,876.4**	**$1,386.9**	**$60.2**	**$108,323.5**	**$ 5,342.7**	**$16,701.2**	**$395.7**
TOTAL	**$145,831.5**	**$1,976.8**	**$94.8**	**$147,903.1**	**$30,995.4**	**$26,940.0**	**$985.6**

Banco GNB Sudameris S.A. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

Gross loans by economic sector at December 31, 2011 and March 31, 2012, is as follows:

CATEGORY	Dec-11 Amount	Dec-11 %	March-12 Amount	March-12 %
A- Agriculture, Hunting And Fishing	$ 81,638.1	1.8%	93,705.8	2.10%
B- Extractive Industries	4,774.0	0.1%	3,940.8	0.09%
C- Foods, Beverages, Tobacco, Concentrates	69,359.3	1.5%	71,140.9	1.59%
D- Textiles, Leather, Shoes	68,418.9	1.5%	67,823.9	1.52%
E- Timber, Cardboard, Paper, Packaging, Printing	16,038.7	0.3%	23,066.5	0.52%
F- Oil Byproducts, Fertilizers, Chemicals, Plastics, Rubber	135,834.9	3.0%	158,360.0	3.55%
G- Pharmaceuticals, Chemicals, Medicines.	64,192.5	1.4%	64,062.1	1.44%
H- Mfr Mineral And Metal Products	119,941.3	2.7%	118,125.5	2.65%
I- Mfr Machinery, Engines, Accessories For Vehicles, Other Ind.	27,504.7	0.6%	27,962.8	0.63%
J- Electricity, Gas And Water Prod & Dist	80,389.1	1.8%	98,206.6	2.20%
K- Construction And Civil Works	104,672.1	2.3%	217,759.7	4.88%
L- New And Used Vehicle Trade, Spares, Maintenance	58,212.9	1.3%	56,702.7	1.27%
M- Commerce	314,466.3	7.0%	307,111.6	6.88%
N- Hotels And Restaurants	30,755.3	0.6%	32,296.8	0.72%
O- Freight, Passenger Transport & Related	64,524.1	1.4%	93,237.7	2.09%
P- Telecommunications Services	38,856.1	0.8%	39,408.4	0.88%
Q- Financial Intermediation	374,968.7	8.4%	135,248.1	3.03%
R- Public Administration	116,058.2	2.6%	110,998.8	2.49%
S- Social Security And Health	177,311.2	3.9%	177,401.2	3.98%
T- Education	84,992.2	1.9%	91,015.1	2.04%
U- Culture, Recreation And Sports.	36,262.0	0.8%	33,806.0	0.76%
V- Sundry	233,384.2	5.2%	195,443.3	4.38%
W- Salary Earners And Rentiers	2,142,816.1	48.2%	2,245,371.9	50.32%
Total	$4,445,370.9	100.0%	4,462,196.2	100.00%

The following arng are the details of loans by monetary unit:

	Dec-11			Mar-12		
Suitable Guarantee	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Commercial	$ 509,636.7	27,134.6	536,771.3	$ 581,553.8	20,539.0	602,092.8
Consumer	31,001.7	43.5	31,045.2	26,129.4	40.5	26,169.9
Mortgage	2,178.6	0.0	2,178.6	2,197.4	0.0	2,197.4
Total	$ 542,817.0	27,178.1	569,995.1	$ 609,880.6	20,579.5	630,460.1
Other Guarantees						
Commercial	$1,402,999.3	397,164.8	1,800,164.1	$1,416,618.9	236,013.4	1,652,632.3
Consumer	2,075,211.7	0.0	2,075,211.7	2,179,103.8	0.0	2,179,103.8
Total	$3,478,211.0	397,164.8	3,875,375.8	$3,595,722.7	236,013.4	3,831,736.1
Grand Total	$4,021,028.0	424,342.9	4,445,370.9	$4,205,603.3	256,592.9	4,462,196.2

At December 31, 2011 and March 31, 2012, the Bank had made the following loan purchases:

	December 2011	March 2012
Casa Nacional del Profesor S.A. CANAPRO	$ 19,646.5	0.0
Estrategias en Valores S.A. ESTRAVAL	49,965.0	13,353.6
Activos y Finanzas S. A.	32,022.5	11,521.5
Soluciones Prontas Cooperativa Multiactiva	35,908.5	0.0
Solucion Kapital S.A.	41,232.5	5,521.2
Cooperativa Multiactiva con Experiencia en Crédito—COOEXPOCREDIT	42,479.9	10,231.4
Centro de Servicios Crediticios S.A.	59,042.2	30,332.8
Credivalores—Crediservicios S.A.S.	79,361.1	37,108.5
Otros	52,621.2	9,943.3
Total	$412,279.4	118,015.4

These loan purchases are made with recourse to the seller, usually with payment of a premium (except for some purchases with Coopserin and Canapro, which are made at a discount) and are amortized over the life of the notes and the loans are managed by the Bank. If a loan falls due, following the agreement with each company, the agreements coordinator proceeds to replace accounts in default with other loans on similar conditions.

Allowance for loans losses

The following table sets forth an analysis of the activity in the allowance for loan losses:

	Commercial	Consumer	Mortgage	Total
Balance at December 31, 2010	$ 55,581.8	79,184.2	72.3	134,838.3
Plus: allowance expensed	13,304.4	20,393.1	4.6	33,702.1
Less :Charged off	(0.0)	(0.0)	0.0	(0.0)
Recoveries	(14,771.1)	(11,841.8)	(5.9)	(26,618.8)
Items waived or reclassified	(696.4)	(6,889.1)	(0.1)	(7,585.6)
Balance at March 31, 2011	$ 53,418.7	80,846.4	70.9	134,336.0
Balance at December 31, 2011	$ 47,129.8	88,769.0	77.0	135,975.8
Plus: allowance expensed	10,065.5	21,402.4	3.2	31,471.1
Less: Charged off	(256.0)	(2,253.1)	(22.0)	(2,531.1)
Recoveries	(11,345.7)	(12,778.6)	(5.7)	(24,130.0)
Items waived or reclassified	0.0	(574.9)	0.0	(574.9)
Balance at March 31, 2012	$ 45,593.6	94,564.8	52.5	140,210.9

General Allowance for Loans

	Dec-2011	Mar-2012
Opening balance	$24.1	21.8
Plus: General allowance expensed	0.0	0.2
General allowance recovered	(2.3)	0.0
	21.8	22.0

(7) Bankers' Acceptances, Spot Operations and Derivative Instruments

At December 31, 2011 and March 31, 2012, the detail of acceptances, spot operations and derivatives is as follows:

	Dec-2011	Mar-2012
Forwards		
Currency purchase rights (peso/U.S. dollar)	23,122.7	27,947.7
Currency sale rights (peso/U.S. dollar)	7,664.8	27,733.4
Currency purchase obligations (peso/U.S. dollar)	(21,801.8)	(27,663.9)
Currency sale obligations (peso/U.S. dollar)	(7,626.2)	(26,656.1)
	$ 1,359.5	1,361.1
Speculative fulures		
Currency sale rights—Currency purchase rights	0.0	5,457.3
Currency puts—Currency purchase obligations	0.0	(5,457.3)
	$ 0.0	0.0
Spot operations		
Currency sale rights	5,366.7	2,746.8
Currency purchase rights	0.0	34.4
Currency purchase obligations	(5,366.7)	(2,746.8)
Securities purchase obligations	0.0	(34.0)
	0.0	0.4

At December 31, 2011 and March 31, 2012, there are no legal or financial restrictions or charges on derivatives.

Currency forward transactions with customers are made only after a study is made by the Bank's credit area, and a high proportion of transactions are hedged with financial sector counterparties.

(8) Accounts receivable

At December 31, 2011 and March 31, 2012 the detail of Other Accounts Receivable is as follows:

	Dec- 2011	Mar- 2012
Other:		
Dividends and other capital yields	27.5	0.0
Advances to contractors and suppliers	1,087.8	1,706.6
Advances to employees	43.0	96.4
Cash shortages	3.0	3.9
Insurance claims	11.5	2.0
Payments for account of customers	612.4	391.8
Sundry	3,174.5	4,157.7
	$4,959.7	6,358.4

The following is the movement of allowance for accounts receivable:

	Mar-2011	Mar-2012
Opening balance	$ 4.252,8	3,856.6
Plus: Allowance expensed	1.127,7	1,372.3
Less: Allowance recovered	(588,6)	(955.8)
Movement of accounts charged off, reclassified or waived	(1.048,8)	(232.3)
Closing balance	$ 3.743,1	4,040.8

(9) Foreclosed assets

Foreclosed Assets at December 31, 2011 and March 31, 2012 consisted of the following:

	2011	2012
Real property	$ 4,075.3	3,961.6
Furniture	5,019.7	5,019.7
Adjusted cost	9,095.0	8,981.3
Less: allowance	(8,384.5)	(8,319.5)
	$ 710.5	661.8

The detail of foreclosed assets by time held is as follows:

March 31, 2012	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
Real property	$212.1	0.0	166.1	3,583.4	3,961.6
Furniture	0.0	174.7	340.1	4,504.9	5,019.7
	$212.1	174.7	506.2	8,088.3	8,981.3

At December 31, 2011 and March 31, 2012, foreclosed assets account for 0.01% of the total assets of the Bank. Given this small proportion, the effect on the results for the period is not significant. The Bank´s management is taking steps to sell these assets within the time allowed by local regulations.

The movement of allowance for Foreclosed Assets is as follows:

	Mar-2011	Mar-2012
Balance at beginning of the year	$9,233.1	8,384.5
Plus:		
Allowance expended	89.3	26.0
Less:		
Allowance recovered	(0.0)	(91.0)
Movement of allowance reclassified or withdrawn	(5.2)	0.0
Closing balance	$9,317.1	8,319.5

(10) Property and Equipment

The net cost of property and equipment used in the business adjustments for inflation, was as follows on December 31, 2011 and March 31, 2012:

	Dec-2011	Mar-2012
Land	$ 10,283.9	10,283.9
Construction in progress—Edificio GNB Sudameris Bogota	42,281.6	47,112.6
Buildings	29,929.4	29,929.2
Equipment, furniture and fittings	24,469.4	24,540.8
Computer equipment	92,804.6	96,431.3
Vehicles	631.1	631.1
Accumulated depreciation	(103,349.0)	(106,478.3)
	$ 97,051.0	102,450.6

At December 31, 2011 and March 31, 2012, there are insurance policies to cover risks of theft, fire, earthquake, riot, civil disturbance, explosion, volcanic eruption, power failure and loss of or damage to vehicles and premises.

Property values are supported by valuations made within the last three years.

Depreciation expensed at March 31, 2011 and 2012 was $2,820.1 and $3,158.4, respectively.

There are no mortgages or other liens on ownership of these assets and they have not been delivered in pledge.

(11) Other assets

The following is the detail of prepaid expenses and deferred charges at December 31, 2011 and March 31, 2012:

	December 2011	March 2012
Prepaid Expenses		
Interest	$ 0.2	0.0
Insurance	341.1	317.3
Equipment maintenance	76.3	62.2
Loan premiums pending amortization	20,319.3	18,088.3
Prepaid expenses on portfolios under agreements	811.8	811.6
Other	409.6	1,064.5
	21,958.3	20,343.9
Deferred charges		
Equity tax (1)	28,527.0	26,219.9
Deferred tax—debit	774.1	840.8
Remodelling	611.2	790.7
Software	2,031.2	1,568.4
Advertising	0,0	54.5
Property tax	0.0	88.4
Leasehold Improvements	1,366.4	1,120.3
Contributions and affiliations	7.7	660.5
Other	695.5	2,047.6
	$34,013.1	33,391.1
Total prepaid expenses and deferred charges	55,971.4	53,735.0

(1) Under Law 1370/2009 and Decree 4825/ 2010, the Bank and its subsidiaries applied a rate of 6% to their net assets at January 1, 2011. Total tax accrued was $38,036.0, affecting deferred charges. The amortization of the charge for the three months ended March 2012 was $2,307.1 charged, with $2,236.2 charged to equity revaluation and $70.9 charged to non-operating income. In 2011 the charge was $9,508.5 to equity revaluation and $0.5 to non-operating income. Amortization will be effected in 48 monthly installments during 2011-2014.

The detail of other assets at December 31, 2011 and March 31, 2012 is the following:

	December 2011	March 2012
Staff loans	$16,752.3	17,200.2
Deposits in guarantee	480.0	1,145.2
Deferred payment letters of credit	308.3	0.0
Works of art and culture	1,250.9	1,250.9
Trust rights	5,392.2	5,457.5
Excess withholdings and advances	870.2	870.2
Sundry	1,179.8	26,195.0
	$26,233.7	52.119.0

(12) Reappraisal of Assets

At December 31, 2011 and March 31, 2012, reappraisal of assets is as follow:

	Dec-2011	Mar-2012
Available for sale investments, net	$ 2,441.5	3,173.9
Property and equipment	64,906.3	65,280.3
Other	574.1	574.1
Total	$67,921.9	69,028.3

(13) Deposits

At December 31, 2011 and March 31, 2012 the detail of deposits is as follows:

	Dec-2011	Mar-2012
Term deposits		
Less than 6 months	$ 792,753.1	1,237,667.4
6-12 months	946,437.9	849,626.0
12-18 months	410,648.2	465,067.4
Over 18 months	567,667.5	658,174.4
	$2,717,506.7	3,210,535.2
Other		
Special deposits	224.7	596.1
Demand accounts for banking services	59,456.8	33,329.1
	$ 59,681.5	33,925.2

(14) Bankers' Acceptances Outstanding and Derivatives

The following is the detail of Banker's acceptances outstanding and derivatives at December 31, 2011 and March 31, 2012:

	Dec-2011	Mar-2012
Trading forwards		
Currency purchase rights	$(17,975.4)	(16,902.1)
Currency sale rights	(26,802.7)	(38,979.0)
Currency purchase obligations	18,161.8	17,242.0
Currency sale obligations	28,113.3	39,408.0
	$ 1,497.0	768.9

(15) Bank Borrowings and Other Financial Obligations

These accounts include short—and long-term maturities, of which the details are the following at December 31, 2011 and March 31, 2012:

	December 31, 2011			
	Short term < 1 year	Medium Term 1 - 2 years	Long Term Over 3 years	Total
Banco de Comercio Exterior, Bancoldex S.A.	$ 58,423.3	35,000.6	139,736.2	233,160.1
FINAGRO	1,569.5	158.4	5,515.9	7,243.8
Findeter	112.5	0.0	448,464.4	448,576.9
Foreign banks	274,561.5	0.0	0.0	274,561.5
	$334,666.8	35,159.0	593,716.5	963,542.3

	March 31, 2012			
	Short term < 1 year	Medium term 1 - 2 years	Long term Over 3 years	Total
Banco de Comercio Exterior, Bancoldex S.A.	$ 40,921.8	23,753.7	138,624.6	203,300.1
FINAGRO	1,434.3	185.7	5,309.8	6,929.8
Findeter	0.0	0.0	464,385.0	464,385.0
Foreign banks	255,161.8	0.0	0.0	255,161.8
	$297,517.9	23,939.4	608,319.4	929,776.7

(16) Accounts Payable—Other

At December 31, 2011 and March 31, 2012, the detail of Accounts Payable—Other is as follows:

	Dec-2011	Mar-2012
Turnover tax	$ 27.5	0.9
Sales tax (IVA)	695.7	844.6
Bank transaction tax	1,997.1	1,975.9
Stamp tax	0.5	0.5
Surcarles etc	15.9	162.6
Equity tax	28,527.0	27,699.6
Suppliers	6,095.7	7,228.5
Payroll withholdings and contributions	4,532.4	4,062.0
Checks drawn and pending collection	1,548.4	1,496.3
Collections	3,908.8	10,091.2
Ascredibanco—Electron card	6,586.0	4,728.5
Mass payment agreements	15,966.1	5,674.4
Accounts payable, Redemption of *Bonos de Paz*	3,323.6	3,326.7
Payment agreement ISS	35,752.9	42,600.6
Sundry	19,235.2	10,480.2
	$128,212.8	120,372.5

(17) Pensions Plan

The calculation uses fractioned annuities paid in arrears under Article 112 of the Colombian Tax Code, incorporating the rules of Decree 2783 of December 20, 2001 with reference to tax regulations and Resolution 1555/2010 (Rentiers Mortality Table RV08).

The actuarial calculation at December 31, 2011, was $18,588.3, of which the Bank held $15,937.6, corresponding to 85.74% of that total. Under Decree 4565 of December 7, 2010, the actuarial calculation must be fully provided for by 2029, and therefore the remaining percentage of 14.26% will be distributed over the remaining periods.

The Bank sent an actuarial calculation for 2011 to the Superintendency of Finance for approval for $18,588.3, which was approved in Letter 2011077915-009-000 of December 2, 2011.

The following is the roll-forward of the pensions account at March 31, 2012:

	Actuarial calculation	Pensions pending amortization	Balance
Balance at December 31, 2011	$18,588.3	(2,650.7)	15,937.6
Payments made in 2012	(416.0)	416.0	0.0
Amortizations made in 2012	0.0	240.0	240.0
Balance at March 31, 2012	$18,172.3	1,994.7	16,177.6

(18) Other Liabilities

The detail of other liabilities is the following:

	Dec-2011	Mar-2012
Deferred credits	$ 681.3	681.4
Deferred payment letters of credit	308.3	0.0
Deferred income tax	822.0	822.0
Cancelled accounts	328.2	331.4
Consortia and temporary unions	171.9	83.4
Third party portfolio management operations	8,908.9	19,450.5
Customer balances embargoed	0.0	44.9
Advance capital increase (1)	0.0	179,207.0
Other	1,727.4	1,376.3
Total	$12,948.0	201,996.9

(1) Includes USD 100,000,000 received from the sharedholders to be capitalized.

(19) Accrued Liabilities and Provisions

At December 31, 2011 and March 31, 2012, the detail of others accrued liabilities and Provisions is as follows:

	Dec-11	Mar-12
Contributions	255.1	165.2
Fines	1,472.1	1,660.6
Provision for public services	495.4	263.5
Provision for expenses accrued and unpaid	6,796.8	7,480.9
	$9,019.4	9,570.2

(20) Capital

At December 31, 2011 and March 31, 2012, the authorized capital of the Bank is $50,000 and $75,000, respectively, represented by 125,000,000 and 187,500,000 shares of par value $400 (pesos) each one. On those dates, the subscribed and paid capital totalled $44,649.4 and $48,758.9, represented by 111,623,534 and 121,897,182 shares, respectively.

(21) Legal (Mandatory) Reserve

Colombian law requires all banks to form a mandatory reserve by appropriating 10% of the profits for each period until reaching 50% of subscribed capital. The reserve may then be reduced from that level in order to absorb losses not covered by undistributed profits.

The following is the detail of the legal reserve at December 31, 2011 and March 31, 2012.

	Dec-2011	Mar-2012
Appropriation of net profit	249,436.9	$296,821.3
Share premium	119,380.4	175,144,9
	368,817.3	$471,966.2

(22) Contingent and Memorandum Accounts

At December 31, 2011 and March 31, 2012, the detail of memorandum accounts is as follows:

Contingent accounts

	Dec-11	Mar-12
Creditor:		
Securities received in repo and simultaneous operations	$ 613,054.3	569,471.4
Bank guarantees	24,549.2	12,443.3
Letters of credit	23,424.7	18,034.5
Loans approved and not disbursed	8,504.4	7,421.4
Credits opened	83,436.5	79,269.6
Administrative, civil and labor litigation	34,460.5	34,446.0
Other	501.1	462.3
	787,930.7	721,548.5
Debtor:		
Securities delivered in repo and simultaneous operations	1,962,785.4	1,363,226.9
Securities delivered in related operations	15,168.2	0.0
Loan interest	8,438.2	9,143.1
	1,986,391.8	1,372,370.0

Memorandum accounts

	Dec-11	Mar-12
Debtor:		
Assets and securities delivered in custody	2,667,312.6	3,666,934.0
Assets and securities delivered in guarantee	25,522.0	25,510.4
Remittances and other outwards collections	7.8	11.3
Assets written off	196,902.7	198,559.8
Property and equipment fully depreciated	65,353.9	66,651.2
Direct lines of credit	87.4	80.6
Asset inflation adjustment	16,531.6	16,529.0
Fiscal value of assets	8,371,684.0	8,371,684.0
Receivables in yields on trading investments in debt securities	30,691.9	170,747.6
New agricultural loans	4,307.4	9,559.8
Trading investments in debt securities	1,281,774.8	1,007,227.5
Investments held to maturity	942,049.2	778,332.5
Investments available for sale in debt securities	1,736,986.3	2,233,561.8
Other	7,522,149.4	5,424,331.8
	22,861,361.0	21,969,721.3
Creditor:		
Assets and securities received in custody	155,173.5	141,684.4
Assets and securities received in guarantee of future credit	533,893.3	494,380.7
Assets and securities received in guarantee—admissible guarantees	1,010,821.3	1,056,633.8
Assets and securities in guarantee—other	1,051,108.6	1,132,951.1
Inward collections	1,374.3	1,001.9
Equity inflation adjustment	39,063.3	36,843.8
Capitalization of equity revaluation	6,691.4	15,578.3
Yield on trading investments in debt securities	146,214.4	49,633.0
Fiscal value of equity	621,007.6	621,007.5
Classification of loans by modes and class of guarantee	4,483,728.3	4,500,793.9
Recovery of assets written off	6,883.0	8,341.0
Control of co-debtors	1,340,646.1	1,370,860.1
Control of valuations	2,251,111.2	2,543,868.8
References of agreements	7,840,542.6	9,356,524.8
Other creditor	4,505,868.4	2,017,175.9
	23,994,127.3	23,347,279.0

Trust memorandum accounts

Trust memorandum accounts	658,102.4	720,012.0
Memorandum accounts of Servivalores GNB Sudameris S.A.	138,171.6	242,602.0
	796,274.0	962,614.0
	$50,426,084.4	48,373,532.8

(23) Income Tax Expense

Colombian tax law does not allow the presentation of consolidated income tax returns and therefore the losses of one subsidiary may not be offset against the profits of another. The corporate rate of income tax was 33% for 2011 and 2012.

(24) Related Parties Transactions

"Related parties" are taken to be principal shareholders, members of the board of directors, companies in which the Bank holds more than 10% of the equity or there are economic, administrative or financial interests; and companies in which the shareholders or members of the board of directors hold more than a 10% equity interest.

On December 31, 2011, shareholder Glenoaks Investment S.A. had two loans for US$23,500,000 and US$4,000,000, secured by SBLC at LIBOR + 3.85%.

On December 31, 2011 shareholder Gilex Holding, had three loans for US$12,000,000; US$12,000,000 and US$3,700,000 due respectively on March 26, February 15 and March 20, 2012, at LIBOR + 3.85%.

At March 31, 2012 the shareholders Gilex Holding and Glenoaks Investment S.A. had no operations with the Bank or subsidiaries.

(25) Other operating income and expenses

The details of other operating income—other for the three month ended at March 31, 2011 and 2012 are as follows:

	Mar-2011	Mar-2012
Operating risk recoveries	$ 0.0	24.8
Cables, postage, telephones	84.6	70.9
Sale of chequebooks	512.3	459.0
Differential income under insurance agreements	2,393.1	3,161.7
Other	3,802.5	4,244.0
	$6,792.5	7,960.4

The details of other operating expenses—other for the three month ended at March 31, 2011 and 2012 are as follows:

	Mar-2011	Mar-2012
Bank transaction tax	2,624.4	$ 2,496.7
Taxes (turnover tax, property tax, registration tax, stamp tax, vehicle taxc, surcharges)	1,537.5	1,850.5
Rent	3,008.3	3,283.6
Contributions and affiliations	1,532.5	1,624.8
Insurance	3,973.5	5,099.4
Maintenance and repairs	3,079.8	3,666.4
Office remodelling and installations	640.8	880.9
Sundry:		
Clearing and security	1,275.8	1,405.9
Temporary services	1,877.5	1,860.3
Advertising	197.3	287.5
Public relations	11.7	9.6
Public services	2,389.3	2,418.3
Travel expenses	60.6	60.7
Transport	2,492.5	2,719.5
Stationery	567.8	564.6
Donations	0.6	50.5
Data processing	600.5	641.9
Litigation expenses	46.2	52.8
Enquiries	144.8	233.9
Cash transport handling	25.8	47.3
Sundry	392.6	337.6
	$26,479.8	$29,592.7

(26) Non-operating Income and Expenses

The details of non-operating income for the three months ended at March 31, 2011 and 2012:

	Mar-2011	Mar-2012
Non-operating income		
Profit on sale of property and equipment	$ 0.0	1.6
Profit on the sale of foreclosed assets	0.0	52.9
Rent	227.2	246.6
Recoveries		
Loans written off	1,778.0	1,249.0
Receivables written off	288.1	190.0
Provisions against foreclosed assets	0.0	91.0
Other provisions	534.5	18.6
Other assets written off	39.5	15.6
Other recoveries	313.5	359.5
Rebate from Fogafin	3,228.8	3,623.9
Other	558.9	428.9
	$6,968.5	6,277.6
Non-operating expenses		
Operating risk losses	492.0	394.0
Fines and litigation	0.0	31.3
Minority interest	344.3	409.9
Sundry non-operating items, local currency	1,490.7	1,497.3
	$2,327.0	2,332.5

(27) Significant events

The following are the significant event since March 31, 2012 up to June 29, 2012:

1. A Board of Directors meeting held on Minute N° 709 of May 11, 2012 authorized the Bank to acquire HSBC financial entities in Colombia and abroad (Peru, Uruguay and Paraguay).

2. A Board of Directors meeting held on June 22, 2012 authorized the issuance of subordinated bonds to be placed abroad.

KPMG Ltda.
Calle 90 No. 19C – 74
Bogotá, D. C.

Teléfono 57 (1) 6188100
Fax 57 (1) 2185490
www.kpmg.com.co

INDEPENDENT AUDITORS' REPORT

To the Shareholders
Banco GNB Sudameris S.A.:

We have audited the consolidated balance sheets of Banco GNB Sudameris S.A. and subsidiaries at December 31, 2010 and 2011, and the related statements of income, shareholders' equity, and cash flows, including the summary of significant accounting policies and other explanatory notes, for each of the years in the three-year period ended December 31, 2011.

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with generally accepted accounting principles in Colombia and the regulations of the Colombian Superintendency of Finance for financial institutions (collectively "Colombian Banking GAAP"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Colombia. Those standards require that we comply with ethical requirements, plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement in the financial statements. In making those risk assessments, the auditors consider internal control relevant to the preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the balances and accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco GNB Sudameris S.A. and Subsidiaries as of December 31, 2010 and 2011, and the results of their operations, and cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with Colombian Banking GAAP.

Jorge Humberto Ríos García
Partner
Registration 9154-T

KPMG Ltda

February 21, 2012

BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIES

Consolidated Balance Sheets
At December 31, 2010 and 2011
(Millions of Colombian pesos)

		2010		2011	
ASSETS					
CASH AND DUE FROM BANKS	**(Note 3)**		$ 684,141.1		702,754.7
ASSET POSITIONS IN MONEY MARKET AND SIMILAR OPERATIONS	**(Note 4)**		6,556.4		619,703.2
INVESTMENTS	**(Note 5)**		3,925,352.5		4,001,730.7
Trading debt securities		$ 633,573.3		416,912.3	
Trading equity securities		32,570.4		39,364.6	
Held to maturity		559,536.6		942,049.2	
Available for sale—debt securities		1,146,938.9		638,267.8	
Available for sale—equity securities		7,293.0		1,555.1	
Repurchase rights in trading investments, debt securities		1,057,929.5		864,066.9	
Repurchase rights, investments available for sale, debt securities		486,406.8		1,098,718.4	
Investments in guarantee of derivatives and others		1,104.0		796.4	
LOAN PORTFOLIO	**(Notes 6 y 24)**		3,459,714.5		4,309,373.3
Mortgage loans		2,413.2		2,178.6	
Consumer loans, suitable guarantees		48,608.8		31,045.2	
Consumer loans, other guarantees		1,615,298.2		2,075,211.6	
Commercial loans, suitable guarantees		465,029.1		536,771.3	
Commercial loans, other guarantees		1,463,227.6		1,800,164.2	
Allowance		(134,862.4)		(135,997.6)	
BANKERS' ACCEPTANCES AND DERIVATIVE INSTRUMENTS			4,771.2		2,073.0
Debtors for banks acceptances		389.8		713.5	
Derivatives	**(Note 7)**	4,381.4		1,359.5	
ACCOUNTS RECEIVABLE			32,396.8		39,666.6
Interest		29,305.1		34,951.3	
Commissions and fees		529.9		487.4	
Payments for customer account		2,818.8		3,124.8	
Other	**(Note 8)**	3,995.8		4,959.7	
Allowance	**(Note 8)**	(4,252.8)		(3,856.6)	
FORECLOSED ASSETS	**(Note 9)**		1,811.3		710.5
Foreclosed assets		11,044.4		9,095.0	
Allowance		(9,233.1)		(8,384.5)	
PROPERTY AND EQUIPMENT	**(Note 10)**		80,166.0		97,051.0
Land, buildings, construction in progress		62,345.0		82,494.9	
Furniture, equipment and fixture		24,415.0		24,469.4	
Computer equipment		85,719.2		92,804.6	
Other		631.2		631.1	
Accumulated depreciation and amortizations		(92,944.4)		(103,349.0)	
OTHER ASSETS			67,447.1		81,455.1
Permanent contributions	**(Note 11)**	379.7		379.7	
Prepaid expenses and deferred charges	**(Note 11)**	42,956.0		55,971.4	
Other	**(Note 11)**	25,175.0		26,233.7	
Allowance		(1,063.6)		(1,129.7)	
REAPPRAISAL OF ASSETS, NET	**(Note 12)**		59,032.1		67,921.9
TOTAL ASSETS			$8,321,389.0		9,922,440.0

BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIES

Consolidated Balance Sheets (continued)
At December 31, 2010 and 2011
(Millions of Colombian pesos)

			2010		2011
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES					
DEPOSITS			$ 4,918,073.9		6,053,654.0
Current accounts		$ 463,013.6		703,449.8	
Term deposits	(Note 13)	2,610,857.9		2,717,506.7	
Savings deposits		1,783,970.8		2,573,016.0	
Other	(Note 13)	60,231.6		59,681.5	
LIABILITY POSITIONS IN MONEY MARKET AND SIMILAR OPERATIONS		335,508.4	1,706,163.2		2,041,671.6
BANKERS' ACCEPTANCES OUTSTANDING AND DERIVATIVES			4,202.8		2,210.5
Banks acceptances outstanding		389.8		713.5	
Derivatives	(Note 14)	3,813.0		1,497.0	
BANK BORROWINGS AND OTHER FINANCIAL OBLIGATIONS	(Note 15)		872,867.4		963,542.3
ACCOUNTS PAYABLE			131,294.0		163,652.9
Interest		34,276.6		34,881.0	
Commissions and fees		606.0		559.1	
Other	(Note 16)	96,411.3		128,212.8	
OTHER LIABILITIES			29,058.0		35,641.3
Consolidated labor obligations		6,110.0		6,287.1	
Income received in advance		540.3		468.6	
Pensions Plan	(Note 17)	15,937.3		15,937.6	
Other	(Note 18)	6,470.4		12,948.0	
ACCRUED LIABILITIES AND PROVISIONS			62,221.9		25,283.4
Employment liabilities		1,708.9		1,490.9	
Taxes		40,255.7		8,231.1	
Minority interest		6,917.8		6,542.0	
Other	(Note 19)	13,339.5		9,019.4	
TOTAL LIABILITIES			7,723,881.2		9,285,656.0
SHAREHOLDERS' EQUITY					
CAPITAL	(Note 20)		44,649.4		44,649.4
RESERVES			320,091.7		369,533.2
Legal reserve	(Note 21)	298,270.6		368,817.3	
Voluntary reserves		21,821.1		715.9	
SURPLUS ACCOUNT			102,974.5		102,135.0
Accumulated unrealized profit (loss) on investments available for sale		1,303.3		549.7	
Reappraisal of assets		55,990.8		65,057.6	
Equity revaluation		41,524.6		32,371.9	
Donations		4,155.8		4,155.8	
EARNINGS FROM PRIOR PERIODS			16,591.2		20,720.2
NET INCOME			113,201.0		99,746.2
TOTAL SHAREHOLDERS' EQUITY			597,507.8		636,784.0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$ 8,321,389.0		9,922,440.0
CONTINGENT AND MEMORANDUM ACCOUNTS	(Note 22)		$43,617,783.7		50,426,084.8

The accompanying notes form an integral part of these Consolidated Financial Statements.

BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIES

Consolidated Statements of Income
Years ended on December 31, 2009, 2010 and 2011
(Millions of Colombian pesos)

			2009		2010		2011
DIRECT OPERATING INCOME:			$ 863,212.7		698,359.7		732,861.5
Interest and amortization of discounts		$496,728.6		432,416.8		451,277.3	
Gain on valuation and sale of investments		240,958.0		147,336.9		169,054.1	
Gain on valuation of money market positions		3,620.2		3,914.2		5,114.2	
Gain on valuation of derivatives		24,205.1		18,175.3		14,313.6	
Commissions and fees		69,539.7		75,671.6		78,992.6	
Exchange		28,161.1		20,844.9		14,109.7	
DIRECT OPERATING EXPENSES:			481,628.9		364,231.8		401,430.9
Interest on deposits		249,287.1		195,330.1		233,464.9	
Interest on bank borrowings and other financial obligations		151,544.7		100,849.8		107,771.5	
Loss on valuation of money market positions		2,844.8		509.3		655.3	
Loss on sale of investments		8,923.9		6,845.8		5,128.4	
Loss on valuation of derivatives		14,096.3		14,820.9		14,890.0	
Commissions and fees		23,589.9		24,948.0		29,813.3	
Exchange		31,342.2		20,927.9		9,707.5	
DIRECT OPERATING RESULT			381,583.8		334,127.9		331,430.6
OTHER OPERATING INCOME AND EXPENSES—NET			(133,433.8)		(60,299.0)		(83,521.5)
OTHER OPERATING INCOME			20,147.7		111,621.3		98,006.5
Dividends and other capital yields		197.5		287.1		317.0	
Recoveries of loans and accounts receivables		241.5		89,002.7		68,677.3	
Other	**(Note 25)**	19,708.7		22,331.5		29,012.2	
OTHER OPERATING EXPENSES			153,581.5		171,920.3		181,528.0
Payroll		60,596.5		65,624.6		68,044.1	
Other	**(Note 25)**	92,985.0		106,295.7		113,483.9	
OPERATING RESULT BEFORE PROVISIONS, DEPRECIATION AND AMORTIZATIONS			248,150.0		273,828.9		247,909.1
ALLOWANCES			115,089.1		99,687.2		100,966.4
Investments		229.2		0.0		0.0	
Loans losses		104,701.6		95,381.0		97,070.4	
Accounts Receivable		4,594.4		3,626.4		2,925.4	
Other		5,563.9		679.8		970.6	
DEPRECIATION			10,343.8		10,820.4		11,535.9
AMORTIZATIONS			6,383.8		8,803.2		5,889.8
NET OPERATING INCOME			116,333.3		154,518.1		129,517.0
NON-OPERATING INCOME	**(Note 26)**		11,980.3		21,331.5		21,753.7
NON-OPERATING EXPENSES	**(Note 26)**		3,789.3		3,918.1		5,910.0
NET NON-OPERATING INCOME			8,191.0		17,413.4		15,843.7
PROFIT BEFORE INCOME TAX			124,524.3		171,931.5		145,360.7
INCOME TAX EXPENSE	**(Note 23)**		37,496.0		58,730.5		45,614.5
NET INCOME			$ 87,028.3		113,201.0		99,746.2
Net income per share (in pesos)			$ 779.7		1,014.1		893.6
Weighted average number of common shares outstanding			111,623,534		111,623,534		111,623,534

The accompanying notes form an integral part of these Consolidated Financial Statements.

BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity
Years ended on December 31, 2009, 2010 and 2011
(Millions of Colombian pesos except per share information)

		Reserves		Surplus accounts			
	Paid in Capital	Legal and additional paid in capital	Voluntary	Unrealized (losses) gains on investments	Reappraisal of assets, net	Donations	Equity revaluatio
Balance at December 31, 2008	$42,765.6	205,608.2	3,346.5	(16,581.4)	37,244.4	4,155.8	48,402.2
Appropriation of Bank's profit to increase reserves	0.0	33,489.3	0.0	0.0	0.0	0.0	0.0
Issuance of 4,709,430 shares at $8,621 (per value of $400 and additional paid in capital of $8,221) each one.	1,883.8	38,716.2	0.0	0.0	0.0	0.0	0.0
Cash dividends paid by the Banks in March 2009, on 106.914.104 shares outstanding at $256.27 (Colombian pesos) per share.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Used of equity revaluation to pay equity tax	0.0	0.0	0.0	0.0	0.0	0.0	(3,450.9)
Movement in the period and elimination with Subsidiaries	0.0	(3,159.6)	0.0	17,344.5	8,981.4	0.0	25.1
Net Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance at December 31, 2009	44,649.4	274,654.1	3,346.5	763.1	46,225.8	4,155.8	44,976.4
Appropriation of Bank´s profit to increase reserves	0.0	27,095.3	17,185.2	0.0	0.0	0.0	0.0
Cash dividends paid by the Banks in March 2010, on 111.623.534 shares outstanding at $324.57 (pesos) per share.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Used of equity revaluation to pay equity tax	0.0	0.0	0.0	0.0	0.0	0.0	(3,477.5)
Movement in the period and elimination with Subsidiaries	0.0	(3,478.8)	1,289.4	540.2	9,765.0	0.0	25.7
Net Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance at December 31, 2010	44,649.4	298,270.6	21,821.1	1,303.3	55,990.8	4,155.8	41,524.6
Appropriation of Bank´s profit to increase reserves	0.0	48,334.4	0.0	0.0	0.0	0.0	0.0
Cash dividends paid by the Banks in March 2011, on 111,623,534 shares outstanding at $544 (pesos) per share.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer from voluntary reserves to legal reserve	0.0	20,531.7	(20,531.7)	0.0	0.0	0.0	0.0
Used of equity revaluation to pay equity tax	0.0	0.0	0.0	0.0	0.0	0.0	(9,232.7)
Movement in the period and elimination with Subsidiaries	0.0	1,680.6	(573.5)	(753.6)	9,066.8	0.0	80.0
Net Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance at December 31, 2011	$44,649.4	368,817.3	715.9	549.7	65,057.6	4,155.8	32,371.9

The accompanying notes form an integral part of these Consolidated Financial Statements.

BANCO GNB SUDAMERIS S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
for the years ended on December 31, 2009, 2010 and 2011
(Millions of Colombian pesos)

	2009	2010	2011
Cash flows from operating activities			
Net Income	$ 87,028.3	113,201.0	99,746.2
Adjustments to reconcile net income to net cash used in operating activities:			
Allowance for:			
Investments	229.2	0.0	0.0
Loans losses	104,701.6	95,381.0	97,070.4
Accounts receivable	4,594.4	3,626.4	2,925.4
Foreclosed assets	604.1	279.9	262.3
Other assets	97.1	679.8	148.8
Provision for:			
Severance and holidays	4,428.9	4,508.8	5,069.6
Pensions plans	2,325.9	2,004.0	0.3
Depreciation	10,343.8	10,820.4	11,535.9
Amortizations	6,383.8	8,803.2	5,889.8
(Gains) losses, net on sale of:			
Sale of investments	(3,763.6)	(1,160.7)	424.0
Property and equipment	(6.4)	(203.3)	9.3
Foreclosed assets	(101.6)	(221.2)	(54.9)
Recovery of allowance :			
Investments	(2,105.2)	(31.3)	0.0
Loans	(117.7)	(86,555.5)	(67,346.3)
Accounts receivable	(123.8)	(2,447.2)	(1,331.0)
Foreclosed assets	(686.0)	(1,570.0)	(939.6)
Other recoveries	(85.7)	0.0	0.0
Gain on valuation investments, net	(228,270.3)	(138,330.4)	(164,349.7)
Equity tax expense	(3,450.9)	(3,477.5)	(9,232.7)
	(105,002.4)	(107,893.6)	(119,918.4)
Changes in operating assets and liabilities:			
Loans purchases	(141,925.0)	(178,736.1)	(412,279.4)
Increase in loans	(172,111.2)	(49,219.0)	(467,103.5)
Increase (Decrease) in accounts receivable	(4,708.0)	44,779.2	(14,510.4)
Increase in other assets	(16,668.3)	(10,137.7)	(20,046.6)
Additions to foreclosed assets	(230.8)	(1,173.5)	(212.1)
Decrease in accounts payable	13,067.7	13,193.8	31,754.5
Decrease in other liabilities	(875.7)	(1,190.6)	9,853.6
Increase in accrue expenses and provisions	21,424.4	22,856.6	(36,938.5)
Payment of pensions plan	(1,841.0)	(1,846.2)	(1,873.8)
Payment of severance	(4,502.1)	(2,250.1)	(6,466.4)
Decrease in interest receivable	(5,022.6)	(23,832.7)	5,646.2
Decrease in interest payable	(1,957.1)	(17,386.3)	604.4
Increase in deposits	727,399.8	845,184.3	1,135,580.1
Unrealized gains on investments available for sale	17,344.5	540.2	(753.6)
	429,394.6	640,781.9	223,254.5
Net cash provided by operational activities	411,420.5	646,089.3	203,082.4
Cash flows from investment activities:			
Increase in investments	(723,894.9)	(486,188.5)	88,897.1
(Decrease) Increase bankers' acceptances and derivative instruments	3,453.2	(2,178.6)	2,698.2
Additions to property and equipment	(16,927.2)	(27,682.8)	(28,490.2)
Proceeds of sale of foreclosed assets	1,000.6	2,250.7	2,045.1
Proceeds of sale of property and equipment	2,061.1	675.7	60.0
Net cash used in investment activities	(734,307.2)	(513,123.5)	65,210.2
Cash flows from financing activities:			
Increase in money market and related liabilities operations	251,166.4	257,137.9	335,508.4
(Decrease) Increase in bankers' acceptances outstanding and derivatives	(3,107.5)	4,202.8	(1,992.3)
Increase (Decrease) in bank borrowings and other financial obligations	142,645.5	(191,772.5)	90,674.9
Issue of shares and share premiums	4,600.0	0.0	0.0
Payment of cash dividends	(27,398.8)	(36,229.6)	(60,723.2)
Net cash provided by financing activities	367,905.6	33,338.6	363,467.8
Net increase in cash and cash equivalents	45,018.9	166,304.4	631,760.4
Cash and cash equivalents at the beginning of the year	479,374.2	524,393.1	690,697.5
Cash and cash equivalents at the end of the year	$ 524,393.1	690,697.5	1,322,457.9

The accompanying notes form an integral part of these Consolidated Financial Statements.

Banco GNB Sudameris S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
As of December 31, 2010 and 2011
(Millions of Colombian pesos)

(1) Reporting Entity

Banco GNB Sudameris S.A. (the "Bank") is a stock corporation incorporated by Public Deed 8067 of December 10, 1976, Notary 5, Bogota D.C. According to its Articles of Incorporation, the Bank's legal existence will expire on January 1, 2076, but this term may be reduced by dissolution or increased by extension. The business of the Bank is to perform all operations and enter into all contracts permitted for commercial banks, subject to the requirements and limitations of Colombian law.

The Colombian Superintendency of Finance for Financial Institutions (the "Superintendency of Finance") Resolution 3140 of September 24, 1993 renewed the Bank's operating license. The latest amendments to the Articles were formalized by Deed 3725 of April 22, 2009, Notary 72, Bogota to adjust the Articles to requirements of law (Superintendency Circular 54/2008) and Superintendency recommendations in communication 2008017272-004-0000 and other matters within the competency of the shareholders, constituting a reform and compilation of the Articles.

The most significant changes to the Articles have been:

Sudameris Colombia absorbed Banco Tequendama S.A., which was then dissolved but not liquidated (Deed 6432, June 29, 2005, Notary 29, Bogota).

Change of name from Banco Sudameris Colombia S.A. to Banco GNB Sudameris S.A. authorized to use the name Banco GNB Sudameris S.A. without losing its nature as a stock corporation (Deed 6520, Notary 29 Bogota, June 29, 2005).

The Bank increased its capital from $40,000 to $50,000, divided into 125 million nominative shares of $400 (pesos) each, with a corresponding amendment to Article 5 (Deed 6011, Notary 29, Bogota, May 23, 2006).

Articles 25(a), 29, 31 and 32 were amended to suppress the appointment of personal alternates for the principal Directors, as required by Article 44 of Law 964/2005 (Deed 4679, Notary 29 Bogota, April 2, 2007).

The Bank's holding company is Gilex Holding B.V., an entity incorporated in The Netherlands, with offices are located in Locatellikade 1, (1075AZ), Amsterdam.

Subsidiaries

There are 3 subsidiaries: Servitrust GNB Sudameris S.A., Sociedad al Servicio de la Tecnología y Sistematización Bancaria Tecnibanca S.A.—Servibanca S.A. and Servivalores GNB Sudameris S.A. Comisionista de Bolsa, all with registered offices in Bogota D.C.

Servivalores GNB Sudameris S.A. Comisionista de Bolsa was incorporated by Deed 767 of March 14, 2003 as a securities broker on the Colombian stock exchange BVC, authorized by Superintendency Resolution 133 of March 11, 2003. It may also trade for its own account, manage securities for its customers and act as intermediary in placements, among other things.

Servitrust GNB Sudameris S.A. is a private stock corporation incorporated by Deed 3847 of July 9, 1992 Notary 18, Bogota. It is a general trust company in the financial services sector, and may undertake any business permitted by local regulations.

Sociedad al Servicio de la Tecnología y Sistematización Bancaria Tecnibanca S.A.—Servibanca S.A.—is a Colombian corporation whose corporate purpose is to provide services related to the automation and modernization of banking and financial services and to carry out replenishment, withdrawal, payment and clearing transactions, among others. Superintendency Resolution 872 of May 25, 2006 required organizations engaged in low-value payment systems to adopt the Uniform Plan of Accounts (PUC) of Resolution 3600/1998 as of January 2006.

At December 31, 2010 and 2011, the assets, liabilities, equity and income of the Bank and its subsidiaries, and the Bank's holding in the subsidiaries, is as follows:

	December 31, 2010					
	Banco GNB Sudameris S.A.	Servitrust GNB Sudameris S.A.	Servibanca S.A.	Servivalores GNB Sudameris S.A.	Net elimination	Consolidated figures
Assets	$8,301,585.0	41,834.4	52,449.9	40,458.5	(114,938.8)	8,321,389.0
Liabilities	7,702,403.4	23,274.9	12,605.1	13,722.9	(28,125.1)	7,723,881.2
Equity	599,181.6	18,559.5	39,844.8	26,735.6	(86,813.7)	597,507.8
Interest of Bank in subsidiaries		94.9%	88.5%	92.7%		
Interest of Gilex Holding B.V. in subsidiaries		3.02%				

	December 31, 2011					
	Banco GNB Sudameris S.A.	Servitrust GNB Sudameris S.A.	Servibanca S.A.	Servivalores GNB Sudameris S.A.	Net elimination	Consolidated figures
Assets	$9,888,487.9	41,565.3	63,931.5	26,739.2	(98,283.9)	9,922,440.0
Liabilities	9,252,203.5	24,023.0	21,367.6	1,204.1	(13,142.2)	9,285,656.0
Equity	636,284.4	17,542.3	42,563.9	25,535.1	(85,141.7)	636,784.0
Interest of Bank in subsidiaries		94.89%	88.50%	94.99%		
Interest of Gilex Holding B.V. in subsidiaries		3.02%				

(2) Accounting Policies

a. Basic Accounting Policies

The accounting policies and preparation of the financial statements of the Bank and its subsidiaries are in conformity with generally accepted accounting principles in Colombia and the regulations of the Colombian Superintendency of Finance for Financial Institutions (collectively, "Colombian Banking GAAP").

b. Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements, according to Colombian Banking GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

c. Real Value Unit Rate (UVR)

The transactions that the Bank's banking subsidiaries carry out with regard to mortgage loans linked to the Unidad de Valor Real (the "Real Value Unit" or "UVR") are adjusted on a daily basis based on the daily value of the UVR, as published by the Central Bank. The values assigned by the Central Bank to the UVR, in Colombian pesos, at December 31, 2009, 2010 and 2011 were Ps 186.2734, Ps 190.8298, and Ps198.4467, respectively. The UVR reflects the monthly variance of the IPC (Colombian Consumer Price Index).

d. Cash and Cash Equivalents

Cash flows are prepared using the indirect method. Money-market asset positions are considered to be cash equivalents for this purpose.

e. Asset and Liability Positions in Money Market and Similar Operations

Money market operations include repos, simultaneous operations, interbank funds and temporary transfers of securities.

Ordinary interbank funds

These are funds placed or received by the Bank directly with another financial entity, with no agreement to transfer securities or loans. They are current business operations of no more than 30 calendar days, designed to use surplus liquidity or make up liquidity deficits, including overnight operations with banks abroad, using Bank funds held by foreign financial institutions.

Interest yields of these operations are recorded in income.

Repurchase and resale (repo) transaction

In a repo, the Bank or its subsidiary acquires or transfers securities in exchange for cash, also committing itself to transfer to, or reacquire from, the counterparty that same day or later (but not more than a year later), with securities of the same kind and characteristics, at a given price.

The initial amount may be calculated at a discount from the market value of the securities; in the course of the operation the securities initially traded may be replaced by others, and restrictions may be set on the mobility of the securities involved.

Simultaneous operations

In a simultaneous operation, the Bank or a subsidiary acquires or transfers securities in exchange for cash with the simultaneous commitment to re-transfer or reacquire them on the same date or within one year, at a defined price for securities of the same kind and characteristics.

In these operations, no initial discount of the market price and no substitution of the original securities are allowed; nor may restrictions be placed on the mobility of the securities.

Yields accrued by the buyer (“acquirer”) and paid by the seller are recorded as a cost of the operation over its term.

The difference between present value (delivery of cash) and future value (final transfer price) constitutes financial yield, calculated exponentially over the term of the operation and recorded in the earnings statement.

f. Investments

This account includes investments acquired by the Bank or a subsidiary for the acquisition of direct or indirect control of a company in the financial sector or engaged in services, or to meet requirements of law or regulation, or solely to eliminate or reduce market risk affecting assets, liabilities or other items in the financial statements.

The purpose of valuation is basically to provide calculations, book entries and disclosure of the fair price at which a security may be traded on a given date, depending on its particular characteristics and the prevailing market conditions on that date.

The following are the bases for the classification, valuation and recording of investments, as required by Superintendency of Finance:

Classification	Term	Characteristics	Valuation	Recording
Trading	Short term	Acquired to make profits from price fluctuations.	Uses fair prices, reference rates and margins published daily by the Colombian Stock Exchange.	The difference between book and market value is charged or credited to the value of the investment with a credit or charge to earnings.
			On days when a valuation price cannot be found or estimated for a debt security, an exponential valuation is made on the basis of the internal rate of return ("IRR").	For debt securities, yields receivable and pending collection are recorded as an increased value of the investment. Therefore, when the yield is collected, it is recorded as a lower value of the investment.
			Valuations are made daily.	For equity investments, if dividends or profits are distributed in kind, including the capitalization of the equity revaluation account, no income is recorded and the value of the investment is not affected; in this case, the number of shares held is updated in the books. Cash dividends or distributions are recorded as a lower value of the investment.
				The procedure is followed daily.
				Investments are valued at market as of the day of their acquisition and therefore changes between cost and market are recorded as of the date of purchase.
Held to maturity	Until maturity	Securities over which the Bank or a subsidiary has the serious intent to hold to maturity or redemption and has the legal, contractual and financial capacity to do so.	Exponentially based on the IRR calculated at the time of purchase.	Present value is calculated as an increase to the value of the investment and the difference with the previous value is recorded in the earnings statement.
			Valuations are made daily.	This procedure is followed daily.
		The securities may not be the object of liquidity operations, repos or simultaneous operations, or temporary transfers, unless mandatory investments or obligations underwritten in the primary market and the counterparty is the Central Bank, the National Treasury or an institution supervised by the Superintendency of Finance.		

Classification	Term	Characteristics	Valuation	Recording
		The securities may also be delivered on guarantee to a central counterparty clearing chamber to support the performance of offset and settlement obligations on securities accepted by the chamber		
Available for sale—Debt securities	1 year	The Bank or a Subsidiary has the intention and legal, financial, operational and contractual capacity to hold these investments for a year from being classified in this category. After a year, these securities can be reclassified into one of the above categories. Investments classified in this category may be used as a guarantee in operations involving derivatives when the counterparty is a central risk clearing house. These investments may also be used in liquidity operations, including repos, simultaneous operations or temporary transfers of securities.	Using fair prices, reference rates and margins published daily by the Colombian Stock Exchange. If it is not possible to find or estimate a valuation price for the securities, they are valued exponentially from the IRR.	Changes to the value of low/minimum turnover or unquoted securities are recorded as follows: —The difference between present value on the valuation date and the existing book value is recorded as an increase to the value of the investment, which is credited to earnings. —The difference between market value and present value is recorded as an unrealized accumulated gain or loss in the equity section. —This procedure is followed daily.
Equity securities available for sale	None.	Investments made by the Bank or a Subsidiary as a co-owner of the issuer. Low/minimum trading or unquoted, held by the Bank and subsidiaries as bank or controlling interest.	• Securities on the National Securities and issuers register (RNVE) Valued at the price published by agents authorized by the Superintendency of Finance. If there are no operations to mark the price, the equity method is used. • If quoted only on a foreign exchange: Valued at the closing price on the valuation date or the most recent closing price in the last five trading days including the valuation date. If there is trading on more than one exchange abroad, the quotation for the market of origin will be taken. The price is then expressed in pesos. • Capital investments listed on foreign quotation systems authorized in Colombia Valued at the price provided by the agents authorized by the Superintendency	Low/minimum trading or unquoted —The difference between the latest updated market value and current book value is recorded as follows: If the new market value is higher, the difference is used to reduce any allowance or downward adjustment made until it is exhausted, and any excess is then recorded as a revaluation surplus. If the new market value is lower, any surplus is reduced until it is exhausted, and any excess is a downward adjustment. —If dividends or profits are distributed in kind, including those corresponding to the capitalization of the equity revaluation account, then the portion recorded as revaluation surplus is treated as income, charged to the investment and the surplus is reversed. —If dividends or profits are distributed in cash, the amount recorded as valuation surplus is treated as income, reducing the surplus, and the amount of dividends that exceeds this is recorded as a reduction in the value of the investment.

Classification	Term	Characteristics	Valuation	Recording
			• Capital investments not listed on exchanges: Unquoted shares will be valued monthly for a maximum of three months after the Bank's closing date. Acquisition cost is increased or decreased to account for variations in value in respect of its percentage holding of the equity, as calculated from certified financial statements at June 30 and December 31 each year, or more recently if known.	High and Medium Trading The updating of the value of high- and medium-trading securities or securities listed on internationally-recognized exchanges abroad is recorded as an accumulated unrealized gain or loss in the equity section, and credited or charged to the investment. This process is effected daily. Dividends or profits distributed in cash or in kind, including those derived from the capitalization of the equity revaluation account, are recorded as income for up to the amount corresponding to the investor in respect of dividends or the equity revaluation of the issuer recorded by the latter from the date of acquisition of the investment, charged to accounts receivable.

Investment repurchase rights

This corresponds to restricted investments which have been pledged as collateral for certain funding operations.

The Bank and the subsidiaries retain economic rights and benefits and continue to assume the risks related to these securities, even after ownership has legally been passed in the repo.

The securities are valued daily and recorded in the balance sheet and earnings statement using methods and procedures applicable to trading investments, investments held to maturity, and investments available for sale according to their classification.

Allowance due to credit risk classification

The price of debt securities classified as trading or available for sale for which no fair price or margin is available at the valuation date, but there are reference rates that may be used in the valuation model or a valuation can be made based on IRR (internal rate of return); and for debt securities held to maturity with low/ minimum trading or unquoted equity investments, an allowance is made, at each reporting date based on the exposure to credit risk.

Externally-rated securities or issuers

Securities that carry one or more ratings made by a rating agency recognized by the Superintendency of Finance and debt securities issued by issuers rated by them, may not be booked for amounts that exceed the following percentages of par value net of amortizations so far made, up to valuation date.

Long-term rating	Maximum Amount	Short term ranking	Maximum Amount
BB+, BB, BB-	**90%**	**3**	**90%**
B+, B, B-	**70%**	**4**	**50%**
CCC	**50%**	**5 and 6**	**0%**
DD,EE	**0%**	**5 and 6**	**0%**

Allowance against investments classified as to be held to maturity for which a fair price can be estimated in accordance with the conditions for debt securities for trading or available for sale correspond to the difference between book value and the market price.

Securities of issuances or issuers without a credit rating

The maximum percentage of net value, as defined by the Superintendency of Finance, at which these investments may be recorded, according to their category, is as follows:

Category	Risk	Investment characteristics	Maximum percentage of net value
A	Normal	Comply with the agreed terms for the security and have sufficient debt service capacity for both principal and interest	None.
B	Acceptable	Refers to issuances that present factors of uncertainty that could affect the capacity to continue adequately making principal and interest payments. Also, the financial statements and other information available present weaknesses that may affect their financial condition.	Net value must not exceed eighty percent (80%) of its acquisition cost.
C	Appreciable	Refers to the issuances that present medium-high probabilities of default on the timely payments of principal and interests. Also, the financial statements and other information available evidence deficiencies in the financial condition that compromises the recovery of the underlying investment.	Net value must not exceed sixty percent (60%) of its acquisition cost.
D	Significant	Refers to issuances that present defaults on agreed terms on the security; also, the financial statements and other information available evidence marked deficiencies in their financial condition and, as a result, probability of recovery is highly questionable.	Net value may not exceed forty percent (40%) of its acquisition cost.

Category	Risk	Investment characteristics	Maximum percentage of net value
E	Unrecoverable	Issuers that as per their financial statements and other information available deem the investment unrecoverable. Also, there are no financial statements as of the closing of June 30 and December 31 of each year.	The full value of this item must be entirely reserved.

g. Loan Portfolio

This account records various types of loans, which are funded with internal resources, deposits from the public and other external and internal sources of finance.

Loans are recorded at their face value, including for acquisition of loans (factoring operations) which are recorded at acquisition cost, and foreign currency operations, which are converted into local currency. The agreed interest rate does not affect the value for which the loans are recorded.

The Bank adopted a credit risk management system (SARC) to implement clear and precise policies and procedures to define criteria and models for the Bank to evaluate, assume, classify, control and cover credit risk; not only from the allowance coverage standpoint but also through the administration of the process of granting loans and their ongoing follow-up.

There are three types of loans:

Commercial loans

Loans granted to individuals or corporate entities for development of economic activities different from those extended as microcredit transactions.

Consumer loans

Loans which, regardless of the amount, are extended to individuals for the purchase of consumer goods or payment of services for non-commercial or entrepreneurial purposes and different from those disbursed as microcredit transactions.

Mortgage loans

Loans granted, regardless of amount, to individuals, and used to acquire new or used housing, or the construction of personal housing. They are denominated in UVR or pesos and are guaranteed by a first mortgage on the housing unit financed. The term of amortization is between five and 30 years. Loans may be fully or partially prepaid at any time without penalty; in the event of partial prepayment, the debtor is entitled to choose whether application is to be made against outstanding capital installments or to a reduction in the tenure of the obligation. They carry ordinary interest on outstanding balances in UVR or pesos, depending on the denomination of the loan. Interest is charged in default and may not be capitalized. The loan may be for a maximum of 70% of the value of the property. The value must be either the purchase price or that of a professional valuation made within the last six months. Loans for social interest housing may be for up to 80% of the value of the property. Property financed in this way must be insured against fires and earthquakes.

Frequency of evaluation

The Bank evaluates all types of loans. Loan performance is updated monthly for partial payments, cancellations, charge-offs and aging of default.

For this, the Bank has adopted analytical methods and techniques to measure the credit risk inherent in a loan and possible future changes in conditions of debt servicing. These methods and techniques are based on information held of patterns of behavior of the portfolio and loans, the particular characteristics of debtors and loans and guarantees supporting them; the debtor´s credit record with other lenders and financial information about the debtor or alternative information to establish its financial situation appropriately; and sector and macroeconomic variables affecting their normal development.

Criteria for the evaluation of credit risk

The Bank permanently evaluates the risks inherent in its credit assets when it grants loans and through the lives of the loans, including restructurings. It has designed a Credit Risk Management System (SARC) composed of policies and processes of credit risk management, reference models for estimates or quantifications of expected losses, systems of allowances to cover credit risks and internal control systems.

The granting of credit is based on knowledge of the borrower, its capacity to pay and the characteristics of the contract to be made including, among other things, the financial conditions of the loan, sources of repayment and macroeconomic conditions to which it might be exposed.

The loan approval process has for each portfolio rules that contain variables to discriminate between borrowers who match the Bank´s risk profile. Segmentation and discrimination in the loan portfolios and the potential borrowers in them are the basis for classification. The methods and procedures used in the process enable the credit exposure of each portfolio to be monitored and controlled as well as the aggregate portfolio, avoiding an excessive concentration of credit per debtor, economic sector, risk factor, etc.

The Bank engages in continuous monitoring and classification of loan operations in accordance with the process for granting them, based among other things, on the information on the historical performance of the portfolios and loans; the particular characteristics of the debtor and their loans and guarantees; the credit record of the debtor in other entities and his financial information, in order to establish his financial situation, and sector and macroeconomic variables that might affect the course of the business.

Credit risk rating

Commercial and consumer loans are classified by risk category with the following minimum objective conditions.

Category	Approval	Commercial loan portfolio	Consumer loan portfolio
"AA"	New loans whose assigned classification at approval is "AA".	Outstanding loans and financial leases past due payments not exceeding 29 days (i.e., between 0 and 29 days past due). The debtor's financial statements or its projected cash flows, as well as all other credit information available to the financial subsidiaries, reflect excellent paying capacity.	Loans whose risk rating is "AA" according to the methodology of the Consumer Reference Model (MRCO) as established by the Superintendency of Finance.
"A"	New loans whose risk rating at approval is "A".	Outstanding loans and financial leases with delayed payments in excess of 30 days but not exceeding 59 days (i.e., between 30 and 59 days past due). The debtor's financial statements or its projected cash flows, as well as all other credit information available to the financial subsidiaries, reflect appropriate paying capacity.	Loans whose risk rating is "A" according to the methodology of the MRCO as established by the Superintendency of Finance.
"BB"	New loans whose risk rating at approval is "BB".	Outstanding loan and financial leases past due more than 60 days but less than 90 days (i.e., between 60 and 89 days past due). Loans in this category are acceptably serviced and collateralized, but there are weaknesses which may potentially affect, on a transitory or permanent basis, the debtor's ability to pay or its projected cash flows, to the extent that, if not timely corrected, would affect the normal collection of credit or contracts.	Loans whose risk rating is "BB" according to the methodology of the MRCO as established by the Superintendency of Finance.
"B"	New loans whose risk rating at approval is "B".	Outstanding loans and financial leases past due over 90 days but less than 120 days (i.e., between 90 and 119 days past due). The debtor shows insufficient paying capacity of its obligations.	Loans whose risk rating is "B" according to the methodology of the MRCO as established by the Superintendency of Finance.
"CC"	New loans whose risk rating at approval is "CC".	Outstanding loans and financial leases past due more than 120 days but less than 150 days (i.e., between 120 and 149 days past due). Loans in this category present grave insufficiencies in the debtors' paying capacity or in the project's cash flow, which may compromise the normal collection of the obligations.	Loans whose risk rating is "CC" according to the methodology of the MRCO as established by the Superintendency of Finance.
"Default"	—	Outstanding loans and financial leases past due for 150 days or more. This category is deemed unrecoverable. These loans are considered in default.	Consumer loan portfolio past due over 90 days.

The Bank applies the following equivalents for purposes of compatibility of risk classifications in indebtedness reports and recording in the financial statements:

Consolidated financial statements risk category	Reporting category	
	Commercial	Consumer
"A" Normal Risk	AA	AA
		A—between 0 and 30 days past due
"B" Acceptable Risk	A	A—more than 30 days past due
	BB	BB
"C" Appreciable Risk	B	B
	CC	CC
		C
"D" Significant Risk	"Default"—all other past due loans not classified in "E"	
"E" Unrecoverable	"Default"—past due loans with a LGD (explained below) of 100%	

Mortgages loan portfolio, on the basis of past due loans, are classified as follows:

Category	Mortgage
"A" Normal Risk	In compliance or with up to 60 days past due
"B" Acceptable Risk	Past due between 61 and 150 days
"C" Appreciable Risk	Past due between 151 and 360 days
"D" Significant Risk	Past due between 361 and 540 days
"E" Unrecoverable	Past due over 540 days

Restructured loans

A restructured loan is one for which a legal agreement exists with the intention or effect to modify the terms of the credit, so as to enable the debtor to pay. Before restructuring a credit, it must be established that there is a reasonable probability of recovery under the new conditions.

Rules for restructured loans reclassification

Loans may maintain their risk rating category after restructuring only if the restructuring agreement shows an improvement in the debtor´s capacity to pay and/or the probability of default. If the restructuring agreement provides a grace period for capital repayments, that classification may only be preserved where the grace period is no longer than one year after signature.

For restructurings under Law 550/1999, Law 617/2000 and Law 1116/2006 and special restructurings, the following considerations apply:

Law 550/99 restructurings

Under Law 550/99, upon commencement of restructuring negotiations, the Bank ceases to accrue interest and maintains the classification then given to the debtor.

Upon the effectiveness of Law 1116/2006, which regulates business insolvencies, the Bank considers that the debtor is in default.

Fiscal restructuring (Law 617/2000)

The Colombian Government guarantees the financial obligations that governmental entities have with financial institutions supervised by the Superintendency of Finance upon fulfillment of all requirements established under Law 617 of 2000, including, among others, fiscal adjustment agreements signed with the Government before June 30, 2001. For loans outstanding as of December 31, 1999, the Government guarantees up to 40.0%, and for all new loans intended to fulfill the signed fiscal adjustment agreement, the Government guarantees up to 100.0%.

Previously established allowances for restructured loans under Law 617 of 2000 were reversed for the portion guaranteed by the Government. The portion of the loan not guaranteed by the Government maintained the credit risk category that it had as of June 30, 2001.

Special restructurings

For restructured loans under Superintendency Circular 39/1999, it is considered unadvisable to reverse the allowance or improve the credit risk category if compliance with the restructured agreement is not demonstrated. When a debtor defaults on a restructuring agreement, the debtor must be immediately reclassified to its risk level prior to the restructuring, or a higher-risk category.

Loans charged off

A loan may be charged off if management considers that it is unrecoverable or that recovery would be a remote or uncertain event, after exhausting actions to collect in accordance with the opinion of legal counsel and debt collection agencies, and subject to the prior approval of the Directors.

The charge off does not relieve the Bank from continuing to seek collection in the manner the Bank considers adequate, and requires that principal, interest and other concepts under the loan be 100% provisioned.

Allowance for loan losses

The Bank covers credit risk with a system of allowance charged to earnings, calculated on unpaid balances, aging and risk categories for mortgage and microcredits and as a function of expected loss produced by the reference models for commercial and consumer loans, or on outstanding balances as a function of default and the risk categories applicable to mortgage and microcredits.

Individual allowance using reference models

They are allowances that reflect the individual credit rating of each debtor and combine a “pro-cyclical” individual allowance component and “counter-cyclical” individual allowance component. Both the MRC and MRCO Reference Models are used to calculate both components of the allowance. Until March 31, 2010 holding provisions that have a reference model were calculated without considering the individual countercyclical component accumulation phase.

The **procyclical component** is the portion of the individual loan allowance that reflects the debtor´s credit risk today.

The **countercyclical component** is the portion that reflects possible changes in debt risk should there be greater deterioration in this type of loan. It is charged today in order to reduce the impact on earnings of a future situation of this kind.

The countercyclical portion may not be less than zero nor more than the expected loss in Matrix B. The sum of the two components may not be greater than the value of exposure.

The individual countercyclical allowance will be the result of calculating the difference between the total individual allowance and the individual allowance, as shown below:

Matrix A: The individual countercyclical allowance will be the difference between the total individual allowance and the individual allowance.

Matrix B: The individual countercyclical allowance will be the difference between the individual allowance and the total individual allowance.

General allowance

The Bank set up a general allowance corresponding to 1% of the total value of microcredit and mortgage loans.

When countercyclical components are incorporated from the reference models, the Bank may apply a proportional part of the general allowances made prior to the application of the models, to the requirement for individual allowances.

Commercial and consumer loan models

The Bank has adopted the Superintendency of Finance's Reference Model to calculate allowance against these loans.

Expected losses (allowance) are calculated as:

Expected loss = [probability of default(%)] x [Asset Value Exposure to default] x [Loss given default]

The segmentation and discrimination of loan portfolios and possible borrowers is the basis for estimating expected losses in the reference models.

Segmentation is effected as follows for commercial borrowers:

Commercial Portfolio Classification by Asset Level

Company Size	Asset Level (Minimum Salaries)
Large Companies	More than 15,000
Medium Companies	Between 5,000 and 15,000
Small Companies	Less than 5,000

Minimum Salaries: $ 535,600 (Colombian pesos)

For consumer loans, the discrimination of portfolios is based on segments differentiated by products and the lenders that provide them, in order to preserve particular market niches and products.

Segmentation of consumer loans is effected with the following criteria from the Model:

- General—Automobile. Loans made by finance companies other than consumer finance companies to purchase vehicles.

- General—Other. Loans made by finance companies other than consumer finance companies to purchase items other than vehicles. Credit card purchases are not included.

- Credit card. Revolving credit for the purchase of consumer goods through plastic cards.

The reference models for commercial and consumer loans define the components of expected loss with the following parameters.

a. Probability of Default

This is the probability that debtors will go into default within the next 12 months.

The probability of default is defined using the matrices shown below, which are compiled by the Superintendency of Finance:

Commercial loans

	Major companies		Medium companies		Small companies		Individuals	
	Matrix A	Matrix B	Matrix A	Matrix B	Matrix A	Matrix B	Matrix A	Matrix B
AA	1.53%	2.19%	1.51%	4.19%	4.18%	7.52%	5.27%	8.22%
A	2.24%	3.54%	2.40%	6.32%	5.30%	8.64%	6.39%	9.41%
BB	9.55%	14.13%	11.65%	18.49%	18.56%	20.26%	18.72%	22.36%
B	12.24%	15.22%	14.64%	21.45%	22.73%	24.15%	22.00%	25.81%
CC	19.77%	23.35%	23.09%	26.70%	32.50%	33.57%	32.21%	37.01%
Default	100%	100%	100%	100%	100%	100%	100%	100%

Consumer loans

	Matrix A			Matrix B		
Classification	Automobiles	Other	Credit Card	Automobiles	Other	Credit Card
AA	0.97%	2.10%	1.58%	2.75%	3.88%	3.36%
A	3.12%	3.88%	5.35%	4,91%	5.67%	7.13%
BB	7.48%	12.68%	9.53%	16.53%	21.72%	18.57%
B	15.76%	14.16%	14.17%	24.80%	23.20%	23.21%
CC	31.01%	22.57%	17.06%	44.84%	36.40%	30.89%
Default	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Each commercial and consumer loan client segment thus has the possibility of migrating from a category and falling into default in the next 12 months, depending on the general cycle of credit risk.

b. Loss given default (LGD)

LGD is defined as the economic loss to the Bank if any event of default takes place. The loss given default for borrowers in the "default" category will undergo a slow increase as a function of the days elapsed since classification into that category. The expected loss by type of guarantee is the following:

Comercial loans

Type of guarantee	Loss on default	Days past due	LGD	Days past due	LGD
Not admissible guarantee	55%	270	70%	540	100%
Subordinated debt	75%	270	90%	540	100%
Admissible financial collateral	0 – 12%	—	—	—	—
Commercial and residential real estate properties	40%	540	70%	1080	100%
Assets under real estate leasing	35%	540	70%	1080	100%
Assets under leasing modalities other than real estate leasing	45%	360	80%	720	100%
Other forms of collateral	50%	360	80%	720	100%
Collection rights	45%	360	80%	720	100%
Unsecured	55%	210	80%	420	100%

Consumer loans

Type of guarantee	Loss on default	Days past due	LGD	Days past due	LGD
Not admissible guarantee	60%	210	70%	420	100%
Admissible financial collateral	0 – 12%	—	—	—	—
Commercial and residential real estate properties	40%	360	70%	720	100%
Assets under real estate leasing	35%	360	70%	720	100%
Assets under leasing modalities other than real estate leasing	45%	270	70%	540	100%
Other forms of collateral	50%	270	70%	540	100%
Collection rights	45%	360	80%	720	100%
Unsecured	65%	180	85%	360	100%

As of October 2011, the Bank has applied the following LGD for unsecured loans:

Guarantee type	LGD	Days past due	LGD	Days past due	LGD
None	75%	30	85%	90	100%

As a result of this change, an additional provision of $550 was recorded at December 31, 2011.

c. Asset Value Exposure

Under the Commercial Reference Model, asset value exposure refers to the outstanding balance of principal, interest and interest and other accounts receivable for commercial loans.

Mortgage loans

The Bank maintains allowances against outstanding balances no lower than the percentages shown below.

Mortgage			
Category	Provision as % of principal covered by guarantee	Provision as % of principal not covered by guarantee	Provision as % of Interest & Other
A—Normal	1	1	1
B—Acceptable	3.2	100	3.2
C—Appreciable	10	100	100
D—Significant	20	100	100
E—Unrecoverable	30	100	100

For mortgage loans, if the account has been in category "E" for two consecutive years, the percentage allowance on the secured portion is raised to 60.0%. If the account is still "E" after another year, the allowance is raised to 100.0% of the secured portion.

Alignment rules

The Bank aligns debtor classifications as follows:

Before making allowance and compatibilizing classifications, the Bank makes individual internal alignments each month, taking all credit operations to the highest risk category applicable, unless it can show the Superintendency of Finance that there is good reason not to do so.

If a financial institution is required to consolidate its financial statements, it must give the same classification to all loans of a given type to the same debtor, unless it can show the Superintendency of Finance that there are good reasons not to do so.

The effect of guarantees on individual allowances

For purposes of the establishment of individual allowances, guarantees secure only the principal portion of a loan. Therefore, the outstanding balances of secured loans are subject to allowance appropriate to their classification:

- For mortgage loans, the difference between the outstanding balance and 100% of the value of the security interest. For the secured portion, 100% of the balance guaranteed.

Security other than mortgages	
Default	% cover
0-12 months	70%
12-24 months	50%
Over 24 months	0%

Mortgage or Escrow security	
Default	% cover
0-18 months	70%
18-24 months	50%
24-30 months	30%
30-36 months	15%
Over 36 months	0%

h. Bankers' Acceptances and Derivative Instruments

Acceptances

Bank acceptances have a maximum term of one year and are only issued in connection with import and export transactions, or for the purchase and sale of movable goods within Colombia.

At the time of accepting a bill, the amount is entered as an asset and a liability as "Current Bank Acceptances." If not presented for payment at maturity, it is reclassified as "Non-Current." If unpaid at maturity by the purchaser of the goods, it is reclassified to a loan account "Bank Acceptances Covered."

After maturity, acceptances are subject to cash reserve requirements for demand liabilities for payment within 30 days.

Derivatives and spot operations

Spot operations entail clearing and settlements within three working days of being closed.

The Bank and its subsidiaries record derivatives, which are contracts whose essence is that the fair price of exchange depends on one or more underlying assets, and performance or settlement occurs subsequently. There may be several purposes for such operations.

- The offer of products required by clients to hedge financial risk, among other things.
- The structuring of Bank portfolios to make use of arbitrage between curves, assets and markets to obtain high profitability with low levels of equity commitment.

Types of derivative

The Bank and its subsidiaries work with the following derivatives:

- Forwards (peso-dollar, peso-other currencies)
- Basic and combined options
- Futures—standardized derivatives traded on the Colombian Stock Exchange (Futures on notional bond, exchange rate futures)

The Bank and its subsidiaries apply different strategies through a combination of basic derivatives (call and put forwards and options) or combinations between them and other financial instruments, These strategies can be put together and sold as a "product" with a wide range of solutions and different functions of costs and results, within established limits and without incurring risks other than those authorized.

Combinations and strategies are valued, managed, controlled and booked on the basis of their basic components.

Forwards

A forward is a tailor-made derivative in which the two parties agree to purchase/sell a specific quantity of an underlying asset at some future date. The basic conditions are established—mainly, price, date and mode of delivery of the underlying asset. At due date, the operation is liquidated by the delivery of the underlying asset or through settlement of differences, depending on the underlying asset and the mode of delivery agreed. This latter condition may be changed during the term of the agreement through mutual agreement of the parties.

Superintendency circular 004/2010 establishes that derivatives traded on the over the counter ("OTC") market may be offset and settled in the Central Counterparty Risk Clearing House ("CRCC"), which intervenes as a counterparty under Decree 2893/2007.

Options

An option is an agreement that allows the holder the option or right—but not the obligation—to buy or sell a specific quantity of assets at a certain price and on a certain date, or over a certain period of time. The agreement binds the other party to buy or sell the asset on the asset on the date on which the holder exercises the option on conditions of quantity, quality and price contained in the agreement.

Futures

Futures are standardized contracts for settlement dates, size or face value, the characteristics of the underlying assets, and the place and manner of delivery (cash or in kind). They are negotiated on the CRCC. The parties agree to buy or sell an underlying asset at some future date (due date) at a price agreed at the time the deal is struck.

The standardized financial derivatives are traded on the Colombian Stock Exchange, which in turn has set rules for trading and membership in the market. The Colombian Stock Exchange manages the trading system, which is called X-Stream.

The CRCC manages the settlement and control of operational risks. It also acts as the central counterparty for Colombian Stock Exchange-traded standardized derivatives.

When a transaction is registered on the trading system, the CRCC comes between the parties to act as simultaneous buyer and seller of all open positions in the market.

The Bank acts with the Colombian Stock Exchange as a General Settlement Member, which allows it to clear and settle its own commitments and those of Non-Settlement Members and Third Parties of Non-Settlement Members under specific agreements.

Recording and valuation of derivatives

Derivatives are classified according to their trading:

- Hedging risks of other positions
- Speculation, seeking profit
- Arbitrage

The recording of derivatives depends on the purpose of the business.

Until December 31, 2009, derivatives were recorded as assets and changes in the fair value were recorded in the income statement.

Beginning on January 1, 2010 and regardless of purpose, derivatives with a positive fair value (i.e., favorable to the Bank) are recorded as assets, separating the right from the obligation, except for options, for which accounting movement takes place in a single account. However, transactions with a negative fair price—unfavorable to the Bank—are recorded as liabilities, and separated in the same manner. Favorable and unfavorable balances of different transactions are not netted, even if they are of the same type.

Derivatives trading is recorded in the balance sheet from the date the business is closed, at the fair price of exchange. If on the initial date the fair value of the contracts is zero—that is, there are no physical payments or deliveries made between the parties—there is no effect on profit and loss. For subsequent valuations, the variations in the fair price of exchange are recorded in the earnings statement.

i. Accounts Receivable

This account records amounts due such as commissions for services rendered and payments made for customer accounts, and amounts derived from the sale of goods and services and advances to contractors, suppliers and staff.

The Bank and its subsidiaries evaluate commission receivables on an aging basis established for commercial loans, as required by Schedule 1 Chapter II of Superintendency Circular 100/1995.

Commissions receivable are classified as follows:	Allowance required
Category A, current, up to 1 month overdue	0%
Category B, 1-3 months overdue	1%
Category C, 3-6 months overdue	20%
Category D, 6-12 months overdue	50%
Category E, more than 12 months overdue	100%

j. Foreclosed Assets

This account records the adjusted value of assets received by the Bank in lieu of payment of unpaid loan balances.

Foreclosed assets received as real estate property are professionally appraised upon receipt, and personal property, including shares, are valued at market value.

The recording of foreclosed assets takes the following considerations into account:

- The initial record is for the value determined by the court or agreed with the debtor.
- If the foreclosed asset is not in a fit state to be sold, its cost is increased by the expenses required to make it so.
- If there is a balance in favor of the debtor between the price for which the asset is received against the loan and the price for which it is sold, the difference is an account payable. If there is a shortfall, an allowance is made in the group of accounts where the obligation is recorded.

k. Allowance for Foreclosed Assets

Real estate property

Foreclosed assets must be sold within two years of acquisition. A provision of 30% of acquisition cost (that is, value received) is made in monthly installments during the year following foreclosure. This provision increases another 30% during the second year, to make a total provision of 60%.

When the regulatory limit of two years is reached and the property has not been sold and no extension of time has been granted by the Superintendency of Finance, the provision is further increased to cover 80% of acquisition cost. If an extension of the period is granted, the remaining 20% is provided throughout the term of the extension on a straight line basis.

If acquisition cost is lower than the amount of the debt on the balance sheet, the difference is charged immediately to profit and loss.

If the market value of the property is lower than book value, a provision is made for the difference.

Assets other than real estate

An allowance is made for 35% of the acquisition cost of the asset during the first year after receiving the asset. This allowance is increased in monthly instalments by an additional 35% until reaching 70% in the second year. Once the regulatory deadline for sale has passed, the allowance is increased to 100%. If an extension is granted, the remaining 30% is provisioned during the extension period.

In relation to foreclosed assets in the form of securities, these should follow the rules of valuation of the Superintendency of Finance, taking into account their classification as trading, available for sale or held to maturity investments, as well as the above mentioned rule of allowance for assets other than real estate.

l. Property and Equipment

This account records tangible assets acquired, constructed or in the process of importation or construction and permanently used in the course of the Bank's business whose useful life exceeds one year. Values include direct and indirect costs and expenses incurred up to the time that the asset is in a usable condition.

In addition, improvements and non-routine repairs which significantly prolong the useful lives of assets are capitalized. Payments for routine maintenance and repairs are charged to expense in the period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The annual rates used are:

Buildings	5%
Equipment, furniture and fittings	10%
Computer equipment	20%
Vehicles	20%

m. Prepaid Expenses and Deferred Charges

Prepaid expenses are payments made in the normal course of business, the benefits of which are recovered over more than one period and are recoverable assuming continuous delivery of services.

- Interest, during the period prepaid

- Insurance, over the life of the policy

- Equipment maintenance, three years
- Loan premium pending amortization, over the life of the promissory note
- Prepaid expenses under loan agreements, up to one year
- Other prepaid expenses, over the period services are received or costs or expenses accrue.

Deferred charges are costs and expenses which benefit future periods and cannot be recovered. Amortization is calculated from the date which they contribute to the generation of income. Amortizations are made as follows:

- Equity tax, over four years
- Deferred tax (debit), while the timing differences exist
- Remodelling charges are amortized over a maximum of two years
- Software is amortized over a maximum of three years
- Stationery is amortized as and when consumed
- Leasehold improvements to rented property are amortized over the shorter of the remaining life of the lease not including extensions, or the probable useful life of the improvements
- Contributions and affiliations, over the period prepaid
- Other items, over the estimated recovery period or the period for obtaining the expected benefits

n. Reappraisal of Assets

This account records the revaluation of investments available for sale in equity securities and property and equipment, particularly real estate property.

The reappraisal of assets on investments available for sale in equity securities are based on the variations in the equity of the issuer.

Real estate property is revalued on the basis of independent professional appraisals. The difference between the net cost and the appraisal constitutes the adjustment to the reappraisal account.

Works of art are recorded on the basis of independent professional market appraisals.

It there is a loss on valuation, the Bank follows a prudence standard in making individual allowances for each property.

o. Income Received in Advance

This account records deferred income and income received in advance in the course of business, which is amortized over the period in which they accrue or services are rendered.

p. Pensions

Up to August 11, 2009, the Bank applied the provisions of Decree 2783/2001, amended by Decree 2984 of August 12, 2009, which states that the percentage pending amortization will be charged in a straight line throughout to 2023.

As of December 7, 2010, the Bank has applied Decree 4565 amending the method used to determine the proportion of the calculation amortized. The provision is amortized on a straight line basis so that amortization will be complete at December 31, 2029.

At December 31, 2011, 85.74% of the calculation had been provided for.

Pension payments are charged to the provision.

q. Accrued Liabilities and Provisions

The Bank records provisions to cover estimated liabilities, where:

- the Bank has acquired a right, and therefore an obligation,
- payment may be demanded or is probable, and
- the provision is justifiable, quantifiable and verifiable.

This account also records estimates for taxes, contributions and affiliations.

r. Foreign Currency Conversion

Transactions in currencies other than dollars are converted into dollars and then expressed in Colombian pesos using the method established for the financial system in the Uniform Plan of Accounts (PUC) at the rate for the closing date. At December 31, 2009, the rate was $2,044.2 per U.S. dollar, and at December 31, 2010, it was $1,913.98 per dollar and at December 31, 2011, the rate was $1,942.7 per U.S. dollar.

These rates are published by the Superintendency of Finance, and exchange differences are credited or charged to earnings.

The exchange "own position" is the difference between all demand and term foreign currency assets and liabilities, including currency purchase derivatives outside the exchange market, and contingent accounts.

s. Revenue Recognition

Interest income is recognized when accrued.

Suspension of interest accruals

The Bank ceases to accrue interest, monetary correction, exchange adjustment and other income on loans that are in default as shown below:

Loan	Default exceeds
Commercial	3 months
Consumer	2 months
Mortgage	2 months

Therefore, there is no movement in profit and loss accounts until the money is actually collected. Until that time, these amounts are controlled in Memorandum Accounts.

Where a restructuring agreement or agreement of another kind provides for the capitalization of interest recorded in memorandum accounts or of loan balances written off, including principal, interest and other items, these are accounted as deferred income and are amortized to profit and loss in proportion to amounts actually collected.

t. Contingent and Memorandum Accounts

Contingent accounts

These accounts record operations in which the Bank or any of its subsidiaries acquire rights or assume obligations conditioned by possible future events of varying degrees of probability. Likewise, financial yields are recorded in this account when loans are placed on non-performing status.

Memorandum accounts

These accounts record third-party transactions whose nature does not affect the financial situation of the Bank and its subsidiaries. They also include tax memorandum accounts, which record the figures used in preparing tax returns, and memorandum accounts used for internal control or management information.

u. Income Taxes

Income taxes payable are recognized in the financial statements as an amount that approximates the amount due on the respective income generated in the period pursuant to Colombian tax legislation. Deferred income taxes are generally recognized for temporary timing differences mainly relating to goodwill and the valuation of investment portfolios.

3. Cash and Due from Banks

The detail of cash and due from banks in local currency and foreign currency expressed in local currency at December 31, 2010 and 2011 is as follows:

	2010	2011
Local currency:		
Cash	$165,903.6	161,010.8
Central Bank	483,057.5	522,307.5
Banks and other financial institutions	241.6	434.8
Remittances of domestic negotiated checks in transit	464.7	36.1
Clearing	0.0	21.4
Allowance	(5.3)	(5.3)
	$649,662.1	683,805.3
Foreign currency denominated:		
Cash	9,663.0	3,717.0
Central Bank	3.7	30.2
Correspondents	24,722.7	14,983.5
Remittances of domestic negotiated checks in transit	89.6	218.7
	34,479.0	18,949.4
	$684,141.1	702,754.7

At December 31, 2010 and 2011, cash and local currency deposits at Central Bank of Colombia include $648,961.1 and $683,318.3, respectively; these amounts form part of the mandatory cash reserve held by the Bank against customer deposits.

At December 31, 2010 and 2011, there are no foreign currency reconciliation items outstanding for more than 60 days and no local currency reconciliation items outstanding for more than 30 days; and there are no restrictions on these funds.

In Colombia, according to Resolution 11 of 2008, reserve requirements are measured bi-weekly and the amounts depend on the type of deposit (11.0% for checking and saving accounts and 4.5% for time deposits with a maturity of less than 540 days).

4. Asset Positions in Money Market and Similar Operations

The balance of the asset positions in money market and related operations at December 31, 2010 and 2011 totalled $6,556.4 and $619,703.2, respectively. At December 31, 2011, the balance was composed of $609,005.8 of Banco GNB Sudameris S.A. and $10,697.4 of Servivalores GNB Sudameris S.A.

At December 31, 2010, the balance consists of transfer commitments in repo operations of Servivalores GNB Sudameris S.A.

5. Investments

At December 31, 2010 and 2011, investments consisted of the following:

	2010	2011
Trading—debt securities		
Treasury bonds—TES	$615,328.1	400,766.3
Bonds issued by multilaterals credit institutions	15,055.6	14,737.5
Bonds: Empresa Acueducto Barranquilla	1,293.7	848.9
Mortgage bonds—TIPS	1,806.3	0.0
TIDIS	0.0	33.7
Debt reduction securities—TRD	0.0	0.7
Term deposits	89.6	525.2
	$633,573.3	416,912.3
Trading—equity securities		
Collective portfolios	24,395.2	37,334.1
Third-party portfolio management Suma Valores S.A.	8,175.2	0.0
Bolsa de Valores de Colombia	0.0	2,030.5
	$ 32,570.4	39,364.6
Held to maturity		
Treasury bonds—TES	256,306.1	608,802.5
Debt reduction securities—TRD	32,821.1	34,011.0
Term deposits	64,774.8	58,977.2
Bonds issued by Superintendency-supervised institutions	2,850.9	357.8
Bonds issued by multilaterals	14,385.6	14,548.4
Agricultural development securities—TDA Class “A” / Class “B” FINAGRO	188,398.1	225,352.3
	$559,536.6	942,049.2

	2010	2011
Available for sale debt securities		
Treasury bonds—TES	$1,146,938.9	638,267.8
Available for sale equity securities		
Bolsa Valores de Colombia	125.5	594.2
Units: Fondo de Garantías—FOGACOL	585.2	305.1
Deceval S.A.	141.4	141.4
Cámara de RISK Central de Contraparte de Colombia S.A.	1,073.1	366.7
ACH Colombia S. A.	36.5	36.5
Visa Inc. (1)	5,220.1	0.0
Cámara de Compensación de Divisas	111.2	111.2
	$ 7,293.0	1,555.1
Repurchase rights		
Trading—debt securities	1,057,929.5	864,066.9
Investments available for sale	486,406.8	1,098,718.4
	$1,544,336.3	1,962,785.3
Trading investments in guarantee of derivatives and others debt securities		
Operations with derivatives, debt securities	1,104.0	796.4
	$3,925,352.5	4,001,730.7

(1) The Visa Inc. shares were sold on August 5, 2011 to Wells Fargo for US$3,281,712.8, equivalent to $5,883.1. The operation made a profit of $264,9.

6. Loan Portfolio

At December 31, 2010 and 2011, the Bank evaluated 100% of loans, interest and other items as required by Superintendency Circular 100/1995, and the minimum allowances required by regulations were made. The result of the review was as follows:

December 31, 2010						Allowance		
Commercial Suitable Guarantee	Capital	Interest	Other items	Total	Secured	Capital	Interest and other	Total
A—Normal	$ 420,772.8	2,902.5	4.2	423,679.5	313,995.7	4,812.1	32.7	4,844.8
B—Acceptable	6,569.4	52.1	0.6	6,622.1	4,522.6	349.7	3.4	353.1
C—Appreciable	24,584.2	601.7	0.0	25,185.9	16,047.8	2,620.7	403.0	3,023.7
D—Significant	4,396.5	400.3	20.6	4,817.4	3,058.4	2,316.6	418.8	2,735.4
E—Unrecoverable	8,706.2	122.8	0.0	8,829.0	8,168.2	8,706.2	122.8	8,829.0
	$ 465,029.1	4,079.4	25.4	469,133.9	345,792.7	18,805.3	980.7	19,786.0
Commercial, Other Guarantees								
A—Normal	1,426,016.3	12,243.0	3,391.3	1,441,650.6	0.0	18,881.1	332.7	19,213.8
B—Acceptable	9,486.8	127.1	7.5	9,621.4	0.0	762.3	10.3	772.6
C—Appreciable	3,946.6	52.0	0.4	3,999.0	0.0	481.5	33.0	514.5
D—Significant	23,107.7	495.3	10.1	23,613.1	0.0	15,981.4	503.4	16,484.8
E—Unrecoverable	670.2	23.1	44.6	737.9	0.0	670.2	67.7	737.9
	$1,463,227.6	12,940.5	3,453.9	1,479,622.0	0.0	36,776.5	947.1	37,723.6
Consumer, Suitable Guarantee								
A—Normal	46,884.6	576.5	10.1	47,471.2	46,366.7	899.4	13.2	912.6
B—Acceptable	212.2	3.9	1.2	217.3	206.9	15.5	1.1	16.6
C—Appreciable	355.8	5.8	3.5	365.1	352.5	54.0	5.8	59.8
D—Significant	964.0	19.9	10.8	994.7	919.1	555.5	30.7	586.2
E—Unrecoverable	192.2	4.9	0.8	197.9	132.9	192.2	5.7	197.9
	$ 48,608.8	611.0	26.4	49,246.2	47,978.1	1,716.6	56.5	1,773.1
Consumer Other Guarantees								
A—Normal	$1,549,011.8	9,946.9	1,545.4	1,560,504.1	0.0	40,512.4	307.0	40,819.4
B—Acceptable	13,194.9	145.0	30.4	13,370.2	0.0	1,715.4	30.5	1,745.9
C—Appreciable	9,895.2	147.1	23.0	10,065.3	0.0	2,060.6	110.1	2,170.7
D—Significant	40,325.9	1,337.0	284.0	41,946.9	0.0	30,308.8	1,594.3	31,903.1
E—Unrecoverable	2,870.4	92.4	40.9	3,003.7	0.0	2,870.4	133.3	3,003.7
	$1,615,298.2	11,668.4	1,923.7	1,628,890.2	0.0	77,467.6	2,175.2	79,642.8
Mortgage								
A—Normal	$ 2,180.2	4.8	1.5	2,186.5	2,180.2	21.8	1.2	23.0
B—Acceptable	62.5	0.2	0.1	62.8	62.5	2.0	0.3	2.3
C—Appreciable	87.2	0.3	0.4	87.9	87.2	8.8	0.7	9.5
D—Significant	8.2	0.1	0.2	8.5	8.2	1.6	0.3	1.9
E—Unrecoverable	75.1	0.4	2.6	78.1	75.1	38.1	3.1	41.2
	$ 2,413.2	5.8	4.8	2,423.8	2,413.2	72.3	5.6	77.9
General Allowance						24.1		
	2,413.2	5.8	4.8	2,423.8	2,413.2	96.4	5.6	77.9
Grand Total	$3,594,576.9	29,305.1	5,434.2	3,629,316.2	396,184.0	134,862.4	4,165.1	139,003.4

December 31, 2011

						Allowance		
Commercial, Suitable Guarantee	Capital	Interest	Other items	Total	Secured	Capital	Interest and other	Total
A—Normal	$ 511,571.2	4,168.6	2.9	515,742.7	394,440.5	7,121.0	62.6	7,183.6
B—Acceptable	3,144.0	19.5	0.3	3,163.8	2,290.0	90.7	0.6	91.3
C—Appreciable	10,142.3	295.5	0.0	10,437.8	6,373.8	1,127.9	284.0	1,411.9
D—Significant	11,850.0	432.7	29.9	12,312.6	8,817.2	7,505.6	415.1	7,920.7
E—Unrecoverable	63.8	1.1	0.0	64.9	63.8	63.7	1.3	65.0
	$ 536,771.3	4,917.4	33.1	541,721.8	411,985.3	15,908.9	763.6	16,672.5
Commercial—Other Guarantees								
A—Normal	$1,738,987.7	15,057.6	1,378.9	1,755,424.2	0.0	22,746.5	218.6	22,965.1
B—Acceptable	49,271.8	762.9	11.4	50,046.1	0.0	1,047.9	16.0	1,063.9
C—Appreciable	3,259.2	43.8	23.4	3,326.4	0.0	455.6	56.1	511.7
D—Significant	6,782.0	98.2	6.4	6,886.6	0.0	5,107.4	90.0	5,197.4
E—Unrecoverable	1,863.5	54.0	22.9	1,940.4	0.0	1,863.5	77.0	1,940.5
	$1,800,164.2	16,016.5	1,443.0	1,817,623.7	0.0	31,220.9	457.7	31,678.6
Consumer Suitable Guarantee								
A—Normal	$ 29,519.6	373.5	11.8	29,904.9	28,228.8	570.7	10.4	581.1
B—Acceptable	191.7	3.5	0.5	195.7	141.4	17.0	0.8	17.8
C—Appreciable	210.8	2.4	6.1	219.3	210.8	35.1	6.4	41.5
D—Significant	686.3	17.3	17.3	720.9	671.1	399.4	33.7	433.1
E—Unrecoverable	436.8	9.7	9.9	456.4	210.7	436.8	19.6	456.4
	$ 31,045.2	406.4	45.6	31,497.2	29,462.8	1,459.0	70.9	1,529.9
Consumer Other Guarantees								
A—Normal	$2,003,364.9	11,700.8	1,480.6	2,016,546.3	0.0	50,223.6	336.1	50,559.7
B—Acceptable	10,868.5	159.8	23.9	11,052.2	0.0	1,181.1	29.8	1,210.9
C—Appreciable	10,044.0	189.4	29.3	10,262.7	0.0	1,865.2	153.9	2,019.1
D—Significant	46,479.1	1,410.2	428.4	48,317.7	0.0	29,585.0	1,817.7	31,402.7
E—Unrecoverable	4,455.1	145.5	62.6	4,663.2	0.0	4,455.1	208.2	4,663.3
	$2,075,211.6	13,605.7	2,024.8	2,090,842.1	0.0	87,310.0	2,545.7	89,855.7
Mortgage								
A—Normal	$ 1,976.3	4.3	1.3	1,981.9	1,976.3	19.8	0.5	20.3
B—Acceptable	58.2	0.2	0.1	58.5	58.2	1.9	0.3	2.2
C—Appreciable	4.5	0.1	0.1	4.7	4.5	0.5	0.2	0.7
D—Significant	78.1	0.5	0.3	78.9	78.2	15.5	0.8	16.4
E—Unrecoverable	61.5	0.2	3.1	64.8	61.5	39.3	3.3	42.6
	$ 2,178.6	5.3	4.9	2,188.8	2,178.7	77.0	5.2	82.1
General Allowance						21.8		
	2,178.6	5.3	4.9	2,188.8	2,178.7	98.8	5.2	82.1
Grand total	$4,445,370.9	34,951.3	3,551.4	4,483,873.6	443,626.8	135,997.6	3,843.0	139,840.6

Restructurings	Capital	Interest	Other items	Total	Secured	Capital	Interest and other	Allowance and other	Total Allowances
A—Normal	$ 14,234.8	136.7	0.0	14,371.5	12,209.0	111.6	0.0	0.0	111.6
B—Acceptable	508.5	0.0	0.0	508.5	369.2	35.4	0.0	0.0	35.4
C—Appreciable	11,136.4	292.1	0.0	11,428.6	5,971.7	1,351.5	292.1	0.0	1,643.6
D—Significant	13,168.8	378.0	29.9	13,576.8	7,277.1	8,355.9	337.3	29.9	8,723.2
E—Unrecoverable	1,415.0	1.3	1.6	1,418.0	0.0	1,415.0	1.3	1.6	1,418.0
Subtotal Laws 550 and 617	**$ 40,463.7**	**808.2**	**31.5**	**41,303.5**	**25,827.2**	**11,269.5**	**630.8**	**31.5**	**11,931.9**
A—Normal	27,667.5	108.5	6.4	27,782.5	1,084.6	2,062.3	8.8	0.8	2,072.0
B—Acceptable	51,393.1	784.1	2.9	52,180.2	127.5	1,615.5	23.4	1.1	1,640.1
C—Appreciable	6,058.4	94.4	9.7	6,162.6	121.2	1,220.1	41.0	5.9	1,267.1
D—Significant	13,361.5	279.9	27.0	13,668.6	1,361.8	8,877.7	247.5	26.3	9,151.5
E—Unrecoverable	271.9	4.8	1.0	277.8	58.5	271.9	4.8	1.0	277.8
Subtotal Restructurings	**$ 98,752.6**	**1,272.0**	**47.1**	**100,071.8**	**2,753.8**	**14,047.6**	**325.6**	**35.3**	**14,408.6**
Gran Total	**$139,216.3**	**2,080.3**	**78.7**	**141,375.4**	**28,581.0**	**25,317.2**	**956.5**	**66.9**	**26,340.6**

Gross loans by economic sector at December 31, 2010 and 2011, is as follows:

RATING/ECONOMIC ACTIVITY	Dec-10 Amount	Dec-10 %	Dec-11 Amount	Dec-11 %
A- Agriculture, Hunting, Fishing	$ 66,331.3	1.9%	81,638.1	1.8%
B- Extractive Industry	4,564.9	0.1%	4,774.0	0.1%
C- Foods, Beverages, Tobacco, Concentrates	66,317.9	1.9%	69,359.3	1.5%
D- Textiles, Leather, Shoes	55,414.8	1.6%	68,418.9	1.5%
E- Timber, Paper, Cardboard Packaging, Printed Matter	16,018.1	0.4%	16,038.7	0.3%
F- Oil By-Products, Fertilizers, Chemicals, Plastics, Rubber	88,418.0	2.5%	135,834.9	3.0%
G- Mfr Opf Pharmaceuticals >& Chemicals.	62,134.5	1.7%	64,192.5	1.4%
H- Mfr Of Mineral And Metal Products	152,675.6	4.3%	119,941.3	2.7%
I- Mfr Of Machinery , Engines, Accessories For Vehicles And Other.	36,817.9	1.0%	27,504.7	0.6%
J- Mfr And Distribution Of Electricity, Gas & Water.|	82,809.6	2.3%	80,389.1	1.8%
K- Construction/Civil Works	60,694.8	1.7%	104,672.1	2.3%
L- Trade In New And Used Vehicles And Spares, Maintenance	34,669.3	1.0%	58,212.9	1.3%
M- Commerce	320,032.5	9.0%	314,466.3	7.0%
N- Hotels & Restaurants	15,366.5	0.4%	30,755.3	0.6%
O- Freight And Passenger Transport & Related Activities	48,488.3	1.4%	64,524.1	1.4%
P- Telecoms Services	39,765.7	1.1%	38,856.1	0.8%
Q- Financial Intermediation	262,675.0	6.5%	374,968.7	8.4%
R- Public Administration	117,795.1	3.3%	116,058.2	2.6%
S- Social Security And Health	155,244.9	4.4%	177,311.2	3.9%
T- Education	60,352.0	1.7%	84,992.2	1.9%
U- Leisure, Culture And Sports Organizations.	34,937.2	1.0%	36,262.0	0.8%
V- Sundry	139,516.4	3.9%	233,384.2	5.2%
W- Salaried/Rentiers	1,673,536.6	46.9%	2,142,816.1	48.2%
Total	$3,594,576.9	100.0%	4,445,370.9	100.0%

The following is the detail of loans by monetary unit:

	2010			2011		
Suitable Guarantee	Local currency	Foreign Currency	Total	Local currency	Foreign Currency	Total
Commercial	435,128.6	29,900.5	465,029.1	509,636.7	27,134.6	536,771.3
Consumer	48,480.3	128.4	48,608.8	31,001.7	43.5	31,045.2
Mortgage	2,413.2	0.0	2,413.2	2,178.6	0.0	2,178.6
Total	486,022.2	30,028.9	516,051.1	542,817.0	27,178.1	569,995.1
Other Guarantees						
Commercial	1,149,247.2	313,980.4	1,463,227.6	1,402,999.3	397,164.8	1,800,164.1
Consumer	1,615,298.2	0.0	1,615,298.2	2,075,211.7	0.0	2,075,211.7
Total	2,764,545.4	313,980.4	3,078,525.8	3,478,211.0	397,164.8	3,875,375.8
	3,250,567.5	344,009.3	3,594,576.9	4,021,028.0	424,342.9	4,445,370.9

At December 31, 2010 and 2011, the Bank had made the following loan purchases:

	2010	2011
Casa Nacional del Profesor S.A. CANAPRO	$ 29,239.2	19,646.5
Estrategias en Valores S.A. ESTRAVAL	36,484.2	49,965.0
Su Plan Cooperativa Multiactiva	11,753.3	9,739.9
Activos y Finanzas S. A.	21,780.7	32,022.5
Soluciones Prontas Cooperativa Multiactiva	36,212.7	35,908.5
Solucion Kapital S.A.	0.0	41,232.5
Cooperativa Multiactiva con Experiencia en Credito—COOEXPOCREDIT	0.0	42,479.9
Centro de Servicios Crediticios S.A.	0.0	59,042.2
Credivalores—Crediservicios S.A.S.	0.0	79,361.1
Others	43,266.2	42,881.3
Total	$178,736.1	412,279.4

These loan purchases are made with recourse to the seller, usually with payment of a premium (except for some purchases with Coopserin and Canapro, which are made at a discount) and are amortized over the life of the notes and the loans are managed by the Bank. If a loan falls due, following the agreement with each company, the agreements coordinator proceeds to replace accounts in default with other loans on similar conditions.

Allowance for loans losses

The following table sets forth an analysis of the activity in the allowance for loan losses:

	Commercial	Consumer	Mortgage	Total
Balance at December 31, 2008	46,988.2	65,998.9	3.5	112,990.6
Plus: Allowance expensed	66,627.4	38,071.4	2.9	104,701.7
Less :Charged off	(8,702.2)	(29,150.9)	0.0	(37,853.1)
Recoveries	(65.8)	(51.9)	0.0	(117.7)
Items waived or reclassified	(5,060.2)	(7,603.9)	(2.1)	(12,666.2)
Balance at December 31, 2009	99,787.4	67,263.6	4.3	167,055.3

	Commercial	Consumer	Mortgage	Total
Balance at December 31, 2009	99,787.4	67,263.6	4.3	167,055.3
Plus: Allowance expensed	29,348.7	66,005.9	26.4	95,381.0
Less :Charged off	(3,839.2)	(15,893.9)	0.0	(19,733.1)
Recoveries	(57,044.0)	(29,457.8)	(53.7)	(86,555.5)
Items waived or reclassified	(12,671.1)	(8,733.6)	95.3	(21,309.4)
Balance at December 31, 2010	55,581.8	79,184.2	72.3	134,838.3

	Commercial	Consumer	Mortgage	Total
Balance at December 31, 2010	55,581.8	79,184.2	72.3	134,838.3
Plus: Allowance expensed	31,878.1	65,167.7	24.6	97,070.4
Less :Charged off	(995.7)	(6,906.1)	0.0	(7,901.8)
Recoveries	(29,945.7)	(37,400.6)	0.0	(67,346.3)
Items waived or reclassified	(9,388.7)	(11,276.2)	(19.9)	(20,684.8)
Balance at December 31, 2011	47,129.8	88,769.0	77.0	135,975.8

General allowance

	2009	2010	2011
Opening balance	$ 0.0	1.9	24.10
Plus : Allowance expensed	2.6	22.5	0
Recoveries	(0.7)	(0.3)	(2.3)
Balance	$ 1.9	24.1	21.80

7. Bankers' Acceptances and Derivative Instruments

At December 31, 2010 and 2011, the detail of acceptances and derivatives is as follows:

	2010	2011
Forwards		
Currency acquired rights (peso/U.S. dollar)	100.833,6	23.122,7
Currency sale rights (peso/U.S. dollar)	18.498,9	7.664,8
Currency acquired obligations (peso/U.S. dollar)	(97.472,5)	(21.801,8)
Currency sale obligations (peso/U.S. dollar)	(17.478,6)	(7.626,2)
	$ 4.381,4	1.359,5
Speculative futures		
Currency sale rights	5,722.5	0.0
Currency puts	(5,722.5)	0.0
	0.0	0.0
	$ 4,381.4	1,359.5

At December 31, 2010 and 2011, there are no legal or financial restrictions or charges on derivatives.

Currency forward transactions with customers are made only after a study is made by the Bank's credit area, and a high proportion of transactions are hedged with financial sector counterparties.

8. Accounts Receivable

At December 31, 2010 and 2011, the detail of interest and other accounts receivable is as follows:

	2010	2011
Other:		
Dividends and other capital yields	30.8	27.5
Sale of assets	138.0	0.0
Advances to contractors and suppliers	447.6	1,087.8
Advances to employees	0.6	43.0
Cash shortages	6.7	3.0
Insurance claims	74.9	11.5
Payments for customer account	836.0	612.4
Sundry	2,461.2	3,174.5
	$3,995.8	4,959.7

The following is the movement of allowances for accounts receivable:

	2009	2010	2011
Opening balance	$ 4,507.7	5,409.5	4,252.8
Plus: Allowance expensed	4,594.4	3,626.4	2,925,4
Less: Allowance recovered	(123.8)	(2,447.2)	(1,331.0)
Movement of accounts charge off, reclassified or waived	(3,568.8)	(2,335.9)	(1,990.6)
Ending balance	$ 5,409.5	4,252.8	3,856.6

9. Foreclosed Assets

Foreclosed assets at December 31, 2010 and 2011, consisted of the following:

	2010	2011
Real estate property	$ 6,024.7	4,075.3
Assets other than real estate	5,019.7	5,019.7
Adjusted cost	11,044.4	9,095.0
Less allowance	(9,233.1)	(8,384.5)
	$ 1,811.3	710.5

The detail of foreclosed assets by time held is the following:

December 31, 2011	Less than 1 year	1-3 years	3-5 years	Over 5 years	Total
Real estate property	$212.1	0.0	166.1	3,697.1	4,075.3
Assets other than real estate	0.0	174.7	340.1	4,504.9	5,019.7
	$212.1	174.7	506.2	8,202.0	9,095.0

At December 31, 2010 and 2011, foreclosed assets account for 0.01% of the total assets of the Bank. Given this small proportion, the effect on the results for the period is not significant. The Bank´s management is taking steps to sell these assets within the time allowed by local regulations.

The movement of the allowance for foreclosed assets is the following:

	2009	2010	2011
Balance at beginning of the year	$11,419.5	11,061.7	$9,233.1
Plus:			
Allowance expensed	604.1	279.9	262.3
Less:			
Allowance recovered	(686.0)	(1,570.0)	(939.6)
Movement of allowance withdrawn or reclassified	(275.9)	(538.5)	(171.3)
Ending balance	$11,061.7	9,233.1	$8,384.5

10. Property and Equipment

The net cost of property and equipment used in the business, adjusted for inflation, was as follows on December 31, 2010 and 2011:

	2010	2011
Land	$ 10,284.0	10,283.9
Construction in progress—Edificio GNB Sudameris Bogota	29,929.4	42,281.6
Buildings	22,131.6	29,929.4
Equipment, furniture and fittings	24,415.0	24,469.4
Computer equipment	85,719.2	92,804.6
Vehicles	631.2	631.1
Accumulated depreciation	(92,944.4)	(103,349.0)
	$ 80,166.0	97,051.0

At December 31, 2010 and 2011, there are insurance policies to cover risks of theft, fire, earthquake, riot, civil disturbance, explosion, volcanic eruption, power failure and loss of or damage to vehicles and premises

Property values are supported by valuations made within the last three years.

Depreciation expensed at December 31, 2009, 2010 and 2011 is $10,343.8, $10,820.4 and $11,535.9, respectively.

There are no mortgages or other liens on ownership of these assets and they have not been delivered in pledge.

11. Other Assets

The following is the detail of prepaid expenses and deferred charges at the year ended on December 31:

	2010	2011
Prepaid Expenses		
Interest	$ 0.2	$ 0.2
Insurance	343.0	341.1
Equipment maintenance	168.3	76.3
Loan premiums pending amortization	34,403.8	20,319.3
Prepaid expenses, loan purchase agreements	755.3	811.8
Other	233.7	409,6
	35,904.3	21,958.3
Deferred charges		
Equity tax (1)	0.0	28,527.0
Deferred tax—debit	0.0	774.1
Remodelling	615.6	611.2
Software	3,082.0	2,031.2
Stationery	2.1	0.0
Leasehold Improvements	1,911.4	1,366.4
Contributions and affiliations	24.6	7.7
Other	1,416.0	695.5
	7,051.7	34,013.1
Total prepaid expenses and deferred charges	$42,956.0	$55,971.4

(1) Under Law 1370/2009 and Decree 4825/ 2010, the Bank and its subsidiaries applied a rate of 6% to their net assets at January 1, 2011. Total tax accrued was $38,036.0, affecting deferred charges. The amortization was charged $9,508.5 to equity revaluation and $0.5 to non-operating income. Amortization will be effected over 48 monthly installments during 2011-2014.

The detail of other assets at December 31, 2010 and 2011 is the following:

	2010	2011
Staff Loans	16,489.9	$16,752.3
Deposits in guarantee	56.6	480.0
Deferred payment letters of credit	1,221.5	308.3
Works of art and culture	1,021.6	1,250.9
Trust rights	5,162.2	5,392.2
Excess withholdings and advances	458.3	870.2
Sundry	764.9	1,179.8
	25,175.0	$26,233.7

12. Reappraisal of Assets

At December 31, 2010 and 2011, reappraisal of assets is as follows:

	2010	2011
Available for sale investments, net	3,746.8	2,441.5
Property and equipment	54,711.2	64,906.3
Other	574.1	574.1
Total	59,032.1	67,921.9

13. Deposits

At December 31, 2010 and 2011, the detail of deposits is as follows:

	2010	2011
Term deposits		
Under 6 months	$ 859,756.3	792,753.1
6-12 months	1,041,207.5	946,437.9
12-18 months	197,721.1	410,648.2
Over 18 months	512,173.0	567,667.5
	$2,610,857.9	2,717,506.7
Other		
Special deposits	213.9	224.7
Demand accounts for banking services	60,017.7	59,456.8
	$ 60,231.6	59,681.5

14. Bankers' Acceptances Outstanding and Derivatives

The following is the detail at December 31, 2010 and 2011:

	2010	2011
Trading forwards		
Currency purchase rights	$ (11,292.2)	(17,975.4)
Currency sale rights	(101,762.2)	(26,802.7)
Currency purchase obligations	11,865.0	18,161.8
Currency sale obligations	105,002.4	28,113.3
	$ 3,813.0	1,497.0

15. Bank Borrowings and Other Financial Obligations

These accounts include short- and long-term maturities, of which the details are the following at December 31, 2010 and 2011:

	December 31, 2010			
	Short term < 1 year	Medium term 1 - 2 years	Long term Over 3 years	Total
Banco de Comercio Exterior, Bancoldex S.A.	$ 74,346.4	63,723.3	101,657.5	239,727.2
FINAGRO	1,760.9	4,413.2	5,886.9	12,061.0
Findeter	37.5	463.8	378,087.1	378,588.4
Banks abroad	242,490.8	0.0	0.0	242,490.8
	$318,635.6	68,600.3	485,631.5	872,867.4

	December 31 2011			
	Short term 1 year	Medium term 1 - 2 years	Long term Over 3 years	Total
Banco de Comercio Exterior, Bancoldex S.A.	$ 58,423.3	35,000.6	139,736.2	233,160.1
FINAGRO	1,569.5	158.4	5,515.9	7,243.8
Findeter	112.5	0.0	448,464.4	448,576.9
Banks abroad	274,561.6	0.0	0.0	274,561.5
	$334,666.9	35,158.9	593,716.5	963,542.3

16. Accounts Payable—Other

At December 31, 2010 and 2011, the detail of accounts payable—other—is as follows:

	2010	2011
Turnover tax	$ 9.8	27.5
Sales tax payable	300.4	695.7
Bank transaction tax	633.6	1,997.1
Stamp tax	24.6	0.5
Tax surcharges and other	5.3	15.9
Equity tax	0.0	28,527.0
Suppliers	8,579.5	6,095.7
Employment withholdings and contributions	4,675.3	4,532.4
Checks drawn and not collected	1,323.4	1,548.4
Collections	5,255.1	3,908.8
Ascredibanco	5,949.0	6,586.0
Mass payment agreements	4,448.3	15,966.1
Accounts payable in redemptions of *Bonos de Paz*	3,344.5	3,323.6
ISS payment agreement	59,103.3	35,752.9
Sundry	2,759.2	19,235.2
	$96,411.3	128,212.8

17. Pensions Plan

The calculation uses fractioned annuities paid in arrears under Article 112 of the Colombian Tax Code, incorporating the rules of Decree 2783 of December 20, 2001 with reference to tax regulations and Resolution 1555/2010 (Rentiers Mortality Table RV08).

The actuarial calculation at December 31, 2011, was $18,588.3, of which the Bank held $15,937.6, corresponding to 85.74% of that total. Under Decree 4565 of December 7, 2010, the actuarial calculation must be fully provided for by 2029, and therefore the remaining percentage of 14.26% will be distributed over the remaining periods.

The Bank sent an actuarial calculation for 2011 to the Superintendency of Finance for approval for $18,588.3, which was approved in Letter 2011077915-009-000 of December 2, 2011.

The following is the roll-forward of the pensions account for the years ended December 31, 2009, 2010 and 2011:

	Actuarial Calculation	Pensions to be amortized	Balance
Balance at December 31, 2008	$15,559.6	(265)	15,294.6
Amortizations in 2009	0.0	1,841.0	1,841.0
Payments made in 2009	(1,841.0)	0.0	(1,841.0)
Adjustment to actuarial calculations at December 31, 2009	2,060.9	(1,576.0)	484.9
Balance at December 31, 2009	$15,779.5	0.0	15,779.5

	Actuarial calculation	Pensions To be amortized	Balance
Balance at December 31, 2009	$15,779.5	0	15,779.5
Adjustment to actuarial calculation 2010	5,002.1	(4,844.3)	157.8
Payments made in 2010	(1,846.2)	0.0	(1,846.2)
Amortizations in 2010	0.0	1,846.2	1,846.2
Balance at December 31, 2010	$18,935.4	(2,998.1)	15,937.3

	Actuarial Calculation	Pensions to be amortized	Balance
Balance at December 31, 2010	$18.935,5	(2.998,1)	15.937,3
Adjustments to actuarial calculations 2011	1.526,6	(1.526,3)	0,3
Payments made in 2011	(1.873,8)	0,0	(1.873,8)
Amortizations in 2011	0,0	1.873,8	1.873,8
Balance at December 31, 2011	$18.588,3	(2.650,7)	15.937,6

18. Other Liabilities

The detail of other liabilities is the following:

	2010	2011
Deferred credits	$2,179.2	681.3
Deferred payment letters of credit	1,221.5	308.3
Pass	$3,400.7	989.6
Coming	$3,400.7	989.6
Deferred income tax	0.0	822.0
Cancelled accounts	335.6	328.2
Consortia and temporary unions	195.3	171.9
Third party portfolio management	0.0	8,908.9
Customer balances embargoed	172.5	0.0
Other	2,366.3	1,727.4
	$6,470.4	12,948.0

19. Accrued Liabilities and Provisions

At December 31, 2010 and 2011, the detail of other accrued liabilities and provisions is as follows:

	2010	2011
Contributions	$ 361.5	255.1
Fines	5,752.4	1,472.1
Provision for public services	670.0	495.4
Contingency against pension bonds—Banco Tequendama	329.9	274.3
Provision for unpaid expenses accrued	6,225.7	6,522.5
	$13,339.5	9,019.4

20. Capital

For the years ended on December 31, 2009, 2010 and 2011, the authorized capital of the Bank was $50,000, represented by 125,000,000 shares of par value $400 (pesos) each one. On those dates, the subscribed and paid capital was $44,649.4, represented in 111,623,534 shares.

21. Legal (Mandatory) Reserve

Colombian law requires all banks to form a mandatory reserve by appropriating 10% of the profits for each period until reaching 50% of subscribed capital. The reserve may then be reduced from that level in order to absorb losses not covered by undistributed profits.

The following is the detail of the legal reserve at December 31, 2010 and 2011:

	2010	2011
Appropriation of net profits	$180,710.1	249,436.9
Share premium	117,560.5	119,380.4
	$298,270.6	368,817.3

22. Contingent and Memorandum Accounts

Contingent accounts

At December 31, 2010 and 2011, the detail of contingent accounts is as follows:

	2010	2011
Creditor:		
Securities received under repo and simultaneous operations	$ 26,431.0	613,054.3
Bank guarantees	42,852.0	24,549,2
Letters of credit	29,054.3	23,424.7
Loans approved and pending disbursement	4,330.0	8,504.4
Credits opened	87,159.8	83,436.5
Administrative, civil and labor litigation	36,995.0	34,961.6
Other contingencies	493.7	0.0
	227,315.8	787,930.7
Debtor:		
Securities delivered under repo and simultaneous operations	1.530.863,6	1.962.785,4
Securities delivered in related operations	0,0	15.168,2
Loan interest	8.504,5	8.438,2
	$1.539.368,1	1.986.391,8

Memorandum accounts

	2010	2011
Debtor:		
Assets and securities delivered in custody	$ 2,471,420.6	2,667,312.6
Assets and securities delivered in guarantee	25,802.0	25,522.0
Outward remittances etc.on collection	113.9	7.8
Assets written off	196,660.3	196,902.7
Property and equipment fully depreciated	63,159.4	65,353.9
Direct lines of credit	86.1	87.4
Inflation adjustment	16,809.2	16,531.6
Fiscal value of assets	7,341,372.5	8,371,684.0
Receivable yields on trading investments in debt securities	68,831.0	30,691.9
New agricultural loans	10,636.9	4,307.4
Sovereign issues	289,127.2	642,813.5
Securities accepted by credit establishments	270,409.4	299,235.7
Other trading investments in debt securities	1,679,044.4	1,281,774.8
Investments available for sale in debt securities	1,633,345.7	1,736,986.3
Other	6,744,414.4	7,522,149.4
	$20,811,232.8	22,861,361.0
Creditor:		
Assets and securities in custody	35,005.3	155,173.5
Assets and securities received in guarantee of future loans	563,139.9	533,893.3
Assets and securities received in admissible guarantee	887,882.1	1,010,821.3
Assets and securities received against unsecured loans	855,565.9	1,051,108.6
Inward collections	1,166.6	1,374.3
Equity inflation adjustment	47,936.2	39,063.3
Capitalization of equity revaluation	6,411.7	6,691.4
Yield on trading investments in debt securities	61,872.1	146,214.4
Fiscal value of equity	552,900.8	621,007.6
Classification of loans by category and class of security	3,627,097.7	4,483,728.3
Co-debtor control	1,001,087.4	1,340,646.1
Valuation control	2,581,278.1	2,251,111.2
Agreements reference values	6,475,229.6	8,840,542.6
Other	3,572,902.6	3,512,751.4
	$20,269,476.0	23,994,127.3

Trust memorandum accounts

Collective portfolios	$ 159,031.5	157,682.7
Property trusts	33,891.1	29,829.4
Management trusts	272,495.5	305,648.5
Guarantee trusts	149,869.2	0.0
Other trusts	23,477.0	164,941.8
Memorandum accounts of Servivalores GNB Sudameris S.A.	131,626.7	138,171.6
	$ 770,391.0	796,274.0
	$43,617,783.7	50,426,084.8

23. Income Tax Expense

Colombian tax law does not allow the presentation of consolidated income tax returns and therefore the tax losses on one subsidiary may not be offset against the profits of another. The corporate rate of income tax was 33% for 2009, 2010 and 2011.

24. Related Parties Transactions

"Related parties" are taken to be principal shareholders, members of the board of directors, companies in which the Bank holds more than 10% of the equity or there are economic, administrative or financial interests; and companies in which the shareholders or members of the board of directors hold more than a 10% equity interest.

At the close of December 31, 2010, Glenoaks Investment S.A. had a loan for $44,978.5 with accrued interest of $2,513.2, given on April 6, 2010 secured by SBLC and due on April 6, 2011.

On December 31, 2011, shareholder Glenoaks Investment S.A. had two loans for US$23,500,000 and US$4,000,000, secured by SBLC at LIBOR + 3.85%.

On December 31, 2011, shareholder Gilex Holding, had three loans for US$12,000,000; US$12,000,000 and US$3.700.000 due respectively on March 26, February 15 and March 20, 2012, at LIBOR + 3.85%

25. Other Operating Income and Expenses

The details of other operating income—other for the years ended December 31, 2009, 2010 and 2011, are as follows:

	2009	2010	2011
Operating risk recoveries	$ 0.0	22.6	211.3
Cables, postage, telephones	369.7	353.2	332.8
Sales of chequebooks	2,156.3	2,062.4	1,933.3
Differential income—insurance agreements	7,198.5	8,756.3	11,050.9
Other	9,984.2	11,159.6	15,483.9
	$19,708.7	22,331.5	29,012.2

The following is the detail of other operating expenses – other for the years ended December 31, 2009, 2010 and 2011:

	2009	2010	2011
Bank transaction tax	$ 8,267.6	10,574.2	9,901.0
Taxes (on turnover, property, registration, stamp tax, vehicles, surcharges)	7,298.5	7,232.3	7,126.2
Rent	11,377.4	11,750.9	12,160.5
Contributions and affiliations	5,797.2	6,253.0	6,403.5
Insurance	11,821.5	15,095.7	17,248.6
Maintenance and repairs	10,457.2	11,644.1	13,361.8
Office remodelling and installations	518.1	1,874.2	2,588.6
Sundry:			
Clearing and security	4,748.1	5,072.6	5,380.1
Temporary services	5,225.9	6,794.2	8,561.5
Advertising	1,236.3	1,296.7	1,852.4
Public relations	111.4	110.7	67.0
Public services	9,623.1	10,032.9	10,182.6
Travel	313.5	313.6	327.1
Transport	8,697.7	9,784.1	10,616.4
Stationery	2,427.7	2,343.1	2,346.8
Donations	31.0	104.2	52.2
Data processing	2,446.4	2,633.6	2,616.6
Legal expenses	94.9	109.2	227.0
Enquiries	658.0	638.5	673.6
Cash in transit, handling	135.4	108.7	126.7
Sundry	1,698.1	2,529.2	1,663.7
	$92,985.0	106,295.7	113,483.9

26. Non-operating Income and Expenses

The following is the detail of non-operating income at December 31, 2009, 2010 and 2011:

	2009	2010	2011
Non-operating income			
Profit on sale of property and equipment	$ 6.4	204.1	19.6
Profit on sale of foreclosed assets	101.6	221.2	54.9
Rent	671.8	998.1	933.4
Recoveries			
Loans written off	1,887.7	6,713.6	8,180.0
Receivables written off	0.0	2,009.7	0.0
Provisions against foreclosed assets	686.0	1,570.0	939.6
Other allowance	663.5	196.1	0.0
Assets written off	1,592.1	298.0	33.6
Other recoveries	3,853.7	6,106.3	3,095.5
Rebates from Fogafin	1,573.0	2,086.3	3,148.1
Other	944.5	928.1	5,349.0
	$11,980.3	21,331.5	21,753.7
Non-operating expenses			
Loss on sale of property and equipment	1.3	0.8	28.9
Losses—operating risks	245.9	294.4	1,260.7
Fines and litigation	1,050.2	360.1	887.6
Minority interest	1,214.4	1,702.8	1,672.6
Sundry non-operating, local currency	1,277.5	1,560.0	2,060.2
	$ 3,789.3	3,918.1	5,910.0

HSBC Bank Paraguay S.A.

Interim Report March, 2012

FINANCIAL STATEMENTS AS AT MARCH 31, 2012 AND DECEMBER 31, 2011
(IN GUARANIES)

		31/03/2012		31/12/2011
ASSETS				
AVAILABLE		**573.807.038.650**		**601.498.028.683**
Cash	47.122.925.090		54.395.131.360	
Central Bank of Paraguay	470.596.853.172		512.356.902.078	
Other financial institutions	56.305.137.405		34.462.689.246	
Clearing documents	319.608.582		298.818.000	
(Allowance for losses) (C6)	(537.485.599)		(15.512.001)	
GOVERNMENT SECURITIES (C3)		**406.370.160.417**		**370.183.938.746**
OUTSTANDING CREDITS—FINANCIAL SECTOR		**251.180.375.301**		**268.729.531.247**
Other financial institution	251.140.000.000		268.680.000.000	
Accrued financial charges—Debtors	40.375.301		49.531.247	
OUTSTANDING CREDITS—NON FINANCIAL SECTOR		**1.409.443.341.523**		**1.423.432.079.174**
Credits	1.378.425.421.798		1.373.388.207.052	
Operations pending settlement	13.400.484.681		34.780.288.097	
Valuation income to realice	(45.021.718)		(75.966.703)	
Accrued financial charges—Debtors	26.772.510.374		22.911.410.031	
(Allowance for credit losses) (C5, C6)	(9.110.053.612)		(7.571.859.303)	
OTHER CREDITS		**15.699.230.390**		**10.232.779.965**
OVERDUE CREDITS FOR FINANCIAL INTERMEDIATION		**5.080.420.309**		**7.804.292.716**
Non financial sector—Non public sector	6.054.723.717		8.275.904.816	
Overdue credits	15.000.178.765		12.220.411.602	
Accrued financial charges—Debtors	826.833.064		712.301.387	
(Allowance for credit losses) (C5, C6)	(16.801.315.237)		(13.404.325.089)	
INVESTMENT (C7)		**7.129.928.762**		**7.281.784.228**
Foreclosed Assets	619.651.459		619.651.459	
Investment in securities issued by the private sector	7.074.622.224		7.169.941.066	
Idle premises	94.655.215		94.655.215	
Fixed income securities issued by private sector	9.253.167		65.789.791	
(Allowance for investment losses) (C6)	(668.253.303)		(668.253.303)	
PROPERTY, PLANT AND EQUIPMENT (C8)		**19.094.343.918**		**19.897.808.092**
Own property, plant and equipment	19.094.343.918		19.897.808.092	
DEFERRED CHARGES (C9)		**3.880.168.872**		**3.894.538.400**
TOTAL ASSETS		**2.691.685.008.142**		**2.712.954.781.251**
LIABILITIES				
OBLIGATIONS FROM FINANCIAL INTERMEDIATION—FINANCIAL SECTOR (C13, C14)		**54.874.643.609**		**37.357.790.769**
Deposits	54.721.115.193		37.222.995.866	
Correspondents, Deferred Documentary Credits	—		—	
Accrued financial charges—Creditors	153.528.416		134.794.903	
OBLIGATIONS FROM FINANCIAL INTERMEDIATION—NON FINANCIAL SECTOR (C13, C14)		**2.324.274.118.164**		**2.350.980.005.778**
Deposits—Private Sector	2.234.154.498.026		2.252.684.219.266	
Deposits—Public Sector	68.242.878.866		53.037.752.983	
Other obligations from financial intermediation	98.393.938		1.481.060.522	
Operations pending settlement	12.654.476.665		34.973.670.754	
Accrued financial charges—Creditors	9.123.870.669		8.803.302.253	
OTHER LIABILITIES		**11.112.134.901**		**18.674.936.042**
Tax payable	2.507.811.809		—	
Others	8.604.323.092		18.674.936.042	
PROVISIONS		**68.212.745.309**		**79.529.649.343**
TOTAL LIABILITIES		**2.458.473.641.983**		**2.486.542.381.932**
EQUITY (C11, D1)				
PAID IN CAPITAL (B5)		150.885.172.344		150.885.172.344
SECONDARY CAPITAL (B5)		17.280.221.234		17.280.221.234
EQUITY ADJUSTMENTS		5.632.966.420		5.081.472.101
RESERVES		13.240.000.000		50.255.652.566
RETAINED EARNINGS (LOSS)		39.925.533.640		(8.822.058.703)
NET INCOME		6.247.472.521		11.731.939.777
To Legal Reserve	**6.247.472.521**		**11.731.939.777**	
Net to be assigned	—		—	
TOTAL NET EQUITY		**233.211.366.159**		**226.412.399.319**
TOTAL LIABILITIES AND NET EQUITY		**2.691.685.008.142**		**2.712.954.781.251**

Notes A to F, are an integral part of these financial statements

HSBC Bank Paraguay S.A.

Interim Report March, 2012

CONTINGENCY AND MEMORANDUM ACCOUNTS AS AT MARCH 31, 2012 AND DECEMBER 31, 2011.

	31/03/2012	31/12/2011
GUARANTEES GRANTED TO FOREIGN BANKS	11.028.450.573	5.026.412.704
ACCORDED CREDITS TO BE USED IN CURRENT ACCOUNTS (El)	20.387.158.675	14.494.026.429
LINES OF CREDIT (El)	166.438.844.739	168.799.411.715
TOTAL CONTINGENCY ACCOUNT	**197.854.453.987**	**188.319.850.848**
TOTAL MEMORANDUM ACCOUNT	**1.414.247.110.493**	**1.728.712.533.705**

Notes A to F, are an integral part of these financial statements

HSBC Bank Paraguay S.A.

Interim Report March, 2012

INCOME STATEMENT FOR THE QUARTER ENDED MARCH 31, 2012 AND MARCH 31, 2011

		31/03/2012		31/03/2011
FINANCIAL INCOME		**50.754.336.878**		**32.056.832.753**
From outstanding credits—Financial Sector	1.183.165.713		5.118.141.390	
From outstanding credits—Non Financial Sector	42.467.626.939		25.615.814.630	
From income and quotation differences, Public and Private Securities	7.103.544.226		1.322.876.733	
FINANCIAL LOSSES		**(14.471.760.638)**		**(5.397.649.257)**
From obligations—Financial Sector	(44.035.353)		(171.405.890)	
From obligations—Non Financial Sector	(14.427.725.285)		(5.226.243.367)	
VALUATION OF FINANCIAL LIABILITIES AND ASSETS		**418.494.686**		**(1.011.719.979)**
From valuation of financial assets and liabilities in foreign currency (F2)	463.486.791.327		182.167.464.000	
From valuation of financial liabilities and assets in foreign currency (F2)	(463.068.296.641)		(183.179.183.979)	
FINANCIAL RESULTS BEFORE PROVISIONS		**36.701.070.926**		**25.647.463.517**
PROVISIONS		**(6.411.166.055)**		**(1.630.174.143)**
Additions (C6)	(12.675.253.447)		(5.218.946.470)	
Dedudted (C6)	6.264.087.392		3.588.772.327	
FINANCIAL RESULTS AFTER PROVISIONS		**30.289.904.871**		**24.017.289.374**
RESULTS FROM SERVICE		**5.757.125.592**		**3.509.384.189**
Income from services	6.462.951.976		3.954.673.673	
Losses from services	(705.826.384)		(445.289.484)	
GROSS RESULT		**36.047.030.463**		**27.526.673.563**
OTHER OPERATIONAL INCOME		**19.225.961.888**		**8.241.702.392**
Other credits income	3.009.594.604		3.209.530.400	
Others (F3)	16.216.367.284		5.032.171.992	
OTHER OPERATIONAL LOSSES		**(47.861.333.371)**		**(37.890.075.278)**
Retribution of personnel and social charges	(11.679.892.461)		(11.106.193.876)	
General expenses	(16.244.903.747)		(22.469.302.848)	
Depreciation	(1.315.423.548)		(1.200.678.124)	
Others (F4)	(18.621.113.615)		(3.113.900.430)	
NET OPERATIONAL RESULTS		**7.411.658.980**		**(2.121.699.323)**
EXTRAORDINARY RESULTS		**—**		**2.361.842**
Extraordinary income	—		2.361.842	
Extraordinary losses	—		—	
ADJUSTMENTS TO RESULTS		**(346.886.459)**		**92.532.124**
Income	332.896.878		203.775.064	
Losses	(679.783.337)		(111.242.940)	
YEAR'S EARNINGS BEFORE INCOME TAX		**7.064.772.521**		**(2.026.805.357)**
Income tax (C5, C11)		(817.300.000)		(2.841.314.279)
YEAR'S RESULTS		**6.247.472.521**		**(4.868.119.636)**

Notes A to F, are an integral part of these financial statements

HSBC Bank Paraguay S.A.

Interim Report March, 2012

STATEMENT OF CASH FLOWS FOR THE FIRST QUARTER 2012 AND 2011
(in Guaraníes)

	31/03/2012	31/03/2011
1. STATEMENT OF CASH FLOWS		
NET PROFIT	6.247.472.521	(4.868.119.636)
ADJUSTMENTS FROM NON-CASH ITEMS		
DEPRECIATION	1.315.423.548	1.200.678.124
AMORTIZATION	303.467.979	216.210.826
PROVISIONS	12.675.253.447	5.218.946.470
PROVISION DEDUCTIONS	(6.264.087.392)	(3.588.772.327)
TOTAL OF ADJUSTMENT	8.030.057.582	3.047.063.093
OPERATING ACTIVITIES		
NET INCREASE/DECREASE OF GOVERNMENT SECURITIES	(36.186.221.671)	(116.152.145.769)
NET INCREASE/DECREASE OF CREDITS	27.850.599.949	(2.568.085.047)
NET INCREASE/DECREASE OF OTHER CREDITS	(5.466.450.425)	(9.098.656.899)
NET INCREASE/DECREASE OF OBLIGATIONS, FINANCIAL INTERMEDIATION	(9.189.034.774)	24.352.477.238
NET INCREASE/DECREASE OF OTHER OBLIGATIONS	(7.562.801.141)	16.248.789.246
NET INCREASE/DECREASE OF PROVISIONS	(11.316.904.034)	(1.168.137.088)
CASH FLOWS FROM OPERATING ACTIVITIES	(41.870.812.096)	(88.385.758.319)
CASH FLOWS FROM OPERATING ACTIVITIES	**(27.593.281.993)**	**(90.206.814.862)**
2. INVESTING ACTIVITIES		
NET INCREASE/DECREASE OF PPE AND DEFERRED CHARGES	(249.563.506)	(1.034.515.984)
NET INCREASE/DECREASE OF INVESTMENTS	151.855.466	(255.075.291)
CASH FLOWS FROM INVESTING ACTIVITIES	**(97.708.040)**	**(1.289.591.275)**
3. FINANCING ACTIVITIES		
CAPITAL CONTRIBUTION /(PROFIT ALLOCATION)	—	68.250.000.000
CASH FLOWS FROM FINANCING ACTIVITIES	**—**	**68.250.000.000**
DECREASE OF CASH FLOWS	**(27.690.990.033)**	**(23.246.406.137)**
CASH AND EQUIVALENT AT THE BEGINNING OF THE YEAR	**601.498.028.683**	**415.028.246.092**
CASH AND EQUIVALENT AT THE END OF THE YEAR	**573.807.038.650**	**391.781.839.955**

Notes A to F, are an integral part of these financial statements

HSBC Bank Paraguay S.A.

Interim Report March, 2012

Notes to the Financial Statements

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

Note A—Consideration by the Shareholders Meeting

The financial statements of HSBC Bank Paraguay SA will be considered by the Ordinary General Shareholders Meeting, within the term established by Article Twenty First of the Corporate Bylaws, under the conditions and terms established by Article 1079 of the Civil Code.

Note B—Information on the Financial Entity

B.1 Juridical nature

HSBC Bank Paraguay S.A. ("the Entity"), a subsidiary of HSBC Latin America Holding (UK) Limited, developing all activities that are permitted to commercial banks in accordance with the laws of Paraguay and regulatory dispositions established by the Central Bank of Paraguay and the Superintendency of Banks.

B.2 Accounting basis

Financial statements have been prepared in accordance with accounting standards, valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Paraguay and the Superintendency of Banks and in for matters not addressed in these regulations, in accordance with generally accepted accounting principles in Paraguay.

Resolution No. 723/1995 issued by the Superintendency of Banks of the Central Bank of Paraguay, which establishes a model of financial statements and explanatory notes to be issued by the financial institutions of Paraguay, does not require the issuance of comparative financial statements.

Except for the mandatory revaluation that the Entity must practice over its Property, Plant and Equipment, as explained in Note C8, financial statements were prepared on the basis of historical cost.

B.3 Branches Abroad

The Entity does not have branches abroad.

B.4 Participation in other companies

a-Non-controlled

Bancard S.A., the shareholding in local currency consists of 1.923 common shares with a nominal value of G. 1.000.000 each (total G. 1.923.000.000), representing 7.69% of the capital share of the investee company. See Note C11.b

HSBC Holding, the shareholding in GBP consists of 4.509 common shares with a nominal value of GBP 8,2145 each (total GBP 37.039 equivalent to G. 255.757.258) . These shares have been acquired under the program of institutional benefits.

These investments are shown in the account "*Inversiones en Títulos Valores de Renta Variable Emitidos por el Sector Privado (cotizables y no cotizables)"*—Investments in Securities of Equity issued by the private sector (listed or not in the stock exchange) See Note C.7.

b- Controlled

The Entity does not have controlled participations.

B.5 Capital and shares

Article 11 of Law No. 861 “General Law on Banks, Finance Companies and Other Credit Entities” establishes the minimum paid in capital in G. 10.000.000.000, at constant value, adjusted annually applying the consumer price index issued by the Central Bank of Paraguay. According to “Circular SB.SG.No. 00010” dated January 3rd, 2012, the minimum paid up capital required for 2012 is G. 33.857.000.000, and for 2011 is G. 30.441.000.000, in accordance with the “Circular SB.SG. No. 0005” dated January 3rd, 2011.

At March 31, 2012, the Entity´s Shared Capital amounts to G. 150.885.172.344 and Secondary Capital amounts to G. 17.280.221.234 (same as at December 31, 2011; see Note D).

The shareholding structure is as follows:

HSBC Latin America Holdings Limited	99,96%
HSBC Serviços y Participaçoes Limitada	0,04%

B.6 Members of the Board of Directors and Executive Staff

As at March 31, 2012 the Entity’s Board of Directors is comprised as follows:

Viviana Varas—President
Mark Tomasz—Vicepresident
Alvaro Brasa—Director
Osvaldo Serafini—Director
Santiago Colantonio—Director

Note C—Information regarding assets and liabilities

C.1 Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currency are translated into U.S. Dollars at the exchange rates published by the Foreign Exchange Department of the Central Bank of Paraguay as at the close of the year.

The resulting amounts in US Dollars are then translated into local currency at the exchange rate as at the end of the quarter (US$ 1 = G. 4.330) and as at the end of the year 2011 (US$ 1 = G. 4.478)

C.2 Foreign currency position

The foreign currency position is broken down as follows:

	MARCH, 2012		DECEMBER, 2011	
ITEM	FOREIGN CURRENCY	EQUIVALENT IN GUARANIES	FOREIGN CURRENCY	EQUIVALENT IN GUARANIES
Assets in Foreign currency	262.209.798,45	1.135.368.427.822	261.249.417,41	1.169.874.891.162
Liabilities Foreign currency	261.278.163,03	1.131.334.446.655	258.870.853,18	1.159.223.680.540
Net Position in Foreign Currency	**931.635,42**	**4.033.981.167**	**2.378.564,23**	**10.651.210.622**

HSBC Bank Paraguay S.A.

Interim Report March, 2012

Notes to the Financial Statements

Net position in foreign currency:

	POSITION AS AT MARCH, 2012			POSITION AS AT DECEMBER, 2011		
CURRENCY	PURCHASED	SOLD	EQUIVALENT IN DOLLARS - US$	PURCHASED	SOLD	EQUIVALENT IN DOLLARS - US$
USD	3.702.999.573	—	855.196,23	10.279.246.268	—	2.295.499,39
Other Currencies	330.981.594	—	76.439,19	371.964.354	—	83.064,84
TOTAL	**4.033.981.167**	**—**	**931.635,42**	**10.651.210.622**	**—**	**2.378.564,23**

C.3 Securities

Government Securities (unlisted securities in the stock exchange or in the secondary market) and Private Securities (listed securities in the stock exchange or in the secondary market) are valued at cost plus accrued income to be collected at year end, which does not exceed its estimated realizable value.

As at March 31, 2012:

			AMOUNT IN GUARANIES	
PUBLIC AND PRIVATE SECURITIES	CURRENCY OF ISSUANCE	AMOUNT	NOMINAL VALUE	ACCOUNTING VALUE
Government Securities (unlisted securities)				
—Letters of Commitment and Letters of Monetary Regulation issued by the Central Bank of Paraguay.	**G.**	360.000.000.000	360.000.000.000	355.328.823.120
—Treasury bonds issued by the Republic of Paraguay (BOTES)	**G.**	50.000.000.000	50.000.000.000	51.041.337.297
TOTAL		**410.000.000.000**	**410.000.000.000**	**406.370.160.417**

As at December 31, 2011:

			AMOUNT IN GUARANIES	
PUBLIC AND PRIVATE SECURITIES	CURRENCY OF ISSUANCE	AMOUNT	NOMINAL VALUE	ACCOUNTING VALUE
Government Securities (unlisted securities)				
—Letters of Commitment and Letters of Monetary Regulation issued by the Central Bank of Paraguay.	**G.**	327.100.000.000	327.100.000.000	324.853.354.863
—Treasury bonds issued by the Republic of Paraguay (BOTES)	**G.**	45.000.000.000	45.000.000.000	45.330.583.883
TOTAL		**372.100.000.000**	**372.100.000.000**	**370.183.938.746**

C.4 Assets and Liabilities with restatement clauses

There are no assets and liabilities with restatement clauses, except for property, plant and equipment (Note C8)

C.5 Loan Portfolio—Financial Sector and Non-Financial Sector

The Loan portfolio has been valued in accordance with Resolution No. 1, Minutes No. 60 dated September 28, 2007 and its subsequent modifications issued by the Board of Directors of the Central Bank of Paraguay, for which:

a. Debtors have been classified in six risk categories.

b. Allowances for doubtful debtors have been set to cover sufficiently the estimated losses that may derive from the recovery of the portfolio.

c. Interests, valuation income and charges derived from any concept that yielded profits for the Entity were accounted on the accrual basis, considering the term of the loans. In the situations described below, the accrual of the additional interests and charges were suspended:

—Loans payable in one installment of principal and interests: since the day following the agreed due date

—Loans payable in installments: from the time the installment is overdue, although composed only by interests.

—Loans granted to debtors classified under risk category “3” or higher: from the time the debtor was classified by the Entity or reclassified by the Superintendency of Banks under risk category “3” or higher.

—Delinquent debts or those classified under risk category “3” or higher, that were cancelled by the adjudication or payment in movable and immovable goods: up to the final sale of the goods

Interest accrued and not collected, from Customers with overdue credits and/or current credits classified in categories “3” or higher, which have been recognized as earnings until they become overdue or when the customer is classified in a category higher than “2”, have been provisioned by 100% of their balance.

Interests and additional charges which accruals were suspended according to the criteria mentioned above were recognized as income when collected.

Current Credits Non-Financial Sector

As at March 31, 2012

RISK CATEGORY	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR CREDIT LOSSES G.	COMPUTED GUARANTEES G.	ALLOWANCES G. % MINIMUM	ALLOWANCES G. (*) CREATED	ACCOUNTING VALUE AFTER ALLOWANCES FOR CREDIT LOSSES G.
1	1.175.493.227.030	270.278.257.022	0	(7.202.106.666)	1.168.291.120.364
1a	172.890.247.663	12.752.410.232	0,5	(755.859.600)	172.134.388.063
1b	45.938.327.102	20.788.676.645	1,5	(533.159.827)	45.405.167.275
2	9.945.536.478	5.907.037.855	5	(349.142.080)	9.596.394.398
3	817.091.559	—	25	(211.617.475)	605.474.084
4	100.622.947	—	50	(47.466.334)	53.156.613
5	8.716.068	—	75	(6.538.305)	2.177.763
6	4.163.325	—	100	(4.163.325)	0
TOTAL	**1.405.197.932.172**	**309.726.381.754**		**(9.110.053.612)**	**1.396.087.878.560**

(*) Includes generic allowances created for G. 7.294.479.975, required by Resolution No. 1, Minutes No. 60 dated September 28, 2007 and subsequent modifications, issued by the Board of Directors of Central Bank of Paraguay. They were considered as tax deductible.

As at December 31, 2011

RISK CATEGORY	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR CREDIT LOSSES G.	COMPUTED GUARANTEES G.	ALLOWANCES G. % MINIMUM	ALLOWANCES G. (*) CREATED	ACCOUNTING VALUE AFTER ALLOWANCES FOR CREDIT LOSSES G.
1	1.384.508.991.210	248.184.024.771	—	(6.991.648.998)	1.377.517.342.212
2	10.989.068.795	8.413.801.566	5	(339.108.403)	10.649.960.392
3	689.310.927	—	25	(179.490.759)	509.820.168
4	95.891.799	—	50	(47.945.900)	47.945.899
5	10.756.429	—	75	(8.067.320)	2.689.109
6	5.597.923	—	100	(5.597.923)	—
TOTAL	**1.396.299.617.083**	**256.597.826.337**		**(7.571.859.303)**	**1.388.727.757.780**

(*) Includes generic allowances created for G. 6.982.823.547, required by Resolution No. 1, Minutes No. 60 dated September 28, 2007 and subsequent modifications, issued by the Board of Directors of Central Bank of Paraguay. They were considered as tax deductible.

Overdue credits Non-Financial Sector

As at March 31, 2012

RISK CATEGORY	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR CREDIT LOSSES G.	COMPUTED GUARANTEES G.	ALLOWANCES G. % MINIMUM	ALLOWANCES G. (*) CREATED	ACCOUNTING VALUE AFTER ALLOWANCES FOR CREDIT LOSSES G.
1	112.291.817	0	0	(—)	112.291.817
1a	17.970.886	0	0,5	(89.854)	17.881.032
1b	64.753.540	0	1,5	(971.300)	63.782.240
2	857.094.614	0	5	(42.854.736)	814.239.878
3	1.142.822.374	56.105.232	25	(295.805.049)	847.017.325
4	3.924.050.173	1.895.903.461	50	(1.570.359.739)	2.353.690.434
5	3.715.396.348	0	75	(2.843.878.765)	871.517.583
6	12.047.355.794	0	100	(12.047.355.794)	—
TOTAL	**21.881.735.546**	**1.952.008.693**		**(16.801.315.237)**	**5.080.420.309**

As at December 31, 2011

RISK CATEGORY	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR CREDIT LOSSES G.	COMPUTED GUARANTEES G.	ALLOWANCES G. % MINIMUM	ALLOWANCES G. (*) CREATED	ACCOUNTING VALUE AFTER ALLOWANCES FOR CREDIT LOSSES G.
1	715.957.192	—	—	—	715.957.192
2	4.234.715.914	—	5	(211.736.067)	4.022.979.847
3	3.163.388.854	—	25	(840.999.653)	2.322.389.201
4	1.061.537.564	—	50	(541.676.891)	519.860.673
5	1.167.270.750	—	75	(944.164.947)	223.105.803
6	10.865.747.531	—	100	(10.865.747.531)	—
TOTAL	**21.208.617.805**	**—**		**(13.404.325.089)**	**7.804.292.716**

C.6 Allowances for credit losses on direct and contingent risks

Allowances to cover sufficiently credit losses estimated in the recovery of the portfolio have been created, according to Resolution N° 1, Minutes No. 60 dated September 29, 2007 of the Central Bank Board of Paraguay.

Below is a breakdown thereof:

ITEM	OPENING BALANCE G.	CREATION OF ALLOWANCES FOR CREDIT LOSSES G.	WRITTE OFF G.	ALLOWANCES FOR CREDIT LOSSES WRITE BACK G.	VARIATION OF ALLOWANCES FOR CREDIT LOSSES IN FOREING CURRENCY G.	ENDING BALANCE G.
Allowances for credit losses	23.180.695.453	12.490.352.505	91.638.053	6.130.826.507	(208.307.170)	29.240.276.228

ITEM	OPENING BALANCE G.	CREATION OF ALLOWANCES FOR CREDIT LOSSES G.	WRITTE OFF G.	ALLOWANCES FOR CREDIT LOSSES WRITE BACK G.	VARIATION OF ALLOWANCES FOR CREDIT LOSSES IN FOREING CURRENCY G.	ENDING BALANCE G.
Cash and Equivalents	15.512.001	649.132.100	—	127.158.502	—	537.485.599
Current credits—non Financial Sector	7.571.859.303	4.787.153.965	51.700.656	3.029.547.102	(167.711.898)	9.110.053.612
Overdue credits—Nonfinancial Sector	13.404.325.089	6.446.455.865	39.937.397	2.974.120.903	(35.407.417)	16.801.315.237
Others (i)	1.636.521.203	607.610.575	—	—	(5.187.855)	2.238.943.923
Contingencies Provisions (ii)	552.477.857		—	—	—	552.477.857
TOTAL	**23.180.695.453**	**12.490.352.505**	**91.638.053**	**6.130.826.507**	**(208.307.170)**	**29.240.276.228**

(i) Includes allowances for credit and investment losses at beginning of the first quarter 2012 for G. 968.267.900 and G. 668.253.303 respectively. At first quarter-end 2012 balances are composed of G. 1.570.690.620 and G. 668.253.303.

(ii) Includes G. 427.400.000 of provisions for lawsuits against the Bank (see Note C.16.1. a)

As at December 31, 2011:

ITEM	OPENING BALANCE G.	CREATION OF ALLOWANCES FOR CREDIT LOSSES G.	WRITTE OFF G.	ALLOWANCES FOR CREDIT LOSSES WRITE BACK G.	VARIATION OF ALLOWANCES FOR CREDIT LOSSES IN FOREING CURRENCY G.	ENDING BALANCE G.
Allowances for credit losses	16.931.780.187	18.215.623.671	(1.076.477.151)	(10.856.386.842)	(33.844.412)	23.180.695.453

ITEM	OPENING BALANCE G.	CREATION OF ALLOWANCES FOR CREDIT LOSSES G.	WRITTE OFF G.	ALLOWANCES FOR CREDIT LOSSES WRITE BACK G.	VARIATION OF ALLOWANCES FOR CREDIT LOSSES IN FOREING CURRENCY G.	ENDING BALANCE G.
Cash and Equivalents	85.015.540	1.344.274.985	—	(1.413.778.524)	—	15.512.001
Current credits—non Financial Sector	5.103.855.521	5.506.267.955	(124.677.050)	(2.879.254.894)	(34.332.229)	7.571.859.303
Overdue credits—Nonfinancial Sector	9.816.948.588	10.397.486.176	(951.800.101)	(5.858.124.046)	(185.528)	13.404.325.089
Others (i)	1.040.033.521	967.594.555	—	(371.780.218)	673.345	1.636.521.203
Contingencies Provisions (ii)	885.927.017		—	(333.449.160)	—	552.477.857
TOTAL	**16.931.780.187**	**18.215.623.671**	**(1.076.477.151)**	**(10.856.386.842)**	**(33.844.412)**	**23.180.695.453**

(i) Allowances for credit and investment losses at beginning of the year 2011 for G. 49.150.701 and G. 990.882.820 respectively. At year-end 2011 balances are composed of G. 968.267.900 and G. 668.253.303.

(ii) Includes G. 427.400.000 of provisions for lawsuits against the Bank (see Note C.16.1. a)

C.7 Investments

Investments represent the holding of securities issued by the private sector and foreclosed assets not applied to the operations of the Entity. These are valued according to the following criteria:

a) **Foreclosed Assets:** at the moment of the reception of the asset, they are valued at the lesser value between the market value of the asset received (appraised value), the value of the award and the balance of the debt immediately prior to the award. Additionally, for those assets that exceed the terms of the Central Bank of Paraguay for its holding, allowances have been created in accordance with Resolution of the Board of Directors of the Central Bank of Paraguay No. 1 Minutes 60 dated September 28, 2007. Upon (3) years of holding, the assets are reserved at 100%.

b) **Variable income securities issued by the private sector (listed)**: they are valued at acquisition cost, which does not exceed their estimated realizable value, or their equity-method value.

c) **Variable income securities issued by the private sector (unlisted**): are valued at acquisition cost plus the result changes in equity, which does not exceed their estimated realizable value or their equity-method value.

d) **Fixed income securities issued by the private sector (listed):** they are valued at acquisition cost plus accrued income to be collected, which does not exceed their estimated realizable value.

The detail of investments as at March 31, 2012 is as follows:

ITEM	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR INVESTMENT LOSSES G.	PROVISIONS G.	ACCOUNTING BALANCE AFTER ALLOWANCES FOR INVESTMENT LOSSES G.
Foreclosed Assets	619.651.459	(619.651.459)	—
Investments in variable income Securities issued by the private sector (listed)—Note B.4.a	256.638.416	(46.101.844)	210.536.572
Investments in variable income Securities issued by the private sector (unlisted)—Note B.4.a	4.000.983.808	—	4.000.983.808
Fixed income securities Issued by the Private Sector (listed)	2.823.753.167	—	2.823.753.167
Special Investments	2.500.000	(2.500.000)	—
Idle premises	94.655.215	—	94.655.215
TOTAL	**7.798.182.065**	**(668.253.303)**	**7.129.928.762**

The detail of investments as at December 31, 2011 is as follows:

ITEM	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR INVESTMENT LOSSES G.	PROVISIONS G.	ACCOUNTING BALANCE AFTER ALLOWANCES FOR INVESTMENT LOSSES G.
Foreclosed Assets	619.651.459	(619.651.459)	—
Investments in variable income Securities issued by the private sector (listed)—Note B.4.a	255.757.258	(46.101.844)	209.655.414
Investments in variable income Securities issued by the private sector (unlisted)—Note B.4.a	4.000.983.808	—	4.000.983.808
Fixed income securities Issued by the Private Sector (listed)	2.976.489.791	—	2.976.489.791
Special Investments	2.500.000	(2.500.000)	—
Idle premises	94.655.215		94.655.215
TOTAL	**7.950.037.531**	**(668.253.303)**	**7.281.784.228**

C.8 Property, plant and equipment.

Property, Plant and Equipment are accounted for their acquisition cost restated for inflation, applying the variation of the Consumer Price Index, net of Accumulated Depreciation based on rates determined by Law 125/1991, considering the conversion factor provided for that purpose by the Tax Office. The net amount of restatement is disclosed in the account “Equity Adjustments” of the Entity’s Net Equity.

Improvements or additions are capitalized, while maintenance costs and / or repairs, which do not increase the value of property or their useful life, are charged to results, in the period in which they occur.

Depreciations are computed from the month following that of incorporation to the Entity’s Assets, charging to results on the base of the linear system, during the years considered as useful life.

The composition of property, plant and equipment as at March 31, 2012 is as follows:

ITEM	ANNUAL DEPRECIATION RATE (%)	RESTATED COST G.	ACCUMULATED DEPRECIATION G.	NET VALUE G.
Own				
Real estate—Land	—	3.647.983.549	—	3.647.983.549
Real estate—Buildings	2,5	4.060.162.917	(*)(1.189.857.292)	2.870.305.625
Installations	10	3.960.077.018	(*)(2.650.568.688)	1.309.508.330
Furniture, Fixture and Fittings	10 y 25	4.783.636.843	(1.568.510.284)	3.215.126.559
Computer Equipment	10, 20 y 25	17.279.567.857	(10.050.188.691)	7.229.379.166
Vehicles	20	1.565.568.946	(743.528.257)	822.040.689
TOTAL		**35.296.997.130**	**(16.202.653.212)**	**19.094.343.918**

(*) The value of the land, building and facilities was updated by a registered appraiser, Eng. Pessollani: land in G. 298.958.238, and building and facilities in G. 1.363.554.835 in concept of impairment.

The composition of property, plant and equipment as at December 31, 2011 is as follows:

ITEM	ANNUAL DEPRECIATION RATE (%)	REVALUED COST G.	ACCUMULATED DEPRECIATION G.	NET AMOUNT OF DEPRECIATION G.
Own				
Real estate—Land	—	3.555.539.521	—	3.555.539.521
Real estate—Buildings	2,5	3.936.952.733	(*)(1.120.336.863)	2.816.615.870
Installations	10	3.886.040.576	(*)(2.533.906.884)	1.352.133.692
Furniture, Fixture and Fittings	10 y 25	4.644.461.680	(1.476.767.491)	3.167.694.189
Computer Equipment	10, 20 y 25	16.929.749.848	(8.791.176.064)	8.138.573.784
Vehicles	20	1.527.599.693	(660.348.657)	867.251.036
TOTAL		**34.480.344.051**	**(14.582.535.959)**	**19.897.808.092**

(*) The value of the land, building and facilities was updated by a registered appraiser, Eng. Pessollani: land in G. 298.958.238, and building and facilities in G. 1.363.554.835 in concept of impairment.

C.9 Deferred charges

The composition of this item at March 31, 2012 is as follows:

ITEM	OPENING BALANCE G.	INCREASES G.	AMORTIZATION OVER THE YEAR G.	NET ENDING BALANCE G.
Improvements and facilities on leased property (i)	3.606.576.746	—	(150.490.028)	3.456.086.718
Stationery and others	287.961.654	245.051.778	(108.931.278)	424.082.154
TOTAL	**3.894.538.400**	**245.051.778**	**(259.421.306)**	**3.880.168.872**

(i) To be amortized over five (5) years on the basis of the linear system.

The composition of this item at December 31, 2011 is as follows:

ITEM	OPENING BALANCE G.	INCREASES G.	AMORTIZATION OVER THE YEAR G.	NET ENDING BALANCE G.
Improvements and facilities on leased property (i)	4.241.236.178	548.285.136	(1.182.944.568)	3.606.576.746
Stationery and other	524.097.839	816.066.060	(1.052.202.245)	287.961.654
TOTAL	**4.765.334.017**	**1.364.351.196**	**(2.235.146.813)**	**3.894.538.400**

(i) To be amortized over five (5) years on the basis of the linear system.

C.10 Subordinated Debentures

As at March 31, 2012 and 2011 the entity does not have subordinated debentures.

C. 11 Limitations to the free disposal of assets or equity and restrictions to property rights

In general there are no restricted assets, except by:

a- Reserve Requirements

Within a total of G. 470.596.853.172 (G. 512.356.902.078 Dec/2011) shown in the account Central Bank of Paraguay as Available Item, G. 436.590.013.930 is included (G. 430.291.999.620 Dec/2011), corresponding to restricted accounts maintained with the Central Bank of Paraguay for legal reserve requirements.

b- Bancard's Shares

1.700 shares (nominal value G.1.700.000.000) have been pledged as a guarantee for operations of Bancard Check, Mastercard, Visa and Network Infonet for G. 3.219.431.100. Additionally, the entity has pledged 1.000 Government Treasury Bonds (nominal value G. 1.000.000 each) for the same concept, for G. 727.185.677.

c- Distribution of Profits

Legal Reserve: According to Article 27 of Law No. 861 "General Law on Banks, Finance Companies and Other Credit Entities", financial institutions must have a reserve of not less than the equivalent of one hundred percent (100%) of its capital, which will be created by transferring annually at least twenty percent (20%) of the net profits of each financial year.

Article 28 of said Law establishes that legal reserve resources will be applied automatically to cover losses in the financial year. In the following years, the total profits should be allocated to legal reserve until the minimum thereof is reached again, or higher amount that was set during the process of fixing the same.

At any time, the amount of the reserve may be increased by cash contributions.

Approval of Financial Statements: According to the Law No. 861 "General Law on Banks, Finance Companies and Other Credit Entities", banks authorized to operate in accordance with this Act, whether national or foreign, may distribute its profits after due approval by Superintendency of Banks, pursuant to their audited annual financial statements, provided said approval is issued within one hundred and twenty days of the year end. After expiration of this term, profits may be distributed provided the Superintendency of Banks has not given directions in this sense.

Income Tax: The income tax rate is 10%.

Law 125/91: According to the tax legislation, from the year ended December 31, 2005, the distribution of earnings is subject to a withholding of 15% as Income tax, in case the entity's shareholders are domiciled abroad.

C.12 Guarantees granted on liabilities

As at December 31, 2011 there are no guarantees granted on liabilities.

C.13 Distribution of credits and financial intermediation obligations, according to their maturities

The distribution of credit and financial intermediation obligations, according to their maturity, is the following:

	TERM REMAINING TO MATURITY					
AS AT MARCH, 2012 ITEM	**UP TO 30 DAYS G.**	**FROM 31 DAYS TO 180 DAYS G.**	**FROM 181 DAYS TO 1 YEAR G.**	**FROM 1 YEAR TO 3 YEARS G.**	**OVER 3 YEARS G.**	**TOTAL G.**
Current Credit Financial Sector	190.529.320.021	60.651.055.280	—	—	—	251.180.375.301
Current Credit Non-Financial Sector	322.898.453.070	625.815.349.152	203.338.682.007	188.312.506.753	69.078.350.541	1.409.443.341.523
TOTAL OF CURRENT CREDITS	**513.427.773.091**	**686.466.404.432**	**203.338.682.007**	**188.312.506.753**	**69.078.350.541**	**1.660.623.716.824**
Obligations—Financial Sector	38.924.328.541	12.800.315.068	150.000.000	3.000.000.000	—	54.874.643.609
Obligation—Non—Financial Sector	1.740.228.694.037	358.569.296.932	159.236.972.262	65.809.154.933	430.000.000	2.324.274.118.164
TOTAL OBLIGATIONS	**1.779.153.022.578**	**371.369.612.000**	**159.386.972.262**	**68.809.154.933**	**430.000.000**	**2.379.148.761.773**

	TERM REMAINING TO MATURITY					
AS AT DECEMBER, 2011 ITEM	**UP TO 30 DAYS G.**	**FROM 31 DAYS TO 180 DAYS G.**	**FROM 181 DAYS TO 1 YEAR G.**	**FROM 1 YEAR TO 3 YEARS G.**	**OVER 3 YEARS G.**	**TOTAL G.**
Current Credit Financial Sector	268.729.531.247	—	—	—	—	268.729.531.247
Current Credit Non-Financial Sector	253.395.366.787	632.052.302.940	265.054.349.312	198.484.676.580	74.445.383.555	1.423.432.079.174
TOTAL OF CURRENT CREDITS	**522.124.898.034**	**632.052.302.940**	**265.054.349.312**	**198.484.676.580**	**74.445.383.555**	**1.692.161.610.421**
Obligations—Financial Sector	32.757.790.769	1.500.000.000	100.000.000	3.000.000.000	—	37.357.790.769
Obligation—Non—Financial Sector	1.767.643.538.785	378.367.589.758	128.748.927.862	75.189.949.373	1.030.000.000	2.350.980.005.778
TOTAL OBLIGATIONS	**1.800.401.329.554**	**379.867.589.758**	**128.848.927.862**	**78.189.949.373**	**1.030.000.000**	**2.388.337.796.547**

HSBC Bank Paraguay S.A.

Interim Report March, 2012

Notes to the Financial Statements

C.14 Concentration of the Loan and Deposits portfolio

C.14.1 Composition of the Loan Portfolio by number of clients

The loan portfolio by number of clients as at March, 2012 is composed as follows:

	AMOUNT AND PERCENTAGE OF LOAN PORTFOLIO			
NUMBER OF CLIENTS	CURRENT G.	%	OVERDUE G.	%
10 largest Debtors	191.685.033.996	13	7.489.604.033	34
50 Second largest Debtors	488.754.022.801	35	5.645.528.762	26
100 Subsequent largest Debtors	345.338.087.311	25	4.464.012.310	20
Other Debtors	379.420.788.064	27	4.282.590.441	20
TOTAL CREDIT PORTFOLIO	**1.405.197.932.172**	**100**	**21.881.735.546**	**100**

The credit portfolio by number of clients as at December, 2011 is composed as follows:

	AMOUNT AND PERCENTAGE OF LOAN PORTFOLIO			
NUMBER OF CLIENTS	CURRENT G.	%	OVERDUE G.	%
10 largest Debtors	187.170.216.374	13	7.820.479.554	37
50 Second largest Debtors	483.462.001.835	35	5.368.486.934	25
100 Subsequent largest Debtors	344.254.980.925	25	4.165.858.471	20
Other Debtors	381.412.417.949	27	3.853.792.846	18
TOTAL CREDIT PORTFOLIO	**1.396.299.617.083**	**100**	**21.208.617.805**	**100**

C.14.2 Deposits portfolio by sector

The breakdown by sector and number of depositors as at March, 2012 is as follows:

	AMOUNT AND PERCENTAGE OF DEPOSIT PORTFOLIO					
NUMBER OF CLIENTS	Financial Sector G.	%	Private Sector G.	%	Public Sector G.	%
10 largest Deposits	32.185.111.461	59	410.944.188.650	18	65.864.990.276	97
50 Second largest Deposits	22.536.003.732	41	431.390.545.845	19	2.377.888.590	3
100 Subsequent largest Deposits	—	—	298.990.098.607	13	—	—
Other Deposits	—	—	1.092.829.664.924	50	—	—
TOTAL DEPOSIT PORTFOLIO	**54.721.115.193**	**100**	**2.234.154.498.026**	**100**	**68.242.878.866**	**100**

The breakdown by sector and number of depositors as at December, 2011 is as follows:

NUMBER OF CLIENTS	AMOUNT AND PERCENTAGE OF DEPOSIT PORTFOLIO					
	Financial Sector G.	%	Private Sector G.	%	Public Sector G.	%
10 largest Deposits	25.684.959.463	69	409.584.477.334	18	52.210.190.760	98
50 Second largest Deposits	11.538.036.403	31	452.850.693.829	20	827.562.223	2
100 Subsequent largest Deposits	—	—	287.476.406.412	13		—
Other Deposits	—	—	1.102.772.641.691	49	—	—
TOTAL DEPOSIT PORTFOLIO	**37.222.995.866**	**100**	**2.252.684.219.266**	**100**	**53.037.752.983**	**100**

C.15 Balances with related parties

As at March, 2012

ITEM	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR CREDIT LOSSES G.	ALLOWANCES G.	ACCOUNTING BALANCE AFTER ALLOWANCES FOR CREDIT LOSSES G.
Current Credits Financial Sector	207.840.000.000	—	207.840.000.000
Current Credits Non-Financial Sector	263.908.289	—	263.908.289
Other credits	—	—	—
Overdue Credits	—	—	—
Contingencies	109.872.603.844	—	109.872.603.844
TOTAL	**317.976.512.133**	**—**	**317.976.512.133**

As at December, 2011

ITEM	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR CREDIT LOSSES G.	ALLOWANCES G.	ACCOUNTING BALANCE AFTER ALLOWANCES FOR CREDIT LOSSES G.
Current Credits Financial Sector	174.680.803.706	—	174.680.803.706
Current Credits Non-Financial Sector	385.056.454	—	385.056.454
Other credits	—	—	—
Overdue Credits	—	—	—
Contingencies	64.931.127.156	—	64.931.127.156
TOTAL	**239.996.987.316**	**—**	**239.996.987.316**

C.16 Other relevant events

C.16.1 Contingencies and commitments

Provision for lawsuits against the Entity: Due to the existence of lawsuits by third parties for alleged damages, and based on the opinion of its legal advisors, the Entity establishes provisions for G. 472.400.000.

C.16.2 Other facts whose importance justifies their exposure

a. Balances and transactions with related parties:

During the first quarter of 2012 HSBC Bank Paraguay S.A. has received charged by related parties, including HSBC Hong Kong, HSBC Mexico, HSBC Buenos Aires, Brazil and HSBC UK for a total amount of G. 8.297.475.940 (G. 15.616.716.578 during the first quarter 2011) for various services provided to HSBC Paraguay. These services relate primarily to data processing services, telecommunications, central processing, call center, management, etc. Additionally, these charges include costs related to the implementation of the new computer system. According to the Entity's policy and accounting principles these fees are charged to the year's results.

Note D—Equity

D.1 Changes in Equity

ITEM	BEGINNING BALANCE 31/12/2011	CHANGES FOR THE FIRST QUARTER 2012 INCREASE	DECREASE	ENDING BALANCE 31/03/2012
Paid in Capital	150.885.172.344	—	—	150.885.172.344
Secondary Capital	17.280.221.234	—	—	17.280.221.234
Equity Adjustments	5.081.472.101	551.494.319	—	5.632.966.420
Reserves	13.240.000.000	—	—	13.240.000.000
Retained earnings	28.193.593.863	11.731.939.777	—	39.925.533.640
Net Income	11.731.939.777		(5.484.467.256)	6.247.472.521
TOTAL OF EQUITY	**226.412.399.319**	**12.283.434.096**	**(5.484.467.256)**	**233.211.366.159**

ITEM	BEGINNING BALANCE 31/12/2010	CHANGES FOR THE FIRST QUARTER 2011 INCREASE	DECREASE	ENDING BALANCE 31/03/2011
Paid in Capital	82.635.172.344	—	—	82.635.172.344
Secondary Capital	17.280.221.234	—	—	17.280.221.234
Irrevocable capital contribution	—	68.250.000.000	—	68.250.000.000
Equity Adjustments	3.975.049.856	649.354.336	—	4.624.404.192
Reserves	50.255.652.566	—	—	50.255.652.566
Retained earnings	29.566.329.160	—	(38.388.387.954)	(8.822.058.794)
Net Income	(38.388.387.954)	33.520.268.409	—	(4.868.119.545)
TOTAL OF EQUITY	**145.324.037.206**	**102.419.622.745**	**(38.388.387.954)**	**209.355.271.997**

Note E—Information regarding contingencies

E.1 Lines of Credit

ITEM	31/03/2012	31/12/2011
Credits to be used in current accounts	20.387.158.675	14.494.026.429
Credits to be used in credit cards	166.438.844.739	168.799.411.715
Guaranties Granted to Foreign Banks	11.028.450.573	5.026.412.704
TOTAL	**197.854.453.987**	**188.319.850.848**

Note F—Information regarding Results

F.1 Recognition of Profit and Loss

Income and expenses are recognized on the basis of the accrual principle, except items mentioned in Note C5.

Profits from sale of goods on credit are recognized as revenue in proportion to the principal repayment of debt incurred by the buyer.

Exchange differences on valuation of transactions by selling goods on credit, are recognized as income at the time of collection of the credit.

Commissions for transactions are recognized as income at the time of collection thereof.

F.2 Foreign Currency Translation

Exchange differences for holding assets and liabilities in foreign currencies are shown in the Income Statement under the account "Valuation of Assets and Liabilities in foreign currency"; net results are shown below:

ITEM	31/03/2012 G.	31/03/2011 G.
Valuation income of foreign currency (F / C)	463.486.791.327	182.167.464.000
Valuation losses of foreign currency (F/ C)	(463.068.296.641)	(183.179.183.979)
EXCHANGE DIFFERENCE	**418.494.686**	**(1.011.719.979)**

F.3 Other Operating Income

Other Operating Income is composed as follows:

ITEM	31/03/2012 G.	31/03/2011 G.
Earnings from participation in Bancard S.A.	—	457.342.181
Others	1.392.386	11.765.563
Valuation income	16.214.974.898	4.563.064.248
TOTAL OTHER OPERATING INCOME	**16.216.367.284**	**5.032.171.992**

F.4 Other Operating Losses

Other Operating Losses is composed as follows:

ITEM	31/03/2012 G.	31/03/2011 G.
Insurance Contract	237.322.340	—
Taxes and Contributions	1.622.673.998	954.644.141
Other Losses	146.894.999	163.549.999
Operation Losses	3.325.897.395	163.704.334
Valuation Losses	12.153.513.983	1.806.430.201
Other Diverse Obligations	1.134.810.900	25.571.755
TOTAL OTHER OPERATING LOSSES	**18.621.113.615**	**3.113.900.430**

BENITEZ CODAS & ASOCIADOS
Auditores, Asesores & Consultores
Corresponsal en el Paraguay de
KPMG International Cooperative ("KPMG International")

Independent Auditors' Report

To the Board of Directors of
HSBC Bank Paraguay S.A.

Report on the Financial Statements

We have audited the accompanying financial statements of HSBC Bank Paraguay S.A., which comprise the balance sheet as at December 31, 2011 and the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Entity's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards and valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Paraguay, and for matters not addressed in these regulations, with generally accepted accounting principles in Paraguay. This responsibility includes the designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards for independent audits established by the Superintendency of Banks of the Central Bank of Paraguay and with audit standards in effect in Paraguay issued by the Board of Public Accountants of Paraguay. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Av. Brasilia Nº 707 | Teléfono : 595 (21) 212 505 | E-mail : bca@bca.com.py
Código Postal Nº 1434 | Fax : 595 (21) 212 860 | Casilla de Correo Nº 1974
Asunción—Paraguay | www.bca.com.py

BENITEZ CODAS & ASOCIADOS
Auditores, Asesores & Consultores
Corresponsal en el Paraguay de
KPMG International Cooperative (“KPMG International”)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Bank Paraguay S.A. as at December 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with accounting standards and valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Paraguay, and for matters not addressed in these regulations, with generally accepted accounting principles in Paraguay.

Other matters

The financial statements for the year ended December 31, 2010 were audited by other independent professional auditors who expressed an unqualified opinion in their report dated February 28, 2011.

Asunción, February 24, 2012

BCA—Benitez Codas & Asociados
Registro de Auditores Externos “SIB” N°18

Javier Benitez Duarte
Partner

Av. Brasilia Nº 707
Código Postal Nº 1434
Asunción—Paraguay

Teléfono : 595 (21) 212 505
Fax : 595 (21) 212 860

E-mail : bca@bca.com.py
Casilla de Correo Nº 1974
www.bca.com.py

HSBC Bank Paraguay S.A.

FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2011
GUARANIES

ASSETS		
AVAILABLE		**601.498.028.683**
Cash	54.395.131.360	
Central Bank of Paraguay	512.356.902.078	
Other financial institutions	34.462.689.246	
Clearing documents	298.818.000	
(Allowances) (C6)	(15.512.001)	
GOVERNMENT SECURITIES (C3)		**370.183.938.746**
OUTSTANDING CREDITS—FINANCIAL SECTOR		**268.729.531.247**
Other financial institution	268.680.000.000	
Accrued financial charges—Debtors	49.531.247	
OUTSTANDING CREDITS—NON FINANCIAL SECTOR		**1.423.432.079.174**
Credits	1.373.388.207.052	
Operations pending settlement	34.780.288.097	
Valuation income to realice	(75.966.703)	
Accrued financial charges—Debtors	22.911.410.031	
(Allowance for credit losses) (C5, C6)	(7.571.859.303)	
OTHER CREDITS		**10.232.779.965**
MATURED CREDITS FOR FINANCIAL INTERMEDIATION		**7.804.292.716**
Non financial sector—Non public sector	8.275.904.816	
Matured credits	12.220.411.602	
Accrued financial charges—Debtors	712.301.387	
(Allowance for credit losses) (C5, C6)	(13.404.325.089)	
INVESTMENT (C7)		**7.281.784.228**
Foreclosed Assets	619.651.459	
Investment in securities issued by the private sector	7.169.941.066	
Idle premises	94.655.215	
Fixed income securities issued by private sector	65.789.791	
(Allowance for investment losses) (C6)	(668.253.303)	
PROPERTY, PLANT AND EQUIPMENT (C8)		**19.897.808.092**
Own property, plant and equipment	19.897.808.092	
DEFERRED CHARGES (C9)		**3.894.538.400**
TOTAL ASSETS		**2.712.954.781.251**
LIABILITIES		
OBLIGATIONS FROM FINANCIAL INTERMEDIATION—FINANCIAL SECTOR (C13, C14)		**37.357.790.769**
Deposits	37.222.995.866	
Correspondents, Deferred Documentary Credits	0	
Accrued financial charges—Creditors	134.794.903	
OBLIGATIONS FROM FINANCIAL INTERMEDIATION—NON FINANCIAL SECTOR (C13, C14)		**2.350.980.005.778**
Deposits—Private Sector	2.252.684.219.266	
Deposits—Public Sector	53.037.752.983	
Others obligations from financial intermediation	1.481.060.522	
Operations pending Settlement	34.973.670.754	
Accrued financial charges—Creditors	8.803.302.253	
OTHER LIABILITIES		**18.674.936.042**
Tax payable	0	
Others	18.674.936.042	
PROVISIONS		**79.529.649.343**
TOTAL LIABILITIES		**2.486.542.381.932**
EQUITY (C11		
PAID IN CAPITAL (B5)		150.885.172.344
SECONDARY CAPITAL (B5)		17.280.221.234
EQUITY ADJUSTMENTS		5.081.472.101
RESERVES		13.240.000.000
RETAINED EARNINGS (LOSSES)		28.193.593.863
NET INCOME		11.731.939.777
To Legal Reserve	**11.731.939.777**	
Net to be assigned	—	
TOTAL NET EQUITY		**226.412.399.319**
TOTAL LIABILITIES AND NET EQUITY		**2.712.954.781.251**

CONTINGENCY AND MEMORANDUM ACCOUNTS

GUARANTIES GRANTED TO FOREIGN BANKS	5.026.412.704
ACCORDED CREDITS TO BE USED IN CURRENT ACCOUNTS (E1)	14.494.026.429
LINES OF CREDIT (E1)	168.799.411.715
TOTAL CONTINGENCY ACCOUNT	**188.319.850.848**
TOTAL MEMORANDUM ACCOUNT	**1.728.712.533.705**

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2011

FINANCIAL INCOME		**1.084.849.086.255**
From outstanding Credits—Financial Sector	3.370.204.671	
From outstanding Credits—Non Financial Sector	129.617.115.654	
From overdue Credits	0	
From valuation of financial assets and liabilities in foreign currency	915.500.386.140	
From income and quotation differences, Public and Private Securities	36.361.379.790	
FINANCIAL LOSSES		**(950.856.889.682)**
From obligations—Financial Sector	(438.006.222)	
From obligations—Non Financial Sector	(41.259.429.126)	
From valuation of Financial liabilities and assets in foreign currency (F2)	(909.159.454.334)	
FINANCIAL RESULTS BEFORE PROVISIONS		**133.992.196.573**
PROVISIONS		**(7.359.236.829)**
Increase (C6)	(18.215.623.671)	
Decrease (C6)	10.856.386.842	
FINANCIAL RESULTS AFTER PROVISIONS		**126.632.959.744**
RESULTS FROM SERVICE		**20.622.610.793**
Income from Services	22.731.777.939	
Losses from Services	(2.109.167.146)	
GROSS RESULT		**147.255.570.537**
OTHER OPERATIONAL INCOME		**33.886.476.471**
Other credits Income	14.125.960.698	
Others (F3)	19.760.515.773	
OTHER OPERATIONAL LOSSES		**(169.719.606.567)**
Retribution of Personnel and Social Charges	(46.144.229.608)	
General Expenses	(81.187.007.859)	
Depreciation	(7.195.516.960)	
Others (F4)	(35.192.852.140)	
NET OPERATIONAL RESULTS		**11.422.440.441**
EXTRAORDINARY RESULTS		**539.314.297**
Extraordinary Income	580.832.239	
Extraordinary Losses	(41.517.942)	
ADJUSTMENTS TO RESULTS		**1.582.685.039**
Income	1.693.928.051	
Losses	(111.243.012)	
YEAR'S EARNINGS BEFORE INCOME TAX		**13.544.439.777**
Income Tax (C5, C11)		(1.812.500.000)
YEAR'S RESULTS		**11.731.939.777**

Notes A to H, are an integral part of these financial statements

HSBC Bank Paraguay S.A.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Guaranies)

	2011
1. STATEMENT OF CASH FLOWS	
NET PROFIT	11.731.939.777
ADJUSTMENTS FROM NON-CASH ITEMS	
DEPRECIATION	7.195.516.960
AMORTIZATION	1.052.202.245
PROVISIONS	18.215.623.671
NET RESULT FROM SALE OF PPE	(539.314.297)
PROVISIONS DECREASE	(10.856.386.842)
NET RESULT FORM VALUATION	—
OTHER ADJUSTMENTS	30.338.387
TOTAL ADJUSTMENTS	15.097.980.124
OPERATING ACTIVITIES	
NET INCREASE/DECREASE OF GOVERNMENT SECURITIES	(83.323.477.326)
NET INCREASE/DECREASE OF CREDITS	(474.148.138.004)
NET INCREASE/DECREASE OF OTHER CREDITS	3.083.990.043
NET INCREASE/DECREASE OF OBLIGATIONS, FINANCIAL INTERMEDIATION	590.759.243.201
NET INCREASE/DECREASE OF OTHER OBLIGATIONS	13.593.900.199
NET INCREASE/DECREASE OF PROVISIONS	44.781.483.114
CASH FLOWS FROM OPERATING ACTIVITIES	94.747.001.227
CASH FLOWS FROM OPERATING ACTIVITIES	**121.576.921.128**
2. INVESTING ACTIVITIES	
NET INCREASE/DECREASE OF PPE AND DEFERRED CHARGES	(4.063.392.598)
NET INCREASE/DECREASES OF INVESTMENTS	(80.299.091)
NET INCREASE/DECREASES IN PPE	786.553.152
CASH FLOWS FROM INVESTING ACTIVITIES	**(3.357.138.537)**
3. FINANCING ACTIVITIES	
CAPITAL CONTRIBUTION /(PROFIT ALLOCATION)	68.250.000.000
CASH FLOWS FROM FINANCING ACTIVITIES	**68.250.000.000**
INCREASE OF CASH FLOW	**186.469.782.591**
CASH AND EQUIVALENT AT THE BEGINNING OF THE YEAR	**415.028.246.092**
CASH AND EQUIVALENT AT THE END OF THE YEAR	**601.498.028.683**

Notes A to H, are an integral part of these financial statements

HSBC Bank Paraguay S.A.

Notes to the Financial Statements

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

Note A—Consideration by the Shareholders Meeting

The financial statements of HSBC Bank Paraguay SA will be considered by the Ordinary General Shareholders Meeting, within the term established by Article Twenty First of the Corporate Bylaws, under the conditions and terms established by Article 1079 of the Civil Code.

Note B—Information on the Financial Entity

B.1 Juridical nature

HSBC Bank Paraguay S.A. ("the Entity") is a subsidiary of HSBC Latin America Holding (UK) Limited, developing all activities that are permitted to commercial banks in accordance with the laws of Paraguay and regulatory dispositions established by the Central Bank of Paraguay and the Superintendency of Banks.

B.2 Accounting basis

Financial statements have been prepared in accordance with accounting standards, valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Paraguay and the Superintendency of Banks, and for matters not addressed in these regulations, with generally accepted accounting principles in Paraguay.

Resolution No. 723/1995 issued by the Superintendency of Banks of the Central Bank of Paraguay, which establishes a model of financial statements and explanatory notes to be issued by the financial institutions of Paraguay, does not require the issuance of comparative financial statements; consequently, comparative figures have not been included in this presentation.

Except for the mandatory revaluation that the Entity must practice over its Property, Plant and Equipment, as explained in Note C8, financial statements were prepared on the basis of historical cost.

B.3 Branches Abroad

The Entity does not have branches abroad.

B.4 Participation in other companies

a- Non-controlled

Bancard S.A., the shareholding in local currency consists of 1.923 common shares with a nominal value of G. 1.000.000 each (total G. 1.923.000.000), representing 7.69% of the capital share of the investee company. See Note C11.b

HSBC Holding, the shareholding in GBP consists of 4.509 common shares with a nominal value of GBP 8,2145 each (total GBP 37.039 equivalent to PYG. 255.757.258) . These shares have been acquired under the program of institutional benefits.

These investments are shown in the account *"Inversiones en Títulos Valores de Renta Variable Emitidos por el Sector Privado (cotizables y no cotizables)"*—Investments in Securities of Equity issued by the private sector (listed or not in the stock exchange) See Note C.7.

b- Controlled

The Entity does not have controlled participations.

B.5 Capital and shares

Article 11 of Law No. 861 "General Law on Banks, Finance Companies and Other Credit Entities", establishes the minimum paid in capital in G. 10.000.000.000, at constant value, adjusted annually applying the consumer price index issued by the Central Bank of Paraguay. According to "Circular SB.SG. No. 0005" dated January 3, 2011, the minimum paid up capital required for 2011 is G 30.441.000.000.

At December 31, 2011, the Entity´s Shared Capital amounts to G. 150.885.172.344 and Secondary Capital amounts to G. 17.280.221.234 (see Note D). The shareholding structure is as follows:

HSBC Latin America Holdings Limited	99,96%
HSBC Serviços y Participaçoes Limitada	0,04%

B.6 Members of the Board of Directors and Executive Staff

As at December 31, 2011 the Entity's Board of Directors is comprised as follows:

Viviana Varas—President
Mark Tomasz—Vice president
Alvaro Brasa—Director
Osvaldo Serafini—Director
Santiago Colantonio—Director

Note C—Information regarding assets and liabilities

C.1 Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currency are translated into U.S. Dollars at the exchange rates published by the Foreign Exchange Department of the Central Bank of Paraguay as at the close of the year.

The resulting amounts in US Dollars are then translated into local currency at the exchange rate as at the end of the year (US$ 1 = G. 4.478).

C.2 Foreign currency position

ITEM	Foreign currency	Equivalent in Guaranies
Total Assets in Foreign currency	261.249.417,41	1.169.874.891.162
Total Liabilities Foreign currency	258.870.853,18	1.159.223.680.540
Net Position in Foreign Currency	**2.378.564,23**	**10.651.210.622**

Net position in foreign currency:

Currency	POSITION Purchased	Sold	EQUIVALENT IN DOLLARS - US$
US$	10.279.246.268	—	2.295.499,39
Other Currencies	371.964.354	—	83.064,84
TOTAL	**10.651.210.622**	**—**	**2.378.564,23**

C.3 Securities

Government Securities (unlisted securities in the stock exchange or in the secondary market) and Private Securities (listed securities in the stock exchange or in the secondary market) are valued at cost plus accrued income to be collected at year end, which does not exceed its estimated realizable value.

PUBLIC AND PRIVATE SECURITIES	CURRENCY OF ISSUANCE	AMOUNT	AMOUNT IN GUARANIES NOMINAL VALUE	ACCOUNTING VALUE
Government Securities (unlisted securities)				
—Letters of Commitment and Letters of Monetary Regulation issued by the Central Bank of Paraguay	**G.**	327.100.000.000	327.100.000.000	324.853.354.863
—Treasury bonds issued by the Republic of Paraguay (BOTES)	**G.**	45.000.000.000	45.000.000.000	45.330.583.883
TOTAL		**372.100.000.000**	**372.100.000.000**	**370.183.938.746**

C.4 Assets and Liabilities with restatement clauses

There are no assets and liabilities with restatement clauses, except for property, plant and equipment (Note C8).

C.5 Loan Portfolio—Financial Sector and Non-Financial Sector

The Loan portfolio has been valued in accordance with Resolution No. 1, Minutes No. 60 dated September 28, 2007 and its subsequent modifications issued by the Board of Directors of the Central Bank of Paraguay, for which:

a. Debtors have been classified in six risk categories.

b. Allowances for doubtful debtors have been set to cover sufficiently the estimated losses that may derive from the recovery of the portfolio.

c. Interests, valuation income and charges derived from any concept that yielded profits for the Entity were accounted on the accrual basis, considering the term of the loans. In the situations described below, the accrual of the additional interests and charges were suspended:

—Loans payable in one installment of principal and interests: since the day following the agreed due date.

—Loans payable in installments: since the time the installment is overdue, although composed only by interests.

HSBC Bank Paraguay S.A.

Notes to the Financial Statements

—Loans granted to debtors classified under risk category "3" or higher: from the time the debtor was classified by the Entity or reclassified by the Superintendency of Banks under risk category "3" or higher.

—Delinquent debts or those classified under risk category "3" or higher, that were cancelled by the adjudication or payment in movable and immovable goods: up to the final sale of the goods.

Interest accrued and not collected, from Customers with overdue credits and/or current credits classified in categories "3" or higher", which have been recognized as earnings until they become overdue or when the customer is classified in a category higher than "2", have been provisioned by 100% of their balance.

Interests and additional charges which accruals were suspended according to the criteria mentioned above were recognized as income when collected.

Current Credits Non-Financial Sector

RISK CATEGORY G.	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR CREDIT LOSSES G.	COMPUTED GUARANTEES G.	ALLOWANCES G. % MINIMUM	ALLOWANCES G. (*) CREATED	ACCOUNTING VALUE AFTER ALLOWANCES FOR CREDIT LOSSES G.
1	1.384.508.991.210	248.184.024.771	—	(6.991.648.998)	1.377.517.342.212
2	10.989.068.795	8.413.801.566	5	(339.108.403)	10.649.960.392
3	689.310.927	—	25	(179.490.759)	509.820.168
4	95.891.799	—	50	(47.945.900)	47.945.899
5	10.756.429	—	75	(8.067.320)	2.689.109
6	5.597.923	—	100	(5.597.923)	—
TOTAL	**1.396.299.617.083**	**256.597.826.337**		**(7.571.859.303)**	**1.388.727.757.780**

(*) Includes generic allowances created for G. 6.982.823.547, required by Resolution No. 1, Minutes No. 60 dated September 28, 2007 and subsequent modifications, issued by the Board of Directors of the Central Bank of Paraguay. They were considered as tax deductible.

Overdue credits Non-Financial Sector

RISK CATEGORY G.	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR CREDIT LOSSES G.	COMPUTED GUARANTEES G.	ALLOWANCES G. % MINIMUM	ALLOWANCES G. (*) CREATED	ACCOUNTING VALUE AFTER ALLOWANCES FOR CREDIT LOSSES G.
1	715.957.192	—	—	—	715.957.192
2	4.234.715.914	—	5	(211.736.067)	4.022.979.847
3	3.163.388.854	—	25	(840.999.653)	2.322.389.201
4	1.061.537.564	—	50	(541.676.891)	519.860.673
5	1.167.270.750	—	75	(944.164.947)	223.105.803
6	10.865.747.531	—	100	(10.865.747.531)	—
TOTAL	**21.208.617.805**	**—**		**(13.404.325.089)**	**7.804.292.716**

HSBC Bank Paraguay S.A.

Notes to the Financial Statements

C.6 Allowance for credit losses on direct and contingent risks

Allowances to cover sufficiently credit losses estimated in the recovery of the portfolio have been created, according to Resolution N° 1, Minutes No. 60 dated September 29, 2007 of the Board of Directors of the Central Bank of Paraguay. Below is a breakdown thereof:

ITEM	OPENING BALANCE G.	CREATION OF ALLOWANCES FOR CREDIT LOSSES G.	WRITTE OFF G.	WRITE BACK G.	VARIATION OF ALLOWANCES FOR CREDIT LOSSES IN FOREING CURRENCY G.	ENDING BALANCE G.
Allowance for credit losses	**16.931.780.187**	**18.215.623.671**	**(1.076.477.151)**	**(10.856.386.842)**	**(33.844.412)**	**23.180.695.453**

ITEM	OPENING BALANCE G.	CREATION OF ALLOWANCES FOR CREDIT LOSSES G.	WRITTE OFF G.	WRITE BACK G.	VARIATION OF ALLOWANCES FOR CREDIT LOSSES IN FOREING CURRENCY G.	ENDING BALANCE G.
Cash and Equivalents	85.015.540	1.344.274.985	—	(1.413.778.524)	—	15.512.001
Current credits—non Financial Sector	5.103.855.521	5.506.267.955	(124.677.050)	(2.879.254.894)	(34.332.229)	7.571.859.303
Overdue credits—Nonfinancial Sector	9.816.948.588	10.397.486.176	(951.800.101)	(5.858.124.046)	(185.528)	13.404.325.089
Others (i)	1.040.033.521	967.594.555	—	(371.780.218)	673.345	1.636.521.203
Contingencies Provisions (ii)	885.927.017		—	(333.449.160)	—	552.477.857
TOTAL	**16.931.780.187**	**18.215.623.671**	**(1.076.477.151)**	**(10.856.386.842)**	**(33.844.412)**	**23.180.695.453**

(i) Allowances for accounts receivables and investments at beginning of the year 2011 for G. 49.150.701 and G. 990.882.820 respectively. At year-end 2011 balances are composed of G. 968.267.900 and G. 668.253.303.

(ii) Includes G. 427.400.000 of provisions for lawsuits against the Bank (see Note C.16.1.a)

C.7 Investments

Investments represent the holding of securities issued by the private sector and foreclosed assets not applied to the operations of the Entity. These are valued according to the following criteria:

a) Foreclosed Assets: at the moment of receipt of the asset, they are valued at the lesser value between the market value of the asset received (appraised value), the value of the adjudication and the balance of the debt immediately prior to the adjudication. Additionally, allowances have been created for those assets that exceed the terms of the Central Bank of Paraguay for the holding thereof, in accordance with Resolution of the Board of Directors of the Central Bank of Paraguay No. 1 Minutes 60 dated September 28, 2007. Upon (3) years of holding, the assets are reserved at 100%.

b) Variable income securities issued by the private sector (listed): they are valued at acquisition cost, which does not exceed their estimated realizable value, or their equity-method value.

c) Variable income securities issued by the private sector (unlisted): they are valued at acquisition cost plus the result from changes in equity, which does not exceed their estimated realizable value or their equity-method value.

d) Fixed income securities issued by the private sector (listed): they are valued at acquisition cost plus accrued interest pending collection, which does not exceed their estimated realizable value.

The detail of investments as at December 31, 2011 is as follows:

ITEM	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR INVESTMENT LOSSES G.	PROVISIONS G.	ACCOUNTING BALANCE AFTER ALLOWANCES FOR INVESTMENT LOSSES G.
Foreclosed Assets	619.651.459	(619.651.459)	—
Investments in variable income Securities issued by the private sector (listed)—Note B.4.a	255.757.258	(46.101.844)	209.655.414
Investments in variable income Securities issued by the private sector (unlisted)—Note B.4.a	4.000.983.808	—	4.000.983.808
Fixed income securities Issued by the Private Sector (listed)	2.976.489.791	—	2.976.489.791
Special Investments	2.500.000	(2.500.000)	—
Idle premises	94.655.215		94.655.215
TOTAL	**7.950.037.531**	**(668.253.303)**	**7.281.784.228**

C.8 Property, plant and equipment.

Property, Plant and Equipment are accounted for their acquisition cost restated for inflation, applying the variation of the Consumer Price Index, net of Accumulated Depreciation based on rates determined by Law 125/1991, considering the conversion factor provided for that purpose by the Tax Office. The net amount of restatement is disclosed in the account “Equity Adjustments” of the Entity’s Net Equity.

Improvements or additions are capitalized, while maintenance costs and/or repairs, which do not increase the value of property or their useful life, are charged to results, in the period in which they occur.

Depreciations are computed from the month following that of incorporation to the Entity’s Assets, charging to results on the base of the lineal system, during the years considered as useful life.

The composition of property, plant and equipment as at December 31, 2011 is as follows:

ITEM	ANNUAL DEPRECIATION RATE (%)	RESTATED COST G.	ACCUMULATED DEPRECIATION G.	NET VALUE G.
Real estate—Land	—	3.555.539.521	—	3.555.539.521
Real estate—Buildings	2,5	3.936.952.733	(*)(1.120.336.863)	2.816.615.870
Installations	10	3.886.040.576	(*)(2.533.906.884)	1.352.133.692
Furniture, Fixture and Fittings	10 y 25	4.644.461.680	(1.476.767.491)	3.167.694.189
Computer Equipment	10, 20 y 25	16.929.749.848	(8.791.176.064)	8.138.573.784
Vehicles	20	1.527.599.693	(660.348.657)	867.251.036
TOTAL		**34.480.344.051**	**(14.582.535.959)**	**19.897.808.092**

(*) The value of the land, building and facilities was updated by a registered appraiser, Eng. Pessolani: land in G. 298.958.238, and building and facilities in G. 1.363.554.835 in concept of impairment.

C.9 Deferred charges

The composition of this item at December 31, 2011 is as follows:

ITEM	OPENING BALANCE G.	INCREASES G.	AMORTIZATION OVER THE YEAR G.	NET ENDING BALANCE G.
Improvements and facilities on leased property (i)	4.241.236.178	548.285.136	(1.182.944.568)	3.606.576.746
Stationery and others	524.097.839	816.066.060	(1.052.202.245)	287.961.654
TOTAL	**4.765.334.017**	**1.364.351.196**	**(2.235.146.813)**	**3.894.538.400**

(i) To be amortized over five (5) years on the basis of the linear system.

C.10 Subordinated Debentures

As at December 31, 2011 the entity does not have subordinated debentures.

C. 11 Limitations to the free disposal of assets or equity and restrictions to property rights

In general there are no restricted assets, except:

a- Reserve Requirements

Within a total of G. 512.356.902.078 shown in the account Central Bank of Paraguay as Available item, G. 430.291.999.620 is included corresponding to restricted accounts maintained with the Central Bank of Paraguay for legal reserve requirements.

b- Bancard's Shares

1.700 shares (nominal amount G.1.700.000.000) have been pledged as a guarantee for operations of Bancard Check, Mastercard, Visa and Network Infonet.

c- Distribution of Profits

Legal Reserve: According to Article 27 of Law No. 861 "General Law on Banks, Finance Companies and Other Credit Entities", financial institutions must have a reserve of not less than the equivalent of one hundred percent (100%) of its capital, which will be created by transferring annually at least twenty percent (20%) of the net profits of each financial year.

Article 28 of said Law; establishes that legal reserve resources will be applied automatically to cover losses in the financial year. In the following years, the total profits should be allocated to legal reserve until the minimum thereof is reached again, or higher amount that was set during the process of fixing the same.

At any time, the amount of the reserve may be increased by cash contributions.

Approval of Financial Statements: According to the Law No. 861 "General Law of Banks, Finance and Other Credit Entities", banks authorized to operate in accordance with this Act, whether national or foreign, may distribute its profits after due approval by the Superintendency of Banks, pursuant to their audited annual financial statements, provided said approval is issued within one hundred and twenty days after the close of the fiscal year. After expiration of this term, profits may be distributed provided the Superintendency of Banks has not given directions in this sense.

Income Tax: The income tax rate is 10%.

Law 125/91: According to the tax legislation, from the year ended December 31, 2005, the distribution of earnings is subject to a withholding of 15% as Income tax, in case the entity's shareholders are domiciled abroad.

C.12 Guarantees granted on liabilities

As at December 31, 2011 there are no guarantees granted on liabilities.

C.13 Distribution of credits and financial intermediation obligations, according to their maturities

The distribution of credit and financial intermediation obligations, according to their maturity, is the following:

	TERM REMAINING TO MATURITY					
ITEM	UP TO 30 DAYS G.	FROM 31 DAYS TO 180 DAYS G.	FROM 181 DAYS TO 1 YEAR G.	FROM 1 YEAR TO 3 YEARS G.	OVER 3 YEARS G.	TOTAL G.
Current Credit Financial Sector	268.729.531.247	—	—	—	—	268.729.531.247
Current Credit Non-Financial Sector	253.395.366.787	632.052.302.940	265.054.349.312	198.484.676.580	74.445.383.555	1.423.432.079.174
TOTAL OF CURRENT CREDITS	**522.124.898.034**	**632.052.302.940**	**265.054.349.312**	**198.484.676.580**	**74.445.383.555**	**1.692.161.610.421**
Obligations—Financial Sector	32.757.790.769	1.500.000.000	100.000.000	3.000.000.000	—	37.357.790.769
Obligation—Non—Financial Sector	1.767.643.538.785	378.367.589.758	128.748.927.862	75.189.949.373	1.030.000.000	2.350.980.005.778
TOTAL OBLIGATIONS	**1.800.401.329.554**	**379.867.589.758**	**128.848.927.862**	**78.189.949.373**	**1.030.000.000**	**2.388.337.796.547**

HSBC Bank Paraguay S.A.

Notes to the Financial Statements

C.14 Concentration of the Loan and Deposits portfolio

C.14.1 Composition of the Loan Portfolio by number of clients

The loan portfolio by number of clients is composed as follows:

	AMOUNT AND PERCENTAGE OF LOAN PORTFOLIO			
NUMBER OF CLIENTS	CURRENT G.	%	OVERDUE G.	%
10 largest Debtors	187.170.216.374	13	7.820.479.554	37
50 Second largest Debtors	483.462.001.835	35	5.368.486.934	25
100 Subsequent largest Debtors	344.254.980.925	25	4.165.858.471	20
Other Debtors	381.412.417.949	27	3.853.792.846	18
TOTAL LOAN PORTFOLIO	**1.396.299.617.083**	**100**	**21.208.617.805**	**100**

C.14.2 Deposits portfolio by sector

The breakdown by sector and number of depositors is as follows:

	AMOUNT AND PERCENTAGE OF DEPOSIT PORTFOLIO					
NUMBER OF CLIENTS	Financial Sector G.	%	Private Sector G.	%	Public Sector G.	%
10 Largest Deposits	25.684.959.463	69	409.584.477.334	18	52.210.190.760	98
50 Second largest Deposits	11.538.036.403	31	452.850.693.829	20	827.562.223	2
100 Subsequent largest Deposits	—	—	287.476.406.412	13		—
Other Deposits	—	—	1.102.772.641.691	49	—	—
TOTAL DEPOSIT PORTFOLIO	37.222.995.866	100	2.252.684.219.266	100	53.037.752.983	100

C.15 Transactions with related parties

ITEM	ACCOUNTING BALANCE BEFORE ALLOWANCES FOR CREDIT LOSSES G.	ALLOWANCES G.	ACCOUNTING BALANCE AFTER ALLOWANCES FOR CREDIT LOSSES G.
Current Credits Financial Sector	174.680.803.706	—	174.680.803.706
Current Credits Non-Financial Sector	385.056.454	—	385.056.454
Other credits	—	—	—
Overdue Credits	—	—	—
Contingencies	64.931.127.156	—	64.931.127.156
TOTAL	**239.996.987.316**	**—**	**239.996.987.316**

C.16 Other relevant events

C.16.1 Contingencies and commitments

Provision for lawsuits against the Entity: Due to the existence of lawsuits by third parties for alleged damages, and based on the opinion of its legal advisors, the Entity established provisions for G. 472.400.000.

HSBC Bank Paraguay S.A.

Notes to the Financial Statements

C.16.2 Other facts whose importance justifies their exposure

a. Capital injection: After the close of the fiscal year 2010, specifically during February 2011, the Entity has received funding for USD 15 million from its shareholder HSBC Latin American Holding (UK Limited) as capital contribution. This transaction has been registered as Irrevocable Contribution for Future Integration. The capital contribution will be made after completion of formalities.

b. Balances and transactions with related parties: During 2011 HSBC Bank Paraguay S.A. has received charges by related entities, including HSBC Hong Kong, HSBC Mexico, HSBC Buenos Aires, HSBC Brazil and HSBC UK for a total amount of G. 51.662.572.004 for various services provided to HSBC Paraguay. These services relate primarily to data processing services, telecommunications, central processing, call center, management, etc. Additionally, these charges include costs related to the implementation of the new computer system. According to the Entity's policy and accounting principles these fees are charged to the year's results.

Note D—Equity

D.1 Changes in Equity

ITEM	OPENING BALANCE G.	CHANGE FOR THE PERIOD INCREASE	CHANGE FOR THE PERIOD DECREASE	ENDING BALANCE G.
Paid in Capital	82.635.172.344	68.250.000.000	—	150.885.172.344
Secondary Capital	17.280.221.234	—	—	17.280.221.234
Irrevocable contribution to the integration of Capital account	—	68.250.000.000	(68.250.000.000)	—
Equity Adjustments	3.975.049.856	1.106.422.245	—	5.081.472.101
Reserves	50.255.652.566	—	(37.015.652.566)	13.240.000.000
Retained earnings (Loss)	29.566.329.160	—	(1.372.735.297)	28.193.593.863
Net Income	(38.388.387.954)	50.120.327.731	—	11.731.939.777
TOTAL EQUITY	**145.324.037.206**	**187.726.759.976**	**(106.638.387.863)**	**226.412.399.319**

Note E—Information regarding contingencies

E.1 Lines of Credit

ITEM	AMOUNT G.
Credits to be used in current accounts	14.494.026.429
Credits to be used in credit card	168.799.411.715
Guaranties Granted to Foreign Banks	5.026.412.704
TOTAL	**188.319.850.848**

Nota F—Information regarding Results

F.1 Recognition of profit and loss

Income and expenses are recognized on the basis of the accrual principle, except items mentioned in Note C5.

Profits from sale of goods on credit are recognized as revenue in proportion to the principal repayment of debt incurred by the buyer.

Exchange differences on valuation of transactions by selling goods on credit, are recognized as income at the time of collection of the credit.

Commissions for transactions are recognized as income at the time of collection thereof.

F.2 Foreign Currency Translation

Exchange differences for holding assets and liabilities in foreign currency are shown in the Income Statement under the account "Valuation of Assets and Liabilities in foreign currency"; net results are shown below:

ITEM	AMOUNT G.
Valuation income of foreign currency (F / C)	915.500.386.140
Valuation losses of foreign currency (F/ C)	(909.159.454.334)
EXCHANGE DIFFERENCE	**6.340.931.806**

F.3 Other Operating Income

Other Operating Income is composed as follows:

ITEM	AMOUNT G.
Earnings from participation in Bancard S.A.	2.191.689.921
Others	347.245.923
Valuation income	17.221.579.929
TOTAL OTHER OPERATING INCOME	**19.760.515.773**

F.4 Other Operating Losses

Other Operating Losses is composed as follows:

ITEM	AMOUNT G.
Insurance Contracts	939.228.510
Taxes and Contributions	12.543.083.037
Other Losses	450.491.645
Operation Losses	1.926.429.394
Valuation Losses	19.221.105.913
Other Diverse Obligations	112.513.641
TOTAL OTHER OPERATING LOSSES	**35.192.852.140**

Note G—Subsequent events

There have been no events or circumstances after December 31, 2011, whose significance require their disclosure in the financial statements.

Note H—Effects of Inflation

There have not been inflation adjustments on the financial statements. Note B2.

HSBC BANK PERU S.A.

Condensed Interim Balance Sheet
March 31, 2012 and December 31, 2011
(Stated in thousands of nuevos soles)

	2012 (Unaudited)	2011 (Audited)
Assets		
Cash and due from banks (note 5):		
Cash and clearing	47,226	66,823
Deposits with Banco Central de Reserva del Perú	1,124,247	890,669
Deposits with local and foreign banks	18,360	15,224
Other	477	370
	1,190,310	973,086
Trading and available-for-sale investments (note 6)	102,452	133,804
Loan portfolio, net of provisions for loan losses (note 7)	2,190,242	2,065,195
Accounts receivable, net	16,622	12,757
Assets for lease and recovered assets, net	4,748	5,484
Investments in associates	169	153
Property, furniture, and equipment, net	20,329	22,045
Other assets, net (note 8)	205,395	174,621
Total assets	3,730,267	3,387,145
Contingent and memorandum accounts (note 11)	10,074,066	8,549,454
Liabilities and Equity		
Deposits and obligations (note 9)		
Demand deposits	307,846	378,866
Savings deposits	274,425	253,189
Time deposits	2,236,432	1,950,199
Deposits of financial system entitiesand finance institutions	—	21,214
Other obligations	216,152	176,392
	3,034,855	2,779,860
Securities, bonds, and obligations outstanding	40,839	40,339
Borrowings and financial obligations (note 10)	219,490	194,272
Provisions and other liabilities	159,358	91,598
Total liabilities	3,454,542	3,106,069
Equity:		
Share capital	550,361	550,361
Unrealized results	153	—
Accumulated losses	(274,789)	(269,285)
Total equity	275,725	281,076
Total liabilities and equity	3,730,267	3,387,145
Contingent and memorandum accounts (note 11)	10,074,066	8,549,454

See the accompanying notes to the condensed interim financial statements.

HSBC BANK PERU S.A.

Condensed Interim Income Statement
For the three-month period ended March 31, 2012 and 2011
(Stated in thousands of nuevos soles)

	2012 (Unaudited)	2011 (Unaudited)
Financial income (note 12)	108,717	61,833
Financial expense (note 13)	(66,594)	(24,321)
Gross financial margin	42,123	37,512
Provisions for loan losses, net (note 7)	(7,926)	(7,100)
Net financial margin	34,197	30,412
Income from financial services	15,510	9,121
Expenses for financial services	(3,392)	(2,514)
Operating margin	46,315	37,019
Administrative expenses (note 14)	(48,794)	(42,572)
Net operating margin	(2,479)	(5,553)
Provisions for contingencies and others (note 15)	(6,203)	(1,702)
Depreciation and amortization	(3,624)	(2,615)
Operating loss	(12,306)	(9,870)
Income from portfolio recovery, net	1,439	354
Other income, net (note 16)	1,922	6,624
Loss before income tax	(8,945)	(2,892)
Income tax	3,441	6,815
Net (loss) profit for the period	(5,504)	3,923
Weighted average of shares outstanding:		
(in thousands of shares) (note 18)	550,361	479,961
(Loss) profit per share (in nuevos soles) (note 18)	(0.010)	0.008

See the accompanying notes to the condensed interim financial statements.

HSBC BANK PERU S.A.

Condensed Interim Statement of Changes in Equity
For the three-month period ended March 31, 2012 and 2011
(Stated in thousands of nuevos soles)

	Share Capital	Unrealized results	Accumulated losses	Total
Balances as of December 31, 2010 (Audited)	479,961	(623)	(207,891)	271,447
Reversal of previous years deferred employees' profit sharing (note 3)	—	—	(7,880)	(7,880)
Fair value adjustments to available-for-sale investments	—	(1,052)	—	(1,052)
Net profit for the period	—	—	3,923	3,923
Balances as of March 31, 2011 (Unaudited)	479,961	(1,675)	(211,848)	266,438
Balances as of December 31, 2011 (Audited)	550,361	—	(269,285)	281,076
Fair value adjustments to available-for-sale investments	—	153	—	153
Net loss for the period	—	—	(5,504)	(5,504)
Balances as of March 31, 2012 (Unaudited)	550,361	153	(274,789)	275,725

See the accompanying notes to the condensed interim financial statements.

HSBC BANK PERU S.A.

Condensed Interim Statement of Cash Flows
For the three-month period ended March 31, 2012 and 2011
(Stated in thousands of nuevos soles)

	2012 (Unaudited)	2011 (Unaudited)
Net cash flows from operating activities:		
Net (loss) profit for the period	(5,504)	3,923
Adjustments to reconcile net (loss) profit to net cash from (used in) operating activities:		
Provision for loan losses	7,926	7,100
Depreciation and amortization	3,624	2,615
Other provisions	6,203	1,702
Deferred income tax	(3,441)	(6,815)
Others	(8,071)	(4,910)
Increase in accounts receivable	(3,879)	(4,627)
Increase in other assets	(28,983)	(26,118)
Increase in other liabilities	62,120	13,012
Net cash from (used in) operating activities	29,995	(14,118)
Net cash flows from investing activities:		
Purchase of property, furniture, and equipment	(55)	(306)
Purchase of other non-financial assets	(204)	(7,932)
Net cash used in investing activities	(259)	(8,238)
Net cash flows from financing activities:		
Increase in loan portfolio	(125,449)	(83,269)
Decrease (increase) in investments	31,488	(39,395)
Decrease (increase) in assets for lease	736	(9,801)
Decrease in received interbank funds	—	(54,011)
Increase in deposits and obligations	254,995	442,225
Increase in borrowings and financial obligations, and securities, bonds, and obligations outstanding	25,718	57,714
Net cash from financing activities	187,488	313,463
Net increase in cash and cash equivalents	217,224	291,107
Cash at beginning of period	973,086	1,523,948
Cash at end of the period	1,190,310	1,815,055

See the accompanying notes to the condensed interim financial statements.

HSBC BANK PERU S.A.

Notes to the Condensed Interim Financial Statements
As of March 31, 2012 (unaudited), December 31, 2011 (audited) and
March 31, 2011 (unaudited)

(1) Reporting Entity

HSBC Bank Perú S.A. (hereinafter the Bank) is a subsidiary of HSBC Latin America Holding (UK) Limited which holds 76.60% of its share capital as of March 31, 2012 and December 31, 2011, and is a subsidiary of HSBC Holdings plc, both companies are incorporated in London.

The Bank is a publicly-held corporation that was incorporated on May 2, 2006. On September 28, 2006, it was authorized to operate as a multiple bank by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones (Superintendency of Banking, Insurance and Private Pension Fund Administrators) (hereinafter SBS). The Bank started operations on October 9, 2006.

The Bank's operations mainly comprise financial intermediation, characteristic of multiple banks; which are ruled by the SBS in accordance with Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la SBS, Law 26702 (hereinafter the Banking Act). This Act establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions to which every legal entity operating in the financial and insurance systems are subject. The Bank is entitled to receive monetary deposits from the public and invest these funds, together with its own capital, in granting loans and guarantees, acquiring securities, and carrying out finance lease and financial intermediation operations, as well as to render banking services to corporate and individual clients, and other activities allowed by the law.

The Bank's legal address is Jr. Carabaya Nº 891, Lima—Perú. To develop its activities, the Bank has one main office and 24 branches located in Lima and provinces as of March 31, 2012 and December 31, 2011. Likewise, as of March 31, 2012, the Bank has 851 employees (859 employees as of December 31, 2011).

(2) Basis of Preparation

(a) Statement of Compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Bank since the last annual financial statements as at and for the year ended December 31, 2011. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Bank's annual financial statements as of and for the year ended December 31, 2011.

These condensed interim financial statements were approved by the Bank's Management and Board of Directors on April 25, 2012.

The accompanying condensed interim financial statements have been prepared based on the Bank's accounting book balances, and are presented in accordance with current legal provisions and accounting principles generally accepted in Peru as applicable to financial entities, which comprise the accounting standards and practices authorized by the SBS using its authority conferred as established by the Banking Act. These standards are included in the Accounting Manual for Financial System Entities (hereinafter the Accounting Manual) approved by Resolution SBS Nº 895-95 and supplementary regulations.

(b) Basis of Measurement

These condensed interim financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.

- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.

(c) Presentation Currency

These condensed interim financial statements are presented in nuevos soles (S/.) under SBS standards. Financial information is presented in nuevos soles (S/.) and has been rounded to the nearest thousand (S/. 000), except as otherwise indicated.

(d) Use of Estimates and Judgments

Preparing the condensed interim financial statements requires Management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed interim financial statements, significant judgments made by Management in applying the Bank´s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended December 31, 2011.

(3) Significant Accounting Policies

The accounting policies applied by the Bank in these condensed interim financial statements are the same as those applied by the Bank as at and for the year ended December 31, 2011.

(4) Foreign Currency Balances

The balance sheets comprises balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in nuevos soles (S/.) at the exchange rates established by the SBS. As of March 31, 2012 and December 31, 2011, these rates were US$1 = S/. 2.667 and S/. 2.696, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú—BCRP (Peru Central Bank), are channeled through the foreign exchange market. As of March 31, 2012, the buy and sell exchange rates used were US$ 1 = S/. 2.666 and US$ 1 = S/. 2.668, respectively (US$1= S/. 2.695 buy rate and US$ 1= S/. 2.697 sell, as of December 31, 2011).

HSBC BANK PERÚ S.A.

Notes to the Financial Statements

Foreign currency balances stated in thousands of U.S. dollars as of March 31, 2012 and December 31, 2011, are summarized as follows:

	In thousands of US$	
	2012	2011
Assets:		
Cash and due from banks	187,917	227,616
Loan portfolio	368,305	328,035
Accounts receivable	2,998	2,325
Other assets	1,325	1,903
	560,545	559,879
Liabilities:		
Deposits and obligations	(562,773)	(577,629)
Interbank funds	—	(7,869)
Borrowings and financial obligations	(82,299)	(72,059)
Accounts payable	(24,653)	(17,992)
Provisions	(4,163)	(1,997)
Other liabilities	(27,718)	(12,258)
	(701,606)	(689,804)
Liability position, net of balance	(141,061)	(129,925)

Foreign currency balances in other than U.S. dollars are not material to the interim financial statements taken as a whole.

For the three month period ended March 31, 2012, the Bank recorded under interest expenses the net loss on exchange difference for various operations amounting to S/. 47,162 thousand (note 13) (as of March 31, 2011, it recorded in the interest income, the net gain of S/. 7,168 thousand (note 12)).

As of March 31, 2012, the Bank has off-balance sheet transactions (contingent loans, contracts of derivative instruments and unused credit lines) in foreign currency amounting to US$ 1,296,556 thousand, equivalent to S/. 3,457,915 thousand (US$ 1,012,258 thousand equivalent to S/. 2,729,047 thousand as of December 31, 2011).

Derivative financial instruments as of March 31, 2012 comprise sale “forward” transactions of US$ 384,070 thousand and purchase “forward” transactions of US$ 510,162 thousand which have up to one-year maturity (note 11) (sale “forward” transactions of US$ 256,598 thousand and purchase “forward” transactions of US$ 378,300 thousand as of December 31, 2011).

The corresponding receivable and payable for the amounts accrued for the fluctuations resulting from valuations of these transactions amount to US$ 1,379 thousand and US$ 10,267 thousand, respectively, as of March 31, 2012 and are included in Accounts receivable, net and Provisions and other liabilities, respectively, in the balance sheet (US$ 1,114 thousand and US$ 5,774 thousand as of December 31, 2011).

The gain from derivative products recorded in the three-month period ended March 31, 2012 amounts to S/. 46,164 thousand (loss recorded in the three-month period ended March 31, 2011 amounts to S/. 7,268 thousand).

(5) Cash and Due from Banks

As of March 31, 2012, Deposit with Banco Central de Reserva del Peru (hereinafter BCRP) comprise mainly of two “overnight” transactions deposited at the BCRP; one amounting to S/. 610,000 thousand which accrued interest at an annual nominal rate of 4.23% and with a 2-day maturity and another for S/. 17,000 thousand which accrued interest at an annual nominal rate of 3.45% and with a 2-day maturity.

The cash and due from banks approximately comprise S/.51,352 thousand and US$ 183,182 thousand equivalent to S/. 488,547 thousand (S/. 75,375 thousand and US$ 198,225 thousand equivalent to S/. 534,414 thousand as of December 31, 2011) of funds representing legal cash reserve that the Bank must set aside to cover deposits from third parties, according to limits established by current legislation. These funds are mainly held at the BCRP and in the vault of a security company.

The funds of legal cash reserve held at BCRP accrue interest, on the required amount in both currencies exceeding the minimum legal cash reserve. As of March 31, 2012, the excess of minimum legal cash reserve in domestic currency amounts to S/. 146,655 thousand and in foreign currency amounts to US$ 279,006 thousand, and accrue interest in nuevos soles at an annual rate of 2.45% and in U.S. dollars at an annual rate of 0.1451% (S/. 92,970 thousand and US$ 206,498 thousand at an annual rate of 2.45% and 0.1705%, respectively, as of December 31, 2011).

Deposits at local and foreign banks correspond, mainly, to balances in nuevos soles and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates.

For the three month period ended March 31, 2012, revenue from interest on cash and due from banks amounts to S/. 944 thousand (S/. 509 thousand as of March 31, 2011) and is included under the interest income in the income statement (note 12).

(6) Trading and Available-for-Sale Investments

As of March 31, 2012, it comprises of BCRP certificates of deposit (debt instruments issued by BCRP) for S/. 102,452 thousand (S/. 133,804 thousand as of December 31, 2011); these certificates accrued interest rates between 4.11% and 4.19% and matured in April and September 2012.

(7) Loan Portfolio

As of March 31, 2012 and December 31, 2011 this item comprises the following:

	In thousands of S/. 2012	2011
Direct loans:		
Overdrafts	242	435
Discounts	88,344	100,975
Loans	1,302,732	1,206,518
Finance lease	269,967	279,167
Mortgage loans	494,747	459,474
Credit cards	78,373	54,155
Past due loans	29,727	45,445
Refinanced loans	11,147	10,286
Loans in litigation	15,106	10,020
	2,290,385	2,166,475
Accrued interest on current loans	14,279	11,951
Unaccrued interest and commissions	(29,239)	(28,450)
Provision for loan losses	(85,183)	(84,781)
Total direct loans, net	2,190,242	2,065,195
Indirect loans (note 11)	1,442,727	1,543,052

The loan portfolio (direct and indirect) is mainly collateralized by guarantees received from clients, which are mainly composed of third-party stand-by letters, and other. The value of these guarantees has been determined based on net realizable value in the market according to SBS regulations.

Annual interest rates are ruled by the market and may be fixed freely by the Bank. As of March 31, 2012 and December 31, 2011 the annual average effective rates for the following main products were as follows:

	% 2012		2011	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts	60.00	45.00	60.00	45.00
Discounts	8.97 - 9.98	7.66 - 8.46	7.62 - 9.38	6.78 - 8.26
Loans	8.77 - 16.53	6.60 - 10.07	5.23 - 17.63	6.31 - 13.01
Finance lease	8.38	6.98	8.54	6.85
Mortgage loans	9.14	8.21	9.17	8.58

As of March 31, 2012 and December 31, 2011 according to current SBS regulations, the loan portfolio was rated by risk as follows:

	2012				2011			
	Number of	In thousands of S/.			Number of	In thousands of S/.		
Rating	debtors	Direct	Indirect	Total	debtors	Direct	Indirect	Total
Standard	66,275	2,080,582	1,414,853	3,495,435	39,866	1,956,246	1,521,043	3,477,289
With Potential problem	3,103	90,458	24,389	114,847	2,837	90,943	22,009	112,952
Substandard	1,443	25,045	3,485	28,530	1,358	22,322	—	22,322
Doubtful	2,247	36,609	—	36,609	2,296	39,084	—	39,084
Loss	886	28,452	—	28,452	898	29,430	—	29,430
	73,954	2,261,146	1,442,727	3,703,873	47,255	2,138,025	1,543,052	3,681,077

As of March 31, 2012 and December 31, 2011, direct loans are distributed among the following economic sectors:

	In thousands of S/.			
	2012	%	2011	%
Mortgage and consumer loans	1,257,857	55	1,153,495	53
Trade	208,671	9	183,285	9
Manufacturing	272,450	12	247,334	11
Real estate business and lease Service	169,872	7	175,272	8
Transport	135,541	6	140,603	6
Construction	82,252	4	85,651	4
Fishing	38,602	2	38,220	2
Agriculture and livestock	30,228	1	41,772	2
Financial intermediation	17,639	1	21,492	1
Hotel and restaurants	4,718	—	3,740	—
Mining	31,076	1	32,865	2
Other	41,479	2	42,746	2
	2,290,385	100	2,166,475	100

Direct loans have the following contractual maturities as of March 31, 2012 and December 31, 2011:

	In thousands of S/.	
	2012	2011
Up to 3 months	637,430	562,920
3 months to 1 year	283,440	301,368
Over 1 year	1,324,682	1,246,723
Overdue and lawsuit loans	44,833	55,464
	2,290,385	2,166,475

As of March 31, 2012 and December 31, 2011, the provision for loan losses includes the following:

	In thousands of S/.	
	2012	2011
Direct loans:		
Specific provision	55,123	56,708
Generic provision (include procyclical)	30,060	28,073
	85,183	84,781
Indirect loans:		
Specific provision	744	479
Generic provision (include procyclical)	8,042	8,667
	8,786	9,146
	93,969	93,927

The movement of the provision for loan losses is as follows:

	In thousands of S/.		
	Specific	Generic	Total
Balances as of December 31, 2011	57,187	36,740	93,927
Additions charged to income statement:			
Direct loans	6,661	1,265	7,926
Indirect loans	429	249	678
Write-offs	(8,231)	—	(8,231)
Others	(179)	(152)	(331)
Balances as of March 31, 2012	55,867	38,102	93,969

	In thousands of S/.		
	Specific	Generic	Total
Balances as of December 31, 2010	48,106	32,240	80,346
Additions charged to income statement			
Direct loans	8,351	(1,251)	7,100
Indirect loans	160	1,485	1,645
Write-offs	(4,959)	—	(4,959)
Others	—	20	20
Balances as of March 31, 2011	51,658	32,494	84,152

Procyclical provision accumulated balance as of March 31, 2012 and December 31, 2011 amount to S/. 15,225 thousand and S/. 14,516 thousand, respectively.

Management is constantly analyzing the effects of the economic situation and its impact on the Bank. Likewise, it records provisions for possible portfolio impairment, on a periodical basis. In management's opinion, the provision for loan losses, recorded as of March 31, 2012 and December 31, 2011, complies with SBS's regulations and authorizations in force at those dates.

On May 24, 2012, the Bank received the Official Letter No.17455-2012-SBS by which the SBS instructs the Bank's to estimate and record an additional provision for over indebtedness of the consumer loans portfolio in accordance with article 7 of the Resolution SBS No.6941-2008 "Regulation on Risk Management Indebtedness of Retail Debtors". In this regard, Bank's management is currently coordinating with the SBS in order to the determined the amount to be recorded.

(8) Other Assets

As of March 31, 2012 and December 31, 2011 this item comprises the following:

	In thousands of S/.	
	2012	2011
Deferred income tax	60,615	57,174
Value added tax credit (a)	61,862	62,726
Intangible assets, net of amortization of S/. 19,616 thousand (S/. 17,762 thousand in 2011)	29,119	30,768
Payments in advance of income tax (b)	24,980	21,264
Transactions in progress (c)	28,062	2,108
Others	757	581
	205,395	174,621

(a) Tax credit mainly comprises: (i) the value added tax paid on the purchase of assets that have been transferred under a finance lease for approximately S/. 39,529 thousand, which as of March 31, 2012 (S/. 40,833 thousand as of December 31, 2011), has not been applied against operations subject to value added tax; and (ii) the tax credit amount of S/. 22,334 thousand determined after applying the coefficient for the pro rata on purchases coming from mixed operations (S/. 21,893 thousand as of December 31, 2011).

(b) As of March 31, 2012 and December 31, 2011, they comprise mainly payments in advance of income tax and additional advances of income tax. Bank's management and its legal advisors estimate that these amounts will be applied in future fiscal periods.

(c) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive accounts in the balance sheet. These transactions do not affect the results of the Bank.

(9) Deposits and Obligations

As of March 31, 2012 and December 31, 2011, obligations comprise deposits and other obligations coming from:

	In thousands of S/.			
	2012	%	2011	%
Corporate clients	2,583,838	85	2,286,914	82
Individuals	433,424	14	463,622	17
Other	17,593	1	29,324	1
	3,034,855	100	2,779,860	100

Deposits and other obligations in U.S dollars represent 49% and 57% of the total amount as of March 31, 2012 and December 31, 2011, respectively. These obligations comprises accounts given as guarantee in favor of the Bank for credit transactions for S/. 134,571 thousand and US$ 21,370 thousand as of March 31, 2012 (S/. 107,889 thousand and US$ 53,181 thousand as of December 31, 2011).

As of March 31, 2012 and December 31, 2011, the total deposits and obligations amounting to S/. 181,725 thousand and S/. 179,692 thousand, respectively, are covered by the Deposit Insurance Fund, in conformity with current legal provisions.

The Bank freely establishes the interest rates based on supply and demand and type of deposits. Annual average effective rates in force as of March 31, 2012 and December 31, 2011 for the main products were as follows:

	%			
	2012		2011	
	Local currency	Foreign currency	Local currency	Foreign currency
Time deposits	4.50	1.40	3.11 - 4.68	1.06 - 1.75
Saving deposits	1.25	0.80	0.80	0.73

As of March 31, 2012 and December 31, 2011, the deposits and other obligations present the following schedule of maturities according to the periods agreed with depositors:

	In thousands of S/.					
	2012			2011		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	842,899	1,037,839	1,880,738	769,579	1,004,069	1,773,648
1 to 3 months	251,227	166,528	417,755	139,297	304,921	444,218
3 to 6 months	205,675	102,115	307,790	144,614	106,781	251,395
6 to 12 months	145,404	179,450	324,854	60,912	146,272	207,184
Over 12 months	88,734	14,984	103,718	86,955	16,460	103,415
	1,533,939	1,500,916	3,034,855	1,201,357	1,578,503	2,779,860

(10) Borrowings and Financial Obligations

As of March 31, 2012 and December 31, 2011 this item comprises the following:

	In thousands of S/.	
	2012	2011
Ordinary loans from abroad with related banks	218,694	194,112
Interest payable	796	160
	219,490	194,272

As of March 31, 2012 ordinary loans correspond to debts to related foreign financial entities and accrued interest at annual rates between 0.50% and 5.808% (between 0.33% and 5.808% as of December 31, 2011).

As of March 31, 2012 and December 31, 2011, the scheduled maturity date of the borrowings from banks and other financial institutions are as follows:

	In thousands of S/.	
	2012	2011
Up to 1 month	133,379	18,877
1 to 3 months	18,677	107,918
3 to 6 months	—	—
6 to 12 months	—	—
Over 12 months	67,434	67,477
	219,490	194,272

(11) Contingent and Memorandum Accounts

As of March 31, 2012 and December 31, 2011 this item comprises the following:

	In thousands of S/.	
	2012	2011
Contingent loans (indirect) (note 7):		
Guarantees received and standby letters issued	1,442,727	1,543,052
	1,442,727	1,543,052
Contracts of derivative instruments	2,384,917	1,711,685
Unused credit lines	426,212	325,418
	4,253,856	3,580,155
Other memorandum accounts:		
Collateral received for credit operations	4,074,438	3,909,326
Securities received for collections	516,246	525,662
Write-off of uncollectible accounts	81,257	72,641
Securities received for custody	77,692	72,072
Other	1,070,577	389,598
	5,820,210	4,969,299
	10,074,066	8,549,454

In the normal course of business, the Bank engages in transactions with off-balance sheet risk exposure (contingent assets). These transactions represent a credit risk to the Bank in addition to the amounts presented in the balance sheet.

Credit risk for contingent transactions included in Memorandum Accounts of the balance sheet is defined as the possibility that any other party to a financial instrument fails to perform the terms of contract. The corresponding contracts consider the amounts that would be assumed by the Bank for credit losses in contingent transactions. The Bank applies the same credit policies when evaluating and granting direct loans and contingent loans. In the opinion of the Bank's management, the contingent transactions do not represent a significant credit risk.

Since it is expected that a portion of these contingent credits expire without being used, the total amount of contingent credits does not necessarily represent future cash disbursements for the Bank.

When management considers that there is reasonable likelihood of loss resulting from contingent transactions, such obligation is included in the determination of the provision for loan losses as if it were a direct loan.

As of March 31, 2012, collateral received for credit operations mainly comprise appraised mortgages for S/. 1,205,035 thousand and leased assets for S/. 469,850 thousand for which the net realizable value has been determined by independent appraisers. These amounts established at the date of the transaction (S/. 1,014,974 thousand and S/. 474,590 thousand as of December 31, 2011, respectively).

(12) Interest Income

As of March 31, 2012 and March 31, 2011 this item comprises the following:

	In thousands of S/.	
	2012	2011
Interest and commissions on loan portfolio	57,577	48,772
Interest on cash and due from banks	944	509
Interest and commissions on interbank funds	2,438	4,274
Interest income and valuation of investments	1,189	767
Exchange difference from various operations (note 4)	—	7,168
Gain from derivative products	46,164	—
Income from accounts receivable	288	242
Other interest income	117	102
	108,717	61,834

(13) Interest Expenses

As of March 31, 2012 and March 31, 2011 this item comprises the following:

	In thousands of S/.	
	2012	2011
Interest on deposits and obligations	16,305	11,773
Interest on borrowings from banks and other financial Institutions	917	1,549
Interest on interbank funds	91	306
Interest and other borrowings from the country and abroad	687	671
Interest of securities, bonds, and obligations Outstanding	500	500
Commissions and other charges for obligations	—	57
Exchange difference from various operations (note 4)	47,162	—
Losses for trading, available-for-sale investments and investment in associates	6	1,544
Losses from derivative products	—	7,268
Premiums for deposit insurance fund	204	203
Other interest expenses	722	450
	66,594	24,321

(14) Administrative Expenses

As of March 31, 2012 and March 31, 2011 this item comprises the following:

	In thousands of S/.	
	2012	2011
Personnel and board of directors expenses	23,420	23,079
Expenses for services received from third parties	23,408	17,745
Taxes and contributions	1,966	1,748
	48,794	42,572

Expenses for services received from third parties comprise mainly S/. 9,317 thousands related to information technology and data processing services received from HSBC Bank Mexico (S/. 3,071 thousand as of March 31, 2011) in connection with the One HSBC project implemented in April 2011.

(15) Provisions for contingencies and others

According to Resolution SBS N° 505-2002, Banks in Peru should estimate and record a country risk provision. This provision is calculated by multiplying the Bank's foreign assets in and off the balance sheet by a percentage established in the before mention resolution.

As of March 31, 2012 Management has changed its methodology of calculation the foreign country risk from a transaction basis to a country basis. As a result, the Bank has recorded an additional provision of S/. 5,501 thousand, as of March 31, 2012. This provision is recorded in the line item "Provisions for contingencies and others" in the condensed interim statement of income.

(16) Other income, net

As of March 31, 2011, the Bank revised the provisions for severance indemnity related to the One HSBC project. As a result, the Bank reversed approximately S/. 3,917 thousand related to this provision as of March 2011 and recorded this reversion in "Other income, net" in the condensed interim statement of income.

(17) Related Party Transactions

The Bank conducts various transactions with its related parties, being the most important the borrowings and financial obligations, deposits, contingent operations and expenses from services.

As a result of the aforementioned transactions, the balance sheet balances as of March 31, 2012 and December 31, 2011, as well as the income statement for the three-month period ended March 31, 2012 and 2011 comprise assets and liabilities, and income and expenses, as follows:

	In thousands of S/.									
	Assets		Liabilities		Contingent		Expenses		Income	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Borrowings and financial obligations—										
HSBC Paraguay	—	—	18,677	18,877	—	—	21	—	—	—
HSBC Private Bank Suisse	—	—	133,380	—	—	—	30	242	—	—
HSBC Bank PLC Holding	—	—	26,828	27,024	—	—	719	514	278	—
HSBC Bank Chile	—	—	40,605	40,453	—	—	597	573	—	—
HSBC Bank UK London	96	1,512	—	107,918	—	—	668	808	—	—
	96	1,512	219,490	194,272	—	—	2,035	2,137	278	—
Other liabilities—										
HSBC Bank PLC Holding	—	—	744	713	—	—	—	—	—	—
HSBC Bank UK London	—	—	35	66	—	—	—	—	—	—
HSBC Bank Panamá	—	—	—	2	—	—	243	401	—	—
HSBC Bank USA NY	3,767	19,702	—	428	2,384,917	1,711,685	—	—	—	—
HSBC USA	—	—	419	—			284	—		
HSBC Bank Brasil	—	—	1,952	1,966	—	—	232	22	—	—
HSBC Bank Salvador	—	—	13	12	—	—	2	99	—	—
HSBC Bank Argentina	—	—	375	379	—	—	7	—	—	—
HSBC Bank Mexico	—	—	28,981	23,230	—	—	10,349	2,384	—	—
HSBC Australia Limited	6	—	—	13	—	—	—	—	—	—
HSBC Hong Kong and Shangai Bank	—	—	1,016	912			169	—	—	—
Others	—	—	—	—	—	—	—	—	—	17
	3,869	21,214	253,025	221,993	2,384,917	1,711,685	13,321	5,043	278	17

Expenses mainly comprise interest on borrowings and financial obligations and expenses incurred for the use of IT infrastructure and regional structure, which are recorded in expenses for third party services.

(18) Loss per Share

The calculation of weighted average of shares and the basic and diluted losses per share is as follows:

	Shares outstanding		
	Shares outstanding	Effective dates until period-end	Weighted average common shares
Balance as of January 1, 2012	550,361,500	91	550,361,500
Balance as of March 31, 2012	550,361,500		550,361,500

	Shares Outstanding		
	Shares outstanding	Effective dates until period-end	Weighted average common shares
Balance as of January 1, 2011	479,961,500	91	479,961,500
Balance as of March 31, 2011	479,961,500		479,961,500

Calculation of basic and diluted losses per share as of March 31, 2012 and 2011 is presented as follows:

First quarter	In thousands of S/. (Loss) earnings (numerator)	In thousands Shares (denominator)	In S/. (Loss) earning per share
2012	(5,504)	550,361	(0.010)
2011	3,923	479,961	0.008

(19) Subsequent event

At the Universal Shareholders' Meeting, held on June 28, 2012 it was agreed to increase the Bank's share capital by the amount of S/.120,191 thousand (equivalent to US$ 45,000 thousand), through cash capital contributions from HSBC Latin America Holding (UK) Limited.

KPMG

KPMG en Perú
Torre KPMG. Av. Javier Prado Oeste 203
San Isidro. Lima 27, Perú

Teléfono 51 (1) 611 3000
Fax 51 (1) 421 6943
Internet www.kpmg.com/pe

INDEPENDENT AUDITORS' REPORT

The Shareholders and Board of Directors of
HSBC Bank Perú S.A.

We have audited the accompanying financial statements of HSBC Bank Perú S.A., which comprise the balance sheet as of December 31, 2011 and 2010, and the related statements of income, changes in equity and cash flows for the years then ended, and the summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards established by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones (SBS) (Superintendency of Banking, Insurance, and Private Pension Fund Administrators). This responsibility includes: designing, implementing and maintaining internal control pertinent to the preparation and fair presentation of financial statements to ensure they are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control pertinent to the Bank's preparation and fair presentation of the 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. The audit also includes evaluating the appropriateness of accounting standards used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HSBC Bank Perú S.A. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting standards established for financial institutions in Peru by the SBS.

Lima, Peru

February 28, 2012

Countersigned by:

Javier Candiotti (Partner)
Peruvian Certified Public Accountant
Registration 11177

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

HSBC BANK PERÚ S.A.

Balance Sheet
As of December 31, 2011 and 2010
(In thousands of nuevos soles)

	2011	2010
Assets		
Cash and due from banks (note 5):		
Cash and clearing	66,823	44,340
Deposits with Banco Central de Reserva del Perú	890,669	1,475,176
Deposits with local and foreign banks	15,224	4,104
Other	370	328
	973,086	1,523,948
Trading and available-for-sale investments (note 6)	133,804	28,507
Loan portfolio, net of provisions for loan losses (note 7)	2,065,195	1,721,034
Accounts receivable, net	12,757	13,280
Assets for lease and recovered assets, net	5,484	2,423
Investments in associates	153	149
Property, furniture, and equipment, net (note 8)	22,045	29,195
Other assets, net (note 9)	174,621	144,463
Total assets	3,387,145	3,462,999
Contingent and memoranda accounts (note 14)	8,549,454	10,564,356
Liabilities and Equity		
Deposits and obligations (note 10)		
Demand deposits	378,866	310,372
Savings deposits	253,189	185,543
Time deposits	1,950,199	1,922,151
Deposits of financial system entities and finance institutions	21,214	2,034
Other obligations	176,392	156,918
	2,779,860	2,577,018
Interbank funds	—	99,016
Securities, bonds, and obligations outstanding (note 11)	40,339	40,344
Borrowings and financial obligations (note 12)	194,272	379,539
Provisions and other liabilities	91,598	95,635
Total liabilities	3,106,069	3,191,552
Equity (note 13):		
Share capital	550,361	479,961
Unrealized results	—	(623)
Accumulated losses	(269,285)	(207,891)
Total equity	281,076	271,447
Total liabilities and equity	3,387,145	3,462,999
Contingent and memoranda accounts (note 14)	8,549,454	10,564,356

See the accompanying notes to the financial statements.

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

HSBC BANK PERÚ S.A.

Income Statement
For the years ended December 31, 2011 and 2010
(In thousands of nuevos soles)

	2011	2010
Financial income (note 15)	300,121	191,749
Financial expenses (note 16)	(135,273)	(41,132)
Gross financial margin	164,848	150,617
Provisions for loan losses, net	(40,945)	(40,518)
Net financial margin	123,903	110,099
Income from financial services	41,521	34,226
Expenses for financial services	(9,857)	(6,209)
Operating margin	155,567	138,116
Administrative expenses (note 17)	(209,540)	(177,094)
Net operating margin	(53,973)	(38,978)
Provisions for contingencies and other	(7,816)	(8,936)
Depreciation and amortization	(17,928)	(10,452)
Operating loss	(79,717)	(58,366)
Income from portfolio recovery, net	2,339	422
Other income (expenses), net	11,734	(10,373)
Loss before tax	(65,644)	(68,317)
Deferred income tax (note 19)	12,258	2,806
Net loss for the year	(53,386)	(65,511)
Weighted average of shares outstanding (in thousands of shares) (note 22)	527,795	424,387
Loss per share (in nuevos soles) (note 22)	(0.101)	(0.154)

See the accompanying notes to the financial statements.

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

HSBC BANK PERÚ S.A.

Statement of Changes in Equity
For the years ended December 31, 2011 and 2010
(In thousands of nuevos soles)

	Share capital (note 13.b)	Unrealized results (note 13.d)	Accumulated losses	Total
Balances as of December 31, 2009	309,501	(698)	(142,380)	166,423
Contributions from shareholders	170,460	—	—	170,460
Fair value adjustments to available-for-sale investments	—	75	—	75
Net loss for the year	—	—	(65,511)	(65,511)
Balances as of December 31, 2010	479,961	(623)	(207,891)	271,447
Contributions from shareholders	70,400	—	—	70,400
Adjustment to available-for-sale investments	—	623	—	623
Reversal of previous year deferred employees' profit sharing (note 3j)	—	—	(7,880)	(7,880)
Net loss for the year	—	—	(53,386)	(53,386)
Other adjustments	—	—	(128)	(128)
Balances as of December 31, 2011	550,361	—	(269,285)	281,076

See the accompanying notes to the financial statements.

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

HSBC BANK PERÚ S.A.

Statement of Cash Flows
For the years ended December 31, 2011 and 2010
(In thousands of nuevos soles)

	2011	2010
Net cash flows from operating activities:		
Net loss for the year	(53,386)	(65,511)
Adjustments to reconcile the net loss to net cash operating activities:		
Provisions for loan losses	40,945	40,518
Depreciation and amortisation	17,928	10,452
Deferred income tax	(12,258)	(3,298)
Decrease (increase) in accounts receivable	523	(6,670)
(Increase) decrease in other assets	(49,064)	5,462
(Decrease) increase in other liabilities	(4,037)	32,792
Net cash (used in) from operating activities	(59,349)	13,745
Net cash flows from investing activities:		
Purchase of property, furniture, and equipment	(977)	(5,608)
Purchase of other non-financial assets	(11,450)	(20,984)
Net cash used in investing activities	(12,427)	(26,592)
Net cash flows from financing activities:		
Increase in loan portfolio	(360,173)	(259,135)
Increase in assets for lease	(3,061)	(1,979)
Increase in investments	(104,806)	(27,308)
(Decrease) increase in received interbank funds	(99,016)	42,783
Increase in deposits and obligations	202,842	1,233,588
Decrease in borrowings and financial obligations, and securities, bonds, and obligations outstanding	(185,272)	(76,370)
Contributions to share capital	70,400	170,460
Net cash (used in) from financing activities	(479,086)	1,082,039
Net (decrease) increase in cash and cash equivalents	(550,862)	1,069,192
Cash at beginning of year	1,523,948	454,756
Cash at end of year	973,086	1,523,948

See the accompanying notes to the financial statements.

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

HSBC BANK PERÚ S.A.

Notes to the Financial Statements
As of December 31, 2011 and 2010

(1) Reporting Entity

HSBC Bank Perú S.A. (hereinafter the Bank) is a subsidiary of HSBC Latin America Holding (UK) Limited which holds 76.60% of its share capital as of December 31, 2011 and 2010, and is a subsidiary of HSBC Holdings plc, both companies are incorporated in London.

The Bank is a publicly-held corporation that was incorporated on May 2, 2006. On September 28, 2006, it was authorized to operate as a multiple bank by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones (Superintendency of Banking, Insurance and Private Pension Fund Administrators) (hereinafter SBS). The Bank started operations on October 9, 2006.

The Bank's operations mainly comprise financial intermediation, characteristic of multiple banks; which are ruled by the SBS in accordance with Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la SBS, Law 26702 (hereinafter the Banking Act). This Act establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions to which every legal entity operating in the financial and insurance systems are subject. The Bank is entitled to receive monetary deposits from the public and invest these funds, together with its own capital, in granting loans and guarantees, acquiring securities, and carrying out finance lease and financial intermediation operations, as well as to render banking services to corporate and individual clients, and other activities allowed by the law.

The address of the Bank's registered office is Jr. Carabaya Nº 891, Lima, Peru. To develop its activities, the Bank has one main office and 24 branches located in Lima and provinces as of December 31, 2011 (one main office and 23 branches, as of December 31, 2010). Likewise, as of December 31, 2011, the Bank has 859 employees (978 employees as of December 31, 2010).

Approval of Financial Statements

General Shareholders' Meeting, held on March 30, 2011, approved the financial statements for the year ended December 31, 2010. On January 30, 2012, Management and Board of Directors approved the financial statements as of December 31, 2011, and they will be presented to the General Shareholders' Meeting for their corresponding approval, within the terms established by law. In management's opinion, the General Shareholders' Meeting will approve the accompanying financial statements without modifications.

(2) Basis of Preparation

(a) Statement of Compliance

The accompanying financial statements have been prepared based on the Bank's accounting book balances, and are presented in accordance with current legal provisions and accounting principles generally accepted in Peru as applicable to financial entities, which comprise the accounting standards and practices authorized by the SBS using its authority conferred as established by the Banking Act. These standards are included in the Accounting Manual for Financial System Entities (hereinafter the Accounting Manual) approved by Resolution SBS 895-95 and supplementary regulations.

The SBS has established that for situations not foreseen in such standards, Peruvian Generally Accepted Accounting Principles (GAAP) shall be applied. Peruvian GAAPs comprise the International Financial Reporting Standards (IFRS) made official through resolutions issued by the Peruvian Accounting Board (Consejo

Normativo de Contabilidad—CNC) for their application in Peru. The IFRSs include the International Accounting Standards (IAS) and the pronouncements of the Interpretations Committee (SIC and IFRIC).

In Peru, the CNC authorized as of December 31, 2011, current IASs 1 to 41, IFRSs 1 to 8, SICs 7 to 32 (except for superseded SICs), and all the pronouncements from 1 to 19 issued by the current Interpretations Committee (IFRIC), as well as the modifications until May 2010 of IFRSs 1, 3 and 7, IASs 1 and 34, and IFRIC 13.

(b) Basis of Measurement

These financial statements have been prepared on the historical cost basis, except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit and loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.

(c) Presentation Currency

These financial statements are presented in nuevos soles (S/.), in accordance with the SBS standards. Financial information is presented in nuevos soles (S/.) and has been rounded to the nearest thousand (S/. 000), except as otherwise indicated.

(d) Use of Estimates and Judgments

The preparation of the financial statements in conformity with accounting principles requires the use of certain critical accounting estimates and criteria. Estimates and criteria are continuously evaluated according to experience and include reasonable future assumptions in each of the circumstances. Since these are estimates, final results might differ; however, it is the management’s opinion that no significant adjustments will arise on the asset and liability balances in the following fiscal period.

Significant estimates related to the Bank’s financial statements are: provision for loan losses, fair value of investments, useful life allocated to premises, furniture and equipment and intangible assets, provision for assets for lease, provision for contingencies, fair value of derivative financial instruments through profit and loss, and deferred income tax recovery, for which accounting criteria are described in note 3.

(3) Significant Accounting Policies

The significant accounting policies applied to prepare the Bank’s financial statements are detailed below. These policies have been applied consistently to this period and previous period, unless otherwise indicated.

(a) Foreign Currency Transactions and Balances

Foreign currency transactions are those transactions carried out in a currency other than nuevo sol. Foreign currency transactions are translated into nuevo sol using exchange rates established by the SBS at the dates of the transactions (note 4). Gains or losses on exchange differences resulting from the payment of such transactions and from the translation of monetary assets and liabilities stated in foreign currency at exchange rates reported at the closing of the period are recognized in the income statement.

(b) Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability, or equity instrument in another.

Financial instruments are classified as assets, liabilities, or equity according to the substance of the contract. The interest, dividends, gains and losses generated by a financial instrument classified as asset or liability, are recorded as income or expense in the income statement. The financial instruments are compensated when the Bank has the legal right to compensate them, and management has the intention of paying them on a net basis or negotiating the asset, and paying the liability simultaneously.

The financial assets and liabilities presented in the balance sheet correspond to balances presented in cash and due from banks, securities, loan portfolio, accounts receivable, assets for lease, and other assets, except for the deferred income tax asset, and liabilities in general. Likewise, all the derivative products and indirect credits are considered financial instruments. The recognition and valuation criteria of those items are disclosed in the accounting principles and policies related to those notes herein.

(c) Investments

The initial recognition and valuation criteria of the Bank’s investments are applied, according to SBS Resolution 10639-2008 under categories which are detailed as follows: investment at fair value through profit and loss, trading and available-for-sale investments, held-to-maturity investments, and investment in subsidiaries and associates. The Bank classifies its investments in the following categories:

(i) Investments at Fair Value through Profit and Loss

They comprise investments in representative securities of capital and/or debt acquired with the objective to sell them in a near future or if they are part of a group of securities that are managed as a portfolio and for which there is evidence of a pattern of short-term profits. These investments are initially recorded at trade date, which begins when the Bank becomes a party to a contract and is obliged to purchase investments which are generally written off from accounting books when they are sold.

They are initially recorded at fair value without considering transaction costs, which are recorded in the income statement. Subsequently, this fair value is updated, recognizing in the income statement the fluctuations generated by the changes in fair value.

Interest income is recognized using the effective interest rate method. Dividends are recognized in the income statement when the Bank becomes entitled to the dividend.

Investment instruments at fair value through profit or loss given in guarantee or transferred through a repurchase agreement shall be reclassified as available-for-sale. Upon conclusion of these transactions, those instruments will be reclassified back to their initial category, transferring unrealized results from the equity to the profit or loss of the year.

(ii) Available-for-sale Investments

Available-for-sale investments are all investment instruments that are not classified as investments at fair value through profit or loss, held-to-maturity investments, or investments in subsidiaries and associates. Likewise, investment instruments will be included in this category when explicitly required by the SBS.

Available-for-sale investments are initially measured at fair value plus direct costs attributable to the acquisition of such securities. The accounting value of this investment is updated at fair value and fluctuations are recognized in the equity under unrealized results, until the instrument is sold or realized; when the gain or loss that was previously recognized in the equity will be transferred and recorded in the profit or loss of the period.

If the value for available-for-sale investments is impaired, the cumulative losses (measured as the difference between the acquisition cost (net of any principal repayment and amortization) and their current fair value, less any impairment loss previously recognized in the income statement) shall be transferred from the equity and recognized in the income statement. In the case of unquoted equity shares, impairment will be the difference between the carrying amount and the present value of estimated net cash flows, discounted at current market rates for similar assets.

Gains or losses on exchange differences related to equity share is recognized in equity, under Unrealized Results, while those related to debt instruments are recognized in the profit or loss of the period.

Interest income is recognized on the available-for-sale investment using the effective interest rate method, calculated over the expected useful life of the asset. Premiums and/or discounts originated on the investment purchase date are included in the calculation of its effective interest rates. Dividends are recognized in the income statement when the Bank becomes entitled to the dividend.

(iii) Investments in Associates

Equity shares acquired by the Bank in order to participate with and/or have influence over companies and institutions. Investment in subsidiaries and associates are initially measured at fair value plus transactions costs directly attributable to their acquisition, and are subsequently measured applying the equity participation method, meaning that proportional profits or losses generated by such securities are recognized in the income statement.

When variations in the equity of the subsidiary or associate are due to concepts other than the profit or loss for the period, these variations shall be recorded directly in the equity. Dividends are recorded reducing the carrying amount of the investment.

Entities can reclassify their investment instruments. Investment instruments at fair value through profit or loss cannot be reclassified except (1) for unquoted equity shares that lack reliable fair value estimations or (2) when given in guarantee or transferred through a repurchase agreement as previously noted in paragraph (i) of this section.

(d) Derivative Financial Instruments

The accounting treatment for derivative financial instruments that financial entities shall apply is established in SBS Resolution 1349-2008, which conforms to IAS 39 *Financial Instruments: Recognition and Measurement* and establishes accounting criteria for held-for-trading, hedging, and embedded derivatives, as detailed below:

(i) Held-for-Trading

Derivative financial instruments are initially recognized in balance sheet at fair value; subsequently, any change in the fair value of such derivative generates an asset or liability in the balance sheet, as applicable, and will affect the profit or loss for the period.

(ii) Hedging

Derivative financial instruments for the financial hedging of a risk is designated in books as a derivative with hedging purposes if, at the moment of trading it, it is foreseen that changes in fair value or in cash flows will be highly effective compensating the fair value changes or in cash flows of the item hedged directly attributable to the risk hedged from the beginning and during the period of the hedging relationship. This should be documented from the negotiation of the derivative financial instrument and during the period of the hedging relationship.

The efficiency of a hedge shall be measured reliably on a prospective basis, at the moment the derivative instrument is designated with hedging purposes and on a retrospective basis with a monthly minimum periodicity. A hedging is considered to be effective if the results of the retrospective tests are within a range of 80%-125%.

In the event that SBS considers the documentation to be unsatisfactory or find weaknesses in the methodologies used, it can request immediate resolution of hedging and the simultaneous recording of the derivative as a held-for-trading derivative.

(iii) Embedded Derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when the following conditions are simultaneously met: i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; ii) the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and iii) the hybrid instrument is not a Marketable Investments for Financial Intermediation, according to Regulation of Investments, or other financial instrument is measured at fair value through profit or loss. These embedded derivatives are separated from the host contract and measured at fair value with the changes in fair value recognized in income statement, unless the Bank chooses to designate the hybrid contract (host and corporate derivatives) at fair value with effect in profit or loss.

As of December 31, 2011 and 2010, the Bank does not hold derivative instruments classified as hedging and embedded derivatives.

In addition to their recording in the balance sheet, derivative instruments above described are recorded in contingent accounts at fair value converted at initial spot prices.

(e) Loans and Provisions for Loans Losses

Direct loans are financing given to clients through several modalities. Indirect credits (contingent) are guarantees, standby letters, banker's acceptances, letters of credits, approved loans not disbursed, and approved credit lines that have not been used. Likewise, changes in loan payment conditions due to debtors' payment difficulties are considered as refinancing or restructuring.

Finance leases are accounted for using the financial method, recording as loans the amount of the receivable installments. Interest income is based on a pattern that reflects a regular periodic index of return on the net investment. Origination costs are recognized immediately as expenses.

The Bank's Risk Portfolio Area is in charge of conducting, on a permanent basis, the evaluation and rating of the loan portfolio, assigning to each debtor the corresponding risk rating according to the guidelines established by the SBS, in Resolution 11356-2008 and its amendments.

Type of Loans

In conformity with Resolution 11356-2008, loans are classified as: i) corporate loans, ii) large-business loans, iii) medium-business loans, iv) small-business loans, v) micro-business loans, vi) revolving consumer loans, vii) non-revolving consumer loans, and viii) mortgage loans. This classification considers nature of client (corporate, government or individual), purpose of loan, and business size, measured per revenues, indebtedness, among others.

Risk Rating Categories

Debtor rating categories established by the SBS are the following: Standard, Potential Problem, Substandard, Doubtful, or Loss. Non-retailers Loan portfolio (corporate, large and small companies) rating classifications mainly take into account the payment capacity of the debtor, cash flow, level of compliance with obligations, rating designated by other companies in the financial system, financial position, and management quality. In the case of the loans to small business, micro business, consumer and mortgage loans, the rating is based on the level of compliance with credit payments, which is reflected in the delayed days and their rating in other entities of the financial system.

Provision Requirements

Based on current SBS regulations, the Bank determines generic and specific provisions for loan portfolios. The generic provision is recorded in a preventive manner for debtors rated as standard, which is calculated based on their direct loans, credit risk equivalent exposure of indirect loans, and additionally the procycical component when SBS orders its application. The specific provision is recorded for direct loans and credit risk equivalent exposure of indirect loans for debtors identified with a risk higher than standard.

Credit risk equivalent exposure of indirect loan risk is determined by multiplying indirect loans by the different types of Credit Conversion Factor (CCF), as follows:

	Description	CCF (%)
(i)	Irrevocable letters of credit, when the issuer bank is a foreign high-quality category company of the financial system.	20
(ii)	Standby letters of faithful compliance or that are used as guarantee for bids.	50
(iii)	Guarantees, letters of credit, standby letters not included in letters "i)" and "ii)", and banker's acceptances.	100
(iv)	Approved loans not disbursed and unused credit lines.	0
(v)	Other indirect loans not covered by the previous letters.	100

The provision requirements are determined considering the debtor risk rating, whether there is a supporting guarantee, and based on the type of the established guarantees.

The Bank applies the following percentages when determining the provisions for loan losses:

(i) Standard Rating

Type of Loans	Provision rate
Corporate loans	0.70
Large-business loans	0.70
Medium-business loans	1.00
Small-business loans	1.00
Micro-business loans	1.00
Revolving consumer loans	1.00
Non-revolving consumer loans	1.00
Mortgage loans	0.70

(ii) Other categories and type of guarantees:

Risk rating	Without collateral	With preferred collateral	With preferred easily realizable collateral	With preferred readily realizable collateral
Potential problem	5.00	2.50	1.25	1.00
Substandard	25.00	12.50	6.25	1.00
Doubtful	60.00	30.00	15.00	1.00
Loss	100.00	60.00	30.00	1.00

Procyclical component

Percentages of the procyclical component to calculate provisions for direct loans and credit risk equivalent exposure of indirect loans of debtors rated as Standard, are the following:

Type of Loans	Procyclical component %
Corporate loans	0.40
Large-business loans	0.45
Medium-business loans	0.30
Small-business loans	0.50
Micro-business loans	0.50
Revolving consumer loans	1.50
Non-revolving consumer loans	1.00
Mortgage loans	0.40

For corporate, large-business, and mortgage loans that have preferred readily realizable collateral, the procyclical component shall be 0.3%. For the other types of loans that have preferred readily realizable collateral, the procyclical component shall be 0% for the portion covered with such collateral.

For consumer loans that have contracts with discount agreements from eligible payrolls, the procyclical component shall be 0.25%.

The SBS is entitled to decide on the application or discontinuance of the procyclical component depending on whether the average annual percentage of the Gross Domestic Product (GDP) is over or under 5%, respectively.

Likewise, conditions for its application or discontinuance are indicated in Exhibit I of Resolution SBS 11356-2008. The application of the procyclical component was activated from December 2008 to August 2009, discontinued from September 2009 to August 2010, and reactivated in September 2010.

The SBS has established that during discontinuance of the procyclical component, financial institutions shall not, under any circumstance, generate profits from the reversal of such provisions, which shall only be used for recording obligatory specific provisions.

Provisions for direct loans are presented by deducting the balance from the corresponding asset (note 7), and provisions for indirect loans are presented in the liabilities in the provisions and other liabilities accounts. Provisions kept by the Bank, in the opinion of management, are sufficient to cover potential losses in the loan portfolio as of the balance sheet date.

(f) Assets for Lease and Recovered Assets

It comprises the assets acquired for their sale under the modality of finance lease. Such assets are recorded at their acquisition cost, which includes the net price invoiced by supplier, freights, insurances and all necessary disbursements until entering into the Bank's warehouse or Bank premises. When finance lease agreement becomes effective, this account is charged to the respective loan account and the finance lease is recorded. The assets destined to the finance lease for which no loan was formalized, shall be recorded at the lower of cost value or market value. The market value to be considered will be the net realizable value.

According to current legislation, the treatment to raise provisions for recovered assets is as follows:

(i) A provision equivalent to 20% of the cost shall be recognized at initial recording. If the net realizable value shown in the valuation report demonstrates that the asset is impaired by a percentage higher than 20 %, then the required initial provision shall be recorded at an amount equivalent to the amount effectively impaired.

(ii) For the provision for goods other than property, the Bank records a monthly provision equivalent to 1/18 of the book value, less the aforementioned initial provision, commencing the first month of repossession or recovery of the goods. Regarding goods that have not been sold or leased within a one-year term and that do not have the extension established in the Banking Act, the provision should be completed up to 100% value upon repossession or recovery less impairment provision, at the close of corresponding year.

(iii) A provision shall be recorded for the real estate that has not been sold or leased within one year from its recovery or repossession. This provision shall be a uniform monthly provision over a term of three and a half years until there is a 100% provision of the net carrying amount obtained in the eighteenth or twelfth month, depending on if there is or is not an extension approved by the SBS, respectively.

Fair value of these assets decreased (when net realizable value is lower than the carrying amount); therefore the carrying amount will also be reduced and the resulting loss shall be recognized in the income statement. Otherwise, the higher value may not be recognized.

Valuation reports of real estate may not be aged over a year.

(g) Premises, Furniture, and Equipment

Property, furniture and equipment are recorded at acquisition cost, less accumulated depreciation. Disbursements incurred after acquisition for property, furniture, and equipment are only recognized as assets when there are probable future economic benefits associated with the asset and their cost can be reliably measured.

Maintenance and repair expenses are recorded in the profit or loss when they are incurred.

Work-in-progress and in-transit goods are recorded at acquisition cost. These goods are not depreciated until relevant assets are finished and/or received, and are finally operative.

Depreciation of assets has been computed based on the straight-line method and using the following estimated useful lives:

	Years
Premises	5 and 10
Furniture, fixtures, and IT equipment	4 and 10
Vehicles	5

The residual value and the useful life of an asset are reviewed and adjusted, if necessary, at each balance sheet date.

(h) Impairment of Assets

When events or circumstantial economic changes indicate that the value of an asset might not be recoverable, the Bank reviews the value of the long-term asset to determine if there is impairment. When the carrying amount of the long-term asset exceeds its recoverable amount, the entity recognizes an impairment loss in the income statement for the assets held at cost.

The recoverable amount of an asset is the higher of its net selling price and its value in use. Net selling price is the amount obtainable from the asset sale in a free market. Value in use is the present value of estimated future cash flows expected to arise from the continued use of an asset and from its subsequent disposal at the end of its useful life. Recoverable amounts are estimated for each asset or, if it is not possible, for the cash-generating unit.

An impairment loss recognized in previous years is reversed if there is a change in the estimates used since the last time the impairment loss was recognized.

(i) Income Tax

Current income tax is determined based on the taxable income and recorded according to tax legislation applicable to the Bank (note 18).

Deferred income tax is recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements. Deferred income tax is determined based on current tax rates and legislation expected to be applied when the deferred income tax asset is realized or the deferred income tax liability is settled (note 19).

Deferred assets and liabilities are recognized without considering the estimated time when the temporary differences will disappear. Deferred income tax asset is only recognized so far as it is probable that there would be future tax benefits, so that the deferred asset can be used.

(j) Employees' Profit Sharing

Until December 31, 2010, employees' profit sharing comprised current and deferred employees' profit sharing. Current and deferred employees' profit sharing was determined using the same criteria used to determine the current and deferred income tax, respectively. They were recorded according to legislation applicable to the Bank as of that date.

By means of Official Letter 4049-2011, dated January 21, 2011, the SBS established a change in the treatment of employees' profit sharing; this should be recorded in conformity with IAS 19 *Employee Benefit.* Consequently, this profit sharing shall be treated as personnel expense and liability related to employees' benefit and shall stop generating deferred assets or liabilities as a result of the temporary differences between financial and tax base.

As from January 1, 2011, employees' profit sharing shall be recognized as a personnel expense and a liability corresponding to services rendered by the employees; consequently, no temporary differences between financial and tax basis shall be recognized. The balance accumulated as of December 31, 2010 amounting to S/. 7,880 thousand for deferred employees' profit sharing was reversed against accumulated losses.

(k) Intangible Assets

They are mainly related to investments in licenses and development of software used for the operations of the Bank. They are shown under other assets and amortized on a straight-line basis over a 5-year term.

Costs related to the development or maintenance of software are recognized in profit and loss when incurred. However, costs that are directly related to single and identifiable software, that are controlled by the Bank and that will provide future economic benefits higher than their cost in more than one year, are considered as intangible assets. Direct costs related to the development of software include personnel costs and an aliquot part of general expenses.

Useful life and amortization method are periodically reviewed by management according to the estimated economic benefits to be provided by the components of intangible assets.

(l) Securities, Bonds, and Obligations Outstanding

They comprise liabilities from the issuance of redeemable subordinated bonds and corporate bonds; those are measured at their amortized cost using the effective interest method. Granted discounts or revenues generate by placements are amortized during the maturity term of these instruments.

Interest is recorded in profit of loss when accrued.

(m) Provisions and Contingencies

(i) Provisions

Provisions are recognized when the Bank has a present obligation, either legal or constructive, as a result of past events, and when it is probable that an outflow of resources may be required to settle the obligation, and it is possible to reliably estimate its amount. Provisions are reviewed and adjusted in each period to reflect the best estimates as of the balance sheet date.

The provision for severance payment (CTS) is calculated according to current legislation, on the total employees' indemnities and should be paid through deposits in authorized financial entities as chosen by them. The computation is made for the amount that should have to be paid as at the balance sheet date and is included in the provision for fringe benefits. It is presented in the balance sheet under other liabilities.

(ii) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of economic resources is remote.

Contingent assets are not recognized in financial statements, and they are only disclosed when an inflow of economic benefits is probable.

(n) Income and Expense Recognition

Interest income and expenses are recognized in the corresponding fiscal year on an accrual basis, depending on the term of the generating transactions and the interest rate agreed with clients. Commissions for banking services are recognized as income when earned, except for commissions related to the renewal of credit cards, which are recorded on an accrual basis over the validity term or renewal of card.

When management considers that there are reasonable doubts about the collectibility of the principal of a loan, the Bank suspends the recognition of interest in the profit or loss. The interest in suspense is recorded in memorandum accounts and recognized as earned when collected. When management considers that the financial situation of the debtor has improved and that the doubt about the collectibility of the principal has dissipated, it reestablishes the accounting of the interest on an accrual basis.

Interest income comprises the return on fixed-income investments and trading securities, as well as the recognition of discounts and premiums on financial instruments. Dividends are registered as income when declared.

The Bank's other income and expenses are recorded in the period in which they are accrued.

(o) Loss per Share

Basic and diluted losses per share is calculated by dividing the net loss of the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, having deducted the treasury shares, as applicable, as of the date of the financial statements.

Diluted loss per share corresponds to the basic loss per share, adjusted for the effects of dilutive shares coming from the conversion of bonds or convertible shares, among others.

As of December 31, 2011 and 2010, the Bank does not have financial instruments with dilutive effects; therefore, basic and diluted losses per share are the same.

(p) Statement of Cash Flows

For presentation purposes of these financial statements, the balances of cash and due from banks and interbank funds as of December 31, 2011 and 2010, were considered as cash and cash equivalents.

(q) Reclassifications

Certain entries of the 2010 financial statements have been reclassified to conform them to those of this period. The modification in the comparative information does not imply changes in decisions taken based on them. In 2010, the Bank presented expenses for employees' profit sharing amounting to S/.492 thousand in the income statement after the operating profit. Since 2011, these expenses are part of the personnel expenses in the administrative expenses.

(r) New Accounting Pronouncements

i) Pronouncement of the Peruvian Accounting Board -CNC

The CNC, through resolution 048-2011-EF/30 published on January 6, 2012, approved the application of the 2011 version of the IFRS issued by the International Accounting Standards Board (IASB) as established by such standards. The CNC authorized current IASs 1 to 41, IFRSs 1 to 13, pronouncements from 7 to 32 (except for superseded pronouncements) issued by the interpretations committee (SIC) and all the interpretations from 1 to 19 of current Interpretations Committee (IFRIC); as well as the modifications as of October 2011 of the IAS, IFRS and IFRIC issued internationally.

ii) New standards and interpretations not yet adopted by the CNC

A number of new standards and amendments to standards and interpretations that are effective internationally have not yet been approved by the CNC as of December 31, 2011:

- IFRS 10 *Consolidated Financial Statements*, effective on or after January 1, 2013.
- IFRS 11 *Joint Arrangements*, effective on or after January 1, 2013.
- IFRS 12 *Disclosure of Interests in Other Entities*, effective on or after January 1, 2013.
- IFRS 13 *Fair Value Measurement*, effective on or after January 1, 2013.

Certain standards have also been improved, among them we can mention:

- IFRS 9 *Financial Instruments: Classification and Measurement*, effective on or after January 1, 2015.
- IAS 19 *Employee Benefits*, effective on or after January 1, 2013.
- IAS 27 *Consolidated and Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, effective on or after January 1, 2013.
- IAS 1 *Presentation of Financial Statements—presentation of other comprehensive income items*, effective on or after July 1, 2012.
- IAS 24 (revised), *Related party disclosure*, effective on or after January 1, 2011.
- IFRS 7 *Financial Instruments: Disclosures—requirement to present additional disclosures for the derecognition of financial assets*, effective on or after July 1, 2011.
- IAS 12 *Income Taxes: recovery of underlying assets,* effective on or after January 1, 2012.

iii) SBS pronouncements

- By means of Official Letter SBS 15014-2011, dated March 28, 2011, the SBS established that entities under its supervision shall prepare financial statements and complementary information in conformity with IFRS beginning on January 2012. As of the date of this report, the Bank is evaluating the effects on the preparation of its financial statements that may arise from the application of IFRS until the SBS issue the corresponding regulation within the framework of the IFRS harmonization process.
- By means of SBS Resolution 914-2010, the SBS extended the application of IFRS 7 *Financial Instruments: Disclosures* and IFRS 8 *Operating Segments* This postponement is effective until the SBS issue corresponding regulation as part of the process to harmonize its accounting regulations to IFRS.

As indicated in note 2a, the standards and interpretations above detailed will only be applicable to the Bank, in absence of applicable SBS regulations for situations not covered in the Accounting Manual. The Bank's management has not determined the effect on the preparation of its financial statements in case such standards were adopted by the SBS.

(4) Foreign Currency Balances

The balance sheets comprise balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in nuevos soles (S/.) at the exchange rate established by the SBS. As of December 31, 2011 and 2010, these rates were US$1 = S/. 2.696 and S/. 2.809, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú - BCRP (Central Bank), are channeled through the foreign exchange market. As of December 31, 2011, the buy and sell exchange rates used were US$ 1 = S/. 2.695 and US$ 1= S/. 2.697, respectively (US$1= S/. 2.808 buy rate and US$ 1= S/. 2.809 sell rate, as of December 31, 2010).

Foreign currency balances stated in thousands of U.S. dollars as of December 31, are summarized as follows:

	In thousands of US$	
	2011	2010
Assets:		
Cash and due from banks	227,616	358,447
Loan portfolio	328,035	214,243
Accounts receivable	2,325	386
Other assets	1,903	1,511
	559,879	574,587
Liabilities:		
Deposits and obligations	(577,629)	(516,856)
Interbank funds	(7,869)	—
Borrowings and financial obligations	(72,059)	(135,115)
Accounts payable	(17,992)	(6,771)
Provisions	(1,997)	(2,243)
Other liabilities	(12,258)	(6,974)
	(689,804)	(667,959)
Liability position, net of balance	(129,925)	(93,372)

In 2011, the Bank recorded under interest expenses, the net loss on exchange difference for various operations amounting to S/. 67,125 thousands (note 16) (in 2010, it recorded in the interest income, the net gain of S/. 14,815 thousand (note 15).

As of December 31, 2011, the Bank has contingent operations in foreign currency amounting to approximately US$ 1,012,258 thousand, equivalent to S/. 2,729,047 thousand (US$ 889,071 thousand equivalent to S/. 2,497,400 thousand as of December 31, 2010).

Derivative financial instruments as of December 31, 2011 comprise sale "forward" transactions of US$ 256,598 thousand and purchase "forward" transactions of US$ 378,300 thousand which have up to one-year maturity, (sale "forward" transactions of US$ 275,653 thousand and purchase "forward" transactions of US$ 353,858 thousand as of December 31, 2010). The corresponding receivable and payable return for the amounts accrued for the fluctuations resulting from valuations of these transactions amount to S/. 1,114 thousand and S/. 5,774 thousand, respectively as of December 31, 2010 (S/. 9,490 thousand and S/. 2,826 thousand as of December 31, 2010).

(5) Cash and Due from Banks

As of December 31, 2011, cash and due from banks comprise mainly two "overnight" transactions deposited at BCRP one amounting to S/. 230,000 thousand which accrued interest at an annual nominal rate of 4.15%, with a 4-day maturity and the other for S/. 25,000 thousand which accrued interest at an annual nominal rate of 3.45%, with a 4-day maturity; and for US$ 25,000 thousand which accrued interest at an annual nominal rate of 0.0613%, with a 4-day maturity.

Likewise, the cash and due from banks approximately comprise S/.75,375 thousand and US$ 198,225 thousand equivalent to S/. 534,414 thousand (S/. 200,093 thousand and US$ 272,695 thousand equivalent to S/. 765,999 thousand as of December 31, 2010) of funds representing legal cash reserve that the Bank must set aside to cover deposits from third parties, according to limits established by current legislation. These funds are held at BCRP and in the Bank's vault.

The funds of legal cash reserve held at BCRP accrue interest, on the required amount in both currencies exceeding the minimum legal cash reserve. As of December 31, 2011, the excess of minimum legal cash reserve in domestic currency amounts to S/. 92,970 thousand and in foreign currency amounts to US$ 206,498 thousand, and accrue interest in nuevos soles at an annual rate of 2.45% and in U.S. dollars at an annual rate of 0.1705% (S/. 95,779 thousands and US$ 205,777 thousand at an annual rate of 1.20% and 0.1570%, respectively, as of December 31, 2010).

Deposits at local and foreign banks correspond, mainly, to balances in nuevos soles and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates.

In December 31, 2011, revenue from interest on cash and due from banks amounts to S/. 2,955 thousand (S/. 1,139 thousand in 2010) and is included under the interest income in the income statement (note 15).

(6) Trading and Available-for-Sale Investments

They comprise the following:

	In thousands of S/.	
	2011	2010
Investments at fair value through profit or loss		
BCRP certificates of deposit (a)	133,804	—
Peru's Public Treasury bonds (b)	—	27,801
	133,804	27,801
Available-for-sale investments:		
Shares listed on stock exchange	—	706
Total held-for-trading and available-for-sale investments	133,804	28,507

(a) BCRP certificates of deposit are debt instruments issued by the BCRP. As of December 31, 2011, those certificates accrued rates between 3.97% and 4.15% and matured in January 2012.

(b) Peru's Public Treasury bonds are sovereign bonds issued in domestic currency by the Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. As of December 31, 2010, such bonds accrued interest at annual rates ranging from 5.02% and 5.90%, and maturing between August 2017 and August 2020.

(7) Loan Portfolio

It comprises the following:

	In thousands of S/. 2011	2010
Direct loans:		
Overdrafts	435	46
Discounts	100,975	96,830
Loans	1,206,518	1,062,926
Finance lease	279,167	214,395
Mortgage loans	459,474	346,807
Credit cards	54,155	35,563
Past due loans	45,445	24,873
Refinanced loans	10,286	5,955
Lawsuits loans	10,020	15,030
	2,166,475	1,802,425
Accrued interest on current loans	11,951	10,705
Unaccrued interest and commissions	(28,450)	(23,327)
Provisions for loan losses	(84,781)	(68,769)
Total direct loans, net	2,065,195	1,721,034
Indirect loans (note 14)	1,543,052	1,317,445

As of December 31, 2011 and 2010, fifty percent of the direct and indirect loan portfolio was concentrated in approximately 105 and 95 clients, respectively.

The loan portfolio (direct and indirect) is mainly collateralized by guarantees received from clients, which are mainly composed of third-party stand-by letters, and other. The value of these guarantees has been determined based on net realizable value in the market according to SBS regulations.

Annual interest rates are ruled by the market and may be fixed freely by the Bank. As of December 31, the annual average effective rates for the following main products were as follows:

	% 2011		2010	
	Local currency	Foreign currency	Local currency	Foreign currency
Overdrafts	60.00	45.00	60.00	45.00
Discounts	7.62 – 9.38	6.78 – 8.26	6.77 – 11.59	6.76 – 12.46
Loans	5.23 – 17.63	6.31 – 13.01	4.51 – 13.16	1.73 – 11.76
Finance lease	8.54	6.85	8.09	6.72
Mortgage loans	9.17	8.58	9.29	8.86

As of December 31, according to current SBS regulations, the Bank's loan portfolio is rated by risk as follows:

	2011				2010			
	Number	In thousands of S/.			Number	In thousands of S/.		
Rating	of debtors	Direct	Indirect	Total	of debtors	Direct	Indirect	Total
Standard	39,866	1,956,246	1,521,043	3,477,289	36,968	1,642,389	1,308,594	2,950,983
Potential problem	2,837	90,943	22,009	112,952	2,491	53,229	8,851	62,080
Substandard	1,358	22,322	—	22,322	1,405	24,090	—	24,090
Doubtful	2,296	39,084	—	39,084	1,762	35,847	—	35,847
Loss	898	29,430	—	29,430	866	23,543	—	23,543
	47,255	2,138,025	1,543,052	3,681,077	43,492	1,779,098	1,317,445	3,096,543

As of December 31, direct loans are distributed among the following economic sectors:

	In thousands of S/.			
	2011	%	2010	%
Mortgage and consumer loans	1,153,495	53	997,397	56
Trade	183,285	9	204,686	11
Manufacturing	247,334	11	185,271	11
Real estate business and lease service	175,272	8	116,622	6
Transport	140,603	6	96,803	5
Construction	85,651	4	67,377	4
Fishing	38,220	2	48,478	3
Agriculture and livestock	41,772	2	34,009	2
Financial intermediation	21,492	1	20,365	1
Hotel and restaurants	3,740	—	3,707	—
Mining	32,865	2	1,758	—
Other	42,746	2	25,952	1
	2,166,475	100	1,802,425	100

Direct loans have the following contractual maturities as of December 31:

	In thousands of S/.	
	2011	2010
Up to 3 months	562,920	470,686
3 months to 1 year	301,368	496,330
Over 1 year	1,246,723	795,506
Overdue and lawsuit loans	55,464	39,903
	2,166,475	1,802,425

As of December 31, the provision for loans comprises the following:

	In thousands of S/.	
	2011	2010
Direct loans:		
Specific provision	56,708	47,720
Generic provision (include procyclical)	28,073	21,049
	84,781	68,769
Indirect loans:		
Specific provision	479	386
Generic provision (include procyclical)	8,667	11,191
	9,146	11,577
	93,927	80,346

The movement of the provision for loan losses is as follows:

	In thousands of S/.		
	Specific	Generic	Total
Balances as of December 31, 2009	25,901	26,937	52,838
Additions charged to profit or loss			
Direct and indirect Loans	40,787	5,303	46,090
Direct loans- rescinded leasing	2,963	—	2,963
Write-offs	(21,829)	—	(21,829)
Other	284	—	284
Balances as of December 31, 2010	48,106	32,240	80,346
Additions charged to profit or loss			
Direct and indirect loans	43,968	4,500	48,468
Write-offs	(34,887)	—	(34,887)
Balances as of December 31, 2011	57,187	36,740	93,927

The Bank records the provision for loan losses according to the policy described in note 3(e).

Procyclical provision accumulated as of December 31, 2011 and 2010 amounted to S/. 14,516, thousand and S/. 9,987, respectively.

Management is constantly analyzing the effects of the economic situation and its impact on the Bank. Likewise, it records provisions for possible portfolio impairment, on a periodical basis. In management's opinion, the provision for loan losses, recorded as of December 31, 2011 and 2010, conforms to SBS regulations and authorizations in force at those dates.

(8) Premises, Furniture, and Equipment

It comprises the following:

	In thousands of S/.				
	Balances as of 12.31.2010	Additions	Disposals	Reclassific.	Balances as of 12.31.2011
Cost:					
Premises	26,322	168	—	898	27,388
Furniture, fixtures, and IT equipment	20,274	560	19	—	20,815
Vehicles	512	135	—	—	647
Work-in-progress	1,024	114	—	(898)	240
	48,132	977	19	—	49,090
Accumulated depreciation:					
Premises	10,796	4,856	—	—	15,652
Furniture, fixtures, and IT equipment	7,910	3,171	(19)	—	11,062
Vehicles	231	100	—	—	331
	18,937	8,127	(19)	—	27,045
	29,195				22,045

According to current legislation, banks in Peru cannot give as collateral those goods that are part of their property, furniture, and equipment, except for those acquired through the issuance of leasing bonds to carry out finance lease operations.

The Bank has insurance policies against fire, theft and robbery that provide insurance coverage to main assets.

(9) Other Assets

It comprises the following:

	In thousands of S/.	
	2011	2010
Deferred income tax (note 19)	57,174	44,916
Value added tax credit (a)	62,726	44,822
Intangible assets, net of amortization of S/. 17,762 thousand (S/.7,961 thousand in 2010)	30,768	29,119
Payments in advance of income tax (b)	21,264	11,331
Deferred employees' profit sharing (note 19)	—	7,880
Miscellaneous	2,689	6,395
	174,621	144,463

(a) Tax credit mainly comprises: (i) value added tax of purchase of assets that have been transferred under a finance lease for approximately S/. 40,833 thousand, which as of December 31, 2011 (S/. 28,121 thousand as of December 31, 2010), has not been applied yet against operations subject to taxation; and (ii) the tax credit amount of S/. 21,893 thousand determined after applying the coefficient for the pro rata on purchases coming from mixed operations (S/. 16,701 thousand as of December 31, 2010).

(b) As of December 31, 2011 and 2010, they comprise mainly payments in advance of income tax and additional advances of income tax. The Bank's management and its legal advisors estimate that these amounts will be applied in future fiscal periods.

(10) Deposits and Obligations

As of December 31, obligations comprise deposits and other obligations coming from:

	In thousands of S/.			
	2011	%	2010	%
Corporate clients	2,286,914	82	2,061,315	80
Individuals	463,622	17	482,299	19
Other	29,324	1	33,404	1
	2,779,860	100	2,577,018	100

Deposits and other obligations in U.S. dollars represent 57% and 56% of the total amount as of December 31, 2011 and 2010, respectively. The amount owed for deposits comprises accounts given as guarantee in favor of the Bank for credit transactions for S/. 107,889 thousand and US$ 53,181 thousand as of December 31, 2011 (S/.88,749 thousand and US$ 18,236 thousand as of December 31, 2010). As of December 31, 2011 and 2010, the coverage that recognizes the Deposit Insurance Fund amounted to S/. 92 thousand and S/. 86 thousand, respectively.

As of December 31, 2011 and 2010, the total deposits and obligations for S/. 179,692 thousand and S/. 117,524 thousand, are covered by the Deposit Insurance Fund, in conformity with current legal provisions.

The Bank freely establishes the interest rates which rule its liability transactions based on supply and demand and type of deposits. Annual average effective rates in force as of December 31 for the main products were as follows:

	%			
	2011		2010	
	Local currency	Foreign currency	Local currency	Foreign currency
Time Deposits	3.11 – 4.68	1.06 – 1.75	3.15 – 4.91	2.30 – 3.26
Saving deposits	0.80	0.73	1.12	0.70

As of December 31, the deposits and other obligations present the following schedule of maturities according to the periods agreed with depositors:

	In thousands of S/.					
	2011			2010		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	769,579	1,004,069	1,773,648	768,705	1,190,633	1,959,338
1 to 3 months	139,297	304,921	444,218	64,283	111,767	176,050
3 to 6 months	144,614	106,781	251,395	53,726	82,534	136,260
6 to 12 months	60,912	146,272	207,184	237,846	57,774	295,620
Over 12 months	86,955	16,460	103,415	609	9,141	9,750
	1,201,357	1,578,503	2,779,860	1,125,169	1,451,849	2,577,018

(11) Securities, Bonds, and Obligations Outstanding

They comprise finance lease bonds—first issuance- amounting to S/. 40,000 thousand placed on April 29, 2010, with a 3-year maturity as from the placement date. The bonds have a 5% annual interest rate, payable each 6 months.

(12) Borrowings and Financial Obligations

They comprise the following:

	In thousands of S/.	
	2011	**2010**
Ordinary loans from abroad with related banks	194,112	379,215
Interest payable	160	324
	194,272	379,539

As of December 31, 2011, ordinary loans correspond to debts to four related foreign financial entities HSBC Paraguay with a balance of US$ 7,000 thousand, HSBC Bank London PLC with a balance of US$ 40,000 thousand, HSBC Holding BV with a balance of US$ 10,000 thousand and HSBC Chile with a balance of US$ 15,000 thousand. These transactions generated an interest rate of 0.33%, 2.60%, 1.41944% and 5.808% respectively.

As of December 31, 2010, ordinary loans correspond to debts to five related foreign financial entities (mentioned in note 21), whose transactions are subject to annual interest rates between 0.69250% and 5.45719%, respectively.

As of December 31, the scheduled maturity date of the borrowings from banks and other financial institutions are as follows:

	In thousands of S/.	
	2011	**2010**
Up to 1 month	18,877	—
1 to 3 months	107,918	—
3 to 6 months	—	196,802
6 to 12 months	—	—
Over 12 months	67,477	182,737
	194,272	379,539

(13) Equity:

(a) General

As of December 31, 2011, the Bank's regulatory capital determined pursuant to legal standards amounts to S/. 385,216 thousand (S/.373,192 thousand as of December 31, 2010). The amount determined as regulatory capital is used to calculate certain legal limits and restrictions according to the Banking Act, applicable to the Bank's operations in Peru and is determined as follows:

	In thousands of S/.	
	2011	2010
Level 1		
Paid share capital	550,361	479,961
Less:		
Unrealized results	(128)	(637)
Accumulated losses	(215,771)	(142,380)
Net loss for the year	(53,386)	(65,511)
Other deductions		(353)
Total level 1	281,076	271,080
Level 2		
Plus:		
Subordinated debt	67,400	70,225
Generic provision required for direct loans	28,073	21,049
Generic provision required for indirect loans	8,667	11,191
Less:		
Other deductions	—	(353)
Total level 2	104,140	102,112
Total regulatory capital	385,216	373,192

As of December 31, 2011, risk weighted asset and contingent credits determined by the Bank according to legislation applicable to financial institutions amounted to S/. 2,963,311 thousand (S/. 2,794,343 thousand as of December 31, 2010).

As of December 31, 2011, the Banking Act establishes as global limit that the regulatory capital shall be equal to or higher than 10% of total risk weighted asset and contingent credits or minimum capital requirements that include the regulatory capital for market risk and operational risk multiplied by 10 and risk weighted asset and contingent credits for 9.8% as of December 31, 2010. As of December 31, 2011, the Bank's regulatory capital represents 12.37% of the minimum capital requirements for market, operational and credit risks (12.73% as of December 31, 2010).

(b) Share Capital

As of December 31, 2011 and 2010, the authorized, subscribed, and paid-in share capital is represented by 550,361,500 and 479,961,500 common shares, respectively, with a par value of S/.1, each.

At the Universal Shareholders' Meeting, held on April 28, 2011, it was agreed to increase the Bank's share capital by the amount of S/.70,400 thousand (equivalent to US$ 25,000 thousand), through cash capital contributions from HSBC Latin America Holding (UK) Limited.

At the Universal Shareholders' Meeting, held on April 29, 2010, it was agreed to increase the Bank's share capital by the amount of S/.170,460 thousand (equivalent to US$ 60,000 thousand) through cash capital contributions from HSBC Latin America Holding (UK) Limited.

The shareholding in the share capital of the Bank as of December 31, 2011 is as follows:

Percentage of Capital participation	Number of shareholders	Total participation
0.01 to 1	1	0.01
1.01 to 23	1	23.39
23.01 to 100	1	76.60
	3	100.00

According to the Banking Act, a minimum share capital of S/. 24,853 thousand is required according to publication of SBS of October 2011 (S/. 23,176 thousand, is required according to publication of SBS of October 2010).

(c) Legal Reserve

In accordance with the Banking Act, the Bank is required to have a legal reserve of at least 35 percent of its share capital. This reserve is created by an annual transfer of no less than 10% of after-tax profits, and supersedes the reserve referred to in the Companies Act. On the other hand, as stipulated in the Banking Act, the amount of this reserve may also be increased with contributions made by the shareholders for this purpose.

As of December 31, 2011 and 2010, no legal reserves were recorded in such periods due to losses generated from previous years, inclusive.

(d) Unrealized Results

It comprises unrealized gains (losses) due to changes in the fair value of available-for-sale investments. As of December 31, 2011, the Bank has recognized a net gain of S/. 623 thousand (net gain of S/.75 thousand as of December 31, 2010) and are presented in the equity of the balance sheet.

(14) Contingent and Memorandum Accounts

It comprises the following:

	In thousands of S/.	
	2011	2010
Contingent loans (indirect) (note 7):		
Guarantees and standby letters	1,543,052	1,315,491
Letters of credit	—	1,954
	1,543,052	1,317,445
Contracts of derivative instruments	1,711,685	1,768,298
Unused credit lines	325,418	184,185
	3,580,155	3,269,928
Other memorandum accounts		
Collateral received for credit operations	3,909,326	6,947,183
Securities received for collections	525,662	23,442
Write-off of uncollectible accounts	72,641	34,841
Securities received under custody	72,072	5,577
Other	389,598	283,385
	4,969,299	7,294,428
	8,549,454	10,564,356

In the normal course of business, the Bank engages in transactions with off-balance sheet risk exposure (contingent assets). These transactions expose the Bank to credit risk in addition to the amounts presented in the balance sheet.

Credit risk for contingent transactions included in Memorandum Accounts of the balance sheet is defined as the possibility that any other party to a financial instrument fails to perform the terms of contract. The corresponding contracts consider the amounts that would be assumed by the Bank for credit losses in contingent transactions. The Bank applies the same credit policies when evaluating and granting direct loans and contingent loans. In the opinion of the Bank's management, the contingent transactions do not represent a relevant credit risk.

Since it is expected that a portion of these contingent credits expire without being used, the total amount of contingent credits does not necessarily represent future cash disbursements for the Bank.

When management considers that there is reasonable likelihood of loss resulting from contingent transactions, such obligation is included in the determination of the provision for loan losses as if it were a direct loan.

As of December 31, 2011, guarantees received for credit transactions mainly comprise appraised mortgages for S/.1,014,974 thousand and leased assets for S/. 474,590 thousand, amounts established at the date of the transaction (S/. 648,795 thousand and S/. 234,644 as of December 31, 2010, respectively).

As established by SBS, as from July 2010, balances of risk weighted assets and contingent are not required to be reported in memorandum accounts.

(15) Interest Income

They comprise the following:

	In thousands of S/.	
	2011	2010
Interest and commissions on loan portfolio	209,162	170,054
Interest on cash and due from banks	2,955	1,139
Interest and commissions on interbank funds	8,458	2,967
Interest income and valuation of investments	1,694	1,918
Exchange difference from various operations	—	14,815
Gains for derivative products	76,910	—
Other interest income	942	856
	300,121	191,749

(16) Interest Expenses

They comprise the following:

	In thousands of S/.	
	2011	2010
Interest on deposits and obligations	53,018	22,216
Interest on borrowings from banks and other financial institutions	4,726	7,912
Interest on interbank funds	965	663
Interest on deposits from financial entities	—	—
Interest and other borrowings from the country and abroad	2,644	2,847
Interest on securities, bonds, and obligations outstanding	2,000	1,344
Exchange difference from various operations	67,125	—
Losses for trading, available-for-sale investments and investment in associates	3,488	—
Losses of derivative products	—	3,907
Premiums for deposit insurance fund	817	668
Other interest expenses	490	1,575
	135,273	41,132

(17) Administrative Expenses

They comprise the following:

	In thousands of S/.	
	2011	2010
Personnel and board of directors expenses	99,938	92,079
Expenses for services received from third parties	104,896	81,016
Taxes and contributions	4,706	3,999
	209,540	177,094

(18) Tax Matters

(a) Tax returns for the three-month and two-day period ended December 31, 2006 through 2011, inclusive, are open for review by the Peruvian tax authorities. Any major expenses exceeding the provisions made to cover the tax obligations will be charged to the results of the period in which those expenses are finally settled. The Bank's management considers that, as a result of such review, no significant liabilities affecting the financial statements as of December 31, 2011, will arise.

(b) As per article 18 h) of the Income Tax Law, capital interest and gains coming from bonds issued by the Peruvian Government are income-tax exempt (i) under the framework of Supreme Decree 007-2002-EF, (ii) under the Market Maker program or the superseding mechanism, or (iii) in the international market from 2002; as well as capital interest and gains coming from obligations of the Central Reserve Bank of Peru, except for those arising from legal reserve deposits made by credit institutions.

(c) For income tax, sales tax and excise tax purposes, the market value of the transactions between related parties shall be determined based on the transfer pricing standards. These standards define, among others, coverage, relation criteria, as well as the comparability analysis, methodology, adjustments and tax information return. The standards establish that under certain conditions, companies are required to have a Technical Study supporting the calculation of transfer pricing with related companies. Likewise, this obligation is required for all transactions made from, towards or through territories with low or null taxation.

The Bank's management considers that for income, sales and excise tax purposes, pricing regarding transactions such as those aforementioned has been made in accordance with tax legislation; consequently, no significant liabilities will arise as of December 31, 2011.

(d) The total or partial distribution of dividends, or other types of profit distribution, is subject to a 4.1% income tax withholding, except for the distribution of profits made in favor of domiciled legal entities.

(e) In 2005, a new tax named Temporary Tax on Net Assets (ITAN, for its Spanish acronym) was established. Taxable base is the prior period adjusted net asset value less depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. Tax rate is 0.4% for 2011 and 2010 and is applied over net assets exceeding S/. 1,000 thousand. It may be paid in cash or in nine consecutive monthly installments. The paid amount can be used as a credit against payments on account of Income Tax General Regime for taxable periods from March to December of the fiscal period for which the tax was paid until maturity date of each of the payments on account, and against the payment for regularization of income tax of the corresponding taxable period. The Bank has determined that the ITAN for 2011 amounts to S/. 10,284 thousand (S/. 6,809 thousand in 2010). Tax refund can be requested only in the cases where it can be demonstrated that tax loss has been incurred or where a lower payment of income tax has been determined based on general regime norms.

(f) Technical assistance provided by non-domiciled entities will be subject to a 15% withholding income tax, regardless of the place where the service is rendered, and that Income Tax Law requirements are met.

(g) The Bank acted as withholding and collection agent regarding the tax rate on financial transactions. For fiscal periods 2011 and 2010, tax on financial transaction rates was 0.005% (effective April) and 0.05%, respectively, and are applied on credits and charges in bank accounts or movements of funds made through the financial system, unless the accounts are tax-exempt.

(h) The Bank signed a Legal Stability Agreement with the Peruvian Government which became effective on April 29, 2011. Through this agreement, the Peruvian Government guarantees the Bank's legal stability under the following terms:

- Stability in tax regime referred to income tax, in conformity with Legislative Decree 757, article 40 which states that income tax to be paid by the Bank will not be modified during the effectiveness of such agreement.

- Stability in the hiring regime of employees in virtue of Legislative Decree 662, article 12 (a).

(i) The Bank calculated its taxable base for the years ended December 31, 2011 and 2010 and determined a tax loss of S/. 44,710 thousand and S/. 15,654 thousand, respectively, as follows:

	In thousands of S/.	
	2011	2010
Loss before income tax	(65,644)	(68,317)
Additions and deductions for tax effects:		
Income tax assumed by third parties	8,303	3,709
Provision for loan losses	19,486	14,120
Provisions	4,399	17,249
Non-deductible expenses	11,988	17,274
Other	1,035	311
Amortization of intangible assets	(24,278)	—
Tax loss carryforward for the year	(44,710)	(15,654)

According to Legislative Decree 774, Article 50, domiciled legal entities can compensate the net loss of Peruvian source recorded in a taxable period, adopting any of the following systems: (a) Compensate the net loss with the corporate net income obtained during the four years following the period of its generation, year after year, until the amount disappears, or (b) compensate the net loss with the 50% of the net income obtained during the last immediate following periods, year after year, until the amount disappears. The Bank has determined that losses will be compensated applying system (b).

(j) Reconciliation of income tax effective rate to the tax rate is as follows:

	2011		2010	
	In thousand of S/.	%	In thousand of S/.	%
Loss before tax	(65,643)	100.00	(68,317)	100.00
Income tax (theoretical)	(19,693)	30.00	(20,495)	30.00
Tax effect on additions and deductions Permanent differences	43,959		43,226	
Current and deferred income tax recorded as per effective rate	(13,413)	(20.40)	(3,845)	(5.60)

(19) Deferred Income Tax

As of December 31, 2011 and 2010, the Bank has determined deferred income tax through the balance sheet method (note 3i) and is attributed to the following items:

	In thousands of S/.		
	Balances as of 12.31.2010	Additions (deductions)	Balances as of 12.31.2011
Temporary differences assets (liabilities):			
Depreciation of property, furniture and equipment	3,239	688	3,927
Other assets	1,313	(324)	989
Accounts payable	7,736	(1,780)	5,956
Tax loss carryforward	40,508	13,076	53,584
Amortization of intangible assets		(7,282)	(7,282)
Deferred employees' profit sharing (note 3j)	(7,880)	7,880	—
	44,916	12,258	57,174

(20) Employees' Profit Sharing

According to Legislative Decree 677, the Bank's employees are entitled to a profit-sharing plan to be computed at 5% of the net income This profit sharing is considered as deductible expenses for income-tax calculation purposes.

In 2011 and 2010, the Bank has not assigned profit sharing to employees since it incurred tax loss.

(21) Related Party Transactions

The Bank conducts various transactions with its related parties, being the most important the borrowings and financial obligations, deposits, contingent operations and expenses from services.

As a result of the aforementioned transactions, the balance sheet balances as of December 31, 2011 and 2010, as well as the income statement for the years then ended comprise assets and liabilities, and income and expenses, as follows:

	In thousands of S/.									
	Assets		Liabilities		Contingent		Expenses		Income	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
HSBC Holdings BV	—	—	—	28,148	—	—		431	—	—
HSBC Panama	—	—	2	21	—	28,491	437	903	468	116
HSBC Bank PLC	—	—	27,737	112,458	—	14,176	5,933	6,107	278	—
HSBC Bank USA NY	19,702	—	428	1,989	1,711,685	1,411	869	—	—	—
HSBC Bank Brasil	—	—	1,966	928	—	64,235	1,346	313	—	—
HSBC Private Bank Suisse	—	—	—	140,572	—	—	866	774	—	—
HSBC Salvador	—	—	12	56,264	—	—	163	217	—	—
HSBC Bank Argentina	—	—	379	30	—	6,556	384	22	—	—
HSBC Bank Canada Toronto	—	—	—	—	—	3,395	—	51	—	—
HSBC Bank Chile	—	—	40,453	42,148	—	8,740	2,296	2,416	—	—
HSBC Bank Colombia	—	—	—	—	—	—	—	—	—	—
HSBC Bank Madrid	—	—	—	—	—	—	—	—	—	—
HSBC Bank Mexico	—	—	23,230	15,425	—	—	42,987	38,770	—	—
HSBC France	—	—	—	—	—	4,287	—	—	—	—
HSBC PLC Athens	—	—	—	—	—	—	—	—	—	—
HSBC Australia Limited	—	—	13	45	—	—	—	—	—	—
Others	—	13	—	900	—	1,147	—	2,415	—	—
HSBC Bank UK London	1,512	—	107,984	—	—		—	—	—	—
HSBC Paraguay	—	—	18,877	—	—	—	67	—	—	—
HSBC Hong Kong and Shangai Bank	—	—	912	—	—	—	2,193	—	—	—
HSBC Canada	—	—	—	—	—	—	153	—	—	—
	21,214	13	221,993	398,928	1,711,685	132,438	57,694	52,419	746	116

Expenses mainly comprise interest on borrowings and financial obligations and expenses incurred for the use of IT infrastructure and regional structure, which are recorded in expenses for third party services and, in year 2010, in other expenses.

(22) Loss per Share

The calculation of weighted average of shares and the basic and diluted losses per share is as follows:

	Shares outstanding		
	Shares outstanding	Effective days until year-end	Weighted average of common shares
Balance as of January 1, 2011	479,961,500	365	479,961,500
Equity contribution dated April 28, 2011	70,400,000	248	47,833,425
Balance as of December 31, 2011	550,361,500		527,794,925

	Shares outstanding		
	Shares outstanding	Effective days until year-end	Weighted average of common shares
Balance as of January 1, 2010	309,501,500	365	309,501,500
Equity contribution dated April 29, 2010	170,460,000	246	114,885,370
Balance as of December 31, 2010	479,961,500		424,386,870

Calculation of basic and diluted losses per share as of December 31, 2011 and 2011 is presented as follows

	In thousands of S/.	In thousands of	In S/.
Year	Loss (numerator)	Shares (denominator)	Loss per share
2011	53,386	527,795	(0.101)
2010	65,511	424,387	(0.154)

(23) Financial Risk Management

The Bank's management, based on its experience, skills, regulatory and corporate standards controls risks related to market, liquidity, interest rate, currency and credit as follows:

Market Risk

It comprises the risk of loss of value of the Bank's portfolios due to fluctuations in interest rates and exchange rates, among others.

The objective of Market Risk is to establish the policies, processes, and controls to reach a balance between profitability and volatility in the market variables, i.e., keeping an appropriate risk level.

Treasury activities, as part of the process for administering the Bank's assets and liabilities, identify, manage, and control the liquidity and interest rate risk arising from its financing and investment activities.

The Assets and Liabilities Committee (ALCO) supervises the Bank's market risks with the participation of the top management. Among its main duties, this Committee defines the strategy for handling assets and liabilities, establishes and reviews the market risk limits, reviews and manages the exposure to interest rate risk of the Bank's assets and liabilities, and reviews and establishes hedging policies in order to optimize profits and protect equity.

Market Risk Department controls, evaluates and ratifies market risk limits and reviews patterns and policies used for the Market Risk Management. Patterns, policies, and limits are subject to periodic formal reviews by this department.

Liquidity Risk

It relates to the risk that the Bank may not be able to comply with its financial obligations, on a timely basis, and at reasonable prices; this risk is managed by the Treasury Management. Among the financial obligations there are deposits, payments of borrowings, and investment and borrowing commitments.

The ALCO supervises the liquidity risk at top management level, and meets every month to review the Bank's liquidity profile.

The main guidelines to manage liquidity risk are

- Establishing limits for control of liquidity.
- Performing gap analysis: mismatch for maturity term
- Diversifying financing sources.
- Keeping an appropriate level of liquidity assets.
- Performing stress tests.
- Having a liquidity contingency plan.

Interest Rate Risk

It comprises the risk of loss due to variations in interest rates The Bank, through the Treasury, actively manages its interest rate risk exposure in order to improve its net interest income according to pre-established policies on tolerance to risk.

Interest rate risk exposure in each currency is controlled by the Market Risk Department and through:

- Analysis of interest rate gaps
- Sensitivity analysis, to evaluate the effect of interest rate fluctuations over the current financial margin
- Stress simulating scenarios for interest rates which allows analyzing the impact that an extraordinary change may have in the Bank's rates.

Exchange Rate Risk

It comprises the risk of loss due to adverse variations in exchange rates of currencies negotiated by the Bank. This risk is managed by the Treasury Management.

Credit Risk

Management controls credit risk through reviews and analysis of individual transactions on a periodic basis. For this purpose, it carries out an evaluation of debtor, financial analysis, aspects such as credit concentration limits, potential portfolio losses, guarantees and requirement of working capital, according to the market risk where it operates.

In the ordinary course of its business, the Bank grants credits to its clients and receives deposits from them. The credit and deposit transactions are carried out mainly in Lima. The clients' capacity to comply with their contractual obligations depends on the income and the existing economic conditions.

(24) Fair Value

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability, or equity instrument in another, such as cash, any contractual right to receive or grant money or other financial asset or to exchange financial instruments, and equity instrument of other entity. Likewise, financial instruments include both main instruments such as accounts receivable, accounts payable, and equity securities; and derivative instruments such as forwards.

Fair value is the amount through which an asset could be exchanged or a liability settled between knowledgeable, willing parties in a current transaction taking into consideration that the entity is a going concern.

When a financial instrument is traded in a liquid and active market, its price stipulated in the market is the best evidence of its corresponding fair value.

In cases when the prices stipulated in the market are not available or may not indicate the fair value of the financial instruments, the market value of similar financial instruments, discounted cash flow analysis or other applicable techniques may be used to determine this fair value, which are based on subjective factors and, in some cases, on inexact factors; for this reason, any change in them or in the estimation methodology used could have a material effect on the fair values of financial instruments. Even though, management has used its best judgment for the estimation of the fair values of financial instruments, a fair value is not an indicative of the net realizable value or the liquidation value.

A significant portion of the Bank’s assets and liabilities corresponds to short-term financial instruments maturing in terms shorter than a year. It is considered that fair values of these financial instruments are equivalent to their corresponding carrying amount at closing period.

Methodology and assumptions used depend on the risks terms and characteristics of the different financial instruments, as shown below.

(a) Cash and due from banks represent cash or short-term deposits that are not considered to be a significant credit risk.

(b) Investments at fair value through profit or loss are recorded in books at estimated market value.

(c) Available-for-sale investments are generally listed or have a market value through future discounted cash flows.

(d) Market value of short-term loans portfolio are similar to carrying amount, net of their corresponding provision for loan losses, due to their short-term character which is considered by management as the estimated recoverable amount as of the date of the financial statements. Additionally, long-term loans portfolio accrue fixed interest rates which are similar to their market rates.

(e) The market value of deposits and obligations corresponds to their respective carrying amount mainly because interest rates are comparable to those of other similar liabilities.

(f) Debts to banks and correspondent banks accrue interest at variable and preferred rates taking into consideration that carrying amounts are similar to their corresponding market values.

(g) Securities, bonds, and obligations generate fixed interest rates. The fair value of these financial instruments was calculated using discounted cash flow at rates applicable by the Bank for liabilities with similar characteristics As a result of the calculation, the estimated market value does not differ significantly from their carrying amount.

(h) As described in note 14, the Bank has granted guarantees, standby letters, import and export letters of credit and has received guarantees in support of the credits approved. Based on the levels of commissions currently collected for granting those contingent loans, and considering the maturity, and the interest rates and current solvency of the counterparts, the difference between the carrying amounts and the fair value is not material. Due to the uncertainty in determining the valuation, likelihood and opportunity in being executed, and the lack of an established market, it is not possible for the Bank to determine the estimated fair value of the received guarantees.

(i) Returns receivable or payable for derivative instruments are stated at its estimated market value; thus, its carrying amount is equal to said value.

KPMG en Perú
Torre KPMG. Av. Javier Prado Oeste 203
San Isidro. Lima 27, Perú

Teléfono 51 (1) 611 3000
Fax 51 (1) 421 6943
Internet www.kpmg.com/pe

INDEPENDENT AUDITORS' REPORT

The Shareholders and Board of Directors
HSBC Bank Perú S.A.

We have audited the accompanying financial statements of HSBC Bank Perú S.A. (a subsidiary of HSBC Latin America Holding (UK) Limited), which comprise the balance sheet as of December 31, 2010 and 2009, and the related statements of income, changes in equity and cash flows for the years then ended, and the summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with accounting standards established for financial institutions in Peru by the Superintendencia de Banca, Seguros y Adminsitradoras Privadas de Fondos de Pensiones (SBS) (Superintendency of Banking, Insurance, and Private Pension Fund Administrators). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the 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. The audit also includes evaluating the appropriateness of accounting standards used and the reasonableness of accounting estimates made by Management, as well as the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HSBC Bank Perú S.A. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting standards established for financial institutions in Peru by the SBS, as discussed in notes 2 and 3 to the financial statements.

February 25, 2011

Caipo y Asociados

Countersigned by

(Partner)

Eduardo Alejos P.
Peruvian Certified Public Accountant
Registration 29180

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

HSBC BANK PERÚ S.A.

Balance Sheet
As of December 31, 2010 and 2009
(Stated in thousands of nuevos soles)

	2010	2009
Assets		
Cash and due from banks (note 5):		
Cash and clearing	44,340	40,986
Deposits with Banco Central de Reserva del Perú	1,475,176	400,228
Deposits with local and foreign banks	4,104	13,531
Other	328	11
	1,523,948	454,756
Trading and available-for-sale investments (note 6)	28,507	1,290
Loan portfolio, net of provision for loan losses (note 7)	1,721,034	1,486,680
Accounts receivable, net	13,280	6,610
Assets for lease and recovered assets, net	2,423	444
Investment in associates	149	58
Property, furniture, and equipment, net (note 8)	29,195	30,942
Other assets, net (note 9)	144,463	128,740
Total assets	3,462,999	2,109,520
Contingent and memorandum accounts (note 14)	10,564,356	11,519,291
Liabilities and Equity		
Deposits and obligations (note 10)		
Demand deposits	310,372	144,781
Savings deposits	185,543	69,604
Time deposits	1,922,151	1,017,434
Deposits of financial system entities and financial institutions	2,034	51
Other obligations	156,918	111,560
	2,577,018	1,343,430
Interbank funds	99,016	56,233
Securities, bonds, and obligations outstanding (note 11)	40,344	—
Borrowings and financial obligations (note 12)	379,539	496,254
Provisions and other liabilities	95,635	47,180
Total liabilities	3,191,552	1,943,097
Equity (note 13):		
Share capital	479,961	309,501
Unrealized earnings	(623)	(698)
Accumulated losses	(207,891)	(142,380)
Total equity	271,447	166,423
Total liabilities and equity	3,462,999	2,109,520
Contingent and memorandum accounts (note 14)	10,564,356	11,519,291

See the accompanying notes to the financial statements.

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

HSBC BANK PERÚ S.A.

Income Statement
For the years ended December 31, 2010 and 2009
(Stated in thousands of nuevos soles)

	2010	2009
Interest income (note 15)	191,749	149,045
Interest expenses (note 16)	(41,132)	(47,249)
Gross financial margin	150,617	101,796
Provision for loan losses, net (note 7)	(40,518)	(31,270)
Net financial margin	110,099	70,526
Income from financial services	34,226	21,940
Expenses for financial services	(6,209)	(2,617)
Operating margin	138,116	89,849
Administrative expenses (note 17)	(177,586)	(133,745)
Net operating margin	(39,470)	(43,896)
Provisions for contingencies and other	(8,936)	(5,631)
Depreciation and amortization	(10,452)	(8,084)
Operating loss	(58,858)	(57,611)
Income (expenses) for portfolio recovery, net	422	(606)
Other income	6,333	5,902
Other expenses (note 21)	(16,706)	(2,275)
Loss before employees' profit sharing and income tax	(68,809)	(54,590)
Deferred employees' profit sharing (note 19)	492	1,710
Deferred income tax (note 19)	2,806	9,748
Net loss for the year	(65,511)	(43,132)
Weighted average of shares outstanding, (in thousands of shares) (note 22)	424,387	287,796
Loss per share (in nuevos soles) (note 22)	(0.154)	(0.150)

See the accompanying notes to the financial statements.

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

HSBC BANK PERÚ S.A.

Statement of Changes in Equity
For the years ended December 31, 2010 and 2009
(Stated in thousands of nuevos soles)

	Share capital (note 13.b)	Unrealized earnings (note 13.d)	Accumulated losses	Total
Balances as of December 31, 2008	264,487	(804)	(99,248)	164,435
Contributions from shareholders	45,014	—	—	45,014
Fair value adjustments to available-for-sale investments	—	106	—	106
Net loss for the year	—	—	(43,132)	(43,132)
Balances as of December 31, 2009	309,501	(698)	(142,380)	166,423
Contributions from shareholders	170,460	—	—	170,460
Fair value adjustments to available-for-sale investments	—	75	—	75
Net loss for the year	—	—	(65,511)	(65,511)
Balances as of December 31, 2010	479,961	(623)	(207,891)	271,447

See the accompanying notes to the financial statements.

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

HSBC BANK PERÚ S.A.

Statement of Cash Flows
For the years ended December 31, 2010 and 2009
(Stated in thousands of nuevos soles)

	2010	2009
Net cash flows from operating activities:		
Net loss for the year	(65,511)	(43,132)
Adjustments to reconcile the net loss to net cash used in operating activities:		
Provision for loans losses	40,518	31,270
Depreciation and amortization	10,452	8,084
Deferred income tax	(3,298)	11,458
Increase in accounts receivable	(6,670)	(5,149)
Increase in other assets	5,462	(37,660)
Increase in other liabilities	32,792	8,204
Net cash used in operating activities	13,745	(26,925)
Net cash flows from investing activities:		
Purchase of property, furniture, and equipment	(5,608)	(15,311)
Purchase of other non-financial assets	(20,984)	—
Net cash used in investing activities	(26,592)	(15,311)
Net cash flows from financing activities:		
Increase in loan portfolio	(259,135)	(344,152)
(Increase) decrease in assets for lease	(1,979)	33,418
Increase in investments	(27,308)	(7)
Increase in interbank funds	42,783	46,201
Increase in deposits and obligations	1,233,588	185,754
(Decrease) increase in borrowings and financial obligations	(76,371)	207,521
Increase in securities, bonds, and obligations outstanding	40,344	—
Increase in share capital	170,460	45,014
Net cash provided by financing activities	1,082,039	173,749
Net increase in cash and cash equivalents	1,069,192	131,513
Cash and cash equivalents at beginning of year	454,756	323,243
Cash and cash equivalents at end of year	1,523,948	454,756

See the accompanying notes to the financial statements.

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

HSBC BANK PERÚ S.A.

Notes to the Financial Statements
As of December 31, 2010 and 2009

(1) Business Activity

HSBC Bank Peru S.A. (hereinafter the Bank) is a subsidiary of HSBC Latin America Holding (UK) Limited which holds 76.60% of its share capital as of December 31, 2010 (76.60% as of December 31, 2009) and is a subsidiary of HSBC Holdings plc, both companies are incorporated in London.

The Bank is a publicly-held corporation that was incorporated on May 2, 2006. On September 28, 2006, it was authorized to operate as a multiple bank by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones (Superintendency of Banking, Insurance and Private Pension Fund Administrators) (hereinafter SBS). The Bank started operations on October 9, 2006.

The Bank's operations mainly comprise financial intermediation, characteristic of multiple banks; which are ruled by the SBS in accordance with Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la SBS, Law 26702 (hereinafter the Bank Act). This Law establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions to which every legal entity operating in the financial and insurance systems are subject. The Bank is entitled to receive monetary deposits from the public and invest these funds, together with its own capital, in granting loans and guarantees, acquiring securities, and carrying out finance lease and financial intermediation operations, as well as to render banking services to corporate and individual clients, and other activities allowed by the law.

The Bank's legal address is Jr. Carabaya N° 891, Lima, Peru. To develop its activities, the Bank has one main office and 23 branches located in Lima and provinces as of December 31, 2010 (one main office and 21 branches, as of December 31, 2009). Likewise, as of December 31, 2010, the Bank has 978 employees (937 employees as of December 31, 2009).

(2) Basis of Preparation

The accompanying financial statements have been prepared based on the Bank's accounting book balances, and are presented in accordance with current legal provisions and accounting principles generally accepted in Peru as applicable to financial entities, which comprise the accounting standards and practices authorized by the SBS using its authority conferred as established by the Bank Act. These standards are included in the Accounting Manual for Financial System Entities (hereinafter the Accounting Manual) approved by Resolution SBS 895-98 dated September 1, 1998, effective on January 1, 2001 and supplementary regulations.

The SBS has established that for situations not foreseen in such standards, Peruvian Generally Accepted Accounting Principles (Peruvian GAAP) shall be applied. Peruvian GAAPs comprise the standards and interpretations issued or adopted by the International Accounting Standards Board (IASB), which include the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or the former Standing Interpretations Committee (SIC), adopted by the IASB and made official by the Consejo Normativo de Contabilidad—CNC (Peruvian Accounting Board) for their application in Peru.

General Shareholders' Meeting, held on March 26, 2010, approved the financial statements as of December 31, 2009. Management and Board of Directors at Meeting held on January 28, 2011, approved the financial statements as of December 31, 2010, which will be presented to General Shareholders' Meeting for their corresponding approval, within the terms established by law. In management's opinion, the General Shareholders' meeting will approve those financial statements, without any amendments.

(a) Basis of Measurement

The financial statements have been prepared in accordance with the historical cost principle, except for the following:

- Held-for-trading and available-for-sale financial instruments are measured at fair value.
- Derivative instruments are measured at fair value.

(b) Presentation Currency

The financial statements are presented in nuevos soles (S/.), in accordance with SBS standards. All the financial information is presented in nuevos soles (S/.) and has been rounded to the closest thousand (S/. 000), except as otherwise indicated.

(c) Significant Accounting Estimates and Criteria

The Bank makes estimates and assumptions regarding the future. Resulting accounting estimates may differ from respective actual results. However, in the opinion of management, the estimates and assumptions applied by the Bank do not have significant risk as to produce a material adjustment to the balances of assets and liabilities for next period and future periods, if any.

The accounting estimates and criteria used are continuously evaluated and are based on historical experience and other factors, including the reasonable expectation of occurrence of future events depending on the circumstances.

Significant estimations related to the Bank's financial statements are: provision for loan losses, fair value of investments, useful life allocated to premises, furniture and equipment and intangible assets, provision for assets for lease, provision for contingencies, fair value of derivative instruments through profit or loss, and deferred income tax and employees' profit sharing recovery, for which accounting criteria are described below.

Management has exercised its critical judgment when applying accounting policies for the preparation of the accompanying financial statements, as explained in the corresponding accounting policies.

(3) Significant Accounting Policies

Significant accounting policies applied to prepare the Bank's financial statements are detailed below. These policies have been consistently applied with those of previous year, unless otherwise indicated.

(a) Financial Instruments

Financial instruments are defined as any contract that gives rise to both a financial asset in one entity and a financial liability, or equity instrument in another.

Financial instruments are classified as assets, liabilities, or equity according to the substance of the contract. The interest, dividends, gains and losses generated by a financial instrument classified as asset or liability, are recorded as income or expense in the income statement. The financial instruments are compensated when the Bank has the legal right to compensate them, and management has the intention of paying them on a net basis or negotiating the asset, and paying the liability simultaneously.

The financial assets and liabilities presented in the balance sheet correspond to balances presented in cash and due from banks, securities, loan portfolio, accounts receivable, assets for lease, and other assets, except for the deferred income tax and employees' profit sharing, and liabilities in general. Likewise, all the derivative products and indirect credits are considered financial instruments. The recognition and valuation criteria of those items are disclosed in the accounting principles policies related to those notes.

(b) Investments

As from March 2009, the recording and valuation of investments are regulated by SBS Resolution 10639-2008 Regulations for the Classification and Valuations of Investments of Financial System Companies. Through this resolution, the SBS has amended and clarified investment classification, valuation and provisioning, and has modified the Accounting Manual for Financial System Companies in order to harmonize current accounting criteria with international accounting practices; primarily criteria for classification and valuation of IAS 39 Financial Instruments: Recognition and Measurement. These changes were applied prospectively.

The initial recognition and valuation criteria of the Bank's investments are applied according to SBS Resolution 10639-2008 under four categories which are detailed as follows: investment at fair value through profit or loss, available-for-sale investments, held-to-maturity investments, and investment in subsidiaries and associates. The Bank classifies its investments in the following categories:

(i) Investments at Fair Value through Profit or Loss

They comprise investments in debt instruments and/or equity shares acquired with the objective to sell them in a near future; or it is part of an identified financial instrument portfolio that are managed together and for which there is evidence of a recent pattern of gains in a short-term basis. These investments are initially recorded at fair value without considering transaction costs, which are included as expenses in profit or loss for the year. The accounting value of this investment is updated at fair value and fluctuations are recognized in the profit or loss.

Interest income is recognized using the effective interest rate method, calculated over the expected useful life of the asset. Dividends are recognized in the income statement when the Bank becomes entitled to the dividend.

Investment instruments at fair value through profit or loss given in guarantee or transferred through a repurchase agreement will be reclassified as available-for-sale. Upon conclusion of these transactions, those instruments will be reclassified back to their initial category, transferring unrealized earnings from the equity to the profit or loss of the year.

(ii) Trading and Available-for-Sale Investments

Available-for-sale investments are all investment instruments that are not classified as investments at fair value through profit or loss, held-to-maturity investments or investments in subsidiaries and associates. Likewise, investment instruments will be included in this category when explicitly required by the SBS.

Available-for-sale investments are initially measured at fair value plus direct costs attributable to the acquisition of such securities. The accounting value of this investment is updated at fair value, recognizing fluctuations in the equity under Unrealized Earnings until the instrument is sold or realized; subsequently the gain or loss that was previously recognized in the equity will be transferred and recorded in profit or loss for the year.

If the value for available-for-sale investments is impaired, the cumulative losses measured as the difference of the acquisition cost (net of any principal repayment and amortization) and their current fair value, less any impairment loss previously recognized in the income statement) is transferred from the equity and recognized in the income statement. In the case of unquoted equity shares, impairment will be the difference between the carrying amount and the present value of future cash flows, discounted at current market rates for similar assets.

Gains or losses on exchange differences related to equity share is recognized in equity, under Unrealized Earnings, while those related to debt instruments are recognized in the income statement.

Interest income is recognized on the available-for-sale investment using the effective interest rate, calculated over the expected useful life of the asset. Premiums and/or discounts originated on the investment purchase date are included in the calculation of its effective interest rates. Dividends are recognized in the income statement when the Bank becomes entitled to the dividend.

(iii) Investment in Associates

Equity shares acquired in order to participate with and/or have significant influence over companies and institutions. Investment in associates are initially measured at fair value plus transactions costs directly attributable to their acquisition, and are subsequently measured applying the equity method, meaning that proportional profits or losses generated by such investments are recognized in the income statement.

Investment instruments held by companies can be subject to reclassification within the framework of article 15 of SBS Resolution 10639-2008.

(i) Investment instruments at fair value through profit or loss cannot be reclassified except (i) for unquoted equity shares that lack reliable fair value estimations or (ii) when given in guarantee or transferred through a repurchase agreement as previously noted in section b. (i).

(ii) Held-to-maturity investments cannot be reclassified except for as a result of a change in the financial capacity of the issuer. In this situation the investment shall be reclassified as available-for-sale investments and shall be measured at fair value. The difference between its carrying value and the fair value shall be recognized in accordance with the corresponding valuation criteria. This category change is subject to the restrictions described in article 17 of Resolution SBS 10639-2008.

(c) Derivative Instruments

The accounting treatment for derivative instruments that financial entities shall apply is established in SBS Resolution 1737-2006 “Regulation for Trading and Accounting of Derivative Products in Financial System Enterprises”, dated December 28, 2006, effective January 1, 2007; and its amendment SBS Resolution 1349-2008, dated May 6, 2008.

These standards establish accounting criteria for operations with financial instruments according to their category: (i) held-for-trading, (ii) hedging; and (iii) embedded derivatives.

The Bank holds derivative instruments classified as held-for-trading, which are initially recognized at fair value. Fair value is obtained based on the foreign exchange rate and market interest rate. Gains and losses for changes in fair value are recorded in the profit or loss of the year.

Forward and swap transactions hold by the Bank are recorded at their estimated market value based on the behavior of rates in foreign currency according to the transaction term, recognizing an asset or a liability in the balance sheet, as applicable, and the corresponding profit or loss in the income statement. The face value of forward and swap contracts or transactions is recorded in memorandum accounts at face value and in nuevos soles at the exchange rate established by the SBS as of the close of period.

In 2010 and 2009, the Bank did not have derivative instruments classified as hedging or embedded derivatives.

(d) Loans and Provision for Loans Losses

Direct loans are financing given to clients through several modalities. Indirect credits (contingent) are guarantees, standby letters, banker's acceptances, letters of credits, approved loans not disbursed, and approved credit lines that have not been used. Likewise, changes in loan payment conditions due to debtors' payment difficulties are considered as refinancing or restructuring.

Finance leases are accounted for using the financial method, recording as loans the amount of the receivable installments. Interest income is based on a pattern that reflects a regular periodic index of return on the net investment. Initial direct costs are recognized immediately as expenses.

The Bank's Risk Portfolio Area is in charge of conducting, on a permanent basis, the evaluation and rating of the loan portfolio, assigning to each debtor the corresponding risk rating according to the guidelines established by the SBS, in Resolution 11356-2008 and its amendments as from July 2010.

Type of Loans

In conformity with Resolution 11356-2008, loans are classified as: i) corporate loans, ii) large-business loans, iii) medium-business loans, iv) small-business loans, v) micro-business loans, vi) revolving consumer loans, vii) non-revolving consumer loans, and viii) mortgage loans. This classification considers nature of client (corporate, government or individual), purpose of loan, and business size, measured per revenues, indebtedness, among others.

Rating Categories

Debtor rating categories established by the SBS are the following: Standard, Potential Problem, Substandard, Doubtful, or Loss. Non-retailers Loan portfolio (corporate, large and small companies) rating classifications mainly take into account the payment capacity of the debtor, cash flow, level of compliance with obligations, rating designated by other companies in the financial system, financial position, and management quality. In the case of the classification of loans to small business, micro business, consumer and mortgage loans, the rating is based on the level of compliance with credit payments, which is reflected in the delayed days and their classification in other entities of the financial system.

Provision Requirements

According to current regulations, the Bank considers two classes of provisions for loan portfolio: generic and specific provisions. The generic provision is recorded in a preventive manner for standard risk direct and indirect loans and finance lease transactions, and additionally for the procycical component when the SBS orders its application. The specific provision is recorded for direct loans and the credit risk of indirect loans for which a specific risk, higher than standard has been identified.

Until June 2010, total exposure to indirect loans was used to calculate the required provision, and as from July 2010, the calculation only considers an exposure equivalent to the credit risk, which is calculated by multiplying the different types of indirect credits by the credit conversion factor (CCF), as follows:

Description	CCF (%)
(i) Irrevocable letters, when the issuer bank is a foreign high-quality category company of the financial system.	20
(ii) Standby letters of faithful compliance or that used as guarantee for bids.	50
(iii) Guarantees, letters of credit, standby letters not included in letters "a)" and "b)", and banker's acceptances.	100
(iv) Approved loans not disbursed and unused credit lines.	0
(v) Other indirect loans not covered by the previous paragraphs.	100

The provision requirements are determined considering the debtor risk rating, and based on the type of the established guarantees.

Provisions are determined according to SBS Resolution 11356-2008. As from July 2010, the following percentages are applied:

(i) Standard Rating

Type of credit	Provision rate
Corporate loans	0.70%
Large-business loans	0.70%
Medium-business loans	1.00%
Small-business loans	1.00%
Micro-business loans	1.00%
Revolving consumer loans	1.00%
Non-revolving consumer loans	1.00%
Mortgage loans	0.70%

(ii) Other categories and type of guarantees:

Risk rating	Without collateral	With preferred collateral	With preferred easily realizable collateral	With preferred readily realizable collateral
Potential problem	5.00%	2.50%	1.25%	1.00%
Substandard	25.00%	12.50%	6.25%	1.00%
Doubtful	60.00%	30.00%	15.00%	1.00%
Loss	100.00%	60.00%	30.00%	1.00%

Procyclical component

The recording of procyclical provision is required for the portfolio under the "Standard" risk rating, which represent an additional component to the provision rate, being applicable based on the average of the Gross Domestic Product (GDP) annualized percentage variation. Its recording will be made provided that the "procyclical rule" is activated.

As from October 2010, the procyclical component of provisions on direct and indirect loans, and leasing transactions of debtors classified under the “Standard” rating is activated. The recording of these provisions is made gradually; procyclical component rates shall not be lower than the following:

Type of credit	Provision rate
Corporate loans	0.40%
Corporate loans with readily realizable collateral	0.30%
Large-business loans	0.45%
Large-business loans with readily realizable collateral	0.30%
Medium-business loans	0.30%
Small-business loans	0.50%
Micro-business loans	0.50%
Revolving consumer loans	1.50%
Non-revolving consumer loans	1.00%
Consumer loans under eligible agreements	0.25%
Mortgage loans	0.40%
Mortgage loans with readily realizable collateral	0.30%

For the consumer and micro-business loans, the procyclical component will be 0% for the portion covered with such collateral. For consumer loans that have contracts with discount agreements from eligible payrolls, the procyclical component shall be 0.25% provided that they comply with the provisions of the Resolution.

Until June 2010, the percentage of the procyclical provision of direct and indirect loans of debtors classified as standard is as follows:

Type of credit	Provision rate
Commercial loans	0.40%
Micro-business loans	0.50%
Revolving consumer loans	1.50%
Non-revolving consumer loans	1.00%
Mortgage loans	0.40%

The SBS is entitled to decide on the application or discontinuance of the procyclical component depending on the behavior of the annual average percentage of the gross domestic product (GDP) if it is over or under 5%. Conditions for its application or discontinuance are indicated in Exhibit I of Resolution SBS 11356-2008. The application of the procyclical component was activated from December 2008 to August 2008, discontinued from September 2009 to September 2010, and reactivated in September 2010.

The SBS has established that during discontinuance of the procyclical component, financial institutions shall not, under any circumstance, generate profits from the reversal of such provisions, which shall only be used for recording obligatory specific provisions.

Provisions for direct loans are presented by deducting the balance from the corresponding asset (note 7), and provisions for indirect loans are presented in the liabilities in the provisions and other liabilities accounts. Provisions kept by the Bank, in the opinion of management, are sufficient to cover losses in the loan portfolio as of the balance sheet date.

(e) Assets for Lease and Recovered Assets

It comprises the assets acquired for their sale under the modality of finance lease. Such assets are recorded at their acquisition cost, which includes the net price invoiced by supplier, freights, insurances and all necessary disbursements until entering into the Bank's warehouse or Bank premises. When finance lease agreement becomes effective, this account is charged to the respective loan account and the finance lease is recorded. The assets destined to the finance lease for which no loan was formalized, shall be recorded at the lower of cost value or market value. The market value to be considered will be the net realizable value.

According to current legislation, the treatment to raise provisions for recovered assets is as follows:

(i) A provision equivalent to 20% of the cost shall be recognized at initial recording. If the net realizable value shown in the valuation report demonstrates that the asset is impaired by a percentage higher than 20%, then the required initial provision shall be recorded at an amount equivalent to the amount effectively impaired.

(ii) For the provision for goods other than property, the Bank records a monthly provision equivalent to 1/18 of the cost in books, less the aforementioned initial provision, commencing the first month of repossession or recovery of the goods. Regarding goods that have not been sold or leased within a one-year term and that do not have the extension established in the Bank Act, the provision should be completed up to 100% value upon repossession or recovery less impairment provision, at the close of corresponding year.

(iii) A provision shall be recorded for the real estate that has not been sold or leased within one year from its recovery or repossession. This provision shall be a uniform monthly provision over a term of three and a half years until there is a 100% provision of the net book value obtained in the eighteenth or twelfth month, depending on if there is or is not an extension approved by the SBS, respectively.

Valuation reports of real estate may not be aged over a year. The updating of valuations of such goods will necessarily imply the recording of provision for impairment, if the net realizable value of good is lower than its book value. Otherwise, the higher value may not be recognized.

(f) Property, Furniture, and Equipment

The property, furniture and equipment are recorded at acquisition cost, less accumulated depreciation. Disbursements incurred after acquisition for property, furniture, and equipment are only recognized as assets when there are probable future economic benefits associated with the asset and their cost can be reliably measured.

Maintenance and repair expenses are recorded in the results when they are incurred.

Work-in-progress and in-transit goods are recorded at acquisition cost. These goods are not depreciated until relevant assets are finished and/or received, and are finally operative.

Depreciation of assets has been computed based on the straight-line method and using the following estimated useful lives:

	Years
Premises	2 and 3
Furniture, fixtures, and computing equipment	4 and 10
Vehicles	5

The residual value and the useful life of an asset are reviewed and adjusted, if necessary, at each balance sheet date.

(g) Impairment of Assets

When events or circumstantial economic changes indicate that the value of an asset might not be recoverable, the Bank reviews the value of the long-term asset to determine if there is impairment. When the book value of the long-term asset exceeds its recoverable amount, the entity recognizes an impairment loss in the income statement for the assets held at cost. This loss, if any, is treated as a decrease in the cost.

The recoverable amount of an asset is the higher of its net selling price and its value in use. Net selling price is the amount obtainable from the asset sale in a free market. Value in use is the present value of estimated future cash flows expected to arise from the continued use of an asset and from its subsequent disposal at the end of its useful life. Recoverable amounts are estimated for each asset or, if it is not possible, for the cash-generating unit.

An impairment loss recognized in previous years is reversed if there is a change in the estimates used since the last time the impairment loss was recognized.

(h) Deferred Income Tax and Deferred Employees' Profit Sharing

Current income tax is determined based on the taxable income and recorded according to tax legislation applicable to the Bank (note 18).

Deferred income tax is recorded using the liability method based on temporary differences derived from tax accounting of assets and liabilities, and their balances in the financial statements. Deferred income tax is determined based on tax rates and legislation expected to be applied when the deferred tax asset is realized or the deferred tax liability is settled (note 19).

Deferred assets and liabilities are recognized without considering the estimated time when the temporary differences will disappear. Deferred income tax asset is only recognized so far as it is probable that there would be future tax benefits, so that the deferred asset can be used.

Until December 31, 2010, employees' profit sharing comprises current and deferred employees' profit sharing. Current and deferred employees' profit sharing is determined using the same criteria used to determine the current and deferred income tax, respectively. They are recorded according to legislation applicable to the Bank as of the financial statement date. As discussed in note 3 (p), as from January 1, 2011, employees' profit sharing shall be recognized as a personnel expense and a liability corresponding to services rendered by the employees; consequently, no temporary differences between financial and tax basis shall be recognized (notes 19 and 20).

(i) Intangible Assets

They are mainly related to investments in licenses and development of software used for the operations of the Bank. They are shown under "Other Assets" and amortized on a straight-line basis over a term of 5 years.

Costs related to the development or maintenance of software are recognized in profit or loss when incurred. However, costs that are directly related to single and identifiable software, that are controlled by the Bank and that will provide future economic benefits higher than their cost in more than one year, are considered as intangible assets. Direct costs related to the development of software include personnel costs and a portion of general expenses.

Useful life and amortization method are periodically reviewed by management according to the estimated economic benefits to be provided by the components of intangible asset items.

(j) Provisions and Contingencies

(i) Provisions

Provisions are recognized when the Bank has a present obligation, either legal or constructive, as a result of past events, and when it is probable that an outflow of resources may be required to settle the obligation, and it is possible to reliably estimate its amount. Provisions are reviewed and adjusted in each period to reflect the best estimates as of the balance sheet date.

The provision for severance payment (CTS) is calculated according to current legislation, on the total employees' indemnities and should be paid through deposits in authorized financial entities as chosen by them. The computation is made for the amount that should have to be paid as at the balance sheet date and is included in the "Provision for fringe benefits" account. It is presented in the balance sheet under "Other liabilities".

(ii) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of economic resources is remote.

Contingent assets are not recognized in financial statements, and they are only disclosed when an inflow of economic benefits is probable.

(k) Income and Expense Recognition

Interest income and expenses are recognized in the corresponding fiscal year on an accrual basis, depending on the term of the generating transactions and the interest rate agreed with the clients. Commissions for banking services are recognized as income when earned, except for commissions related to the issuance of credit cards, which are recorded on an accrual basis.

When management considers that there are reasonable doubts about the collectibility of the principal of a loan, the Bank suspends the recognition of interest in the income statement. The interest in suspense is recorded in memorandum accounts and recognized as earned when collected. When management considers that the financial situation of the debtor has improved and that the doubt about the collectibility of the principal has dissipated, it reestablishes the accounting of the interest on an accrual basis.

The Bank's other income and expenses are recorded in the period in which they are accrued.

(l) Foreign Currency Transactions

Foreign currency transactions are those transactions carried out in a currency other than nuevo sol. Foreign currency transactions are translated into nuevo sol using exchange rates established by the SBS at the dates of the transactions (note 4). Gains or losses on exchange differences resulting from the payment of such transactions and from the translation of monetary assets and liabilities stated in foreign currency at exchange rates reported at the closing of the period are recognized in the income statement.

(m) Loss per Share

Basic and diluted losses per share is calculated by dividing the net loss of the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, having deducted the treasury shares, as applicable, as of the date of the financial statements.

Diluted loss per share corresponds to the basic loss per share, adjusted for the effects of dilutive shares coming from the conversion of bonds or convertible shares, among others.

As of December 31, 2010 and 2009, the Bank does not have financial instruments with dilutive effects; therefore, basic and diluted losses per share are the same.

(n) Statement of Cash Flows

For presentation purposes of this financial statement, the balances of "Cash and due from banks" as of December 31, 2010 and 2009, were considered as cash and cash equivalents.

(o) Reclassifications

Certain entries of the 2009 financial statements have been reclassified to make them comparable to those of the current year. The modification in the comparative information does not imply changes in decisions taken based on them.

(p) New International Accounting Pronouncements

A number of new standards and interpretations have been issued internationally. In Peru, the CNC has not yet approved the following standards:

- IFRS 9 Financial Instruments: this standard deals with the classification and measurement of financial assets. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. This standard does not replace IAS 39.

- IFRIC 18 Transfers of Assets from Customers: effective for transfers received on or after July 1, 2009.

- Revisions to certain accounting standards and interpretations previously issued, most of them applicable internationally for periods beginning on or after January 1, 2010.

As of December 31, 2010, in Peru, the CNC authorized current IASs 1 to 41, IFRSs 1 to 8, SICs 7 to 32, and all the pronouncements from 1 to 14 issued by the IFRS Interpretations Committee (IFRIC). Such an application is mandatory in the country, except for the financial entities where the SBS has issued specific accounting standards.

The SBS by means of Official Letter 60202-2009, dated December 30, 2009, communicated the postponement of the application of the following International Financial Reporting Standards: IFRS 4 Insurance Contracts, IFRS 7 Financial Instruments: Disclosures, and IFRS 8 Operating Segments. This postponement is effective until the SBS issue corresponding regulation as part of the process to harmonize its accounting regulations to IFRSs.

Resolution 044-2010-EF/94 issued by the CNC on August 23, 2010, made official the application in Peru, beginning January 1, 2011, of the 2009 version of IASs 1 to 41, IFRSs 1 to 8, IFRIC interpretations 1 to 19 (except for IFRIC 18), and SIC interpretations 7 to 32, as well as the modifications of IASs 1, 27 and 34, IFRSs 1, 3 and 7, and IFRIC 13, as of May 2010.

By means of Official Letter 4049-2011, dated January 21, 2011, the SBS established a change in the treatment of employees' profit sharing; this should be recorded in conformity with IAS 19 Employee Benefit. Consequently, this profit sharing shall be treated as personnel expense and liability related to employees' benefit and will stop generating deferred assets or liabilities as a result of the temporary differences between financial and tax base. This could be applied on financial information corresponding to periods beginning on January 2011 or, optionally, as from December 31, 2010. The Bank's management will implement this change as from January 2011, thus the accumulated balances of deferred assets and liabilities for employees' profit sharing as of December 31, 2010, will be reversed affecting the equity account of the accumulated losses.

The Bank's management has not yet determined the potential impact that those standards might have on the preparation of its financial statements.

(4) Foreign Currency Balances

The balance sheet include balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in nuevos soles (S/.) at the exchange rate established by the SBS. As of December 31, 2010 and 2009, these rates were US$1 = S/. 2.809 and S/. 2.890 respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú—BCRP (Central Bank), are channeled through the foreign exchange market. As of December 31, 2010, the buy and sell exchange rates used were US$1 = S/. 2.808 and US$1 = S/. 2.809, respectively (US$1 = S/. 2.888 buy rate and US$1 = S/. 2.891 sell rate as of December 31, 2009).

Foreign currency balances stated in thousands of U.S. dollars as of December 31, are summarized as follows:

	In thousands of US$	
	2010	2009
Assets:		
Cash and due from banks	358,447	145,559
Loan portfolio	214,243	258,191
Accounts receivable	386	198
Other assets	1,511	404
	574,587	404,352
Liabilities:		
Deposits and obligations	(516,856)	(311,373)
Inter-bank funds	—	(7,000)
Borrowings and financial obligations	(135,115)	(171,714)
Accounts payable	(6,771)	(2,124)
Provisions	(2,243)	(1,989)
Other liabilities	(6,974)	(6,081)
	(667,959)	(500,281)
Liability position, net of balance	(93,372)	(95,929)
Derivative instruments, net	78,205	87,437
Liabilities exposed to net exchange risk in foreign currency	(15,167)	(8,492)

In 2010, the Bank recorded net gain on exchange differences of various operations amounting to S/. 14,815 thousand (note 15) (net loss of S/. 186 thousand in 2009) (note 16).

As of December 31, 2010, the Bank has contingent operations in foreign currency amounting to approximately US$ 889,071 thousand, equivalent to S/. 2,497,400 thousand (US$ 369,959 thousand equivalent to S/. 1,069,183 thousand as of December 31, 2009).

Derivative instruments as of December 31, 2010 comprise sale “forward” transactions of US$ 275,653 thousand and purchase “forward” transactions of US$ 353,858 thousand which have up to one-year maturity, (sale “forward” transactions of US$ 44,787 thousand and purchase “forward” transactions of US$ 132,224 thousand as of December 31, 2009). The corresponding receivable and payable return for the amounts accrued for the fluctuations resulting from valuations of these transactions amount to S/. 9,490 thousand and S/. 2,826 thousand, respectively as of December 31, 2010 (S/. 4 thousand and S/. 644 thousand as of December 31, 2009).

(5) Cash and Due from Banks

As of December 31, 2010, cash and due from banks include approximately S/. 200,093 thousand and US$ 272,695 thousand equivalent to S/. 765,999 thousand (S/. 22,263 thousand and US$ 140,725 thousand equivalent to S/. 406,697 thousand as of December 31, 2009) of funds representing legal cash reserve that the Bank must set aside to cover deposits from third parties, according to limits established by current legislation. These funds are held at BCRP and in the Bank’s vault.

The funds of legal cash reserve held at BCRP accrue interest on the required amount in local and foreign currency exceeding the minimum legal cash reserve. As of December 31, 2010, the excess of minimum legal cash reserve in local currency amounts to S/. 95,779 thousand and in foreign currency amounts to US$ 205,777 thousand, and accrue interest in soles at an annual rate of 1.20% and in dollars at an annual rate of 0.1570%. (as of December 31, 2009, interest accrued only on the required amount in foreign currency equivalent to US$ 77,420 thousand at an annual rate of 0.1396%).

Deposits at local and foreign banks correspond, mainly, to balances in nuevos soles and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates.

As of December 31, 2010, cash and due from banks included "overnight" transactions deposited at Banco Central de Reserva del Perú (BCRP) amounting to US$ 85,000 thousand equivalent to S/. 238,765 thousand which accrued interest at annual nominal rates of 0.1915%, with a 4-day maturity and for S/. 254,100 thousand corresponding to two "overnight" transactions which accrued interest at annual nominal rates of 2.20% and 3.00%, with a 4-day maturity.

In 2010, revenue from interest on cash and due from banks amounts to S/. 1,139 thousand (S/. 917 thousand in 2009) and is included under the interest income item in the income statement (note 15).

(6) Trading and Available-for-Sale Investments

It comprises the following:

	In thousands of S/.	
	2010	2009
Investments at fair value through profit or loss:		
Peru's Public Treasury bonds (a)	27,372	—
Available-for-sale investments:		
Shares listed on stock exchange	706	1,290
Sub total	28,078	1,290
Plus:		
Accrued return on marketable investments	429	—
Total of trading and available-for-sale investments	28,507	1,290

(a) Peru's Public Treasury bonds are sovereign bonds issued in local currency by the Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. As of December 31, 2010, such bonds accrue interest at annual rates ranging from 5.02% and 5.90%, maturing between August 2017 and August 2020.

(7) Loan Portfolio

It comprises the following:

	In thousands of S/. 2010	2009
Direct loans:		
Overdrafts	46	4
Discounts	96,830	67,998
Loans	1,062,926	1,008,382
Finance lease	214,395	219,755
Mortgage loans	346,807	193,764
Credit cards	35,563	17,105
Past due loans	24,873	24,882
Refinanced loans	5,955	12,161
Lawsuits loans	15,030	2,369
	1,802,425	1,546,420
Accrued interest on current loans	10,705	9,409
Unaccrued interest and commissions	(23,327)	(25,161)
Provision for loan losses	(68,769)	(43,988)
Total direct loans, net	1,721,034	1,486,680
Indirect loans (note 14)	1,317,445	877,411

As of December 31, 2010 and 2009, fifty percent of the direct and indirect loan portfolio was concentrated in approximately 95 and 78 clients, respectively.

The loan portfolio (direct and indirect) is mainly collateralized by guarantees received from clients, which are mainly composed of third-party stand-by letters, and other. The value of these guarantees has been determined based on net realizable value in the market according to SBS regulations.

Annual interest rates are ruled by the market and may be fixed freely by the Bank. As of December 31, the annual average effective rates for the main products were the following:

	% 2010 Local currency	2010 Foreign currency	2009 Local currency	2009 Foreign currency
Overdrafts	60.00	45.00	60.00	45.00
Discounts	6.77 – 11.59	6.76 – 12.46	25.00	25.00
Loans	4.51 – 13.16	1.73 – 11.76	20.00	20.00
Finance lease	8.09	6.72	20.00	20.00
Mortgage loans	9.29	8.86	9.75	9.75

As of December 31, according to current SBS regulations, the loan portfolio was rated by risk as follows:

	2010				2009			
	Number of debtors	In thousands of S/.			Number of debtors	In thousands of S/.		
Rating		Direct	Indirect	Total		Direct	Indirect	Total
Standard	36,968	1,642,389	1,308,594	2,950,983	24,772	1,428,018	874,755	2,302,773
Potential problem	2,491	53,229	8,851	62,080	1,745	47,310	2,656	49,966
Substandard	1,405	24,090	—	24,090	980	17,116	—	17,116
Doubtful	1,762	35,847	—	35,847	1,205	18,070	—	18,070
Loss	866	23,543	—	23,543	991	10,745	—	10,745
	43,492	1,779,098	1,317,445	3,096,543	29,693	1,521,259	877,411	2,398,670

As of December 31, direct loans are distributed among the following economic sectors:

	In thousands of S/.			
	2010	%	2009	%
Mortgage and consumer loans	997,397	56	586,480	38
Trade	204,686	11	305,966	20
Manufacturing	185,271	11	261,113	17
Real estate business and lease service	116,622	6	86,387	6
Transport	96,803	5	54,912	3
Construction	67,377	4	58,711	4
Fishing	48,478	3	61,065	4
Agriculture and livestock	34,009	2	53,869	3
Financial intermediation	20,365	1	56,478	4
Hotel and restaurants	3,707	—	3,088	—
Mining	1,758	—	1,616	—
Other	25,952	1	16,735	1
	1,802,425	100	1,546,420	100

Direct loans have the following contractual maturities as of December 31:

	In thousands of S/.	
	2010	2009
Up to 3 months	470,686	539,851
3 months to 1 year	496,330	297,929
Over 1 year	795,506	681,389
Overdue and lawsuit loans	39,903	27,251
	1,802,425	1,546,420

As of December 31, the provision for loan losses includes the following:

	In thousands of S/.	
	2010	2009
Direct loans:		
Specific provision	47,720	25,789
Generic provision (include procyclical)	21,049	18,199
	68,769	43,988
Indirect loans		
Specific provision	386	112
Generic provision (include procyclical)	11,191	8,738
	11,577	8,850
	80,346	52,838

The movement of the provision for loan losses is as follows:

	In thousands of S/.		
	Specific	Generic	Total
Balances as of December 31, 2008	6,777	17,790	24,567
Additions charged to income statement			
Direct loans	26,946	4,324	31,270
Indirect loans	110	4,679	4,789
Write-offs	(7,344)	—	(7,344)
Other movements	(206)	—	(206)
Exchange difference	(382)	144	(238)
Balances as of December 31, 2009	25,901	26,937	52,838
Additions charged to income statement			
Direct loans	37,567	2,951	40,518
Indirect loans	3,220	2,352	5,572
Direct credit—rescinded leasing	2,963	—	2,963
Write-offs	(21,829)	—	(21,829)
Exchange difference	284	—	284
Balances as of December 31, 2010	48,106	32,240	80,346

The Bank records the provision for loan losses according to the policy described in note 3.d.

Procyclical provision accumulated as of December 31, 2010 amounts to S/. 9,987.

In management's opinion, the loan provision, recorded as of December 31, 2010 and 2009, conforms to SBS regulations and authorizations in force at those dates.

(8) Property, Furniture, and Equipment

It comprises the following:

	In thousands of S/.				
	Balances as of 12.31.2009	Additions	Disposals	Reclassifications	Balances as of l2.31.2010
Cost:					
Property and premises	22,716	—	(9)	3,615	26,322
Furniture, fixtures and IT equipment	17,692	2,826	(244)	—	20,274
Vehicles	258	254	—	—	512
Work-in-progress	1,974	2,665	—	(3,615)	1,024
	42,640	5,745	(253)	—	48,132
Accumulated depreciation:					
Property and premises	6,734	4,062	—	—	10,796
Furniture, fixtures and IT equipment	4,801	3,218	(109)	—	7,910
Vehicles	163	68	—	—	231
	11,698	7,348	(109)	—	18,937
	30,942				29,195

According to current legislation, banks in Peru cannot give as collateral those goods that are part of their property, furniture, and equipment, except for those acquired through the issuance of leasing bonds to carry out finance lease operations.

The Bank has insurance policies against fire, theft and robbery that provide insurance coverage to main assets.

(9) Other Assets

It comprises the following:

	In thousands of S/.	
	2010	2009
Deferred income tax (note 19)	52,796	49,498
Value added tax credit (a)	44,822	58,635
Intangibles, net of amortization of S/. 7,961 (S/. 4,869 thousand in 2009).	29,119	11,232
Prepaid expenses and payments on account of income tax (b)	13,526	9,236
Various	4,200	139
	144,463	128,740

(a) Tax credit mainly includes: (i) value added tax of assets that have been transferred under a finance lease for approximately S/. 28,121 thousand, as of December 31, 2010 (S/. 46,605 thousand as of December 31, 2009), has applied against operations subject to taxation; and (ii) for the tax credit amount of S/. 16,701 thousand determined after applying the coefficient for the pro rata on purchases coming from mixed operations (S/. 11,918 thousand as of December 31, 2009).

(b) As of December 31, 2010, prepaid expenses include mainly payments on account of income tax for S/. 11,331 thousand (S/. 7,594 thousand as of December 31, 2009 for payments on account of income tax and additional advances of income tax). The Bank's management and its legal advisors estimate that these amounts will be applied in future fiscal periods.

(10) Deposits and Obligations

As of December 31, obligations comprise deposits and other obligations coming from:

	In thousands of S/.			
	2010	%	2009	%
Corporate clients	2,061,315	80	1,120,437	83
Individuals	482,299	19	211,621	16
Other	33,404	1	11,372	1
	2,577,018	100	1,343,430	100

Deposits and other obligations in U.S. dollars represent 56% and 67% of the total deposits as of December 31, 2010 and 2009, respectively. The amount owed for deposits includes accounts given as guarantee in favor of the Bank for credit transactions for S/. 88,749 thousand and US$ 18,236 thousand as of December 31, 2010 (S/. 44,784 thousand and US$ 12,258 thousand as of December 31, 2009). As of December 31, 2010 and 2009, the coverage that recognizes the Deposit Insurance Fund amounted to S/. 86 thousand and S/. 82 thousand respectively.

As of December 31, 2010 and 2009, the total deposits and obligations for S/. 179,692 thousand and S/. 117,524 thousand, respectively, are covered by the Deposit Insurance Fund, in conformity with current legal provisions.

The Bank freely establishes the interest rates which rule its liability transactions based on supply and demand and type of deposits. Annual average effective rates in force as of December 31 for the following main products were as follows:

	%			
	2010		2009	
	Local currency	Foreign currency	Local currency	Foreign currency
Time deposits	3.15 – 4.91	2.30 – 3.26	1.30	0.80
Saving deposits	1.12	0.70	1.25	1.00

As of December 31, the deposits and other obligations present the following schedule of maturities according to the periods agreed with depositors:

	In thousands of S/.					
	2010			2009		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Up to 1 month	768,705	1,190,633	1,959,338	234,802	208,104	442,906
1 to 3 months	64,283	111,767	176,050	96,485	35,176	131,661
3 to 6 months	53,726	82,534	136,260	107,735	50,061	157,796
6 to 12 months	237,846	57,774	295,620	4,379	604,015	608,394
Over 12 months	609	9,141	9,750	163	2,510	2,673
	1,125,169	1,451,849	2,577,018	443,564	899,866	1,343,430

(11) Securities. Bonds, and Obligations Outstanding

They comprise finance lease bonds—first issuance- amounting to S/. 40,000 thousand placed on April 29, 2010, with a 3-year maturity as from the placement date. The bonds have a 5% annual interest rate, payable each 6 months.

(12) Borrowings and Financial Obligations

It comprises the following:

	In thousands of S/.	
	2010	2009
Ordinary loans from abroad with related banks	379,215	491,300
Interest payable	324	4,954
	379,539	496,254

As of December 31, 2010, ordinary loans correspond to debts to five related foreign financial entities (mentioned in note 21), whose transactions are subject to annual interest rates between 0.69250% and 5.45719%, respectively (five related foreign financial entities, whose transactions were subject to annual interest rates between 0.373% and 5.431%, respectively in 2009).

As of December 31, the scheduled maturity date of the borrowings from banks and other financial institutions are as follows:

	In thousands of S/.	
	2010	2009
Up to 1 month	—	101,215
1 to 3 months	—	178,041
3 to 6 months	196,802	57,951
6 to 12 months	—	—
Over 12 months	182,737	159,047
	379,539	496,254

(13) Equity

(a) General

As of December 31, 2010, the Bank's regulatory net worth determined pursuant to legal standards, amounts to S/. 373,192 thousand (S/. 262,617 thousand as of December 31, 2009). The amount determined as regulatory net worth is used to calculate certain legal limits and restrictions according to the Bank Act, applicable to the Bank's operations in Peru and is determined as follows:

	In thousands of S/.
Level 1 regulatory net worth	
Paid share capital	479,961
Less:	
Unrealized earnings	(637)
Accumulated losses	(142,380)
Net loss for the year	(65,511)
Other deductions	(353)
Total level 1 regulatory net worth	271,080
Level 2 regulatory net worth	
Plus:	
Subordinated debt	70,225
Generic provision required for direct loans	21,049
Generic provision required for indirect loans	11,191
Less:	
Other deductions	(353)
Total level 2 regulatory net worth	102,112
Total regulatory net worth	373,192

As of December 31, 2010, risk weighted asset and contingent credits determined by the Bank according to legislation applicable to financial institutions amounted to S/. 2,794,343 thousand (S/. 2,017,079 thousand as of December 31, 2009).

In conformity with the Bank Act, regulatory net worth shall be equal to or higher than 9.8% of total risk weighted asset and contingent credits corresponding to the amount of: (i) the requirement of regulatory net worth per market risk multiplied by 10.2, (ii) the requirement of regulatory net worth per operational risk multiplied by 10.2, and iii) risk weighted asset and contingent credits. Such calculation shall include all exposure or asset in local or foreign currency. As of December 31, 2010, the Bank's regulatory net worth represents 12.73% of two minimum capital requirements per market, operating and credit risks (12.68% as of December 31, 2009).

On April 2, 2009, by means of resolution 2115-2009 the SBS approved the rules for the requirement of net worth equity for operational risk, effective as from July 1, 2009. On this respect, we should mention that as of the date of this report, the Bank has applied the alternative standard-indicator method for the calculation of the equity net worth for operational risk.

(b) Share Capital

The authorized, subscribed and paid-in share capital as of December 31, 2010 and 2009 is represented by 479,961,500 and 309,501,500 common shares respectively, with a par value of S/. 1 each.

At the Universal Shareholders' Meeting, held on June 26, 2009, it was agreed to increase the Bank's share capital by the amount of S/. 170,460 thousand (equivalent to US$ 60,000 thousand) through cash capital contributions from HSBC Latin America Holding (UK) Limited.

At the Universal Shareholders' Meeting, held on June 26, 2009, it was agreed to increase the Bank's share capital by the amount of S/. 45,014 thousand (equivalent to US$ 15,000 thousand) through cash capital contributions from HSBC Latin America Holding (UK) Limited.

The shareholding in the share capital of the Bank as of December 31, 2010 is as follows:

Percentage of capital participation	Number of shareholders	Total participation
0.01 to 1	1	0.01
1.01 to 30	1	23.39
30.01 to 100	1	76.60
	3	100.00

According to the Bank Act, a minimum share capital of S/. 23,176 thousand, is required according to publication of SBS of October 2010 (S/. 22,383 thousand, is required according to publication of SBS of October 2009).

(c) Legal Reserve

In accordance with the Bank Act, the Bank is required to have a legal reserve of at least 35 percent of its share capital. This reserve is created by an annual transfer of no less than 10 percent of after-tax profits, and supersedes the reserve referred to in the Companies Act. On the other hand, as stipulated in the Bank Act, the amount of this reserve may also be increased with contributions made by the shareholders for this purpose.

As of December 31, 2010 and 2009, no legal reserves were recorded in such periods due to losses generated from previous years, inclusive.

(d) Unrealized Results

It comprises unrealized gains (losses) due to changes in the fair value of available-for-sale investments. As of December 31, 2010, the Bank has recognized a net gain of S/. 75 thousand (net gain of S/. 106 thousand as of December 31, 2009) and are presented in the equity of the balance sheet.

(14) Contingent and Memorandum Accounts

It comprises the following:

	In thousands of S/. 2010	In thousands of S/. 2009
Contingent loans (indirect):		
Guarantees and standby letters	1,315,491	773,623
Letters of credit	1,954	91,021
Bank acceptances	—	12,767
	1,317,445	877,411
Contracts of derivative instruments	1,768,298	511,561
Unused credit lines	184,185	63,725
	3,269,928	1,452,697
Other memorandum accounts:		
Collateral received for credit operations	6,947,183	4,579,753
Securities received for collections	23,442	41,346
Notified letter of credit	—	12,855
Write-off of uncollectible accounts	34,841	9,936
Securities received under custody	5,577	3,366
Rating of assets and contingent assets	—	5,299,140
Other	283,385	120,198
	7,294,428	10,066,594
	10,564,356	11,519,291

In the normal course of business, the Bank engages in transactions with off-balance sheet risk exposure (contingent assets). These transactions expose the Bank to credit risk in addition to the amounts presented in the balance sheet.

Credit risk for contingent transactions included in Memorandum Accounts of the balance sheet is defined as the possibility that any other party to a financial instrument fails to perform in accordance with the terms of contract. The corresponding contracts consider the amounts that would be assumed by the Bank for credit losses in contingent transactions. The Bank applies the same credit policies when evaluating and granting direct loans and contingent loans. In the opinion of the Bank's management, the contingent transactions do not represent a relevant credit risk.

Since it is expected that a portion of these contingent credits expire without being used, the total amount of contingent credits does not necessarily represent future cash disbursements for the Bank.

When management considers that there is reasonable likelihood of loss resulting from contingent transactions, such obligation is included in the determination of the provision for loan losses as if it were a direct loan.

As of December 31, 2010, guarantees received for credit transactions mainly include appraised mortgages for S/. 648,795 thousand and leased assets for S/. 234,644 thousand (S/. 341,008 thousand and S/. 404,579 thousand respectively, as of December 31, 2009).

As established by SBS, as from July 2010, balances of risk weighted assets and contingents are not required to be reported in memorandum accounts.

(15) Interest Income

It comprises the following:

	In thousands of S/. 2010	2009
Interest and commissions on loan portfolio	170,054	136,552
Interest on cash and due from banks	1,139	917
Interest and commissions on interbank funds	2,967	624
Interest income and valuation of investments	1,918	—
Exchange difference from various operations	14,815	—
Gains for derivative products	—	10,839
Other interest income	856	113
	191,749	149,045

(16) Interest Expenses

It comprises the following:

	In thousands of S/. 2010	2009
Interest on deposits and obligations	22,216	32,790
Interest on borrowings from banks and other financial institutions	7,912	10,173
Interest on interbank funds	663	1,610
Interest on deposits from financial entities	—	1,120
Interest and other borrowings from the country and abroad	2,847	916
Interest on securities, bonds, and obligations outstanding	1,344	—
Exchange difference from various operations	—	186
Losses of derivative products	3,907	—
Premiums for deposit insurance fund	668	454
Other interest expenses	1,575	—
	41,132	47,249

(17) Administrative Expenses

It comprises the following:

	In thousands of S/. 2010	2009
Personnel and board of directors expenses	92,571	81,262
Expenses for services received from third parties (note 21)	81,016	49,855
Taxes and contributions	3,999	2,628
	177,586	133,745

(18) Tax Matters

(a) Tax returns for the three-month and two-day period ended December 31, 2006 through 2010, inclusive, are open for review by the Peruvian tax authorities. Any major expenses exceeding the provisions made to cover the tax obligations will be charged to the results of the period in which those expenses are finally settled. The Bank's management considers that, as a result of such review, no significant liabilities affecting the financial statements as of December 31, 2010, will arise.

(b) As per legislative decree 972, as from January 1, 2010, the tax-exemption from capital gains and interest coming from securities issued by legal entities incorporated or established in the country has been eliminated. Likewise, capital interest and gains coming from bonds issued by the Peruvian Government, as well as capital interest and gains coming from Certificates of Deposit of Banco Central de Reserva (Peruvian Central Bank).

(c) For income tax and sales tax purposes, and excise tax, the market value of the transactions between related parties shall be determined based on the transfer pricing standards. These standards define, among others, coverage, relation criteria, as well as the comparability analysis, methodology, adjustments and tax information return. The standards establish that under certain conditions, companies are obliged to have a Technical Study supporting the calculation of transfer pricing with related companies. Likewise, this obligation is required for all transactions made from, towards or through territories with low or null taxation.

The Bank's management considers that for income, sales and excise tax purposes, pricing regarding transactions such as those aforementioned has been made in accordance with tax legislation; consequently, no significant liabilities will arise as of December 31, 2010. This includes considering the obligation, if any, of preparing and filing the Informative Tax Return concerning transfer pricing of fiscal year 2010 within the term and format indicated by SUNAT (Tax Authorities).

(d) The total or partial distribution of dividends, or other types of profit distribution, is subject to a 4.1% income tax withholding, except for the distribution of profits made in favor of domiciled entities.

(e) As from 2005, the Temporary Tax on Net Assets (ITAN, for its Spanish acronym) has been established. Its taxable base is composed of the net asset value adjusted as of the closing of the period before the payment was made, deducting the depreciations, amortization, legal cash reserve, and specific provisions for credit risk. The tax rate is 0.4% for years 2010 and 2009 applicable to the amount of assets that exceeds S/. 1,000 thousands. It may be paid in cash or in nine consecutive monthly installments. The amount actually paid may be used as a credit against payments on account of Income Tax General Regime for taxable periods from March to December of the fiscal period for which the tax was paid until maturity date of each of the payments on account, and against the payment for regularization of income tax of the corresponding taxable period. The Bank calculated the ITAN for year 2010 for S/. 6,809 thousand (S/. 5,410 thousand in 2009). Tax refund can be made only in the cases where it can be demonstrated that tax loss has been incurred or where a lower payment of income tax has been determined based on general regime norms.

(f) Likewise, technical assistance provided by entities not domiciled in the country will be subject to a 15% income tax withholding, regardless of the place where the service is rendered, and that Income Tax Law requirements are met.

(g) The Bank acted as withholding and collection agent regarding the tax on financial transactions. For fiscal periods 2010 and 2009, tax on financial transactions rates have been fixed in 0.05% and 0.06%, respectively and are applied on credits and debits in bank accounts or movements of funds made through the financial system, unless the account is tax-exempt.

(h) The Bank signed a Legal Stability Agreement with the Peruvian Government which became effective on November 26, 2008. Through this agreement, the Peruvian Government guarantees the Bank's legal stability under the following terms:

- Stability in tax regime referred to income tax, in conformity with Legislative Decree 757, article 40. Provisions of legislative decree 972 will be applicable beginning January 1, 2010, in conformity with article 1 of Law 27909.

- Stability in the contracting regime of employees in virtue of Legislative Decree 662, article 12 (a).

(i) The Bank calculated its taxable base for the year ended December 31, 2010 and 2009 and determined a tax loss of S/. 15,654 thousand and S/. 24,476 thousand, respectively as follows:

	In thousands of S/.	
	2010	2009
Loss before employees' profit sharing and income tax	(68,809)	(54,590)
Additions and deductions for tax effects:		
Income tax assumed by third parties	3,709	2,691
Provision for loan losses	14,120	12,199
Provisions	17,249	10,722
Non-deductible expenses	17,274	684
Other	803	3,818
Tax loss carryforward	(15,654)	(24,476)

According to Legislative Decree 774, Article 50, domiciled legal entities can compensate the net loss of Peruvian source recorded in a taxable period, adopting any of the following systems: (a) Compensate the net loss with the corporate net income obtained during the four years following the period of its generation, year after year, until the amount disappears, or (b) compensate the net loss with the 50% of the net income obtained during the last immediate following periods, year after year, until the amount disappears. The Bank has determined that losses will be compensated applying system (b).

(19) Deferred Income Tax and Deferred Employees' Profit Sharing

As of December 31, 2010 and 2009, the Bank has determined deferred income tax and deferred employees' profit sharing, corresponding to temporary differences of assets and liabilities between items treated differently for tax and accounting purposes, as follows:

	In thousands of S/.		
	Balances as of 12.31.2009	Additions (deductions)	Balances as of 12.31.2010
Temporary differences assets (liabilities):			
Depreciation of property, furniture and equipment	2,516	723	3,239
Other assets	(219)	1,532	1,313
Accounts payable	8,457	(721)	7,736
Tax loss carryforward	38,744	1,764	40,508
	49,498	3,298	52,796

As of December 31, 2010 and 2009, the balance of deferred income tax and deferred employees' profit sharing assets comprise:

	In thousands of S/.	
	2010	2009
Deferred employees' profit sharing	7,880	7,388
Deferred income tax	44,916	42,110
	52,796	49,498

The credit to the results for deferred income tax and deferred employees' profit sharing in 2010 and 2009 comprises:

	In thousands of S/.	
	2010	2009
Deferred employees' profit sharing	492	1,710
Deferred income tax	2,806	9,748
	3,298	11,458

(20) Employees' Profit Sharing

According to Legislative Decree 677, the Bank's employees are entitled to a profit-sharing plan to be computed at 5% of the net income. This profit sharing is considered as deductible expenses for income-tax calculation purposes.

In 2010 and 2009, the Bank has not assigned profit sharing to employees since it incurred tax loss.

(21) Related Party Transactions

The Bank conducts various transactions with its related parties, being the most important the borrowings and financial obligations, deposits, contingent operations and expenses from services.

As a result of the aforementioned transactions, the balance sheet balances as of December 31, 2010 and 2009, as well as the income statement for the years then ended include assets and liabilities, and income and expenses, as follows:

	In thousands of S/.							
	Assets		Liabilities		Contingent		Expenses	
	2010	2009	2010	2009	2010	2009	2010	2009
HSBC Holdings BV	—	—	28,148	28,900	—	308	431	902
HSBC Panama	—	—	21	28,900	28,491	—	903	135
HSBC Bank PLC	—	—	112,458	346,800	14,176	20,467	6,107	9,957
HSBC Bank USA NY	—	10,197	1,989	—	1,411	10,566	—	—
HSBC Bank Brasil	—	—	928	43,350	64,235	59,287	313	79
HSBC Private Bank Suisse	—	—	140,572	—	—	7,797	774	—
HSBC Salvador	—	—	56,264	—	—	—	217	—
HSBC Bank Argentina	—	—	30	—	6,556	391	22	—
HSBC Bank Canada Toronto	—	—	—	—	3,395	2,184	51	—
HSBC Bank Chile	—	—	42,148	43,350	8,740	2,831	2,416	13
HSBC Bank Colombia	—	—	—	—	—	5,432	—	—
HSBC Bank Madrid	—	—	—	—	—	11,205	—	—
HSBC Bank Mexico	—	—	15,425	3,583	—	41	38,770	11,691
HSBC France	—	—	—	—	4,287	289	—	—
HSBC PLC Athens	—	—	—	—	—	17,160	—	—
HSBC Australia Limited	—	—	45	—	—	7,232	—	—
Others	13	5	900	—	1,147	668	2,415	1,124
	13	10,202	398,928	494,883	132,438	145,858	52,419	23,901

Expenses mainly comprise interest on borrowings and financial obligations and expenses incurred for the use of IT infrastructure and regional structure, which are recorded in expenses for third party services and, in year 2010, in other expenses.

In June 2010, the indirect credit portfolio and foreign trade services were transferred to Panama under an assignment of rights; therefore, as of December 31, 2010, there are no balances related to indirect credit portfolio and services.

(22) Loss per Share

The calculation of weighted average of shares and the basic and diluted losses per share is as follows:

	Shares outstanding		
	Shares outstanding	Effective days until year-end	Weighted average of common shares
Balance as of January 1, 2010	309,501,500	365	309,501,500
Equity contribution dated April 29, 2010	170,460,000	246	114,885,370
Balance as of December 31, 2010	479,961,500		424,386,870

	Shares outstanding		
	Shares outstanding	Effective days until year-end	Weighted average of common shares
Balance as of January 1, 2009	264,486,500	365	264,486,500
Equity contribution dated June 26, 2009	45,015,000	189	23,309,137
Balance as of December 31, 2009	309,501,500		287,795,637

Calculation of basic and diluted losses per share as of December 31, 2010 and 2009 is presented as follows:

	In thousands of S/.	In thousands of	In S/.
Year	Loss (numerator)	Shares (denominator)	Loss per share
2010	65,511	424,387	(0.154)
2009	43,132	287,796	(0.150)

(23) Financial Risk Management

The Bank's management, based on its experience, skills, regulatory and corporate standards controls risks related to market, liquidity, interest rate, currency and credit according to the following:

Market Risk

It comprises the risk of loss of value of the Bank's portfolios due to fluctuations in interest rates and exchange rates, among others.

The objective of Market Risk is to establish the policies, processes, and controls to reach a balance between profitability and volatility in the market variables, i.e., keeping an appropriate risk level.

Treasury activities, as part of the process for administering the Bank's assets and liabilities, identify, manage, and control the liquidity and interest rate risk arising from its financing and investment activities.

The Assets and Liabilities Committee (ALCO) supervises the Bank's market risks with the participation of the top management. Among its main duties, this Committee defines the strategy for handling assets and liabilities, establishes and reviews the market risk limits, reviews and manages the exposure to interest rate risk of the Bank's assets and liabilities, and reviews and establishes hedging policies in order to optimize profits and protect equity.

Market Risk Department evaluates and ratifies market risk limits and reviews patterns and policies used for the Market Risk Management. Patterns, policies, and limits are subject to periodic formal reviews by this department.

Liquidity Risk

It relates to the risk that the Bank may not be able to comply with its financial obligations, on a timely basis, and at reasonable prices; this risk is managed by the Treasury Management. Among the financial obligations there are deposits, payments of borrowings, and investment and borrowing commitments.

The ALCO supervises the liquidity risk at top management level, and meets every month to review the Bank's liquidity profile.

The main guidelines to manage liquidity risk are:

- Establishing limits for control of liquidity
- Performing gap analysis: mismatch for maturity term
- Diversifying financing sources
- Keeping an appropriate level of liquidity assets
- Performing stress tests
- Having a liquidity contingency plan

Interest Rate Risk

It comprises the risk of loss due to variations in interest rates. The Bank, through the Treasury, actively manages its interest rate risk exposure in order to improve its net interest income according to pre-established policies on tolerance to risk.

Interest rate risk exposure in each currency is controlled through:

- Analysis of interest rate gaps
- Sensitivity analysis, to evaluate the effect of interest rate fluctuations over the current financial margin
- Stress simulating scenarios for interest rates which allows analyzing the impact that an extraordinary change may have in the Bank's rates

Exchange Rate Risk

It comprises the risk of loss due to adverse variations in exchange rates of currencies negotiated by the Bank. This risk is managed by the Treasury Management.

Credit Risk

Management controls credit risk through reviews and analysis of individual transactions on a periodic basis. For this purpose, it carries out an evaluation of debtor, financial analysis, aspects such as credit concentration limits, potential portfolio losses, guarantees and requirement of working capital, according to the market risk where it operates.

In the ordinary course of its business, the Bank grants credits to its clients and receives deposits from them. The credit and deposit transactions are carried out mainly in Lima. The clients' capacity to comply with their contractual obligations depends on the existing economic conditions.

Loans portfolio, as recorded in balance sheet as of December 31, 2010, is diversified. A credit analysis and its concentration levels are presented in note 7.

(24) Fair Value

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability, or equity instrument in another, such as cash, any contractual right to receive or grant money or other financial asset or to exchange financial instruments, and equity instrument of other entity. Likewise, financial instruments include both main instruments such as accounts receivable, accounts payable, and equity securities; and derivative instruments such as forwards.

Fair value is the amount through which an asset could be exchanged or a liability settled between knowledgeable, willing parties in a current transaction taking into consideration that the entity is a going concern.

When a financial instrument is traded in a liquid and active market, its price stipulated in the market is the best evidence of its corresponding fair value.

In cases when the prices stipulated in the market are not available or may not indicate the fair value of the financial instruments, the market value of similar financial instruments, discounted cash flow analysis or other applicable techniques may be used to determine this fair value, which are based on subjective factors and, in some cases, on inexact factors; for this reason, any change in them or in the estimation methodology used could have a material effect on the fair values of financial instruments. Even though, management has used its best judgment for the estimation of the fair values of financial instruments, a fair value is not an indicative of the net realizable value or the liquidation value.

A significant portion of the Bank's assets and liabilities corresponds to short-term financial instruments maturing in terms shorter than a year. It is considered that fair values of these financial instruments are equivalent to their corresponding book value at closing period.

Methodology and assumptions used depend on the risks terms and characteristics of the different financial instruments, as shown below:

(a) Cash and due from banks represent cash or short-term deposits that are not considered to be a significant credit risk.

(b) Investments at fair value through profit or loss are recorded in books at estimated market value.

(c) Available-for-sale investments are generally listed or have a market value through future discounted cash flows.

(d) Market value of short-term loans portfolio are similar to book values, net of their corresponding provision for uncollectibility of loans, due to their short-term character which is considered by management as the estimated recoverable amount as of the date of the financial statements. Additionally, long-term loans portfolio accrue fixed interest rates which are similar to their market rates.

(e) The market value of deposits and obligations corresponds to their respective book value mainly because interest rates are comparable to those of other similar liabilities.

(f) Debts to banks and correspondent banks accrue interest at variable and preferred rates taking into consideration that book values are similar to their corresponding market values.

(g) Securities, bonds, and obligations generate fixed interest rates. The fair value of these financial instruments was calculated using discounted cash flow at rates applicable by the Bank for liabilities with similar characteristics. As a result of the calculation, the estimated market value does not differ significantly from their book value.

(h) As described in note 14, the Bank has granted guarantees, standby letters, import and export letters of credit and has received guarantees in support of the credits approved. Based on the levels of commissions currently collected for granting those contingent loans, and considering the maturity, and the interest rates and current solvency of the counterparts, the difference between the book value and the fair value is not material. Due to the uncertainty in determining the valuation, likelihood and opportunity in being executed, and the lack of an established market, it is not possible for the Bank to determine the estimated fair value of the received guarantees.

(i) Returns receivable or payable for derivative instruments are stated at its estimated market value; thus, its book value is equal to said value.

HSBC Bank (Uruguay) S.A.

BALANCE SHEET
AS OF MARCH 31, 2012
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
ASSETS	**4.372.780**	**18.295.272**	**22.668.052**
I) Cash and cash equivalents	**260.820**	**2.024.779**	**2.285.599**
1.- Cash and cash equivalents	260.820	1.800.860	2.061.680
1.1.- Cash	170.511	470.592	641.103
1.2.- Central Bank of Uruguay	21.773	977.302	999.075
1.3.- Other financial institutions in Uruguay	14.644	155.066	169.710
1.4.- Clearing documents	53.892	197.900	251.792
2.- Other foreign financial institutions	—	223.919	223.919
II) Securities	**508.192**	**1.045.838**	**1.554.030**
1.- Securities held for trading	141.284	136.834	278.118
1.1.- Uruguayan	141.284	136.834	278.118
1.2.- Foreign	—	—	—
2.- Securities available for sale	366.908	909.004	1.275.912
2.1.- Uruguayan	366.908	856.484	1.223.392
2.2.- Foreign	—	52.520	52.520
3.- Securities held to maturity	—	—	—
3.1.- Uruguayan	—	—	—
3.2.- Foreign	—	—	—
III) Credits (net of allowances)	**3.409.181**	**15.224.208**	**18.633.389**
1.- Outstanding credits	2.334.258	14.652.918	16.987.176
1.1.- Financial sector	738.178	5.097.810	5.835.988
1.1.1.- Central Bank of Uruguay	738.178	2.930.144	3.668.322
1.1.2.- Other financial institutions in Uruguay	—	30.707	30.707
1.1.3.- Other foreign financial institutions	—	1.584.014	1.584.014
1.1.4.- Head office, branches and related institutions	—	552.945	552.945
1.2.- Non financial sector	1.596.080	9.555.108	11.151.188
1.2.1.- Uruguayan public sector	21.512	333.286	354.798
1.2.2.- Non resident public sector	—	—	—
1.2.3.- Resident private sector	1.570.496	9.161.208	10.731.704
1.2.4- Non resident private sector	4.072	60.614	64.686
2.- Forward contracts	1.052.772	497.723	1.550.495
2.1.- Residents	849.418	325.591	1.175.009
2.2.- Non residents	203.354	172.132	375.486
3.- Overdue	761	1.335	2.096
3.1.- Financial sector	—	—	—
3.2.- Non financial sector	761	1.335	2.096
3.2.1.- Uruguayan public sector	—	—	—
3.2.2.- Non resident public sector	—	—	—
3.2.3.- Resident private sector	761	1.331	2.092
3.2.3.1.- Overdue loans	403	711	1.114
3.2.3.2.- Under management for recovery	289	50	339
3.2.3.3.- Delinquent loans	69	570	639
3.2.4.- Non resident private sector	—	4	4
3.2.4.1.- Overdue loans	—	4	4
3.2.4.2.- Under management for recovery	—	—	—
3.2.4.3.- Delinquent loans	—	—	—

HSBC Bank (Uruguay) S.A.

BALANCE SHEET
AS OF MARCH 31, 2012
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
4.- Other accounts receivable	21.390	72.232	93.622
IV) Investments	**712**	**447**	**1.159**
1.- Uruguayan	712	447	1.159
2.- Foreign	—	—	—
V) Fixed assets	**187.565**	**—**	**187.565**
VI) Intangible assets	**6.310**	**—**	**6.310**
LIABILITIES	**4.042.757**	**17.407.145**	**21.449.902**
I) Obligations	**4.042.757**	**17.407.145**	**21.449.902**
1.- From financial intermediation	2.716.378	16.875.483	19.591.861
1.1.- Financial Sector	195.190	538.994	734.184
1.1.1.- Central Bank of Uruguay	—	4	4
1.1.2.- Other financial institutions in Uruguay	122.269	11.527	133.796
1.1.3.- Other foreign financial institutions	70.016	101.205	171.221
1.1.4.- Head Office, branches and related institutions	2.905	426.258	429.163
1.2.- Non financial sector	2.521.188	16.336.489	18.857.677
1.2.1.- Uruguayan public sector	180.495	—	180.495
1.2.2.- Resident private sector	2.237.129	9.594.554	11.831.683
1.2.3.- Non residents	103.564	6.741.935	6.845.499
2.- Forward contracts	1.133.267	338.966	1.472.233
2.1.- Residents	983.071	113.843	1.096.914
2.2.- Non residents	150.196	225.123	375.319
3.- Other accounts payable	75.152	30.617	105.769
4.- Accrued Expenses	116.539	52.116	168.655
5.- Allowances	1.421	109.963	111.384
SHAREHOLDERS' EQUITY	**1.218.150**	**—**	**1.218.150**
1.- Common Stock	1.686.883	—	1.686.883
2.- Adjustments to shareholders' equity	173.479	—	173.479
3.- Reserves	—	—	—
4.- Retained deficit	(670.539)	—	(670.539)
5.- Result of the period	28.327	—	28.327
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5.260.907**	**17.407.145**	**22.668.052**
CONTINGENT ACCOUNTS	**266.448**	**1.592.886**	**1.859.334**
1.- Credit lines agreed	120.520	469.067	589.587
1.1.- Credit cards	91.087	206.932	298.019
1.2.- Current accounts	29.407	29.171	58.578
1.3.- Others	26	232.964	232.990
2.- Guarantees granted	144.865	293.181	438.046
3.- Foreign trade	1.063	830.638	831.701
4.- Options	—	—	—
5.- Other contingencies	—	—	—
MEMORANDUM ACCOUNTS	**2.807.728**	**44.511.245**	**47.318.973**
1.- Guarantees received	578.262	22.186.357	22.764.619
2.- Custody of goods and securities	2.226.581	7.918.162	10.144.743
3.- Foreign trade	—	4.271.623	4.271.623
4.- Other memorandum accounts	2.885	10.135.103	10.137.988

HSBC Bank (Uruguay) S.A.

Income Statement
for the three-month period ended March 31, 2012
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial income before exchange differences and provisions	**106.299**	**144.716**	**251.015**
1.- Outstanding credits from financial intermediation	**77.582**	**120.928**	**198.510**
1.1.- Financial sector	31.257	10.543	41.800
1.1.1.- Uruguayan financial institutions	31.257	6.979	38.236
1.1.2.- Foreign financial institutions	—	3.564	3.564
1.2.- Non financial sector	46.325	110.385	156.710
1.2.1.- Uruguayan public sector	937	3.051	3.988
1.2.2.- Non resident public sector	—	—	—
1.2.3.- Resident private Sector	45.352	106.331	151.683
1.2.4.- Non resident private sector	36	1.003	1.039
2.- Lease, readjustments and quotation differences of securities	**28.622**	**23.129**	**51.751**
2.1.- Securities held for trading	14.615	9.590	24.205
2.1.1.- Uruguayan	14.615	9.574	24.189
2.1.2.- Foreign	—	16	16
2.2.- Securities available for sale	14.007	13.539	27.546
2.2.1.- Uruguayan	14.007	12.362	26.369
2.2.2.- Foreign	—	1.177	1.177
2.3.- Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Obligations readjustment	**—**	**—**	**—**
3.1.- Financial sector	—	—	—
3.2.- Non financial sector	—	—	—
4.- Forward contracts	**35**	**—**	**35**
4.1.- Financial sector	35	—	35
4.1.1.- Uruguayan	35	—	35
4.1.2.- Foreign	—	—	—
4.2.- Non financial sector	—	—	—
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	—	—	—
4.2.3.- Non residents	—	—	—
5.- Overdue loans	**60**	**659**	**719**
5.1.- Financial sector	—	—	—
5.2.- Non financial sector	45	615	660
5.2.1.- Uruguayan public sector	—	—	—
5.2.2.- Non resident public sector	—	—	—
5.2.3.- Resident private sector	45	615	660
5.2.3.1.- Overdue loans	12	606	618
5.2.3.2.- Under management for recovery	5	8	13
5.2.3.3.- Delinquent loans	28	1	29
5.2.4.- Non resident private sector	—	—	—
5.2.4.1.- Overdue loans	—	—	—
5.2.4.2.- Under management for recovery	—	—	—
5.2.4.3.- Delinquent loans	—	—	—
5.3.- Debtors refinanced under law 16.243	—	—	—
5.4.- Recovery of doubtful debtors	15	44	59

HSBC Bank (Uruguay) S.A.

Income Statement
for the three-month period ended March 31, 2012
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial losses before exchange differences and provisions	**(55.219)**	**(17.783)**	**(73.002)**
1.- Obligations	**(48.929)**	**(10.848)**	**(59.777)**
1.1.- Financial sector	(21.476)	(4.934)	(26.410)
1.1.1.- Uruguayan financial institutions	(21.213)	(86)	(21.299)
1.1.2.- Foreign financial institutions	(263)	(4.848)	(5.111)
1.2.- Non financial sector	(27.453)	(5.914)	(33.367)
1.2.1.- Uruguayan public sector	(604)	—	(604)
1.2.2.- Resident private sector	(26.033)	(4.293)	(30.326)
1.2.3.- Non residents	(816)	(1.621)	(2.437)
2.- Readjustments and quotation differences of securities	**(4.560)**	**(6.935)**	**(11.495)**
2.1. Securities held for trading	(4.560)	(6.935)	(11.495)
2.1.1.- Uruguayan	(4.560)	(6.935)	(11.495)
2.1.2.- Foreign	—	—	—
2.2 Securities available for sale	—	—	—
2.2.1.- Uruguayan	—	—	—
2.2.2.- Foreign	—	—	—
2.3. Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Credit readjustment	**—**	**—**	**—**
3.1.- Outstanding	—	—	—
3.2.- Overdue	—	—	—
4.- Forward contracts	**(1.730)**	**—**	**(1.730)**
4.1.- Financial sector	(141)	—	(141)
4.1.1.- Uruguayan	—	—	—
4.1.2.- Foreign	(141)	—	(141)
4.2.- Non financial sector	(1.589)	—	(1.589)
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	(1.589)	—	(1.589)
4.2.3.- Non residents	—	—	—
I) Financial margin before exchange differences and provisions	**51.080**	**126.933**	**178.013**
Foreign exchange differences from assets and liabilities valuation	**(19.717)**	**—**	**(19.717)**
1.- Income	2.278.060	—	2.278.060
2.- Losses	(2.297.777)	—	(2.297.777)
II) Financial margin before provisions	**31.363**	**126.933**	**158.296**
PROVISIONS	**(46.400)**	**42.191**	**(4.209)**
Decrease of provisions and credit revaluation	**139.112**	**138.926**	**278.038**
1.- Decrease of provisions	19.866	138.926	158.792
1.1.- Residents	19.573	137.154	156.727
1.2.- Non residents	293	1.772	2.065
1.3.- General provisions	—	—	—
2.- Credit revaluation	119.246	—	119.246

HSBC Bank (Uruguay) S.A.

Income Statement
for the three-month period ended March 31, 2012
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Increase of provisions and credit depreciation	**(185.512)**	**(96.735)**	**(282.247)**
1.- Provisions	(76.093)	(96.735)	(172.828)
1.1.- Residents	(75.790)	(94.812)	(170.602)
1.2.- Non residents	(303)	(1.923)	(2.226)
1.3.- General provisions	—	—	—
2.- Credits depreciation	(109.419)	—	(109.419)
III) Financial margin	**(15.037)**	**169.124**	**154.087**
COMMISSION INCOME	**17.681**	**53.630**	**71.311**
1.- Residents	16.150	36.073	52.223
2.- Non residents	1.531	17.557	19.088
COMMISSION EXPENSES	**(8.499)**	**(7.500)**	**(15.999)**
1.- Residents	(8.499)	(1.245)	(9.744)
2.- Non residents	—	(6.255)	(6.255)
Commission margin	**9.182**	**46.130**	**55.312**
OTHER RESULTS FROM EXCHANGE DIFFERENCES	**47.183**	**14.122**	**61.305**
1.- From operations	46.829	14.122	60.951
1.1.- Income	71.082	18.619	89.701
1.2.- Losses	(24.253)	(4.497)	(28.750)
2.- From valuation of other assets and liabilities in foreign currency	354	—	354
2.1.- Income	14.647	—	14.647
2.2.- Losses	(14.293)	—	(14.293)
IV) Gross result	**41.328**	**229.376**	**270.704**
OPERATING INCOME	**4**	**428**	**432**
1.- Income from other accounts receivable	2	—	2
1.1.- Residents	2	—	2
1.2.- Non residents	—	—	—
2.- Investment in local shares	—	—	—
3.- Foreign branches	—	—	—
4.- Leases	—	—	—
5.- Other operating income	2	428	430
5.1.- Residents	2	428	430
5.2.- Non residents	—	—	—
6.- Income from accounting restatements	—	—	—
7.- Income from inflation adjustment	—	—	—
OPERATING LOSSES	**(188.817)**	**(53.997)**	**(242.814)**
1.- Personnel remunerations and social charges	(137.287)	(6.966)	(144.253)
2.- Insurance expenses	(352)	(805)	(1.157)
3.- Depreciations	(10.705)	—	(10.705)
4.- Taxes and duties	(10.138)	—	(10.138)
5.- Other operating expenses	(30.321)	(46.225)	(76.546)
6.- Losses from other operations	(14)	(1)	(15)
7.- Investments in local shares	—	—	—
8.- Foreign branches	—	—	—
9.- Losses from accounting restatements	—	—	—
10.- Losses from inflation adjustments	—	—	—
11.- Other accounts payable	—	—	—

HSBC Bank (Uruguay) S.A.

Income Statement for the three-month period ended March 31, 2012
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
V) Exploitation margin	**(147.485)**	**175.807**	**28.322**
EXTRAORDINARY RESULTS	**4**	**21**	**25**
1.- Extraordinary income	4	21	25
2.- Extraordinary losses	—	—	—
PREVIOUS YEAR RESULTS	**—**	**—**	**—**
1.- Income	—	—	—
2.- Losses	—	—	—
VI) RESULT OF THE PERIOD BEFORE INCOME TAX	**(147.481)**	**175.828**	**28.347**
Income Tax	(20)	—	(20)
VII) Result of the period after income tax	**(147.501)**	**175.828**	**28.327**

HSBC Bank (Uruguay) S.A.

Statement of Changes in Shareholders' equity
for the three-month period ended March 31, 2012
In Thousands of Uruguayan Pesos

Changes over the period	COMMON STOCK	CAPITAL CONTRIBUTION	ADJUSTMENTS TO SHARE-HOLDERS' EQUITY	RESERVES	RETAINED EARNINGS	TOTAL SHARE-HOLDERS' EQUITY
BALANCE AS OF 12.31.11	**317.143**	**1.369.740**	**160.461**	**—**	**(670.539)**	**1.176.805**
Contributed capital	—	—	—	—	—	—
Profit allocation	—	—	—	—	—	—
Advanced payment of results	—	—	—	—	—	—
Restatements:	—	—	—	—	—	—
—Revaluation of fixed assets	—	—	2.460	—	—	2.460
—Inflation adjustment	—	—	—	—	—	—
—Variation in the fair value of securities available for sale	—	—	10.558	—	—	10.558
—Accounting restatements	—	—	—	—	—	—
—Variation in the fair value of investments due to equity adjustments in controlled companies and branches	—	—	—	—	—	—
Result of the period	—	—	—	—	28.327	28.327
BALANCE AS OF 03.31.12	**317.143**	**1.369.740**	**173.479**	**—**	**(642.212)**	**1.218.150**

HSBC Bank (Uruguay) S.A.

Statement of Cash Flows
for the three-month period ended March 31, 2012
In Thousands of Uruguayan Pesos

	03.31.12
CASH FLOWS FROM OPERATING ACTIVITIES	
Gain (loss) of the period	**28.327**
Adjustments that reconcile the net profit of the period with the net cash provided by operating activities:	**(29.981)**
Depreciation of fixed assets	8.060
Amortization of intangible assets	2.645
Effects of changes in monetary correction and foreign currency translation	19.364
Difference in quotations and value adjustments for securities held for trading and securities available for sale	(9.699)
Adjustment to cost of securities held to maturity	—
Securities allowances	—
Securities income accrued not received	(14.176)
Accrued expenses	(46.659)
Accrued interest income not received	(7.355)
Allowance for doubtful debtors	14.036
Accrued income not received	(173)
Accrued interest expense not paid	3.979
Not accrued income received	—
Not accrued interest paid	—
Result from sales of fixed assets	(3)
Result from booking premises at their market value	—
(INCREASE) DECREASE IN OPERATING ASSETS	**(986.928)**
Securities (held for trading and available for sale)	(153.645)
Credits—Financial Sector (*)	(761.721)
Credits—Non Financial Sector (*)	(69.740)
Other assets	(1.822)
INCREASE (DECREASE) IN OPERATING LIABILITIES	**1.501.426**
Obligations—Financial Sector (**)	(299.730)
Obligations—Non Financial Sector (**)	1.754.001
Other liabilities	45.036
Net variation of forward contracts	**2.119**
Net cash provided (used) by operating activities	**512.844**
CASH FLOWS FROM INVESTING ACTIVITIES	
Net cash flow from securities held to maturity	—
Net cash flow from fixed assets	(2.323)
Increase in intangible assets	(607)
Net cash flow from special investments	8
Net cash flow from other investments	(8)
Net cash provided (used) by investing activities	**(2.930)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contribution /(profit allocation)	—
Net cash flow from subordinated loans	(6.052)
Debentures received	—
Other obligations originated by financing activities	—
Net cash provided (used) by financing activities	**(6.052)**
Net increase (decrease) in cash and cash equivalents	**503.862**
Exchange differences generated from cash and cash equivalents	(20.669)
Cash and cash equivalents at the beginning of the period	**1.802.406**
Cash and cash equivalents at the end of the period	**2.285.599**

(*) Except forward contracts

(**) Except subordinated loans, debentures and forward contracts.

Notes to the Financial Statements

Note 1—Approval by the Shareholders' Meeting

Financial Statements for the year ended December 31, 2011, have been approved by the Ordinary Stockholders' Meeting on April 30, 2012 in accordance with article 344 of Law N° 16.060 dated September 4, 1989.

According to the provisions of Law No. 16.060, there is no obligation to submit interim period's financial statements for the consideration of the Shareholders.

Note 2—Information about the financial institution

2.1 Legal nature

HSBC Bank (Uruguay) S.A. ("the Bank"), a subsidiary of HSBC Latin America Holding (UK) Limited, operates in Uruguay under the legal regime established by Law N° 15.322 dated September 17, 1982 and its subsequent amendments. It was authorized to act as a bank by resolution of the Executive Power as of June 29th, 1987 and authorized by the Central Bank of Uruguay (C.B.U.)

The Central Bank of Uruguay exercises control on banks and monitors compliance with minimum requirements regarding legal cash reserves, credit allowances and capital adequacy.

2.2 Accounting basis

Financial statements are presented in compliance with the regulatory provisions enacted in Uruguay and prepared in accordance with accounting standards, valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay.

Financial statements were prepared on the basis of historical cost, except for assets and liabilities in foreign currency, securities and fixed assets which are valued according to the criteria expressed in Note 3.

According to the Central Bank of Uruguay Communication N° 2010/021 of the Central Bank of Uruguay, the results of the current three-month period have not been corrected to adjust the effects of inflation.

For the preparation of the Statement of Cash Flows, cash and cash equivalents were defined as cash and due from banks.

2.3 Capital and shares

The Bank's authorized capital amounts to $ 1.800.000.000 (Uruguayan Pesos one thousand and eight hundred million).

As at November 23, 2011 the Extraordinary Meeting of Shareholders decided to set the authorized capital in $ 3.000.000.000 (Uruguayan Pesos three thousand million) following the corresponding legal process.

The subscribed capital, which was totally paid in, amounts to $ 317.142.886,31 and is represented by ordinary shares of $ 1 (one Uruguayan Peso) each.

As at August 1st, 2008 the Extraordinary General Assembly decided to contribute capital in the amount of US$ 20.000.000 equivalent to $ 383.900.000 (Uruguayan Pesos three hundred eighty three million nine hundred thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 33.151.750,40 (Uruguayan Pesos thirty three million one hundred fifty one thousand seven hundred fifty with 40/100). This amount comes from the special balance sheet according to article 287 of the Law 16.060.

Notes to the Financial Statements

As at March 30, 2010 the Extraordinary Meeting of Shareholders decided to contribute capital in the amount of US$ 20.000.000 (twenty million dollars) equivalent to $ 390.080.000 (Uruguayan Pesos three hundred ninety million eighty thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 42.487.891,45 (Uruguayan Pesos forty two million four hundred eighty seven thousand eight hundred ninety one with 45/100).

As at January 27, 2011 the Extraordinary Meeting of Shareholders decided to contribute capital in the amount of US$ 20.000.000 (twenty million dollars) equivalent to $ 395.000.000 (Uruguayan Pesos three hundred ninety five million) and capitalize the account adjustments to shareholders' equity for an amount of $ 38.243.829,34 (Uruguayan Pesos thirty eight million two hundred forty three thousand eight hundred twenty nine with 34/100).

Finally, on November 23, 2011 the shareholders decided to contribute capital in the amount of US$ 10.000.000 (ten million dollars) equivalent to $ 200.760.000 (Uruguayan Pesos two hundred million seventy six hundred thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 14.759.413,53 (Uruguayan Pesos fourteen million seven hundred fifty nine thousand four hundred thirteen with 53/100).

HSBC Latin America Holding (UK) Limited owns 100% of the Bank's shares.

Additional information regarding the Bank's ownership structure is included in the Corporate Government's Annual Report (non audited information) required by article 36.3 of the Compilation of Central Bank Regulations, which is available on the Bank's website.

2.4 Board of Directors and Executive Staff

The Bank's Board of Directors is comprised as follows:

Virginia Suárez	President—General Manager
Leonel Puppo	Director—Vice-President
Frank L. Lawson	Director
Alan Wilkinson	Director
Mónica Suffia	Director—Deputy General Manager

The Executive Staff, defined in accordance with article 38.11 of the Compilation of Central Bank Regulations, is comprised of:

Enrique Goyetche	Exchange Desk Manager
José Miranda	Chief Operation Officer and Chief Financial Officer
Patricia Dopazo	Planning Manager
Alberto Mello	Retail Banking and Branch Manager
Juan Vazquez	Risk Manager
Fernando Lacurcia	Corporate Banking Manager
Gonzalo Berro	Internal Audit Manager
Martín Meharu	Compliance Officer
Fernando Busniello de Oliveira	Member of the Audit Committee
Diego Gandioli	Segment Manager Premier
Cecilia Jorge	General Accountant

Additional information regarding the Bank's management and control structure is included in the Corporate Government's Annual Report (non audited information) required by article 36.3 of the Compilation of Central Bank Regulations, which is available on the Bank's website.

Notes to the Financial Statements

Note 3—Information regarding assets and liabilities

3.1 Foreign currency translation

Assets and liabilities denominated in foreign currency are translated into U.S. Dollars at the exchange rates published by the foreign exchange desk of the Central Bank of Uruguay as at the close of the period.

The resulting amounts in US Dollars are then translated into local currency at the exchange rate as at the end of the period (US$ 1 = $ 19,542).

3.2 Foreign currency position

The global position in foreign currency as at March 31, 2012 is broken down as follows:

Currency	Assets in foreign currency	Liabilities in foreign currency	Net position in foreign currency		Equivalent net position in US$
			Asset	Liability	
United States Dollars	897.310	852.199	45.111	—	45.111
Argentine Pesos	185	18	167	—	38
Real	21	—	21	—	12
Euro	26.528	26.322	206	—	275
Other	—	—	—	—	11
TOTAL					**45.447**

3.3 Securities

Securities are valued in accordance with criteria established in Rule 2.2 of the Accounting Standards and Chart of Accounts for Financial Institutions as described below:

Securities held for trading are valued at their market value including transaction costs and deducting accrued interests. Market value adjustments are included in the result of the period.

Securities available for sale are valued at their fair value including transaction costs and deducting accrued interests. Fair value adjustments are included directly in equity until such securities are sold or refunded, and at that moment the adjustments are charged to the result of the period.

The company does not hold Securities held to maturity.

The accrued interest receivable is included in the account “Securities”.

The interests’ accrual is included in the results for the period.

Notes to the Financial Statements

The composition of the securities portfolio as at March 31, 2012 is as follows:

SECURITIES	Currency of issuance	Amounts in thousands of $ Book Value	Market Value
Securities held for trading		**278.118**	**278.118**
Uruguayan Government Securities		268.375	268.375
Uruguayan Government Securities	Uruguayan Pesos	140.575	140.575
Uruguayan Government Securities	Euro	30.216	30.216
Uruguayan Government Securities	Dollars	97.584	97.584
Foreign Government Securities		—	—
U.S.A.	Dollars	—	—
Private Securities		—	—
Uruguay	Uruguayan Pesos	—	—
Bahamas	Dollars	—	—
Accrued interest receivable from Uruguayan Government Securities		9.743	9.743
Accrued interest receivable from Foreign Government Securities		—	—
Accrued interest receivable from Private Securities		—	—
Securities available for sale		**1.275.912**	**1.275.912**
Uruguayan Government Securities		1.199.120	1.199.120
Uruguayan Government Securities	Uruguayan Pesos	360.838	360.838
Uruguayan Government Securities	Euro	165.059	165.059
Uruguayan Government Securities	Dollars	673.223	673.223
Foreign Government Securities		51.875	51.875
U.S.A.	Dollars	51.875	51.875
France and Netherlands	Euro	—	—
Private Securities		—	—
U.S.A.	Dollars	—	—
Accrued interest receivable from Uruguayan Government Securities		24.272	24.272
Accrued interest receivable from Foreign Government Securities		645	645
Accrued interest receivable from Private Securities		—	—
Impairment provisions		—	—
Securities held to maturity		—	—
TOTAL SECURITIES		**1.554.030**	**1.554.030**
SECURITIES ISSUED BY THE CENTRAL BANK OF URUGUAY (1)			
Securities held for trading		**126.209**	**126.209**
		126.209	126.209
Securities available for sale		**487.136**	**487.136**
		487.136	487.136
Securities held to maturity		—	—
Accrued interest receivable from Central Bank of Uruguay Securities		1.064	1.064
TOTAL SECURITIES ISSUED BY THE CENTRAL BANK OF URUGUAY		**614.409**	**614.409**

(1) Recorded under Outstanding credits to the Financial Sector

Notes to the Financial Statements

3.4 Limitations to the free disposal of assets or equity and restrictions to property rights

There are no limitations to the free disposal of assets or equity, except for Uruguayan Government Securities in Uruguayan Pesos used in operations "REPO" with Central Bank of Uruguay detailed in Note 7.

3.5 Assets and liabilities with restatement clause

We detail below the Bank's assets and liabilities with restatement clause:

In thousands of Uruguayan pesos

Restatement factor	Assets	Liabilities
Consumer Price Index	3.120	—
Indexed Units (I.U.)	1.233.278	611.855
Total	**1.236.398**	**611.855**

3.6 Credit Risks- Financial Sector and Non-Financial Sector

The credit portfolio has been classified in accordance with the criteria established in Rule 3.8 of the Accounting Standards and Chart of Accounts for Financial Institutions issued by the Central Bank of Uruguay.

Receivables include the receivable capital amount of each transaction and the corresponding interest accrued from thereon.

Unpaid transactions of the Non Financial Sector are booked in "Overdue loans" after a period of 60 days from their expiration; those corresponding to the Financial Sector are booked in "Overdue loans" when they have 1 day of expiration.

Loans are booked as "Under management for recovery" after 90 days past due in the case of Consumption loans, 180 days in the case of Mortgage Loans and 120 days in the case of Commercial Loans and Financial Sector Loans.

Loans are booked as "Delinquent loans" after 120 days past due in the case of Consumption loans, 240 days in the case of Mortgage Loans and 180 days in the case of Commercial Loans and Financial Sector Loans.

In accordance with the risk definition included in article 65 of the Compilation of Central Bank Regulations, forward contracts are considered at 10% of their value.

The allowances necessary to cover eventual losses derived from bad debts have been booked, in accordance with Rule 3.12 of the Accounting Standards and Chart of Accounts for Financial Institutions. In order to determine the amount to be provisioned, guarantees admitted by Rules 3.16 and 3.17 of such Accounting Standards have been deducted.

Notes to the Financial Statements

Risks of Non-Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Credits local currency	Credits foreign currency (equiv. local currency)	Contingencies	TOTAL RISK	Computed guarantees	Constituted Allowances (1) Minimum%	Constituted Allowances (1) Amount	Risk net of allowances
1A Op. with liquidity collateral	105.696	917.793	92.420	1.115.909	550.092	0%	428	1.115.481
1C Debtors with strong repayment capacity	1.179.712	5.276.512	1.003.714	7.459.938	1.513.138	Equal to or more than 0,5% and less than 1,5%	30.973	7.428.965
2A Debtors with acceptable repayment capacity	207.556	2.174.623	196.252	2.578.431	930.625	Equal to or more than 1,5% and less than 3%	28.125	2.550.306
2B Debtors with potential repayment problems	81.085	1.140.340	133.724	1.355.149	585.183	Equal to or more than 3% and less than 17%	23.727	1.331.422
3 Debtors with impaired repayment capacity	24.871	172.846	24.092	221.809	174.614	Equal to or more than 17% and less than 50%	7.372	214.437
4 Debtors with highly compromised repayment capacity	48.315	801	44.213	93.329	47.096	Equal to or more than 50% and less than 100%	22.335	70.994
5 Irrecoverable	4.654	57.745	382	62.781	609	100%	62.122	659
SUBTOTAL (2)	**1.651.889**	**9.740.660**	**1.494.797**	**12.887.346**	**3.801.357**		**175.082**	**12.712.264**
Other accounts receivable	12.308	47.017	—	59.325	—		—	59.325
90% forward contracts and not accrued forward contracts' losses	102.805	284.380	—	387.185	—		—	387.185
Other contingencies	—	—	—	—	—		—	—
TOTAL	**1.767.002**	**10.072.057**	**1.494.797**	**13.333.856**	**3.801.357**		**175.082**	**13.158.774**

(1) In accordance with Rule 3.12 some transactions are not provisioned.

(2) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value.

Risks Composition of Non-Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Outstanding	Allowances	Overdue credits	Allowances	Other accounts receivable	Allowances	Contingencies	Allowances
1A Op. with liquidity collateral	1.023.434	357	—	—	55	—	92.420	71
1C Debtors with strong repayment capacity	6.424.252	26.464	—	—	31.970	42	1.003.714	4.467
2A Debtors with acceptable repayment capacity	2.381.927	25.336	—	—	252	8	196.252	2.781
2B Debtors with potential repayment problems	1.221.424	21.990	—	—	—	—	133.724	1.736
3 Debtors with impaired repayment capacity	196.110	6.575	1.335	219	262	12	24.092	567
4 Debtors with highly compromised repayment capacity	48.458	21.025	600	220	58	5	44.213	1.084
5 Irrecoverable	1.700	1.685	59.180	58.580	1.519	1.510	382	348
SUBTOTAL (1)	**11.297.305**	**103.432**	**61.115**	**59.019**	**34.116**	**1.577**	**1.494.797**	**11.054**
Other accounts receivable	—	—	—	—	59.338	—	—	—
90% forward contracts and not accrued forward contracts' losses	387.185	—	—	—	—	—	—	—
Other contingencies	—	—	—	—	—	—	—	—
TOTAL	**11.684.490**	**103.432**	**61.115**	**59.019**	**93.454**	**1.577**	**1.494.797**	**11.054**

(1) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value.

Notes to the Financial Statements

Risks of Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Demand Deposits Local Currency	Demand Deposits Foreign Currency (equiv. local currency)	Credits Local currency	Credits Foreign currency (equiv. local currency)	Contingencies	Other accounts receivable	TOTAL RISK	Computed guarantees	Constituted Allowances (1) Minimum %	Constituted Allowances (1) Amount	Risk net of allowances
1A Outstanding resident debtors or non-residents BBB+ or higher	36.417	1.353.399	185.187	4.594.604	336.071	1.648	6.507.326	—	0,0%	—	6.507.326
1B Non-resident debtors with very strong repayment capacity	—	—	—	485.982	9.902	6	495.890	—	Equal to or more than 0,2% and less than 0,5%	811	495.079
1C Non-resident debtors with strong repayment capacity	—	2.806	2.849	16.221	7.957	53	29.886	—	Equal to or more than 0,5% and less than 1,5%	265	29.621
2A Non-resident debtors with acceptable repayment capacity	—	—	—	—	—	26	26	—	Equal to or more than 1,5% and less than 3%	—	26
2B Non-resident debtors with potential repayment problems	—	83	—	20.070	10.607	12	30.772	—	Equal to or more than 3% and less than 17%	53	30.719
3 Non-resident debtors with impaired repayment capacity	—	—	—	—	—	—	—	—	Equal to or more than 17% and less than 50%	—	—
4 Non-resident debtors with highly compromised repayment capacity	—	—	—	—	—	—	—	—	Equal to or more than 50% and less than 100%	—	—
5 Irrecoverable	—	—	—	—	—	—	—	—	100%	—	—
SUBTOTAL (2)	**36.417**	**1.356.288**	**188.036**	**5.116.877**	**364.537**	**1.745**	**7.063.900**	**—**		**1.129**	**7.062.771**
Other accounts receivable	—	—	—	—	—	—	—	—		—	—
90% forward contracts and not accrued forward contracts' losses	—	—	844.775	163.875	—	—	1.008.650	—		—	1.008.650
Other contingencies	—	—	—	—	—	—	—	—		—	—
TOTAL	**36.417**	**1.356.288**	**1.032.811**	**5.280.752**	**364.537**	**1.745**	**8.072.550**	**—**		**1.129**	**8.071.421**

(1) In accordance with Rule 3.12, some transactions are not provisioned.

(2) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value. Securities issued by the Central Bank of Uruguay (detailed in Note 3.3) are not considered.

Notes to the Financial Statements

Risks Composition of Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Demand Deposits	Outstanding Credits	Overdue Credits	Contingencies	Other accounts receivable	Total Risk
1A Outstanding resident debtors or non-residents BBB+ or higher	1.389.816	4.779.791	—	336.071	1.648	6.507.326
1B Non-resident debtors with very strong repayment capacity	—	485.982	—	9.902	6	495.890
1C Non-resident debtors with strong repayment capacity	2.806	19.071	—	7.957	53	29.887
2A Non-resident debtors with acceptable repayment capacity	—	—	—	—	26	26
2B Non-resident debtors with potential repayment problems	83	20.070	—	10.607	12	30.772
3 Non-resident debtors with impaired repayment capacity	—	—	—	—	—	—
4 Non-resident debtors with highly compromised repayment capacity	—	—	—	—	—	—
5 Irrecoverable	—	—	—	—	—	—
SUBTOTAL (1)	**1.392.705**	**5.304.914**	**—**	**364.537**	**1.745**	**7.063.901**
Other accounts receivable	—	—	—	—	—	—
90% forward contracts and not accrued forward contracts' losses	—	1.008.649	—	—	—	1.008.649
TOTAL	**1.392.705**	**6.313.563**	**—**	**364.537**	**1.745**	**8.072.550**

(1) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value. Securities issued by the Central Bank of Uruguay (detailed in Note 3.3) are not considered.

3.7 Allowance for loan losses

The amounts recorded in allowance for loan losses as at March 31, 2012 of $ 276.536 thousand is as follows:

- $ 165.152 thousand deducted from the respective asset accounts;
- $ 11.059 thousand in the liability account "Allowances" (corresponding to contingencies accounts);
- $ 100.325 thousand in the liability account "Allowances" (corresponding to statistical reserve).

Notes to the Financial Statements

The following chart shows the movement in the asset account "Allowance for doubtful debtors", and in the liability accounts "Allowance for contingency accounts", "General Provisions" and "Statistical Reserve".

In thousands of Uruguayan pesos

Allowances for:	Opening balances	Additions	Deductions	Write offs against debt	Other net movements	Final balances
Outstanding Credits—Financial Sector (1)	656	1.005	900	—	360	1.121
Outstanding Credits—Non Financial Sector	155.199	100.512	92.297	—	(59.982)	103.432
Other accounts receivable	1.605	1.588	1.459	—	(154)	1.580
Overdue loans—Financial Sector	—	—	—	—	—	—
Overdue loans—Non Financial Sector	312	544	519	—	(114)	223
Under management for recovery	56.185	293	275	—	(55.930)	273
Delinquent loans	3.059	59.365	54.652	(17)	50.734	58.523
Allowance for Contingency Accounts	10.841	9.514	8.690	—	(606)	11.059
General Provisions	—	—	—	—	—	—
Statistical Reserve	**37.975**	7	—	—	62.343	100.325
TOTAL	**265.832**	**172.828**	**158.792**	**(17)**	**(3.349)**	**276.536**

(1) Includes Demand Deposits.

3.8 Restructured problematic credit

As at March 31, 2012 the bank does not have restructured credits.

3.9 Investments

The composition of investments as at March 31, 2012 is as follows:

In thousands of Uruguayan pesos

Concept	Total
Assets received in exchange for loan claims	—
Idle premises	—
Participations in capital authorized by the Central Bank of Uruguay (*)	712
Foreign branches	—
Investments in shares	—
Other investments	447
Investment provision	—
TOTAL	**1.159**

(*) The balance of the account "Participations in capital authorized by the Central Bank of Uruguay" corresponds to the Bank's share in the following company:

BEVSA: Thousand of Uruguayan Pesos 712 which represents 3.84% of the company's capital. The investment is valued at cost, which does not exceed its equity value based on financial statements prepared in accordance with Uruguayan generally accepted accounting standards.

Notes to the Financial Statements

3.10 Fixed Assets

Fixed assets are accounted for their acquisition cost, restated for inflation applying the change in the Uruguayan Wholesale Price Index (WPI) until December 31, 2009 and afterwards applying the Consumer Price Index issued by the National Institute of Statistics, net of the corresponding accumulated depreciation. The net variation generated by the period's restatement (increase or reduction) is booked with credit or debit to the respective equity account.

Depreciations are computed on restated values as at the close of the period, using the following percentages set forth by the Central Bank of Uruguay:

	Annual depreciation rate
Buildings and safekeeping	2%
Furniture, fixtures and fittings	10%
Vehicles	20%
Computer equipment	20%

Reparation and maintenance costs are included in the results of the period.

Depreciation period for "Improvements on leased properties" does not exceed the remaining lease period.

In compliance with Communication 2004/021, the Bank compared the book value of its premises with their market value as at the close of 2011 booking them by the latter in case the restated cost exceeds 90% of market value.

We are including below the breakdown of the corresponding balances:

In thousands of Uruguayan pesos

Concept	Cost restated for inflation	Annual depreciation rate (%)	Accumulated depreciation	Depreciation over the period	Net Value	Market Value	Book Value
Owned Fixed Assets	**371.059**		**223.700**	**6.319**	**147.359**	**67.060**	**147.359**
Premises—Lands Premises—Buildings	94.275	2%	28.592	371	65.683	67.060	65.683
Furniture, fixtures and fittings	75.326	10%	56.649	964	18.677		18.677
Computer equipment	55.216	20%	48.792	743	6.424		6.424
Safekeeping boxes	5.155	2%	2.581	26	2.574		2.574
Vehicles	6.491	20%	5.164	325	1.327		1.327
Improvements on leased properties	134.596		81.922	3.890	52.674		52.674
Taken in financial leasing	**76.040**		**35.834**	**1.741**	**40.205**		**40.206**
Computer equipment	22.792	20%	16.556	528	6.236		6.236
Vehicles	—	—	—	—	—		—
Other	53.248	10%	19.278	1.213	33.969		33.970
Buildings under construction	—				—		—
TOTAL	**447.099**		**259.534**	**8.060**	**187.564**	**67.060**	**187.565**

Notes to the Financial Statements

3.11 Intangible assets

The acquisition costs of application software are amortized during 3 years from the initial recognition date.

We are including below the breakdown of the corresponding balances:

In thousands of Uruguayan pesos

Concept	Net Opening Balance	Increases	Amortization over the period	Net Ending Balance
Application software	8.348	607	2.645	6.310
Authorized by the Central Bank of Uruguay	—	—	—	—
TOTAL	**8.348**	**607**	**2.645**	**6.310**

3.12 Subordinated Debentures

The bank classified debentures subordinated as other liabilities, pursuant to authorization of the Central Bank of Uruguay. Their balance is taken into consideration in order to determine the minimum net equity requirements under Central Bank regulations, as the subordinated debentures comply with the obligatory requirements established by Article 121 of the Compilation of Central Bank Regulations. These requirements are: the debentures' term must exceed five years, the debentures may not be paid in advance without previous consent from the Central Bank of Uruguay and the debentures may not be used as guarantees.

It is clearly stated that, in the case of the bank's liquidation, the holders renounce to their participation rights as creditors and will have preference rights only with respect to the shareholders and in equal conditions to other holders of subordinated loans, if they exist.

On May 27, 2008, after receiving the Central Bank of Uruguay's authorization N° 157/2008/0370 dated April 21, 2008, the Bank issued a subordinated debenture for US$ 7.000 thousand (equivalent to Uruguayan Pesos 136.794 thousand) with HSBC—México S.A. Institución de Banca Múltiple—Grupo Financiero HSBC with maturity date 5/27/2018.

On December 31, 2009, after receiving the Central Bank of Uruguay's authorization N° 157/2009/3563 dated December 30, 2009, the Bank issued a subordinated debenture for US$ 5.000 thousand (equivalent to Uruguayan Pesos 97.710 thousand) with HSBC—Chile with maturity date 12/30/2019.

On December 10, 2010, after receiving the Central Bank of Uruguay's authorization N° 157/2010/2069 dated December 10, 2010, the Bank issued a subordinated debenture for US$ 5.000 thousand (equivalent to Uruguayan Pesos 97.710 thousand) with HSBC—Chile with maturity date 12/17/2020.

As at March 31, 2012, the subordinated loans' principal is the following:

In thousands of Uruguayan pesos

Expiration	Local Currency	Foreign currency (equiv. local currency)	TOTAL
Less than 12 months	—	—	—
Between 12 and 24 months	—	—	—
Between 24 and 36 months	—	—	—
Between 36 and 48 months	—	—	—
Over 48 months	—	332.214	332.214
TOTAL	**—**	**332.214**	**332.214**

Notes to the Financial Statements

3.13 Guarantees granted on liabilities

As at March 31, 2012 there are no guarantees granted on liabilities.

3.14 Distribution of loans and financial intermediation obligations by their maturity based on the remaining period

The Bank's loans and obligations as at March 31, 2012, are exposed in the following chart classified by their maturity calculated as the remaining period at the end of March:

In thousands of Uruguayan pesos

	Amounts by maturity terms:			
Concept	**Less than 1 year**	**1 to 3 years**	**More than 3 years**	**Total**
Outstanding Credits—Financial Sector (1)	6.568.443	17.118	—	6.585.561
Outstanding Credits—Non Financial Sector (2)	8.864.828	1.354.622	1.035.099	11.254.549
Outstanding Credits—Forward contracts	1.536.371	14.461	—	1.550.832
Total Outstanding Credits	**16.969.642**	**1.386.201**	**1.035.099**	**19.390.942**
Obligations—Financial Sector (2)	398.236	3.665	332.283	734.184
Obligations—Non Financial Sector (2)	18.621.075	166.783	69.819	18.857.677
Obligations—Forward contracts	1.462.523	9.710	—	1.472.233
Total Obligations	**20.481.834**	**180.158**	**402.102**	**21.064.094**

(1) Includes demand deposits. Forward contracts, and other accounts receivable are not included.

(2) Forward contracts and other accounts receivable or payable are not included.

Credits and liabilities in installments are distributed among the three maturity terms computing in each term the balance of the installments that effectively mature in such period.

3.15 Concentration of the credit risks to the Non Financial Sector

We detail below the Non Financial Sector's Loan portfolio's concentration as at March 31, 2012, including contingent risks. As established in Article 86 of the Compilation of Central Bank Regulations, the definition of risk includes that of an individual or legal entity together with that of the economic group it belongs to.

In thousands of Uruguayan pesos

	Amounts before allowances (net of suspended financial interests)							
	Outstanding	**%**	**Overdue**	**%**	**Contingent**	**%**	**Total**	**%**
10 main risks	2.597.480	22%	—	0%	2.085	0%	2.599.565	20%
50 main risks	6.432.419	55%	—	0%	735.521	49%	7.167.940	54%
100 main risks	8.404.873	72%	54.454	89%	940.567	63%	9.399.894	71%
Total portfolio	**11.684.490**	**100%**	**61.115**	**100%**	**1.494.797**	**100%**	**13.240.402**	**100%**

Notes to the Financial Statements

3.16 Concentration of the Credit risks to the Non Financial Sector by economic activity

We detail below the Non Financial Sector's Loan portfolio's concentration classified by economic activity, including contingent risks, as at March 31, 2012.

In thousands of Uruguayan pesos

	Amounts before allowances				
Loan destination	**Outstanding**	**Overdue**	**Other accounts receivable**	**Contingent**	**Total**
Public Sector (1)	75.309	—	—	169.995	245.304
Agriculture	1.516.588	21	8.281	66.294	1.591.184
Industry	4.000.977	54.475	1.242	196.775	4.253.469
Construction	542.520	—	5	202.516	745.041
Commerce	2.710.918	1.005	89	319.013	3.031.025
Hotels and Restaurants	3.525	—	15	488	4.028
Transportation, warehouse and communications	263.866	143	31	118.691	382.731
Financial services	173.617	—	41	706	174.364
Other services	1.024.430	1.111	12.216	133.570	1.171.327
Families	920.479	4.301	7.277	133.263	1.065.320
Other	—	—	—	—	—
Credits to Residents' Total	**11.232.229**	**61.056**	**29.197**	**1.341.311**	**12.663.793**
Non residents	65.076	59	4.932	153.486	223.553
Credits to Non-Fin. Sector's Total (2)	**11.297.305**	**61.115**	**34.129**	**1.494.797**	**12.887.346**
Other accounts receivable	—	—	59.325	—	59.325
90% of forward contracts and forward contracts' losses not accrued	387.185	—	—	—	387.185
Other contingencies	—	—	—	—	—
TOTAL	**11.684.490**	**61.115**	**93.454**	**1.494.797**	**13.333.856**

(1) The Public Sector includes all credits maintained with state owned companies or with the Central Administration, independently from their sector of activity.

(2) It corresponds to all accounts included in the Credit Risk Information.

3.17 Non Financial Sector deposits' concentration

We detail below the non financial sector deposits' concentration as at March 31, 2012.

In thousands of Uruguayan pesos

	Deposits in local and foreign currency (includes interest accrued)			
	Residents		Non Residents	
	Amount	%	Amount	%
10 main depositors	2.273.145	19%	696.604	10%
50 main depositors	4.719.648	40%	1.498.559	22%
100 main depositors	5.797.873	49%	2.074.485	30%
Total deposits	**11.787.203**	**100%**	**6.843.829**	**100%**

Notes to the Financial Statements

Additionally, the account Deposits of the Non Financial Sector, includes $ 226.645 thousand corresponding to other obligations with the Non Financial Sector.

3.18 Classification by type of deposit

The non financial sector deposits' breakdown by type is:

In thousands of Uruguayan pesos

	Residents				Non Residents				Total	
Type of deposit	**Local Currency**	**Foreign Currency**	**Total residents**	**Three-month variation**	**Local Currency**	**Foreign Currency**	**Total non residents**	**Three-month variation**	**Amount**	**%**
Current accounts	932.422	3.775.404	4.707.826	80.238	7.021	229.586	236.607	565	4.944.433	**27%**
Demand deposits	338.832	3.619.364	3.958.196	811.036	32.056	6.107.624	6.139.680	189.031	10.097.876	**54%**
Savings accounts	—	—	—	—	—	—	—	—	—	**0%**
Time deposits	680.760	1.069.670	1.750.430	236.053	63.715	187.286	251.001	34.484	2.001.431	**11%**
Other deposits	265.979	1.096.686	1.362.665	(18.687)	—	214.493	214.493	(216)	1.577.158	**8%**
Accrued interest	4.177	3.909	8.086	1.261	766	1.282	2.048	(545)	10.134	**0%**
Total deposits NFS	**2.222.170**	**9.565.033**	**11.787.203**	**1.109.901**	**103.558**	**6.740.271**	**6.843.829**	**223.319**	**18.631.032**	**100%**

Additionally, the account Deposits of the Non Financial Sector, includes $ 226.645 thousand corresponding to other obligations with the Non Financial Sector.

3.19 Distribution of loans and obligations from financial intermediation with non residents by country

We detail below the distribution of credits and obligations arising from financial intermediation with non residents by country of residence as at March 31, 2012.

In thousands of Uruguayan pesos

	Capital and accrued interests (net of suspended interests)					
Concept	**Demand Deposits**	**Credits Financial Sector (1)**	**Credits Non Financial Sector (1)**	**Outstanding Credits Forward Contracts**	**Other accounts receivable**	**Total**
Argentina	83	4.145	38.823	—	499	43.550
Belgium	33.240	—	9	—	—	33.249
Brazil	—	14.221	8.315	—	20	22.556
Canada	—	—	—	—	—	—
U.S.A.	41.023	781.683	26	13.603	31	836.366
Cayman Island	—	1.108.226	—	—	—	1.108.226
United Kingdom	110.757	54.735	303	23.933	1.002	190.730
Mexico	—	118.210	13	—	—	118.223
Other	38.816	56.598	17.645	1	5.197	118.257
Subtotal (2)	**223.919**	**2.137.818**	**65.134**	**37.537**	**6.749**	**2.471.157**
Other accounts receivable	—	—	—	—	185	185
90% forward contracts and forward contracts losses not accrued	—	—	—	337.949	—	337.949
Other contingencies	—	—	—	—	—	—
TOTAL	**223.919**	**2.137.818**	**65.134**	**375.486**	**6.934**	**2.809.291**

(1) Forward contracts and other accounts receivable are not included.

(2) It corresponds only to accounts included in the Credit Risk Information.

In thousands of Uruguayan pesos

Concept	Capital and accrued interests			
	Obligations Financial Sector (1)	Obligations Non Financial Sector (1)	Forward Contracts	Total
Argentina	4.079	5.003.349	—	5.007.428
Brazil	8.771	291.535	—	300.306
U.S.A.	19.309	26.252	136.280	181.841
United Kingdom	3.406	72.066	239.039	314.511
Mexico	137.291	22.693	—	159.984
China	36.212	3.210	—	39.422
Chile	200.343	39.725	—	240.068
Other	190.973	1.386.669	—	1.577.642
TOTAL	**600.384**	**6.845.499**	**375.319**	**7.821.202**

(1) Forward contracts are not included.

3.20 Transactions with related parties

Related parties are individuals or companies, local or foreign, which form an economic group with the Bank, in accordance with the definition given by article 64, article 86 and article 399.1 of the Compilation of Central Bank Regulations.

At the close of the period the balances with related parties and the results originated by transactions with them were as follows:

	Thousands $ (local currency and foreign currency equiv. in local currency)			
	Placements (1)	Securities	Obligations	Results
Financial Sector				
Local companies	—	—	—	—
Head Office, foreign branches and subsidiaries of Head Office	—	—	—	—
Controlling entity, foreign branches and subsidiaries of the controlling entity	—	—	—	—
Foreign branches	—	—	—	—
Foreign subsidiaries	—	—	—	—
Related banks and other foreign institutions	965.833		662.040	(5.641)
Non Financial Sector				
Pension fund managers	—	—	—	—
Investment funds	—	—	—	—
Credit administrators	—	—	—	—
Others—individuals	3.165		491	16
Others—legal entities	—	—	—	—
Net result with related parties				**$(5.625)**

(1) Includes demand deposits.

Notes to the Financial Statements

3.21 Other relevant events

There is no other significant event to disclose.

Note 4—Shareholders' equity

4.1 Capital Adequacy

The Central Bank regulations require the maintenance of a Net Equity Responsibility comprised of the "Essential Net Equity" and the "Complementary Net Equity", with the condition that the "Complementary Net Equity" should not exceed the "Essential Net Equity".

The Net Equity Responsibility should not be lower than the highest of three parameters, as established by Article 14 of the Compilation of Central Bank Regulations (C.C.B.R.).

These three parameters are:

- Capital requirement for credit and market risks.
- Basic Equity Responsibility, determined by article 15 of the Compilation of Central Bank Regulations.
- 4% of the total assets and contingencies, net of allowances.

As at March 31, 2012, the net equity responsibility (essential net equity plus complementary net equity) amounts to $ 1.524.164 thousand and the Minimum Net Equity Responsibility required by the Central Bank of Uruguay amounts to $ 1.211.489 thousand, equivalent to the capital requirement for credit and market risks, according to Articles 14.1 and 14.2 of the Compilation of Central Bank Regulations (C.C.B.R.).

In thousands of Uruguayan pesos

Concept	Local Currency
Essential Net Equity (E.N.E.)	**1.191.950**
—Common stock	317.143
—Capital contribution	1.369.740
—Adjustments to shareholders' equity	168.200
—Reserves	—
—Retained earnings	(656.376)
—Cooperative shares with interest (regulated by law N° 17.613)	—
—Credits with Head Office and subsidiaries	—
—Special investments and intangible assets	(6.757)
Complementary Net Equity (C.N.E.)	**332.214**
—Subordinated loans (up to 50% C.N.E.)	332.214
—General allowances (up to 1,25% assets and contingencies weighed up by credit risk)	—
Net Equity Responsibility (N.E.R. = E.N.E. + C.N.E.)	**1.524.164**
Subordinated loans admitted to hedge market risk (S.L.M.R)	**—**
—Subordinated loans admitted to hedge market risk (up to the maximum between 250% of the E.N.E. assigned to cover said risk and the difference between E.N.E. and C.N.E)	—
Minimum Net Equity Responsibility (M.N.E.R.)	**1.211.489**
—Capital requirement for credit risk (art. 14.1 C.C.B.R.)	1.128.398
—Capital requirement for market risk (art. 14.2 C.C.B.R.)	83.091
—4% of assets and contingent accounts (art. 14 C.C.B.R.)	921.611
—Basic Equity Responsibility (art. 15 C.C.B.R.)	307.918
(N.E.R.+S.L.M.R) / M.N.E.R.	**1,26**
(N.E.R. +S.L.M.R) / (Assets weighted according to their risk+12,5 * Market risk)	**0,10**

Notes to the Financial Statements

Note 5—Information regarding results

5.1 Recognition of gains and losses

Income and expenses are recognized on the basis of the accrual principle. Nonetheless, in compliance with Rule 3.3 of the Accounting Standards and Chart of Accounts for Financial Institutions, financial products may not be recognized as profit—unless received in cash—when the corresponding debtors are classified as "Debtors with compromised repayment capacity", "Debtors with highly compromised repayment capacity" or "Irrecoverable Debtors". When, in accordance with regulations in force, a transaction must be reclassified to any of the categories mentioned above, financial products recognized as profit during the period and not effectively collected should be adjusted with credit to the accounts "Financial products in suspense".

Loans include $ 286.090 thousand net of allowances ($ 377.919 thousand before allowances) which do not accrue interest in compliance with Central Bank regulations.

5.2 Result from services

In thousands of Uruguayan pesos

	Local Currency	Foreign Currency equivalent local currency
COMMISSION INCOME	**17.681**	**53.630**
Guarantees granted	525	4.558
Credit Cards	1.593	2.940
Foreign trade	19	9.694
Other commissions income	15.544	36.438
COMMISSION EXPENSES	**8.499**	**7.500**
Commissions paid to foreign banks	—	—
Brokerage commissions	588	298
Rural business	—	—
Other commission expenses	7.911	7.202

Note 6—Taxes

We detail below the results corresponding to the three-month period ended March 31, 2012 for each of the taxes levied on the company's activities.

The Income Tax is calculated using the balance sheet liability method.

In thousands of Uruguayan pesos

Concept	Inputted to result of the period
Income Tax	20
Capital Tax	7.524
V.A.T.	—
Financial System control Tax	2.110
Other	504
TOTAL	**10.158**

Notes to the Financial Statements

Note 7—Operations with derivatives

The derivatives used by the Company comprise forward and swap contracts. Forward contracts are tailored according to the expiration and amounts requested by the counter-parties or clients, in order to mitigate the risks associated to the underlying transactions. Swap agreements depend on liquidity needs, based on the terms governing the clients' deposits.

Pursuant to the policies implemented by headquarters, the amounts and terms of all open net positions are subject to close monitoring. As regards those transactions entered into for the account and order of clients, our monitoring focuses on the risk definition, the authority level, and the renewal of lines for each client, where total exposure is controlled on daily basis, based on the price variation of the underlying instrument.

Hedge positions are expressly authorized based on the Treasury's Terms of Reference, and a market-risk monitoring report is generated on daily basis. As regards the interest-rate risk, positions are also limited in terms of currency and PVBP (Present Value Basic Point) ceilings. As of this date, the financial statements under consideration do not include any such transaction.

The accounting and result acknowledgement policies used follow the criteria required under the regulations established in the Accounting Standards and Chart of Accounts for Financial Intermediation Entities issued by the Central Bank of Uruguay.

The balance of transactions to be settled as at March 31, 2012 –assets amounting to Uruguayan Pesos 735 million and liabilities amounting to Uruguayan Pesos 655 million represents repurchase transactions entered into with the Central Bank of Uruguay. Under these instruments, the Bank sells the Central Bank of Uruguay local-currency-denominated Uruguayan Government Securities subject to a future repurchase agreement. These transactions are performed within the scope of our management of local-currency-denominated assets and liabilities.

There follows a break-down of current forward transactions as at the date of the financial statements:

	Assets		Liabilities	
Type	Amount of transactions	Balance	Amount of transactions	Balance
By client request	22	430.054	22	431.994
Operations with Central Bank of Uruguay	—	—	—	—
Trading Operations	12	385.171	12	385.261
		815.225		817.255
Operations "REPO" with Central Bank of Uruguay	32	735.270	12	654.978
		735.270		654.978
Total		**1.550.495**		**1.472.233**

Note 8—Integral Risk Management System

As regards our Bank's exposure to the market risk, in terms of either prices or interest rates, we have followed the corporate guidelines.

Positions are determined on daily basis per currency and line of business, subject to the predetermined maximum daily and monthly exposure ceilings. All additions and deletions to our position and all losses and profits deriving from the various transactions are daily confirmed against the accounting entries and, at least once a month, against the Bank's ledger.

Notes to the Financial Statements

Items are checked individually, based on the predetermined ceilings for each currency and instrument in which the Bank has a position of its own.

In addition, the market risk is subject to a mix of monitoring measurements. On the one hand, through a system used by the Group, we compute the VAR (Value at Risk) and, on the other, we compute the PVBP (Present Value Basic Point), *i.e.,* the loss deriving from a fall in the price of net assets upon the variation of one basic point in the interest rate.

Additional information on our integral risk management system is included in the (unaudited information) Annual Corporate Governance Report required under Section 36.3 of the Compilation of Central Bank available in our website (www.hsbc.com.uy).

Note 9—Trusts ("Fideicomisos")

During the period the bank has not transferred credits to financial trusts.

Note 10—Subsequent events

On May 11 the HSBC Group announced that after having conducted a review process of its global business strategy, that it has reached a regional agreement to sell the HSBC Bank Uruguay operation to GNB Sudameris, a Colombian entity, controlled by the Gilinski Group. This transaction is subject to approval by local regulatory authorities.

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HSBC Bank (Uruguay) S.A.

BALANCE SHEET AS OF MARCH 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
ASSETS	**3.019.181**	**13.354.663**	**16.373.844**
I) Cash and cash equivalents	**309.032**	**1.586.519**	**1.895.551**
1.- Cash and cash equivalents	309.032	1.460.895	1.769.927
1.1.- Cash	213.738	273.886	487.624
1.2.- Central Bank of Uruguay	25.598	1.099.052	1.124.650
1.3.- Other financial institutions in Uruguay	3.323	13.155	16.478
1.4.- Clearing documents	66.373	74.802	141.175
2.- Other foreign financial institutions	—	125.624	125.624
II) Securities	**248.028**	**2.093.527**	**2.341.555**
1.- Securities held for trading	162.250	659.712	821.962
1.1.- Uruguayan	162.250	292.928	455.178
1.2.- Foreign	—	366.784	366.784
2.- Securities available for sale	85.778	1.433.815	1.519.593
2.1.- Uruguayan	85.778	613.778	699.556
2.2.- Foreign	—	820.037	820.037
3.- Securities held to maturity	—	—	—
3.1.- Uruguayan	—	—	—
3.2.- Foreign	—	—	—
III) Credits (net of allowances)	**2.235.562**	**9.674.178**	**11.909.740**
1.- Outstanding credits	1.864.033	9.096.764	10.960.797
1.1.- Financial sector	886.506	2.237.698	3.124.204
1.1.1.- Central Bank of Uruguay	886.506	478.628	1.365.134
1.1.2.- Other financial institutions in Uruguay	—	19.798	19.798
1.1.3.- Other foreign financial institutions	—	1.113.602	1.113.602
1.1.4.- Head office, branches and related institutions	—	625.670	625.670
1.2.- Non financial sector	977.527	6.859.066	7.836.593
1.2.1.- Uruguayan public sector	12.823	174.142	186.965
1.2.2.- Non resident public sector	—	—	—
1.2.3.- Resident private sector	961.748	6.594.412	7.556.160
1.2.4- Non resident private sector	2.956	90.512	93.468
2.- Forward contracts	294.538	455.743	750.281
2.1.- Residents	294.538	19.256	313.794
2.2.- Non residents	—	436.487	436.487
3.- Overdue	876	361	1.237
3.1.- Financial sector	—	—	—
3.2.- Non financial sector	876	361	1.237
3.2.1.- Uruguayan public sector	—	—	—
3.2.2.- Non resident public sector	—	—	—
3.2.3.- Resident private sector	876	357	1.233
3.2.3.1.- Overdue loans	647	144	791
3.2.3.2.- Under management for recovery	229	212	441
3.2.3.3.- Delinquent loans	—	1	1
3.2.4.- Non resident private sector	—	4	4
3.2.4.1.- Overdue loans	—	1	1
3.2.4.2.- Under management for recovery	—	3	3
3.2.4.3.- Delinquent loans	—	—	—
4.- Other accounts receivable	76.115	121.310	197.425

HSBC Bank (Uruguay) S.A.

BALANCE SHEET AS OF MARCH 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
IV) Investments	**712**	**439**	**1.151**
1.- Uruguayan	712	439	1.151
2.- Foreign	—	—	—
V) Fixed assets	**199.874**	**—**	**199.874**
VI) Intangible assets	**25.973**	**—**	**25.973**
LIABILITIES	**2.596.534**	**12.778.985**	**15.375.519**
I) Obligations	**2.596.534**	**12.778.985**	**15.375.519**
1.- From financial intermediation	2.086.023	12.273.037	14.359.060
1.1.- Financial Sector	122.436	588.500	710.936
1.1.1.- Central Bank of Uruguay	—	480	480
1.1.2.- Other financial institutions in Uruguay	120.607	92.523	213.130
1.1.3.- Other foreign financial institutions	—	83.254	83.254
1.1.4.- Head Office, branches and related institutions	1.829	412.243	414.072
1.2.- Non financial sector	1.963.587	11.684.537	13.648.124
1.2.1.- Uruguayan public sector	112.699	9.692	122.391
1.2.2.- Resident private sector	1.819.131	6.090.154	7.909.285
1.2.3.- Non residents	31.757	5.584.691	5.616.448
2.- Forward contracts	361.138	376.586	737.724
2.1.- Residents	197.040	99.996	297.036
2.2.- Non residents	164.098	276.590	440.688
3.- Other accounts payable	69.822	42.386	112.208
4.- Accrued Expenses	77.935	65.371	143.306
5.- Allowances	1.616	21.605	23.221
SHAREHOLDERS' EQUITY	**998.325**	**—**	**998.325**
1.- Common Stock	1.486.123	—	1.486.123
2.- Adjustments to shareholders' equity	147.263	—	147.263
3.- Reserves	—	—	—
4.- Retained deficit	(522.334)	—	(522.334)
5.- Current period results	(112.727)	—	(112.727)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3.594.859**	**12.778.985**	**16.373.844**
CONTINGENT ACCOUNTS	**200.103**	**942.311**	**1.142.414**
1.- Credit lines agreed	68.422	252.822	321.244
1.1.- Credit cards	50.209	181.480	231.689
1.2.- Current accounts	18.183	11.460	29.643
1.3.- Others	30	59.882	59.912
2.- Guarantees granted	131.681	110.240	241.921
3.- Foreign trade	—	579.249	579.249
4.- Options	—	—	—
5.- Other contingencies	—	—	—
MEMORANDUM ACCOUNTS	**1.888.561**	**35.707.614**	**37.596.175**
1.- Guarantees received	463.970	12.722.276	13.186.246
2.- Custody of goods and securities	1.422.913	6.216.446	7.639.359
3.- Foreign trade	—	2.616.321	2.616.321
4.- Other memorandum accounts	1.678	14.152.571	14.154.249

HSBC Bank (Uruguay) S.A.

Income Statement
for the three-month period ended March 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial income before exchange differences and provisions	**70.753**	**114.231**	**184.984**
1.- Outstanding credits from financial intermediation	**56.078**	**86.564**	**142.642**
1.1.- Financial sector	30.077	8.792	38.869
1.1.1.- Uruguayan financial institutions	30.077	4.376	34.453
1.1.2.- Foreign financial institutions	—	4.416	4.416
1.2.- Non financial sector	26.001	77.772	103.773
1.2.1.- Uruguayan public sector	442	2.636	3.078
1.2.2.- Non resident public sector	—	—	—
1.2.3.- Resident private Sector	25.526	74.099	99.625
1.2.4.- Non resident private sector	33	1.037	1.070
2.- Lease, readjustments and quotation differences of securities	**14.533**	**27.667**	**42.200**
2.1.- Securities held for trading	12.008	16.538	28.546
2.1.1.- Uruguayan	12.008	15.890	27.898
2.1.2.- Foreign	—	648	648
2.2.- Securities available for sale	2.525	11.129	13.654
2.2.1.- Uruguayan	2.525	8.073	10.598
2.2.2.- Foreign	—	3.056	3.056
2.3.- Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Obligations readjustment	**—**	**—**	**—**
3.1.- Financial sector	—	—	—
3.2.- Non financial sector	—	—	—
4.- Forward contracts	**131**	**—**	**131**
4.1.- Financial sector	69	—	69
4.1.1.- Uruguayan	40	—	40
4.1.2.- Foreign	29	—	29
4.2.- Non financial sector	62	—	62
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	62	—	62
4.2.3.- Non residents	—	—	—
5.- Overdue loans	**11**	**—**	**11**
5.1.- Financial sector	—	—	—
5.2.- Non financial sector	11	—	11
5.2.1.- Uruguayan public sector	—	—	—
5.2.2.- Non resident public sector	—	—	—
5.2.3.- Resident private sector	11	—	11
5.2.3.1.- Overdue loans	10	—	10
5.2.3.2.- Under management for recovery	—	—	—
5.2.3.3.- Delinquent loans	1	—	1
5.2.4.- Non resident private sector	—	—	—
5.2.4.1.- Overdue loans	—	—	—
5.2.4.2.- Under management for recovery	—	—	—
5.2.4.3.- Delinquent loans	—	—	—
5.3.- Debtors refinanced under law 16.243	—	—	—
5.4.- Recovery of doubtful debtors	—	—	—

HSBC Bank (Uruguay) S.A.

Income Statement
for the three-month period ended March 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial losses before exchange differences and provisions	**(35.969)**	**(26.853)**	**(62.822)**
1.- Obligations	**(30.808)**	**(8.871)**	**(39.679)**
1.1.- Financial sector	(4.976)	(4.910)	(9.886)
1.1.1.- Uruguayan financial institutions	(4.880)	(129)	(5.009)
1.1.2.- Foreign financial institutions	(96)	(4.781)	(4.877)
1.2.- Non financial sector	(25.832)	(3.961)	(29.793)
1.2.1.- Uruguayan public sector	(3.794)	(3)	(3.797)
1.2.2.- Resident private sector	(21.687)	(1.787)	(23.474)
1.2.3.- Non residents	(351)	(2.171)	(2.522)
2.- Readjustments and quotation differences of securities	**(5.145)**	**(17.982)**	**(23.127)**
2.1. Securities held for trading	(5.145)	(17.982)	(23.127)
2.1.1.- Uruguayan	(5.145)	(17.437)	(22.582)
2.1.2.- Foreign	—	(545)	(545)
2.2 Securities available for sale	—	—	—
2.2.1.- Uruguayan	—	—	—
2.2.2.- Foreign	—	—	—
2.3. Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Credit readjustment	**—**	**—**	**—**
3.1.- Outstanding	—	—	—
3.2.- Overdue	—	—	—
4.- Forward contracts	**(16)**	**—**	**(16)**
4.1.- Financial sector	—	—	—
4.1.1.- Uruguayan	—	—	—
4.1.2.- Foreign	—	—	—
4.2.- Non financial sector	(16)	—	(16)
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	(16)	—	(16)
4.2.3.- Non residents	—	—	—
I) Financial margin before exchange differences and provisions	**34.784**	**87.378**	**122.162**
Foreign exchange differences from assets and liabilities valuation	**(27.280)**	**—**	**(27.280)**
1.- Income	1.522.283	—	1.522.283
2.- Losses	(1.549.563)	—	(1.549.563)
II) Financial margin before provisions	**7.504**	**87.378**	**94.882**
PROVISIONS	**22.001**	**(10.814)**	**11.187**
Decrease of provisions and credit revaluation	**102.770**	**189.889**	**292.659**
1.- Decrease of provisions	25.469	189.889	215.358
1.1.- Residents	25.369	185.541	210.910
1.2.- Non residents	100	4.348	4.448
1.3.- General provisions	—	—	—
2.- Credit revaluation	77.301	—	77.301

HSBC Bank (Uruguay) S.A.

Income Statement
for the three-month period ended March 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Increase of provisions and credit depreciation	**(80.769)**	**(200.703)**	**(281.472)**
1.- Provisions	(24.697)	(200.703)	(225.400)
1.1.- Residents	(24.577)	(198.335)	(222.912)
1.2.- Non residents	(120)	(2.368)	(2.488)
1.3.- General provisions	—	—	—
2.- Credits depreciation	(56.072)	—	(56.072)
III) Financial margin	**29.505**	**76.564**	**106.069**
COMMISSION INCOME	**6.036**	**42.804**	**48.840**
1.- Residents	5.199	31.074	36.273
2.- Non residents	837	11.730	12.567
COMMISSION EXPENSES	**(5.524)**	**(5.310)**	**(10.834)**
1.- Residents	(5.407)	(1.743)	(7.150)
2.- Non residents	(117)	(3.567)	(3.684)
Commission margin	**512**	**37.494**	**38.006**
OTHER RESULTS FROM EXCHANGE DIFFERENCES	**25.367**	**1.725**	**27.092**
1.- From operations	23.918	1.725	25.643
1.1.- Income	42.803	9.447	52.250
1.2.- Losses	(18.885)	(7.722)	(26.607)
2.- From valuation of other assets and liabilities in foreign currency	1.449	—	1.449
2.1.- Income	8.486	—	8.486
2.2.- Losses	(7.037)	—	(7.037)
IV) Gross result	**55.384**	**115.783**	**171.167**
OPERATING INCOME	**5**	**23**	**28**
1.- Income from other accounts receivable	5	22	27
1.1.- Residents	5	22	27
1.2.- Non residents	—	—	—
2.- Investment in local shares	—	—	—
3.- Foreign branches	—	—	—
4.- Leases	—	—	—
5.- Other operating income	—	1	1
5.1.- Residents	—	1	1
5.2.- Non residents	—	—	—
6.- Income from accounting restatements	—	—	—
7.- Income from inflation adjustment	—	—	—
OPERATING LOSSES	**(189.851)**	**(93.930)**	**(283.781)**
1.- Personnel remunerations and social charges	(130.431)	(17.427)	(147.858)
2.- Insurance expenses	(953)	(756)	(1.709)
3.- Depreciations	(23.625)	—	(23.625)
4.- Taxes and duties	(5.755)	—	(5.755)
5.- Other operating expenses	(28.525)	(75.747)	(104.272)
6.- Losses from other operations	(562)	—	(562)
7.- Investments in local shares	—	—	—
8.- Foreign branches	—	—	—
9.- Losses from accounting restatements	—	—	—
10.- Losses from inflation adjustments	—	—	—
11.- Other accounts payable	—	—	—

HSBC Bank (Uruguay) S.A.

Income Statement
for the three-month period ended March 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
V) Exploitation margin	**(134.462)**	**21.876**	**(112.586)**
EXTRAORDINARY RESULTS	**(49)**	**(73)**	**(122)**
1.- Extraordinary income	1	—	1
2.- Extraordinary losses	(50)	(73)	(123)
PREVIOUS YEAR RESULTS	**—**	**—**	**—**
1.- Income	—	—	—
2.- Losses	—	—	—
VI) RESULTS OF THE PERIOD BEFORE INCOME TAX	**(134.511)**	**21.803**	**(112.708)**
Income Tax	(19)	—	(19)
VII) Results of the period after income tax	**(134.530)**	**21.803**	**(112.727)**

HSBC Bank (Uruguay) S.A.

Statement of Changes in Shareholders' equity
for the three-month period ended March 31, 2011
In Thousands of Uruguayan Pesos

Changes over the period	COMMON STOCK	CAPITAL CONTRIBUTION	ADJUSTMENTS TO SHARE-HOLDERS' EQUITY	RESERVES	RETAINED EARNINGS	TOTAL SHARE-HOLDERS' EQUITY
BALANCE AS OF 12.31.10	**317.143**	**773.980**	**134.258**	**—**	**(522.334)**	**703.047**
Contributed capital	—	395.000	—	—	—	395.000
Profit allocation	—	—	—	—	—	—
Advanced payment of results	—	—	—	—	—	—
Restatements:	—	—	—	—	—	—
—Revaluation of fixed assets	—	—	13.335	—	—	13.335
—Inflation adjustment	—	—	—	—	—	—
—Variation in the fair value of securities available for sale	—	—	(330)	—	—	(330)
—Accounting restatements	—	—	—	—	—	—
—Variation in the fair value of investments due to equity adjustments in controlled companies and branches	—	—	—	—	—	—
Results of the period	—	—	—	—	(112.727)	(112.727)
BALANCE AS OF 03.31.11	**317.143**	**1.168.980**	**147.263**	**—**	**(635.061)**	**998.325**

HSBC Bank (Uruguay) S.A.

Statement of Cash Flows for the three-month period ended March 31, 2011
In Thousands of Uruguayan Pesos

	03.31.11
CASH FLOWS FROM OPERATING ACTIVITIES	
Gain (loss) for the period	**(112.727)**
Adjustments that reconcile the net profit of the period with the net cash provided by operating activities:	**9.726**
Depreciation of fixed assets	15.405
Amortization of intangible assets	8.220
Effects of changes in monetary correction and foreign currency translation	25.831
Difference in quotations and value adjustments for securities held for trading and securities available for sale	3.960
Adjustment to cost of securities held to maturity	—
Securities allowances	—
Securities income accrued not received	(21.653)
Accrued expenses	(20.505)
Accrued interest income not received	(7.632)
Allowance for doubtful debtors	10.042
Accrued income not received	(5)
Accrued interest expense not paid	(3.937)
Not accrued income received	—
Not accrued interest paid	—
Result from sales of fixed assets	—
Result from booking premises at their market value	—
(INCREASE) DECREASE IN OPERATING ASSETS	**(1.200.513)**
Securities (held for trading and available for sale)	(524.780)
Credits—Financial Sector (*)	(53.216)
Credits—Non Financial Sector (*)	(510.596)
Other assets	(111.921)
INCREASE (DECREASE) IN OPERATING LIABILITIES	**(79.701)**
Obligations—Financial Sector (**)	(567.081)
Obligations—Non Financial Sector (**)	421.003
Other liabilities	61.842
Net variation of forward contracts	**4.535**
Net cash provided (used) by operating activities	**(1.383.215)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Net cash flow from securities held to maturity	—
Net cash flow from fixed assets	(457)
Increase in intangible assets	(1.394)
Net cash flow from special investments	21
Net cash flow from other investments	(21)
Net cash provided (used) by investing activities	**(1.851)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contribution /(profit allocation)	395.000
Net cash flow from subordinated loans	(15.317)
Debentures received	—
Other obligations originated by financing activities	—
Net cash provided (used) by financing activities	**379.683**
Net increase (decrease) in cash and cash equivalents	**(1.005.383)**
Exchange differences generated from cash and cash equivalents	(76.114)
Cash and cash equivalents at the beginning of the period	**2.977.048**
Cash and cash equivalents at the end of the period	**1.895.551**

(*) Except forward contracts

(**) Except subordinated loans, debentures and forward contracts.

Notes to the Financial Statements

Note 1—Approval by the Stockholders' Meeting

Financial Statements for the year ended December 31, 2010, have been approved by the Ordinary Stockholders' Meeting on April 28, 2011, in accordance with article 344 of Law N° 16.060 dated September 4, 1989.

According to the provisions of Law No. 16.060, there is no obligation to submit interim period's financial statements for the consideration of the Shareholders.

Note 2—Information about the financial institution

2.1 Legal nature

HSBC Bank (Uruguay) S.A. ("the Bank"), a subsidiary of HSBC Latin America Holding (UK) Limited, operates in Uruguay under the legal regime established by Law N° 15.322 dated September 17, 1982 and its subsequent amendments. It was authorized to act as a bank by resolution of the Executive Power as of June 29th, 1987 and authorized by the Central Bank of Uruguay (C.B.U.)

The Central Bank of Uruguay exercises control on banks and monitors compliance with minimum requirements regarding legal cash reserves, credit allowances and capital adequacy.

2.2 Accounting basis

Financial statements are presented in compliance with the regulatory provisions enacted in Uruguay and prepared in accordance with accounting standards, valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay.

Financial statements were prepared on the basis of historical cost, except for assets and liabilities in foreign currency, securities and fixed assets which are valued according to the criteria expressed in Note 3.

According to Communication N° 2010/021 of the Central Bank of Uruguay, the results of the current year have not been corrected to adjust the effects of inflation.

For the preparation of the Statement of Cash Flows, cash and cash equivalents were defined as cash and due from banks.

2.3 Capital and shares

The Bank's authorized capital amounts to $ 1.000.000.000 (Uruguayan Pesos one thousand million).

As at March 30, 2010 the Extraordinary General Assembly decided to set the authorized capital in $ 1.800.000.000 (Uruguayan Pesos one thousand and eight hundred million) represented by ordinary shares of $ 1 (one Uruguayan Peso) each.

The subscribed capital, which was totally paid in, amounts to $ 317.142.885 (Uruguayan Pesos three hundred seventeen million one hundred forty two thousand eight hundred eighty five) and is represented by ordinary shares of $ 1 (one Uruguayan Peso) each.

As at August 1, 2008 the Extraordinary General Assembly decided to contribute capital in the amount of US$ 20.000.000 equivalent to $ 383.900.000 (Uruguayan Pesos three hundred eighty three million nine hundred thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 33.151.750,40 (Uruguayan Pesos thirty three million one hundred fifty one thousand seven hundred fifty with 40/100). This amount comes from the special balance sheet according to article 287 of the Law 16.060.

As at March 30, 2010 the Extraordinary General Assembly decided to contribute capital in the amount of US$ 20.000.000 equivalent to $ 390.080.000 (Uruguayan Pesos three hundred ninety million eighty thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 42.487.891,45 (Uruguayan Pesos forty two million four hundred eighty seven thousand eight hundred ninety one with 45/100).

As at January 27, 2011 the Extraordinary Meeting of Shareholders decided to contribute capital in the amount of US$ 20.000.000 (twenty million dollars) equivalent to $ 395.000.000 (Uruguayan Pesos three hundred ninety five million) and capitalize the account adjustments to shareholders' equity for an amount of $ 38.243.829,34 (Uruguayan Pesos thirty eight million two hundred forty three thousand eight hundred twenty nine with 34/100).

HSBC Latin America Holding (UK) Limited owns 100% of the Bank's shares.

Additional information regarding the Bank's ownership structure is included in the Corporate Government's Annual Report (non audited information) required by article 36.3 of the Compilation of Central Bank Regulations, which is available on the Bank's website.

2.4 Board of Directors and Executive Staff

The Bank's Board of Directors is comprised as follows:

Virginia Suárez	President—General Manager
Leonel Puppo	Director—Vice-President
Frank L. Lawson	Director
Alan Wilkinson	Director
Mónica Suffia	Director—Deputy General Manager

The Executive Staff, defined in accordance with article 38.11 of the Compilation of Central Bank Regulations, is comprised of:

Enrique Goyetche	Exchange Desk Manager
José Francisco Flores Junco	Finance Manager
José Miranda	General Accountant
Patricia Dopazo	Planning Manager—Head of Project Management
José Luis Pelaez	Personal Financial Services Manager
Alberto Mello	Risk Manager
Fernando Lacurcia	Corporate Banking Manager
Gonzalo Berro	Internal Audit Manager
Martín Meharu	Compliance Officer
Christopher Kenneth Groucott	Member of the Audit Committee
Diego Gandioli	Branches Manager
Daniel Lima	Operations Manager

Additional information regarding the Bank's management and control structure is included in the Corporate Government's Annual Report (non audited information) required by article 36.3 of the Compilation of Central Bank Regulations, which is available on the Bank's website.

Notes to the Financial Statements

Note 3—Information regarding assets and liabilities

3.1 Foreign currency translation

Assets and liabilities denominated in foreign currency are translated into U.S. Dollars at the exchange rates published by the foreign exchange desk of the Central Bank of Uruguay as at the close of the period.

The resulting amounts in US Dollars are then translated into local currency at the exchange rate as at the end of the period (US$ 1 = $ 19,193).

3.2 Foreign currency position

The global position in foreign currency as at March 31, 2011 is broken down as follows:

Currency	Assets in foreign currency	Liabilities in foreign currency	Net position in foreign currency		Equivalent net position in US$
			Asset	Liability	
United States Dollars	652.739	622.644	30.095	—	30.095
Argentine Pesos	370	92	278	—	69
Real	36	1	35	—	21
Euro	27.884	28.161		(277)	(393)
Other	—	—	—	—	202
TOTAL					**29.994**

3.3 Securities

Securities are valued in accordance with criteria established in Rule 2.2 of the Accounting Standards and Chart of Accounts for Financial Institutions as described below:

Securities held for trading are valued at their market value including transaction costs and deducting accrued interests. Market value adjustments are included in the result of the period.

Securities available for sale are valued at their fair value including transaction costs and deducting accrued interests. Fair value adjustments are included directly in equity until such securities are sold or refunded, and at that moment the adjustments are charged to the result of the period.

The company does not hold Securities held to maturity.

The accrued interest receivable is included in the account “Securities”.

The interests’ accrual is included in the result of the period.

Notes to the Financial Statements

The composition of the securities portfolio as at March 31, 2011 is as follows:

SECURITIES	Currency of issuance	Amounts in thousands of $ Book Value	Market Value
Securities held for trading		**821.962**	**821.962**
Uruguayan Government Securities		444.610	444.610
Uruguayan Government Securities	Uruguayan Pesos	159.568	159.568
Uruguayan Government Securities	Euro	86.481	86.481
Uruguayan Government Securities	Dollars	198.561	198.561
Foreign Government Securities		78.547	78.547
U.S.A.	Euro	78.547	78.547
Private Securities		287.338	287.338
Uruguay	Uruguayan Pesos	—	—
Bahamas	Dollars	287.338	287.338
Accrued interest receivable from Uruguayan Government Securities		10.568	10.568
Accrued interest receivable from Foreign Government Securities		899	899
Accrued interest receivable from Private Securities		—	—
Securities available for sale		**1.519.593**	**1.519.593**
Uruguayan Government Securities		680.983	680.983
Uruguayan Government Securities	Uruguayan Pesos	83.051	83.051
Uruguayan Government Securities	Dollars	465.897	465.897
Uruguayan Government Securities	Euro	132.036	132.036
Foreign Government Securities		815.766	815.766
U.S.A.	Dollars	675.225	675.225
France and Netherlands	Euro	140.541	140.541
Private Securities			
U.S.A.	Dollars	—	—
Accrued interest receivable from Uruguayan Government Securities		18.573	18.573
Accrued interest receivable from Foreign Government Securities		4.271	4.271
Accrued interest receivable from Private Securities		—	—
Impairment provisions		—	—
Securities held to maturity		—	—
TOTAL SECURITIES		**2.341.555**	**2.341.555**
SECURITIES ISSUED BY THE CENTRAL BANK OF URUGUAY (1)			
Securities held for trading		**49.585**	**49.585**
		49.585	49.585
Securities available for sale		**835.242**	**835.242**
		835.242	835.242
Accrued interest receivable from Central Bank of Uruguay Securities		1.679	1.679
TOTAL SECURITIES ISSUED BY THE CENTRAL BANK OF URUGUAY		**886.506**	**886.506**

(1) Recorded under Outstanding credits to the Financial Sector.

Notes to the Financial Statements

3.4 Limitations to the free disposal of assets or equity and restrictions to property rights

There are no limitations to the free disposal of assets or equity, except for Uruguayan Government Securities in Uruguayan Pesos used in operations "REPO" with Central Bank of Uruguay detailed in Note 7.

3.5 Assets and liabilities with restatement clause

We detail below the Bank's assets and liabilities with restatement clause:

In thousands of Uruguayan pesos **Restatement factor**	**Assets**	**Liabilities**
Consumer Price Index	2.990	—
Indexed Units (I.U.)	750.276	627.883
Total	**753.266**	**627.883**

3.6 Credit Risks—Financial Sector and Non-Financial Sector

The credit portfolio has been classified in accordance with the criteria established in Rule 3.8 of the Accounting Standards and Chart of Accounts for Financial Institutions issued by the Central Bank of Uruguay.

Receivables include the receivable capital amount of each transaction and the corresponding interest accrued from thereon.

Unpaid transactions of the Non Financial Sector are booked in "Overdue loans" after a period of 60 days from their expiration; those corresponding to the Financial Sector are booked in "Overdue loans" when they have 1 day of expiration.

Loans are booked as "Under management for recovery" after 90 days past due in the case of Consumption loans, 180 days in the case of Mortgage Loans and 120 days in the case of Commercial Loans and Financial Sector Loans.

Loans are booked as "Delinquent loans" after 120 days past due in the case of Consumption loans, 240 days in the case of Mortgage Loans and 180 days in the case of Commercial Loans and Financial Sector Loans.

In accordance with the risk definition included in article 65 of the Compilation of Central Bank Regulations, forward contracts are considered at 10% of their value.

The allowances necessary to cover eventual losses derived from bad debts have been booked, in accordance with Rule 3.12 of the Accounting Standards and Chart of Accounts for Financial Institutions. In order to determine the amount to be provisioned, guarantees admitted by Rules 3.16 and 3.17 of such Accounting Standards have been deducted.

Risks of Non-Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Credits local currency	Credits foreign currency (equiv. local currency)	Contin-gencies	TOTAL RISK	Computed guarantees	Constituted Allowances (1) Minimum %	Constituted Allowances (1) Amount	Risk net of allowances
1A Op. with liquidity collateral	52.505	571.478	35.928	659.911	654.541	0,0%	46	659.865
1C Debtors with strong repayment capacity	723.783	3.354.479	672.748	4.751.010	955.962	Equal to or more than 0,5% and less than 3%	23.408	4.727.602
2A Debtors with acceptable repayment capacity	157.137	1.438.013	112.267	1.707.417	265.069	Equal to or more than 3% and less than 7%	43.524	1.663.893
2B Debtors with potential repayment problems	39.517	1.476.850	42.755	1.559.122	739.862	Equal to or more than 7% and less than 20%	58.892	1.500.230
3 Debtors with impaired repayment capacity	12.221	197.364	7.833	217.418	85.091	Equal to or more than 20% and less than 50%	26.315	191.103
4 Debtors with highly compromised repayment capacity	26.981	12.058	39.163	78.202	13.548	Equal to or more than 50% and less than 100%	18.107	60.095
5 Irrecoverable	2.303	1.546	2.989	6.838	—	100%	5.963	875
SUBTOTAL (2)	**1.014.447**	**7.051.788**	**913.683**	**8.979.918**	**2.714.073**		**176.255**	**8.803.663**
Other accounts receivable	75.389	69.394	—	144.783	—		—	144.783
90% forward contracts and not accrued forward contracts' losses	86.310	17.498	—	103.808	—		—	103.808
Other contingencies	—	—	—	—	—		—	—
TOTAL	**1.176.146**	**7.138.680**	**913.683**	**9.228.509**	**2.714.073**		**176.255**	**9.052.254**

(1) In accordance with Rule 3.12 some transactions are not provisioned.

(2) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value.

Notes to the Financial Statements

Risks Composition of Non-Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Outstanding	Allowances	Overdue credits	Allowances	Other accounts receivable	Allowances	Contingencies	Allowances
1A Op. with liquidity collateral	623.948	46	—	—	35	—	35.928	—
1C Debtors with strong repayment capacity	4.027.607	20.156	—	—	50.655	321	672.748	2.931
2A Debtors with acceptable repayment capacity	1.594.253	40.299	—	—	897	—	112.267	3.225
2B Debtors with potential repayment problems	1.516.032	56.430	—	—	335	2	42.755	2.460
3 Debtors with impaired repayment capacity	208.455	24.671	699	131	431	66	7.833	1.447
4 Debtors with highly compromised repayment capacity	37.653	17.394	1.067	398	319	—	39.163	315
5 Irrecoverable	2.306	3.798	1.492	1.492	51	459	2.989	214
SUBTOTAL (1)	**8.010.254**	**162.794**	**3.258**	**2.021**	**52.723**	**848**	**913.683**	**10.592**
Other accounts receivable	—	—	—	—	144.783	—	—	—
90% forward contracts and not accrued forward contracts' losses	103.808	—	—	—	—	—	—	—
Other contingencies	—	—	—	—	—	—	—	—
TOTAL	**8.114.062**	**162.794**	**3.258**	**2.021**	**197.506**	**848**	**913.683**	**10.592**

(1) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value.

Risks of Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Demand Deposits Local Currency	Demand Deposits Foreign Currency (equiv. local currency)	Credits Local currency	Credits Foreign currency (equiv. local currency)	Contin-gencies	Other accounts receivable	TOTAL RISK	Computed guarantees	Constituted Allowances (1) Minimum %	Constituted Allowances (1) Amount	Risk net of allowances
1A Outstanding resident debtors or non-residents BBB+ or higher	28.921	1.223.936	19.910	1.763.074	125.709	320	3.161.870	—	0,0%	118	3.161.752
1B Non-resident debtors with very strong repayment capacity	—	13.397	—	476.152	71.423	35	561.007	—	Equal to or more than 0,2% and less than 0,5%	904	560.103
1C Non-resident debtors with strong repayment capacity	—	—	—	22.913	18.095	21	41.029	—	Equal to or more than 0,5% and less than 3%	55	40.974
2A Non-resident debtors with acceptable repayment capacity	—	—	—	5.272	—	16	5.288	—	Equal to or more than 3% and less than 7%	314	4.974
2B Non-resident debtors with potential repayment problems	—	497	—	15.756	13.504	—	29.757	—	Equal to or more than 7% and less than 20%	453	29.304
3 Non-resident debtors with impaired repayment capacity	—	—	—	—	—	—	—	—	Equal to or more than 20% and less than 50%	—	—
4 Non-resident debtors with highly compromised repayment capacity	—	—	—	—	—	—	—	—	Equal to or more than 50% and less than 100%	—	—
5 Irrecoverable	—	—	—	—	—	375	375	—	100%	388	(13)
SUBTOTAL (2)	**28.921**	**1.237.830**	**19.910**	**2.283.167**	**228.731**	**767**	**3.799.326**	—		**2.232**	**3.797.094**
Other accounts receivable	—	—	—	—	—	—	—	—		—	—
90% forward contracts and not accrued forward contracts' losses	—	—	179.207	392.839	—	—	572.046	—		—	572.046
Other contingencies	—	—	—	—	—	—	—	—		—	—
TOTAL	**28.921**	**1.237.830**	**199.117**	**2.676.006**	**228.731**	**767**	**4.371.372**	—		**2.232**	**4.369.140**

(1) In accordance with Rule 3.12, some transactions are not provisioned.

(2) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value. Securities issued by the Central Bank of Uruguay (detailed in Note 3.3) are not considered.

Notes to the Financial Statements

Risks Composition of Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Demand Deposits	Outstanding Credits	Overdue Credits	Contingencies	Other accounts receivable	Total Risk
1A Outstanding resident debtors or non-residents BBB+ or higher	1.252.857	1.782.984	—	125.709	320	3.161.870
1B Non-resident debtors with very strong repayment capacity	13.397	476.152	—	71.423	35	561.007
1C Non-resident debtors with strong repayment capacity	—	22.913	—	18.095	21	41.029
2A Non-resident debtors with acceptable repayment capacity	—	5.272	—	—	16	5.288
2B Non-resident debtors with potential repayment problems	497	15.756	—	13.504	—	29.757
3 Non-resident debtors with impaired repayment capacity	—	—	—	—	—	—
4 Non-resident debtors with highly compromised repayment capacity	—	—	—	—	—	—
5 Irrecoverable	—	—	—	—	375	375
SUBTOTAL (1)	**1.266.751**	**2.303.077**	**—**	**228.731**	**767**	**3.799.326**
Other accounts receivable	—	—	—	—	—	—
90% forward contracts and not accrued forward contracts' losses	—	572.046	—	—	—	572.046
TOTAL	**1.266.751**	**2.875.123**	**—**	**228.731**	**767**	**4.371.372**

(1) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value. Securities issued by the Central Bank of Uruguay (detailed in Note 3.3) are not considered.

3.7 Allowance for loan losses

The amounts recorded in allowance for loan losses as at March 31, 2011 of $ 190.705 thousand is as follows:

- $ 167.484 thousand deducted from the respective asset accounts;
- $ 11.003 thousand in the liability account "Allowances" (corresponding to contingencies accounts);
- $ 12.218 thousand in the liability account "Allowances" (corresponding to statistical reserve).

Notes to the Financial Statements

The following chart shows the movement in the asset account “Allowance for doubtful debtors”, and in the liability accounts “Allowance for contingency accounts”, “General Provisions” and “Statistical Reserve”.

In thousands of Uruguayan pesos

Allowances for:	Opening balances	Additions	Deductions	Write offs against debt	Other net movements	Final balances
Outstanding Credits—Financial Sector (1)	3.030	3.643	2.643	—	(2.210)	1.820
Outstanding Credits—Non Financial Sector	145.541	283.918	194.542	—	(72.120)	162.797
Other accounts receivable	397	2.008	1.414	—	(144)	847
Overdue loans—Financial Sector	—	—	—	—	—	—
Overdue loans—Non Financial Sector	342	851	614	—	(108)	471
Under management for recovery	59	307	189	—	50	227
Delinquent loans	1.132	2.300	1.574	—	(536)	1.322
Allowance for Contingency Accounts	14.511	20.471	14.382	—	(9.597)	11.003
General Provisions	—	—	—	—	—	—
Statistical Reserve	23.214	(88.098)	—	—	77.102	12.218
TOTAL	**188.226**	**225.400**	**215.358**	**—**	**(7.563)**	**190.705**

(1) Includes Demand Deposits.

3.8 Restructured problematic credit

As at March 31, 2011 the bank does not have restructured credits.

3.9 Investments

The composition of investments as at March 31, 2011 is as follows:

In thousands of Uruguayan pesos

Concept	Total
Assets received in exchange for loan claims	—
Idle premises	—
Participations in capital authorized by the Central Bank of Uruguay (*)	712
Foreign branches	—
Investments in shares	—
Other investments	439
Investment provision	—
TOTAL	**1.151**

(*) The balance of the account “Participations in capital authorized by the Central Bank of Uruguay” corresponds to the Bank’s share in the following company:

BEVSA: Thousand of Uruguayan Pesos 712 which represents 3.84% of the company’s capital. The investment is valued at cost, which does not exceed its equity value based on financial statements prepared in accordance with Uruguayan generally accepted accounting standards.

Notes to the Financial Statements

3.10 Fixed Assets

Fixed assets are accounted for their acquisition cost, restated for inflation applying the change in the Uruguayan Wholesale Price Index (WPI) until December 31, 2009 and afterwards applying the Consumer Price Index issued by the National Institute of Statistics, net of the corresponding accumulated depreciation. The net variation generated by the period's restatement (increase or reduction) is booked with credit or debit to the respective equity account.

Depreciations are computed on restated values as at the close of the period, using the following percentages set forth by the Central Bank of Uruguay:

	Annual depreciation rate
Buildings and safekeeping	2%
Furniture, fixtures and fittings	10%
Vehicles	20%
Computer equipment	20%

Reparation and maintenance costs are included in the results of the period.

Depreciation period for "Improvements on leased properties" does not exceed the remaining lease period.

In compliance with Communication 2004/021, the Bank compared the book value of its premises with their market value as at the close of 2010, booking them by the latter in those cases in which the valuations were lower than 90% of the revalued cost, net of depreciations.

We are including below the breakdown of the corresponding balances:

In thousands of Uruguayan pesos

Concept	Cost restated for inflation	Annual depreciation rate (%)	Accumulated depreciation	Depreciation over the period	Net Value	Market Value	Book Value
Owned Fixed Assets	**344.206**		**184.321**	**12.300**	**159.885**	**63.401**	**159.885**
Premises—Lands Premises—Buildings	88.074	2%	25.985	680	62.089	63.401	62.089
Furniture, fixtures and fittings	69.160	10%	50.276	2.290	18.884		18.884
Computer equipment	50.255	20%	42.416	1.445	7.839		7.839
Safekeeping boxes	4.776	2%	2.296	47	2.480		2.480
Vehicles	6.595	20%	3.882	655	2.713		2.713
Improvements on leased properties	125.346		59.466	7.183	65.880		65.880
Taken in financial leasing	**66.712**		**26.721**	**3.105**	**39.989**		**39.989**
Computer equipment	19.316	20%	13.473	802	5.842		5.842
Vehicles	—	—	—	—	—		—
Other	47.396	10%	13.248	2.303	34.147		34.147
Buildings under construction					**—**		**—**
TOTAL	**410.918**		**211.042**	**15.405**	**199.874**	**63.401**	**199.874**

Notes to the Financial Statements

3.11 Intangible assets

The acquisition costs of application software are amortized during 3 years from the initial recognition date.

We are including below the breakdown of the corresponding balances:

In thousands of Uruguayan pesos

Concept	Net Opening Balance	Increases	Amortization over the period	Net Ending Balance
Application software	32.799	1.394	8.220	25.973
Authorized by the Central Bank of Uruguay	—	—	—	—
TOTAL	**32.799**	**1.394**	**8.220**	**25.973**

3.12 Subordinated Debentures

The bank classified debentures subordinated as other liabilities, pursuant to authorization of the Central Bank of Uruguay. Their balance is taken into consideration in order to determine the minimum net equity requirements under Central Bank regulations, as the subordinated debentures comply with the obligatory requirements established by Article 121 of the Compilation of Central Bank Regulations. These requirements are: the debentures' term must exceed five years, the debentures may not be paid in advance without previous consent from the Central Bank of Uruguay and the debentures may not be used as guarantees.

It is clearly stated that, in the case of the bank's liquidation, the holders renounce to their participation rights as creditors and will have preference rights only with respect to the shareholders and in equal conditions to other holders of subordinated loans, if they exist.

On May 27, 2008, after receiving the Central Bank of Uruguay's authorization N° 157/2008/0370 dated April 21, 2008, the Bank issued a subordinated debenture for US$ 7.000 thousand (equivalent to Uruguayan Pesos 134.351 thousand) with HSBC—México S.A. Institución de Banca Múltiple—Grupo Financiero HSBC with maturity date 5/27/2018.

On December 31, 2009, after receiving the Central Bank of Uruguay's authorization N° 157/2009/3563 dated December 30, 2009, the Bank contracted a subordinated debenture for US$ 5.000 thousand (equivalent to Uruguayan Pesos 95.965 thousand) with HSBC—Chile with maturity date 12/30/2019.

On December 10, 2010, after receiving the Central Bank of Uruguay's authorization N° 157/2010/2069 dated December 10, 2010, the Bank contracted a subordinated debenture for US$ 5.000 thousand (equivalent to Uruguayan Pesos 95.965 thousand) with HSBC—Chile with maturity date 12/17/2020.

As at March 31, 2011, the subordinated loans' principal is the following:

In thousands of Uruguayan pesos

Expiration	Local Currency	Foreign currency (equiv. local currency)	TOTAL
Less than 12 months	—	—	—
Between 12 and 24 months	—	—	—
Between 24 and 36 months	—	—	—
Between 36 and 48 months	—	—	—
Over 48 months	—	326.281	326.281
TOTAL	**—**	**326.281**	**326.281**

Notes to the Financial Statements

3.13 Guarantees granted on liabilities

As at March 31, 2011 there are no guarantees granted on liabilities.

3.14 Distribution of loans and financial intermediation obligations by their maturity based on the remaining period

The Bank's loans and obligations as at March 31, 2011, are exposed in the following chart classified by their maturity calculated as the remaining period at the end of March:

In thousands of Uruguayan pesos

	Amounts by maturity terms:			
Concept	**Less than 1 year**	**1 to 3 years**	**More than 3 years**	**Total**
Outstanding Credits—Financial Sector (1)	3.500.237	6.032	—	3.506.269
Outstanding Credits—Non Financial Sector (2)	6.775.439	796.816	426.465	7.998.720
Outstanding Credits—Forward contracts	750.948	—	—	750.948
Total Oustanding Credits	**11.026.624**	**802.848**	**426.465**	**12.255.937**
Obligations—Financial Sector (2)	382.712	1.943	326.281	710.936
Obligations—Non Financial Sector (2)	13.566.055	44.188	37.881	13.648.124
Obligations—Forward contracts	737.724	—	—	737.724
Total Obligations	**14.686.491**	**46.131**	**364.162**	**15.096.784**

(1) Includes demand deposits. Forward contracts, and other accounts receivable are not included.

(2) Forward contracts and other accounts receivable or payable are not included.

Credits and liabilities in installments are distributed among the three maturity terms computing in each term the balance of the installments that effectively mature in such period.

3.15 Concentration of the Credit risks to the Non Financial Sector

We detail below the Non Financial Sector's Loan portfolio's concentration as at March 31, 2011, including contingent risks. As established in Article 86 of the Compilation of Central Bank Regulations, the definition of risk includes that of an individual or legal entity together with that of the economic group it belongs to.

In thousands of Uruguayan pesos

	Amounts before allowances (net of suspended financial interests)							
	Outstanding	**%**	**Overdue**	**%**	**Contingent**	**%**	**Total**	**%**
10 main risks	1.982.451	24%	—	0%	965	0%	1.983.416	22%
50 main risks	4.778.650	59%	—	0%	283.835	31%	5.062.485	56%
100 main risks	6.135.508	76%	—	0%	465.131	51%	6.600.639	73%
Total portfolio	**8.114.062**	**100%**	**3.258**	**100%**	**913.683**	**100%**	**9.031.003**	**100%**

Notes to the Financial Statements

3.16 Concentration of the Credit risks to the Non Financial Sector by economic activity

We detail below the Non Financial Sector's Loan portfolio's concentration classified by economic activity, including contingent risks, as at March 31, 2011.

In thousands of Uruguayan pesos

	Amounts before allowances				
Loan destination	**Outstanding**	**Overdue**	**Other accounts receivable**	**Contingent**	**Total**
Public Sector (1)	—	—	—	—	—
Agriculture	1.625.382	—	5.409	5.893	1.636.684
Industry	2.540.685	3	35	214.082	2.754.805
Construction	463.996	1	—	138.406	602.403
Commerce	1.253.087	1	1.223	231.926	1.486.237
Hotels and Restaurants	5.987	14	—	283	6.284
Transportation, warehouse and communications	287.218	—	—	13.290	300.508
Financial services	81.204	—	72	3.110	84.386
Other services	1.227.683	1.090	32.775	82.186	1.343.734
Families	431.437	1.915	481	93.263	527.096
Credits to Residents' Total	**7.916.679**	**3.024**	**39.995**	**782.439**	**8.742.137**
Non residents	93.575	234	12.728	131.244	237.781
Credits to Non-Fin. Sector's Total (2)	**8.010.254**	**3.258**	**52.723**	**913.683**	**8.979.918**
Other accounts receivable	—	—	144.783	—	144.783
90% of forward contracts and forward contracts' losses not accrued	103.808	—	—	—	103.808
Other contingencies	—	—	—	—	—
TOTAL	**8.114.062**	**3.258**	**197.506**	**913.683**	**9.228.509**

(1) The Public Sector includes all credits maintained with state owned companies or with the Central Administration, independently from their sector of activity.

(2) It corresponds to all accounts included in the Credit Risk Information.

3.17 Non Financial Sector deposits' concentration

We detail below the non financial sector deposits' concentration as at March 31, 2011.

In thousands of Uruguayan pesos

	Deposits in local and foreign currency (includes interest accrued)			
	Residents		Non Residents	
	Amount	%	Amount	%
10 main depositors	1.288.019	16%	741.472	13%
50 main depositors	2.804.916	36%	1.472.464	26%
100 main depositors	3.637.833	46%	1.982.593	35%
Total deposits	**7.889.655**	**100%**	**5.605.870**	**100%**

Additionally, the account Deposits of the Non Financial Sector, includes $ 152.599 thousand corresponding to other obligations with the Non Financial Sector.

3.18 Classification by type of deposit

The non financial sector deposits' breakdown by type is:

In thousands of Uruguayan pesos

	Residents			Three-	Non Residents			Three-	Total	
Type of deposit	**Local Currency**	**Foreign Currency**	**Total residents**	**month variation**	**Local Currency**	**Foreign Currency**	**Total non residents**	**month variation**	**Amount**	**%**
Current accounts	614.523	2.521.490	3.136.013	190.986	6.142	130.276	136.418	(7.507)	3.272.431	24%
Demand deposits	207.042	2.861.716	3.068.758	370.091	13.640	4.913.262	4.926.902	(348.805)	7.995.660	59%
Savings accounts	—	—	—	—	—	—	—	—	—	0%
Time deposits	708.484	285.922	994.406	3.608	11.789	297.937	309.726	(32.720)	1.304.132	10%
Other deposits	279.591	404.911	684.502	(208.926)	—	231.995	231.995	(53.539)	916.497	7%
Accrued interest	3.406	2.570	5.976	(2.315)	186	643	829	(4.492)	6.805	0%
Total deposits NFS	**1.813.046**	**6.076.609**	**7.889.655**	**353.444**	**31.757**	**5.574.113**	**5.605.870**	**(447.063)**	**13.495.525**	**100%**

Additionally, the account Deposits of the Non Financial Sector, includes $ 152.599 thousand corresponding to other obligations with the Non Financial Sector.

3.19 Distribution of loans and obligations from financial intermediation with non residents by country

We detail below the distribution of credits and obligations arising from financial intermediation with non residents by country of residence as at March 31, 2011.

In thousands of Uruguayan pesos

	Capital and accrued interests (net of suspended interests)					
Concept	**Demand Deposits**	**Credits Financial Sector (1)**	**Credits Non Financial Sector (1)**	**Outstanding Credits Forward Contracts**	**Other accounts receivable**	**Total**
Argentina	497	5.413	75.363	—	302	81.575
Belgium	4.837	—	16	—	22.740	27.593
Brazil	—	13.277	1.712	—	35	15.024
Canada	13.397	—	—	—	—	13.397
U.S.A.	31.471	880.044	24	41.874	412	953.825
Cayman Island	—	546.956	—	—	—	546.956
United Kingdom	34.510	70.861	85	1.774	7.209	114.439
Mexico	—	171.523	—	—	—	171.523
Other	40.912	53.019	16.608	—	14.687	125.226
Subtotal (2)	**125.624**	**1.741.093**	**93.808**	**43.648**	**45.385**	**2.049.558**
Other accounts receivable	—	—	—	—	76	76
90% forward contracts and forward contracts losses not accrued	—	—	—	392.838	—	392.838
Other contingencies	—	—	—	—	—	—
TOTAL	**125.624**	**1.741.093**	**93.808**	**436.486**	**45.461**	**2.442.472**

(1) Forward contracts and other accounts receivable are not included.

(2) It corresponds only to accounts included in the Credit Risk Information.

Concept	Capital and accrued interests Obligations Financial Sector (1)	Obligations Non Financial Sector (1)	Forward Contracts	Total
Argentina	1.244	3.898.817	—	3.900.061
Brazil	16.848	235.396	—	252.244
U.S.A.	13.896	26.059	422.994	462.949
Mexico	134.860	13.930	—	148.790
China	32.189	4.473	—	36.662
Canada	—	16.299	—	16.299
Chile	195.015	33.993	—	229.008
United Kingdom	1.829	62.065	17.694	81.588
Other	101.445	1.325.416	—	1.426.861
TOTAL	**497.326**	**5.616.448**	**440.688**	**6.554.462**

(1) Forward contracts are not included.

3.20 Transactions with related parties

Related parties are individuals or companies, local or foreign, which form an economic group with the Bank, in accordance with the definition given by article 64, article 86 and article 399.1 of the Compilation of Central Bank Regulations.

At the close of the period the balances with related parties and the results originated by transactions with them were as follows:

Thousands $ (local currency and foreign currency equiv. in local currency)	Placements (1)	Securities	Obligations	Results
Financial Sector				
Local companies	—	—	—	—
Head Office, foreign branches and subsidiaries of Head Office	—	—	—	—
Controlling entity, foreign branches and subsidiaries of the controlling entity	—	—	—	—
Foreign branches	—	—	—	—
Foreign subsidiaries	—	—	—	—
Related banks and other foreign institutions	1.172.640	—	849.807	(61.273)
Non Financial Sector				
Pension fund managers	—	—	—	—
Investment funds	—	—	—	—
Credit administrators	—	—	—	—
Others—individuals	3.755	—	1.650	20
Others—legal entities	—	—	—	—
Net result with related parties				**$(61.253)**

(1) Includes demand deposits.

3.21 Other relevant events

There is no other significant event to disclose.

Note 4—Shareholders' equity

4.1 Capital Adequacy

The Central Bank regulations require the maintenance of a Net Equity Responsibility comprised of the "Essential Net Equity" and the "Complementary Net Equity", with the condition that the "Complementary Net Equity" should not exceed the "Essential Net Equity".

The Net Equity Responsibility should not be lower than the highest of three parameters, as established by Article 14 of the Compilation of Central Bank Regulations (C.C.B.R.).

These three parameters are:

- Capital requirement for credit and market risks.
- Basic Equity Responsibility, determined by article 15 of the Compilation of Central Bank Regulations.
- 4% of the total assets and contingencies, net of allowances.

Notes to the Financial Statements

As at March 31, 2011, the net equity responsibility (essential net equity plus complementary net equity) amounts to $ 1.298.194 thousand and the Minimum Net Equity Responsibility required by the Central Bank of Uruguay amounts to $ 938.834 thousand, equivalent to the capital requirement for credit and market risks, according to Articles 14.1 and 14.2 of the Compilation of Central Bank Regulations (C.C.B.R.).

In thousands of Uruguayan pesos

Concept	Local Currency
Essential Net Equity (E.N.E.)	**971.913**
– Common stock	317.143
– Capital contribution	1.168.980
– Adjustments to shareholders' equity	147.263
– Reserves	—
– Retained earnings	(635.061)
– Cooperative shares with interest (regulated by law N° 17.613)	—
– Credits with Head Office and subsidiaries	—
– Special investments and intangible assets	(26.412)
Complementary Net Equity (C.N.E.)	**326.281**
– Subordinated loans (up to 50% C.N.E.)	326.281
– General allowances (up to 1,25% assets and contingencies weighed up by credit risk)	—
Net Equity Responsibility (N.E.R. = E.N.E. + C.N.E.)	**1.298.194**
Subordinated loans admitted to hedge market risk (S.L.M.R)	**—**
– Subordinated loans admitted to hedge market risk (up to the maximum between 250% of the E.N.E. assigned to cover said risk and the difference between E.N.E. and C.N.E)	—
Minimum Net Equity Responsibility (M.N.E.R.)	**938.834**
– Capital requirement for credit risk (art. 14.1 C.C.B.R.)	826.568
– Capital requirement for market risk (art. 14.2 C.C.B.R.)	112.266
– 4% of assets and contingent accounts (art. 14 C.C.B.R.)	671.359
– Basic Equity Responsibility (art. 15 C.C.B.R.)	285.220
(N.E.R.+S.L.M.R) / M.N.E.R.	**1,38**
(N.E.R. +S.L.M.R) / (Assets weighted according to their risk+12,5 * Market risk)	**0,11**

Note 5—Information regarding results

5.1 Recognition of gains and losses

Income and expenses are recognized on the basis of the accrual principle. Nonetheless, in compliance with Rule 3.3 of the Accounting Standards and Chart of Accounts for Financial Institutions, financial products may not be recognized as profit—unless received in cash—when the corresponding debtors are classified as "Debtors with compromised repayment capacity", "Debtors with highly compromised repayment capacity" or "Irrecoverable Debtors". When, in accordance with regulations in force, a transaction must be reclassified to any of the categories mentioned above, financial products recognized as profit during the period and not effectively collected should be adjusted with credit to the accounts "Financial products in suspense".

Loans include $ 252.060 thousand net of allowances ($ 302.833 thousand before allowances) which do not accrue interest in compliance with Central Bank regulations.

5.2 Result from services

In thousands of Uruguayan pesos

	Local Currency	Foreign Currency (equiv. Local Currency)
COMMISSION INCOME	**6.036**	**42.804**
Guarantees granted	706	876
Credit Cards	1.061	1.959
Foreign trade	—	9.365
Other commissions income	4.269	30.604
COMMISSION EXPENSES	**5.524**	**5.310**
Commissions paid to foreign banks	—	—
Brokerage commissions	251	490
Rural business	—	—
Other commission expenses	5.273	4.820

Note 6—Taxes

We detail below the results corresponding to the three-month period ended March 31, 2011 for each of the taxes levied on the company's activities.

The Income Tax is calculated using the balance sheet liability method.

In thousands of Uruguayan pesos

Concept	Inputted to result of the period
Income Tax	19
Capital Tax	3.950
V.A.T.	—
Financial System control Tax	1.560
Other	245
TOTAL	**5.774**

Note 7—Operations with derivatives

The Bank operates with futures, forwards and swaps. The futures are conducted in well known stock exchange and are standardized regarding maturity date and currency. The forwards are customized regarding maturity date and balance at counterparties' position. The swaps are also customized according to the clients' deposits conditions. The accounting policies and the recognition of results are in accordance with accounting standards established in the Accounting Standards and Chart of Accounts for Financial Institutions issued by the Central Bank of Uruguay.

The bank enters into derivatives at clients' request. There is no market risk associated with these transactions because they are completely matched to the client request. The market risk is on the client side, so credit risk analysis of the client is performed and a collateral is requested and the position is monitored on a daily basis (in other words the collateral is compared with the variation in the price of the futures contract). As at March 31, 2011 there are no transactions of this type.

Forwards and swaps done by the bank are customized transactions with specific amounts and maturities, in order to mitigate the price risk associated with a particular active or passive position. With the objective of make a perfect matching that cancels the price risk on a particular currency or instrument, the future operation is performed with the same amount and maturity of the assets or liabilities that generates it. The Bank can also perform forward operations for and on behalf of client, that is, the open operation with the client and closed with the counterparty. Client's credit risk is also evaluated with the appropriate monitoring. The bank is not exposed to price risk.

Our institutions controls and monitors the risk associated with these operations, based on the risk involved. Operations for and on behalf of customers are monitored with definitions of risk, authorization and upgrade of lines for each client, with a daily monitoring of exposure, based on fluctuations in the instrument price. According to the bank's policies, a collateral is requested to cover the whole transaction (Plain Vanilla).

Hedge positions are authorized by Treasury and control reports are issued on a daily basis. Also it sets limits on position by currency and PVBP (Present Value Basic Point) limits in the case of interest rate risks.

As at March 31, 2011 forward transactions amount to $ 750.281 thousand assets and $ 737.724 thousand liabilities, and includes operations "REPO" with the Central Bank of Uruguay in which the Bank sells to the Central Bank Uruguayan Government Securities denominated in Uruguayan Pesos with a buy-back condition. These operations are performed according to the Uruguayan Pesos' assets and liabilities management framework.

The operations with derivatives as at March 31, 2011 include the following:

	Assets		Liabilities	
Type	**Amount of transactions**	**Balance**	**Amount of transactions**	**Balance**
By client request	8	114.675	8	115.531
Operations with Central Bank of Uruguay	—	—	—	—
Trading Operations	8	436.501	8	440.812
		551.176		556.343
Operations "REPO" with Central Bank of Uruguay	7	199.105	3	181.381
		199.105		181.381
Total		**750.281**		**737.724**

Note 8—Integral Risk Management System

As regards our Bank's exposure to the market risk, in terms of either prices or interest rates, we have followed the corporate guidelines.

Positions are determined on daily basis per currency and line of business, subject to the predetermined maximum daily and monthly exposure ceilings. All additions and deletions to our position and all losses and profits deriving from the various transactions are daily confirmed against the accounting entries and, at least once a month, against the Bank's ledger.

Items are checked individually, based on the predetermined ceilings for each currency and instrument in which the Bank has a position of its own.

In addition, the market risk is subject to a mix of monitoring measurements. On the one hand, through a system used by the Group, we compute the VAR (Value at Risk) and, on the other, we compute the PVBP (Present Value Basic Point), *i.e.,* the loss deriving from a fall in the price of net assets upon the variation of one basic point in the interest rate.

Additional information on our integral risk management system is included in the (unaudited information) Annual Corporate Governance Report required under Section 36.3 of the Compilation of Central Bank available in our website (www.hsbc.com.uy).

Note 9—Trusts ("Fideicomisos")

During the period the bank has not transferred credits to financial trusts.

Note 10—Subsequent events

No subsequent events took place that should be informed following the date of the financial statements.

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HSBC Bank (Uruguay) S.A.

BALANCE SHEET AS OF DECEMBER 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
ASSETS	**4.359.449**	**17.023.534**	**21.382.983**
I) Cash and cash equivalents	**514.985**	**1.287.421**	**1.802.406**
1.- Cash and cash equivalents	514.985	1.183.973	1.698.958
1.1.- Cash	237.098	410.936	648.034
1.2.- Central Bank of Uruguay	185.192	606.865	792.057
1.3.- Other financial institutions in Uruguay	5.391	36.427	41.818
1.4.- Clearing documents	87.304	129.745	217.049
2.- Other foreign financial institutions	—	103.448	103.448
II) Securities	**229.335**	**1.152.897**	**1.382.232**
1.- Securities held for trading	83.012	148.299	231.311
1.1.- Uruguayan	83.012	148.299	231.311
1.2.- Foreign	—	—	—
2.- Securities available for sale	146.323	1.004.598	1.150.921
2.1.- Uruguayan	146.323	758.678	905.001
2.2.- Foreign	—	245.920	245.920
3.- Securities held to maturity	—	—	—
3.1.- Uruguayan	—	—	—
3.2.- Foreign	—	—	—
III) Credits (net of allowances)	**3.415.231**	**14.582.761**	**17.997.992**
1.- Outstanding credits	2.219.412	13.803.480	16.022.892
1.1.- Financial sector	842.409	3.978.294	4.820.703
1.1.1.- Central Bank of Uruguay	842.409	3.041.919	3.884.328
1.1.2.- Other financial institutions in Uruguay	—	38.343	38.343
1.1.3.- Other foreign financial institutions	—	487.955	487.955
1.1.4.- Head office, branches and related institutions	—	410.077	410.077
1.2.- Non financial sector	1.377.003	9.825.186	11.202.189
1.2.1.- Uruguayan public sector	18.765	394.569	413.334
1.2.2.- Non resident public sector	—	—	—
1.2.3.- Resident private sector	1.353.167	9.329.094	10.682.261
1.2.4- Non resident private sector	5.071	101.523	106.594
2.- Forward contracts	1.163.749	712.441	1.876.190
2.1.- Residents	1.132.262	247.248	1.379.510
2.2.- Non residents	31.487	465.193	496.680
3.- Overdue	652	5.489	6.141
3.1.- Financial sector	—	—	—
3.2.- Non financial sector	652	5.489	6.141
3.2.1.- Uruguayan public sector	—	—	—
3.2.2.- Non resident public sector	—	—	—
3.2.3.- Resident private sector	652	5.471	6.123
3.2.3.1.- Overdue loans	423	4.722	5.145
3.2.3.2.- Under management for recovery	198	249	447
3.2.3.3.- Delinquent loans	31	500	531
3.2.4.- Non resident private sector	—	18	18
3.2.4.1.- Overdue loans	—	—	—
3.2.4.2.- Under management for recovery	—	6	6
3.2.4.3.- Delinquent loans	—	12	12
4.- Other accounts receivable	31.418	61.351	92.769

HSBC Bank (Uruguay) S.A.

BALANCE SHEET AS OF DECEMBER 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
IV) Investments	**712**	**455**	**1.167**
1.- Uruguayan	712	455	1.167
2.- Foreign	—	—	—
V) Fixed assets	**190.838**	**—**	**190.838**
VI) Intangible assets	**8.348**	**—**	**8.348**
LIABILITIES	**4.161.070**	**16.045.108**	**20.206.178**
I) Obligations	**4.161.070**	**16.045.108**	**20.206.178**
1.- From financial intermediation	2.718.178	15.390.864	18.109.042
1.1.- Financial Sector	209.433	549.778	759.211
1.1.1.- Central Bank of Uruguay	—	5	5
1.1.2.- Other financial institutions in Uruguay	206.049	13.284	219.333
1.1.3.- Other foreign financial institutions	—	47.709	47.709
1.1.4.- Head Office, branches and related institutions	3.384	488.780	492.164
1.2.- Non financial sector	2.508.745	14.841.086	17.349.831
1.2.1.- Uruguayan public sector	—	—	—
1.2.2.- Resident private sector	2.415.999	8.311.477	10.727.476
1.2.3.- Non residents	92.746	6.529.609	6.622.355
2.- Forward contracts	1.234.101	536.964	1.771.065
2.1.- Residents	1.194.796	76.603	1.271.399
2.2.- Non residents	39.305	460.361	499.666
3.- Other accounts payable	48.475	12.403	60.878
4.- Accrued Expenses	158.389	57.989	216.378
5.- Allowances	1.927	46.888	48.815
SHAREHOLDERS' EQUITY	**1.176.805**	**—**	**1.176.805**
1.- Common Stock	1.686.883	—	1.686.883
2.- Adjustments to shareholders' equity	160.461	—	160.461
3.- Reserves	—	—	—
4.- Retained deficit	(522.334)	—	(522.334)
5.- Current year results	(148.205)	—	(148.205)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5.337.875**	**16.045.108**	**21.382.983**
CONTINGENT ACCOUNTS	**258.852**	**1.060.996**	**1.319.848**
1.- Credit lines agreed	114.576	346.432	461.008
1.1.- Credit cards	77.479	196.678	274.157
1.2.- Current accounts	37.067	31.568	68.635
1.3.- Others	30	118.186	118.216
2.- Guarantees granted	140.553	236.718	377.271
3.- Foreign trade	3.723	477.846	481.569
4.- Options	—	—	—
5.- Other contingencies	—	—	—
MEMORANDUM ACCOUNTS	**2.810.357**	**43.956.784**	**46.767.141**
1.- Guarantees received	415.417	20.575.201	20.990.618
2.- Custody of goods and securities	2.392.746	8.355.115	10.747.861
3.- Foreign trade	—	4.981.966	4.981.966
4.- Other memorandum accounts	2.194	10.044.502	10.046.696

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial income before exchange differences and provisions	**295.083**	**561.496**	**856.579**
1.- Outstanding credits from financial intermediation	**243.138**	**397.622**	**640.760**
1.1.- Financial sector	113.990	45.177	159.167
1.1.1.- Uruguayan financial institutions	113.975	26.587	140.562
1.1.2.- Foreign financial institutions	15	18.590	18.605
1.2.- Non financial sector	129.148	352.445	481.593
1.2.1.- Uruguayan public sector	2.404	12.052	14.456
1.2.2.- Non resident public sector	—	—	—
1.2.3.- Resident private Sector	126.610	336.988	463.598
1.2.4.- Non resident private sector	134	3.405	3.539
2.- Lease, readjustments and quotation differences of securities	**45.647**	**163.581**	**209.228**
2.1.- Securities held for trading	22.458	107.628	130.086
2.1.1.- Uruguayan	22.458	101.576	124.034
2.1.2.- Foreign	—	6.052	6.052
2.2.- Securities available for sale	23.189	55.953	79.142
2.2.1.- Uruguayan	23.189	42.834	66.023
2.2.2.- Foreign	—	13.119	13.119
2.3.- Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Obligations readjustment	**—**	**—**	**—**
3.1.- Financial sector	—	—	—
3.2.- Non financial sector	—	—	—
4.- Forward contracts	**6.113**	**—**	**6.113**
4.1.- Financial sector	3.322	—	3.322
4.1.1.- Uruguayan	728	—	728
4.1.2.- Foreign	2.594	—	2.594
4.2.- Non financial sector	2.791	—	2.791
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	593	—	593
4.2.3.- Non residents	2.198	—	2.198
5.- Overdue loans	**185**	**293**	**478**
5.1.- Financial sector	—	—	—
5.2.- Non financial sector	185	293	478
5.2.1.- Uruguayan public sector	—	—	—
5.2.2.- Non resident public sector	—	—	—
5.2.3.- Resident private sector	185	293	478
5.2.3.1.- Overdue loans	100	250	350
5.2.3.2.- Under management for recovery	58	17	75
5.2.3.3.- Delinquent loans	27	26	53
5.2.4.- Non resident private sector	—	—	—
5.2.4.1.- Overdue loans	—	—	—
5.2.4.2.- Under management for recovery	—	—	—
5.2.4.3.- Delinquent loans	—	—	—
5.3.- Debtors refinanced under law 16.243	—	—	—
5.4.- Recovery of doubtful debtors	—	—	—

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial losses before exchange differences and provisions	**(172.122)**	**(114.520)**	**(286.642)**
1.- Obligations	**(129.012)**	**(33.646)**	**(162.658)**
1.1.- Financial sector	(27.578)	(18.414)	(45.992)
1.1.1.- Uruguayan financial institutions	(26.712)	(327)	(27.039)
1.1.2.- Foreign financial institutions	(866)	(18.087)	(18.953)
1.2.- Non financial sector	(101.434)	(15.232)	(116.666)
1.2.1.- Uruguayan public sector	(7.892)	(4)	(7.896)
1.2.2.- Resident private sector	(91.180)	(8.150)	(99.330)
1.2.3.- Non residents	(2.362)	(7.078)	(9.440)
2.- Readjustments and quotation differences of securities	**(28.523)**	**(80.874)**	**(109.397)**
2.1. Securities held for trading	(28.523)	(80.874)	(109.397)
2.1.1.- Uruguayan	(28.523)	(80.200)	(108.723)
2.1.2.- Foreign	—	(674)	(674)
2.2 Securities available for sale	—	—	—
2.2.1.- Uruguayan	—	—	—
2.2.2.- Foreign	—	—	—
2.3. Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Credit readjustment	**—**	**—**	**—**
3.1.- Outstanding	—	—	—
3.2.- Overdue	—	—	—
4.- Forward contracts	**(14.587)**	**—**	**(14.587)**
4.1.- Financial sector	(7.283)	—	(7.283)
4.1.1.- Uruguayan	(56)	—	(56)
4.1.2.- Foreign	(7.227)	—	(7.227)
4.2.- Non financial sector	(7.304)	—	(7.304)
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	(7.304)	—	(7.304)
4.2.3.- Non residents	—	—	—
I) Financial margin before exchange differences and provisions	**122.961**	**446.976**	**569.937**
Foreign exchange differences from assets and liabilities valuation	**(10.016)**	**—**	**(10.016)**
1.- Income	12.566.864	—	12.566.864
2.- Losses	(12.576.880)	—	(12.576.880)
II) Financial margin before provisions	**112.945**	**446.976**	**559.921**
PROVISIONS	**7.400**	**(61.485)**	**(54.085)**
Decrease of provisions and credit revaluation	**280.399**	**768.242**	**1.048.641**
1.- Decrease of provisions	76.672	768.242	844.914
1.1.- Residents	76.269	757.159	833.428
1.2.- Non residents	403	11.083	11.486
1.3.- General provisions	—	—	—
2.- Credit revaluation	203.727	—	203.727

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Increase of provisions and credit depreciation	**(272.999)**	**(829.727)**	**(1.102.726)**
1.- Provisions	(92.685)	(829.727)	(922.412)
1.1.- Residents	(92.375)	(820.563)	(912.938)
1.2.- Non residents	(310)	(9.164)	(9.474)
1.3.- General provisions	—	—	—
2.- Credits depreciation	(180.314)	—	(180.314)
III) Financial margin	**120.345**	**385.491**	**505.836**
COMMISSION INCOME	**18.425**	**178.288**	**196.713**
1.- Residents	16.202	113.245	129.447
2.- Non residents	2.223	65.043	67.266
COMMISSION EXPENSES	**(26.354)**	**(27.281)**	**(53.635)**
1.- Residents	(26.354)	(7.784)	(34.138)
2.- Non residents	—	(19.497)	(19.497)
Commission margin	**(7.929)**	**151.007**	**143.078**
OTHER RESULTS FROM EXCHANGE DIFFERENCES	**190.410**	**(2.773)**	**187.637**
1.- From operations	188.014	(2.773)	185.241
1.1.- Income	293.924	53.820	347.744
1.2.- Losses	(105.910)	(56.593)	(162.503)
2.- From valuation of other assets and liabilities in foreign currency	2.396	—	2.396
2.1.- Income	67.971	—	67.971
2.2.- Losses	(65.575)	—	(65.575)
IV) Gross result	**302.826**	**533.725**	**836.551**
OPERATING INCOME	**65**	**164**	**229**
1.- Income from other accounts receivable	25	27	52
1.1.- Residents	25	27	52
1.2.- Non residents	—	—	—
2.- Investment in local shares	—	—	—
3.- Foreign branches	—	—	—
4.- Leases	—	—	—
5.- Other operating income	40	137	177
5.1.- Residents	40	137	177
5.2.- Non residents	—	—	—
6.- Income from accounting restatements	—	—	—
7.- Income from inflation adjustment	—	—	—
OPERATING LOSSES	**(745.093)**	**(239.599)**	**(984.692)**
1.- Personnel remunerations and social charges	(543.690)	(29.775)	(573.465)
2.- Insurance expenses	(3.145)	(3.271)	(6.416)
3.- Depreciations	(52.027)	—	(52.027)
4.- Taxes and duties	(36.085)	—	(36.085)
5.- Other operating expenses	(110.017)	(206.547)	(316.564)
6.- Losses from other operations	(129)	(6)	(135)
7.- Investments in local shares	—	—	—
8.- Foreign branches	—	—	—
9.- Losses from accounting restatements	—	—	—
10.- Losses from inflation adjustments	—	—	—
11.- Other accounts payable	—	—	—

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2011
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
V) Exploitation margin	**(442.202)**	**294.290**	**(147.912)**
EXTRAORDINARY RESULTS	**(45)**	**(172)**	**(217)**
1.- Extraordinary income	5	126	131
2.- Extraordinary losses	(50)	(298)	(348)
PREVIOUS YEAR RESULTS	**—**	**—**	**—**
1.- Income	—	—	—
2.- Losses	—	—	—
VI) RESULTS FOR CURRENT YEAR BEFORE INCOME TAX	**(442.247)**	**294.118**	**(148.129)**
Income Tax	(76)	—	(76)
VII) Results for current year after income tax	**(442.323)**	**294.118**	**(148.205)**

HSBC Bank (Uruguay) S.A.

Statement of Changes in Shareholders' equity
for the year ended December 31, 2011
In Thousands of Uruguayan Pesos

Changes over the year	COMMON STOCK	CAPITAL CONTRIBUTION	ADJUSTMENTS TO SHARE-HOLDERS' EQUITY	RESERVES	RETAINED EARNINGS	TOTAL SHARE-HOLDERS' EQUITY
BALANCE AS OF 12.31.10	**317.143**	**773.980**	**134.257**	**—**	**(522.334)**	**703.046**
Contributed capital	—	595.760	—	—	—	595.760
Profit allocation	—	—	—	—	—	—
Advanced payment of results	—	—	—	—	—	—
Restatements:	—	—	—	—	—	—
—Revaluation of fixed assets	—	—	16.662	—	—	16.662
—Inflation adjustment	—	—	—	—	—	—
—Variation in the fair value of securities available for sale	—	—	9.542	—	—	9.542
—Accounting restatements	—	—	—	—	—	—
—Variation in the fair value of investments due to equity adjustments in controlled companies and branches	—	—	—	—	—	—
Results for fiscal year	—	—	—	—	(148.205)	(148.205)
BALANCE AS OF 12.31.11	**317.143**	**1.369.740**	**160.461**	**—**	**(670.539)**	**1.176.805**

HSBC Bank (Uruguay) S.A.

Statement of Cash Flows
for the year ended December 31, 2011
In Thousands of Uruguayan Pesos

	12.31.11
CASH FLOWS FROM OPERATING ACTIVITIES	
Gain (loss) for the year	**(148.205)**
Adjustments that reconcile the net profit of the year with the net cash provided by operating activities:	**157.053**
Depreciation of fixed assets	24.665
Amortization of intangible assets	27.362
Effects of changes in monetary correction and foreign currency translation	7.620
Difference in quotations and value adjustments for securities held for trading and securities available for sale	10.043
Adjustment to cost of securities held to maturity	—
Securities allowances	—
Securities income accrued not received	(7.825)
Accrued expenses	51.871
Accrued interest income not received	(29.575)
Allowance for doubtful debtors	77.498
Accrued income not received	(98)
Accrued interest expense not paid	(4.412)
Not accrued income received	—
Not accrued interest paid	—
Result from sales of fixed assets	(96)
Result from booking premises at their market value	—
(INCREASE) DECREASE IN OPERATING ASSETS	**(5.575.759)**
Securities (held for trading and available for sale)	487.524
Credits—Financial Sector (*)	(2.483.477)
Credits—Non Financial Sector (*)	(3.575.271)
Other assets	(4.535)
INCREASE (DECREASE) IN OPERATING LIABILITIES	**3.853.018**
Obligations—Financial Sector (**)	203.784
Obligations—Non Financial Sector (**)	3.639.922
Other liabilities	9.701
Net variation of forward contracts	**(389)**
Net cash provided (used) by operating activities	**(1.713.893)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Net cash flow from securities held to maturity	—
Net cash flow from fixed assets	2.741
Increase in intangible assets	(2.911)
Net cash flow from special investments	4
Net cash flow from other investments	(4)
Net cash provided (used) by investing activities	**(170)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contribution /(profit allocation)	595.760
Net cash flow from subordinated loans	(3.332)
Debentures received	—
Other obligations originated by financing activities	—
Net cash provided (used) by financing activities	**592.428**
Net increase (decrease) in cash and cash equivalents	**(1.121.635)**
Exchange differences generated from cash and cash equivalents	(53.008)
Cash and cash equivalents at the beginning of the year	**2.977.049**
Cash and cash equivalents at the end of the year	**1.802.406**

(*) Except forward contracts

(**) Except subordinated loans, debentures and forward contracts.

Notes to the Financial Statements

Note 1—Approval by the Stockholders' Meeting

Financial Statements for the year ended December 31, 2011, have not yet been considered by the Ordinary Stockholders' Meeting in accordance with article 344 of Law N° 16.060 dated September 4, 1989.

Note 2—Information about the financial institution

2.1 Legal nature

HSBC Bank (Uruguay) S.A. ("the Bank"), a subsidiary of HSBC Latin America Holding (UK) Limited, operates in Uruguay under the legal regime established by Law N° 15.322 dated September 17, 1982 and its subsequent amendments. It was authorized to act as a bank by resolution of the Executive Power as of June 29th, 1987 and authorized by the Central Bank of Uruguay (C.B.U.)

The Central Bank of Uruguay exercises control on banks and monitors compliance with minimum requirements regarding legal cash reserves, credit allowances and capital adequacy.

2.2 Accounting basis

Financial statements are presented in compliance with the regulatory provisions enacted in Uruguay and prepared in accordance with accounting standards, valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay.

Financial statements were prepared on the basis of historical cost, except for assets and liabilities in foreign currency, securities and fixed assets which are valued according to the criteria expressed in Note 3.

According to Communication N° 2010/021 of the Central Bank of Uruguay, the results of the current year have not been corrected to adjust the effects of inflation.

For the preparation of the Statement of Cash Flows, cash and cash equivalents were defined as cash and due from banks.

2.3 Capital and shares

The Bank's authorized capital amounts to $ 1.800.000.000 (Uruguayan Pesos one thousand and eight hundred million).

As at November 23, 2011 the Extraordinary General Assembly decided to set the authorized capital in $ 3.000.000.000 (Uruguayan Pesos three thousand million), following the corresponding legal process.

The subscribed capital, which was totally paid in, amounts to $ 317.142.886,31 and is represented by ordinary shares of $ 1 (one Uruguayan Peso) each.

As at August 1st, 2008 the Extraordinary General Assembly decided to contribute capital in the amount of US$ 20.000.000 (twenty million dollars) equivalent to $ 383.900.000 (Uruguayan Pesos three hundred eighty three million nine hundred thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 33.151.750,40 (Uruguayan Pesos thirty three million one hundred fifty one thousand seven hundred fifty with 40/100) . This amount comes from the special balance sheet according to article 287 of the Law 16.060.

As at March 30, 2010 the Extraordinary Meeting of Shareholders decided to contribute capital in the amount of US$ 20.000.000 (twenty million dollars) equivalent to $ 390.080.000 (Uruguayan Pesos three hundred ninety million eighty thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 42.487.891,45 (Uruguayan Pesos forty two million four hundred eighty seven thousand eight hundred ninety one with 45/100).

As at January 27, 2011 the Extraordinary Meeting of Shareholders decided to contribute capital in the amount of US$ 20.000.000 (twenty million dollars) equivalent to $ 395.000.000 (Uruguayan Pesos three hundred ninety five million) and capitalize the account adjustments to shareholders' equity for an amount of $ 38.243.829,34 (Uruguayan Pesos thirty eight million two hundred forty three thousand eight hundred twenty nine with 34/100).

Finally, on November 23, 2011 the shareholders decided to contribute capital in the amount of US$ 10.000.000 (ten million dollars) equivalent to $ 200.760.000 (Uruguayan Pesos two hundred million seventy six hundred thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 14.759.413,53 (Uruguayan Pesos fourteen million seven hundred fifty nine thousand four hundred thirteen with 53/100).

HSBC Latin America Holding (UK) Limited owns 100% of the Bank's shares.

Additional information regarding the Bank's ownership structure is included in the Corporate Government's Annual Report (non audited information) required by article 36.3 of the Compilation of Central Bank Regulations, which is available on the Bank's website.

2.4 Board of Directors and Executive Staff

The Bank's Board of Directors is comprised as follows:

Virginia Suárez	President—General Manager
Leonel Puppo	Director—Vice-President
Frank L. Lawson	Director
Alan Wilkinson	Director
Mónica Suffia	Director—Deputy General Manager

The Executive Staff, defined in accordance with article 38.11 of the Compilation of Central Bank Regulations, is comprised of:

Enrique Goyetche	Exchange Desk Manager
José Miranda	General Accountant
Patricia Dopazo	Planning Manager
Alberto Mello	Risk Manager
Fernando Lacurcia	Corporate Banking Manager
Gonzalo Berro	Internal Audit Manager
Martín Meharu	Compliance Officer
Fernando Busniello de Oliveira	Member of the Audit Committee
Diego Gandioli	Branches Manager
Daniel Lima	Operations Manager

Notes to the Financial Statements

Since February 1, 2012, Mr. Alberto Mello takes the responsibilities of Retail Banking and Branches Manager. At the same moment, Mr. Juan Vazquez started to take responsibilities as Risk Manager and Mr. Diego Gandioli as Segment Premier Manager.

Since March 12, 2012, Mr. Daniel Lima ceases to belong to the list of executive staff, Mr. Jose Miranda takes the responsibilities of the Chief Operation Officer (COO) and the Chief Financial Officer (CFO) and Mrs. Cecilia Jorge the responsibilities of the General Accountant.

Additional information regarding the Bank's management and control structure is included in the Corporate Government's Annual Report (non audited information) required by article 36.3 of the Compilation of Central Bank Regulations, which is available on the Bank's website.

Note 3—Information regarding assets and liabilities

3.1 Foreign currency translation

Assets and liabilities denominated in foreign currency are translated into U.S. Dollars at the exchange rates published by the foreign exchange desk of the Central Bank of Uruguay as at the close of the year.

The resulting amounts in US Dollars are then translated into local currency at the exchange rate as at the end of the year (US$ 1 = $ 19,898).

3.2 Foreign currency position

The global position in foreign currency as at December 31, 2011 is broken down as follows:

Currency	Assets in foreign currency	Liabilities in foreign currency	Net position in foreign currency		Equivalent net position in US$
			Asset	Liability	
United States Dollars	816.975	768.018	48.957	—	48.957
Argentine Pesos	84	50	34	—	8
Real	54	1	53	—	28
Euro	27.399	27.553	—	154	(200)
Other	—	—	—	—	379
TOTAL					**49.172**

3.3 Securities

Securities are valued in accordance with criteria established in Rule 2.2 of the Accounting Standards and Chart of Accounts for Financial Institutions as described below:

Securities held for trading are valued at their market value including transaction costs and deducting accrued interests. Market value adjustments are included in the result of the year.

Securities available for sale are valued at their fair value including transaction costs and deducting accrued interests. Fair value adjustments are included directly in equity until such securities are sold or refunded, and at that moment the adjustments are charged to the result of the year.

The interests' accrual is included in the results for the year.

The accrued interest receivable is included in the account "Securities".

The company does not hold Securities held to maturity.

Notes to the Financial Statements

The composition of the securities portfolio as at December 31, 2011 is as follows:

SECURITIES	Currency of issuance	Amounts in thousands of $ Book Value	Market Value
Securities held for trading		**231.311**	**231.311**
Uruguayan Government Securities		229.251	229.251
Uruguayan Government Securities	Uruguayan Pesos	82.688	82.688
Uruguayan Government Securities	Euro	2.393	2.393
Uruguayan Government Securities	Dollars	144.170	144.170
Foreign Government Securities		—	—
U.S.A.	Dollars	—	—
Private Securities		—	—
Uruguay	Uruguayan Pesos	—	—
Bahamas	Dollars	—	—
Accrued interest receivable from Uruguayan Government Securities		2.060	2.060
Accrued interest receivable from Foreign Government Securities		—	—
Accrued interest receivable from Private Securities		—	—
Securities available for sale		**1.150.921**	**1.150.921**
Uruguayan Government Securities		888.809	888.809
Uruguayan Government Securities	Uruguayan Pesos	139.990	139.990
Uruguayan Government Securities	Euro	92.341	92.341
Uruguayan Government Securities	Dollars	656.478	656.478
Foreign Government Securities		243.688	243.688
U.S.A.	Dollars	216.409	216.409
France and Netherlands	Euro	27.279	27.279
Private Securities		—	—
U.S.A.	Dollars	—	—
Accrued interest receivable from Uruguayan Government Securities		16.192	16.192
Accrued interest receivable from Foreign Government Securities		2.232	2.232
Accrued interest receivable from Private Securities		—	—
Impairment provisions		—	—
Securities held to maturity		—	—
TOTAL SECURITIES		**1.382.232**	**1.382.232**
SECURITIES ISSUED BY THE CENTRAL BANK OF URUGUAY (1)			
Securities held for trading		411.021	411.021
		411.021	411.021
Securities available for sale		320.061	320.061
		320.061	320.061
Securities held to maturity		—	—
Accrued interest receivable from Central Bank of Uruguay Securities		1.262	1.262
TOTAL SECURITIES ISSUED BY THE CENTRAL BANK OF URUGUAY		**732.344**	**732.344**

(1) Recorded under Outstanding credits to the Financial Sector.

Notes to the Financial Statements

3.4 Limitations to the free disposal of assets or equity and restrictions to property rights

There are no limitations to the free disposal of assets or equity, except for Uruguayan Government Securities in Uruguayan Pesos used in operations "REPO" with Central Bank of Uruguay detailed in Note 7.

3.5 Assets and liabilities with restatement clause

We detail below the Bank's assets and liabilities with restatement clause:

In thousands of Uruguayan pesos Restatement factor	Assets	Liabilities
Consumer Price Index	3.332	—
Indexed Units (I.U.)	1.041.761	837.941
Total	**1.045.093**	**837.941**

3.6 Credit Risks—Financial Sector and Non-Financial Sector

The credit portfolio has been classified in accordance with the criteria established in Rule 3.8 of the Accounting Standards and Chart of Accounts for Financial Institutions issued by the Central Bank of Uruguay.

Receivables include the receivable capital amount of each transaction and the corresponding interest accrued from thereon.

Unpaid transactions of the Non Financial Sector are booked in "Overdue loans" after a period of 60 days from their expiration; those corresponding to the Financial Sector are booked in "Overdue loans" when they have 1 day of expiration.

Loans are booked as "Under management for recovery" after 90 days past due in the case of Consumption loans, 180 days in the case of Mortgage Loans and 120 days in the case of Commercial Loans and Financial Sector Loans.

Loans are booked as "Delinquent loans" after 120 days past due in the case of Consumption loans, 240 days in the case of Mortgage Loans and 180 days in the case of Commercial Loans and Financial Sector Loans.

In accordance with the risk definition included in article 65 of the Compilation of Central Bank Regulations, forward contracts are considered at 10% of their value.

The allowances necessary to cover eventual losses derived from bad debts have been booked, in accordance with Rule 3.12 of the Accounting Standards and Chart of Accounts for Financial Institutions. In order to determine the amount to be provisioned, guarantees admitted by Rules 3.16 and 3.17 of such Accounting Standards have been deducted.

Notes to the Financial Statements

Risks of Non-Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Credits local currency	Credits foreign currency (equiv. local currency)	Contin-gencies	TOTAL RISK	Computed guarantees	Constituted Allowances (1) Minimum %	Constituted Allowances (1) Amount	Risk net of allowances
1A Op. with liquidity collateral	61.302	377.328	46.854	**485.484**	480.328	0%	219	**485.265**
1C Debtors with strong repayment capacity	1.054.239	5.780.406	874.356	**7.709.001**	1.427.074	Equal to or more than 0,5% and less than 3%	37.462	**7.671.539**
2A Debtors with acceptable repayment capacity	202.635	2.571.837	130.108	**2.904.580**	891.805	Equal to or more than 3% and less than 7%	60.828	**2.843.752**
2B Debtors with potential repayment problems	42.500	1.125.722	22.196	**1.190.418**	630.351	Equal to or more than 7% and less than 20%	40.334	**1.150.084**
3 Debtors with impaired repayment capacity	25.081	146.044	24.917	**196.042**	164.995	Equal to or more than 20% and less than 50%	6.325	**189.717**
4 Debtors with highly compromised repayment capacity	38.419	2.334	45.014	**85.767**	44.056	Equal to or more than 50% and less than 100%	20.604	**65.163**
5 Irrecoverable	3.084	58.762	203	**62.049**	620	100%	61.420	**629**
SUBTOTAL (2)	**1.427.260**	**10.062.433**	**1.143.648**	**12.633.341**	**3.639.229**		**227.192**	**12.406.149**
Other accounts receivable	26.186	33.119	**—**	**59.305**	—		—	**59.305**
90% forward contracts and not accrued forward contracts' losses	69.099	222.672	**—**	**291.771**	—		—	**291.771**
Other contingencies	—	—	**—**	**—**	—		—	**—**
TOTAL	**1.522.545**	**10.318.224**	**1.143.648**	**12.984.417**	**3.639.229**		**227.192**	**12.757.225**

(1) In accordance with Rule 3.12 some transactions are not provisioned.

(2) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value.

Notes to the Financial Statements

Risks Composition of Non-Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Outstanding	Allowances	Overdue credits	Allowances	Other accounts receivable	Allowances	Contingencies	Allowances
1A Op. with liquidity collateral	438.630	219	—	—	—	—	46.854	—
1C Debtors with strong repayment capacity	6.812.410	33.220	33	—	22.202	66	874.356	4.176
2A Debtors with acceptable repayment capacity	2.765.447	57.210	24	1	9.001	6	130.108	3.611
2B Debtors with potential repayment problems	1.167.469	39.299	30	2	723	51	22.196	982
3 Debtors with impaired repayment capacity	164.608	5.246	5.379	302	1.138	13	24.917	764
4 Debtors with highly compromised repayment capacity	40.013	19.156	698	331	42	21	45.014	1.096
5 Irrecoverable	860	850	59.533	58.920	1.453	1.447	203	203
SUBTOTAL (1)	**11.389.437**	**155.200**	**65.697**	**59.556**	**34.559**	**1.604**	**1.143.648**	**10.832**
Other accounts receivable	—	—	—	—	59.305	—	—	—
90% forward contracts and not accrued forward contracts' losses	291.771	—	—	—	—	—	—	—
Other contingencies	—	—	—	—	—	—	—	—
TOTAL	**11.681.208**	**155.200**	**65.697**	**59.556**	**93.864**	**1.604**	**1.143.648**	**10.832**

(1) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value.

Risks of Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Demand Deposits Local Currency	Demand Deposits Foreign Currency (equiv. local currency)	Credits Local currency	Credits Foreign currency (equiv. local currency)	Contin-gencies	Other accounts receivable	TOTAL RISK	Computed guarantees	Constituted Allowances (1) Minimum %	Constituted Allowances (1) Amount	Risk net of allowances
1A Outstanding resident debtors or non-residents BBB+ or higher	190.583	746.686	218.764	3.855.933	149.347	407	**5.161.720**	—	0,0%	5	**5.161.715**
1B Non-resident debtors with very strong repayment capacity	—	—	—	126.702	6.989	49	**133.740**	—	Equal to or more than 0,2% and less than 0,5%	239	**133.501**
1C Non-resident debtors with strong repayment capacity	—	—	—	11.076	9.819	34	**20.929**	—	Equal to or more than 0,5% and less than 3%	71	**20.858**
2A Non-resident debtors with acceptable repayment capacity	—	—	—	17.284	2.461	2	**19.747**	—	Equal to or more than 3% and less than 7%	89	**19.658**
2B Non-resident debtors with potential repayment problems	—	54	—	14.433	7.584	8	**22.079**	—	Equal to or more than 7% and less than 20%	228	**21.851**
3 Non-resident debtors with impaired repayment capacity	—	—	—	—	—	—	**—**	—	Equal to or more than 20% and less than 50%	—	**—**
4 Non-resident debtors with highly compromised repayment capacity	—	—	—	—	—	—	**—**	—	Equal to or more than 50% and less than 100%	—	**—**
5 Irrecoverable	—	—	—	—	—	—	**—**	—	100%	—	**—**
SUBTOTAL (2)	**190.583**	**746.740**	**218.764**	**4.025.428**	**176.200**	**500**	**5.358.215**	—		**632**	**5.357.583**
Other accounts receivable	—	—	—	—	—	—	**—**	—		—	**—**
90% forward contracts and not accrued forward contracts' losses	—	—	978.288	418.674	—	—	**1.396.962**	—		—	**1.396.962**
Other contingencies	—	—	—	—	—	—	**—**	—		—	**—**
TOTAL	**190.583**	**746.740**	**1.197.052**	**4.444.102**	**176.200**	**500**	**6.755.177**	—		**632**	**6.754.545**

(1) In accordance with Rule 3.12, some transactions are not provisioned.

(2) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value. Securities issued by the Central Bank of Uruguay (detailed in Note 3.3) are not considered.

Risks Composition of Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Demand Deposits	Outstanding Credits	Overdue Credits	Contingencies	Other accounts receivable	Total Risk
1A Outstanding resident debtors or non-residents BBB+ or higher	937.269	4.074.697	—	149.347	407	5.161.720
1B Non-resident debtors with very strong repayment capacity	—	126.702	—	6.989	49	133.740
1C Non-resident debtors with strong repayment capacity	—	11.076	—	9.819	34	20.929
2A Non-resident debtors with acceptable repayment capacity	—	17.284	—	2.461	2	19.747
2B Non-resident debtors with potential repayment problems	54	14.433	—	7.584	8	22.079
3 Non-resident debtors with impaired repayment capacity	—	—	—	—	—	—
4 Non-resident debtors with highly compromised repayment capacity	—	—	—	—	—	—
5 Irrecoverable	—	—	—	—	—	—
SUBTOTAL (1)	**937.323**	**4.244.192**	**—**	**176.200**	**500**	**5.358.215**
Other accounts receivable	—	—	—	—	—	—
90% forward contracts and not accrued forward contracts' losses	—	1.396.962	—	—	—	1.396.962
TOTAL	**937.323**	**5.641.154**	**—**	**176.200**	**500**	**6.755.177**

(1) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value. Securities issued by the Central Bank of Uruguay (detailed in Note 3.3) are not considered.

3.7 Allowance for loan losses

The amounts recorded in allowance for loan losses as at December 31, 2011 of $ 265.831 thousand is as follows:

- $ 217.015 thousand deducted from the respective asset accounts;
- $ 10.842 thousand in the liability account "Allowances" (corresponding to contingencies accounts);
- $ 37.974 thousand in the liability account "Allowances" (corresponding to statistical reserve).

Notes to the Financial Statements

The following chart shows the movement in the asset account “Allowance for doubtful debtors”, and in the liability accounts “Allowance for contingency accounts”, “General Provisions” and “Statistical Reserve”.

In thousands of Uruguayan pesos

Allowances for:	Opening balances	Additions	Deductions	Write offs against debt	Other net movements	Final balances
Outstanding Credits—Financial Secto (1)	3.030	7.196	6.622	—	(2.949)	655
Outstanding Credits—Non Financial Sector	145.542	767.047	701.726	—	(55.663)	155.200
Other accounts receivable	396	4.537	4.115	—	786	1.604
Overdue loans—Financial Sector	—	—	—	—	—	—
Overdue loans—Non Financial Sector	342	25.408	23.656	—	(1.783)	311
Under management for recovery	60	40.599	38.153	—	53.679	56.185
Delinquent loans	1.131	9.705	8.881	198	1.303	3.060
Allowance for Contingency Accounts	14.511	67.913	61.761	—	(9.821)	10.842
General Provisions	—	—	—	—	—	—
Statistical Reserve	23.214	7	—	—	14.753	37.974
TOTAL	**188.226**	**922.412**	**844.914**	**198**	**305**	**265.831**

(1) Includes Demand Deposits.

3.8 Restructured problematic credit

As at December 31, 2011 the bank does not have restructured credits.

3.9 Investments

The composition of investments as at December 31, 2011 is as follows:

In thousands of Uruguayan pesos

Concept	Total
Assets received in exchange for loan claims	—
Idle premises	—
Participations in capital authorized by the Central Bank of Uruguay (*)	712
Foreign branches	—
Investments in shares	—
Other investments	455
Investment provision	—
TOTAL	**1.167**

(*) The balance of the account “Participations in capital authorized by the Central Bank of Uruguay” corresponds to the Bank’s share in the following company:

BEVSA: Thousand of Uruguayan Pesos 712 which represents 3.84% of the company’s capital. The investment is valued at cost, which does not exceed its equity value based on financial statements prepared in accordance with Uruguayan generally accepted accounting standards.

Notes to the Financial Statements

3.10 Fixed Assets

Fixed assets are accounted for their acquisition cost, restated for inflation applying the change in the Uruguayan Wholesale Price Index (WPI) until December 31st, 2009 and afterwards applying the Consumer Price Index issued by the National Institute of Statistics, net of the corresponding accumulated depreciation. The net variation generated by the year's restatement (increase or reduction) is booked with credit or debit to the respective equity account.

Depreciations are computed on restated values as at the close of the year, using the following percentages set forth by the Central Bank of Uruguay:

	Annual depreciation rate
Buildings and safekeeping	2%
Furniture, fixtures and fittings	10%
Vehicles	20%
Computer equipment	20%

Reparation and maintenance costs are included in the results of the year.

Depreciation period for "Improvements on leased properties" does not exceed the remaining lease period.

In compliance with Communication 2004/021, the Bank compared the book value of its premises with their market value as at the close of 2011. There were no changes compared with prior years.

We are including below the breakdown of the corresponding balances:

In thousands of Uruguayan pesos

Concept	Cost restated for inflation	Annual depreciation rate (%)	Accumulated depreciation	Depreciation over the year	Net Value	Market Value	Book Value
Owned Fixed Assets	**397.092**		**228.666**	**17.888**	**168.426**	**66.260**	**151.797**
Premises—Lands Premises—Buildings	125.483	2%	44.015	1.410	81.468	66.260	64.839
Furniture, fixtures and fittings	73.438	10%	56.393	4.558	17.045		17.045
Computer equipment	53.870	20%	46.974	2.984	6.896		6.896
Safekeeping boxes	5.040	2%	2.498	101	2.542		2.542
Vehicles	6.346	20%	4.732	1.269	1.614		1.614
Improvements on leased properties	132.915		74.054	7.566	58.861		58.861
Taken in financial leasing	**72.364**		**33.323**	**6.778**	**39.041**		**39.041**
Computer equipment	21.977	20%	15.668	1.879	6.309		6.309
Vehicles	—	—	—	—	—		—
Other	50.387	10%	17.655	4.899	32.732		32.732
Buildings under construction	—	—			—		—
TOTAL	**469.456**	**—**	**261.989**	**24.666**	**207.467**	**66.260**	**190.838**

Notes to the Financial Statements

3.11 Intangible assets

The acquisition costs of application software are amortized during 3 years from the initial recognition date.

We are including below the breakdown of the corresponding balances:

In thousands of Uruguayan pesos

Concept	Net Opening Balance	Increases	Amortization over the year	Net Ending Balance
Application software	32.799	2.911	27.362	8.348
Authorized by the Central Bank of Uruguay	—	—	—	—
TOTAL	**32.799**	**2.911**	**27.362**	**8.348**

3.12 Subordinated Debentures

The bank classified debentures subordinated as other liabilities, pursuant to authorization of the Central Bank of Uruguay. Their balance is taken into consideration in order to determine the minimum net equity requirements under Central Bank regulations, as the subordinated debentures comply with the obligatory requirements established by Article 121 of the Compilation of Central Bank Regulations. These requirements are: the debentures' term must exceed five years, the debentures may not be paid in advance without previous consent from the Central Bank of Uruguay and the debentures may not be used as guarantees.

It is clearly stated that, in the case of the bank's liquidation, the holders renounce to their participation rights as creditors and will have preference rights only with respect to the shareholders and in equal conditions to other holders of subordinated loans, if they exist.

On May 27, 2008, after receiving the Central Bank of Uruguay's authorization N° 157/2008/0370 dated April 21, 2008, the Bank issued a subordinated debenture for US$ 7.000 thousand (equivalent to Uruguayan Pesos 139.286 thousand) with HSBC—México S.A. Institución de Banca Múltiple—Grupo Financiero HSBC with maturity date 5/27/2018.

On December 31, 2009, after receiving the Central Bank of Uruguay's authorization N° 157/2009/3563 dated December 30, 2009, the Bank issued a subordinated debenture for US$ 5.000 thousand (equivalent to Uruguayan Pesos 99.490 thousand) with HSBC—Chile with maturity date 12/30/2019.

On December 10, 2010, after receiving the Central Bank of Uruguay's authorization N° 157/2010/2069 dated December 10, 2010, the Bank issued a subordinated debenture for US$ 5.000 thousand (equivalent to Uruguayan Pesos 99.490 thousand) with HSBC—Chile with maturity date 12/17/2020.

As at December 31, 2011, the subordinated loans' principal is the following:

In thousands of Uruguayan pesos

Expiration	Local Currency	Foreign currency (equiv. local currency)	TOTAL
Less than 12 months	—	—	—
Between 12 and 24 months	—	—	—
Between 24 and 36 months	—	—	—
Between 36 and 48 months	—	—	—
Over 48 months	—	338.266	338.266
TOTAL	**—**	**338.266**	**338.266**

Notes to the Financial Statements

3.13 Guarantees granted on liabilities

As at December 31, 2011 there are no guarantees granted on liabilities.

3.14 Distribution of loans and financial intermediation obligations by their maturity based on the remaining period

The Bank's loans and obligations as at December 31, 2011, are exposed in the following chart classified by their maturity calculated as the remaining period at year end:

In thousands of Uruguayan pesos

	Amounts by maturity terms:			
Concept	**Less than 1 year**	**1 to 3 years**	**More than 3 years**	**Total**
Outstanding Credits—Financial Sector (1)	5.008.063	18.234	—	5.026.297
Outstanding Credits—Non Financial Sector (2)	9.088.317	1.283.017	985.907	11.357.241
Outstanding Credits—Forward contracts	1.861.613	14.725	—	1.876.338
Total Outstanding Credits	**15.957.993**	**1.315.976**	**985.907**	**18.259.876**
Obligations—Financial Sector (2)	418.333	2.612	338.266	759.211
Obligations—Non Financial Sector (2)	17.194.302	88.672	66.857	17.349.831
Obligations—Forward contracts	1.761.355	9.710	—	1.771.065
Total Obligations	**19.373.990**	**100.994**	**405.123**	**19.880.107**

(1) Includes demand deposits. Forward contracts, and other accounts receivable are not included.

(2) Forward contracts and other accounts receivable or payable are not included.

Credits and liabilities in installments are distributed among the three maturity terms computing in each term the balance of the installments that effectively mature in such period.

3.15 Concentration of the Credit risks to the Non Financial Sector

We detail below the Non Financial Sector's Loan portfolio's concentration as at December 31, 2011, including contingent risks. As established in Article 86 of the Compilation of Central Bank Regulations, the definition of risk includes that of an individual or legal entity together with that of the economic group it belongs to.

In thousands of Uruguayan pesos

	Amounts before allowances (net of suspended financial interests)							
	Outstanding	**%**	**Overdue**	**%**	**Contingent**	**%**	**Total**	**%**
10 main risks	2.600.152	22%	—	0%	58.547	5%	2.658.699	21%
50 main risks	6.679.295	57%	—	0%	423.770	37%	7.103.065	55%
100 main risks	8.482.419	73%	55.448	84%	639.571	56%	9.177.438	71%
Total portfolio	**11.681.208**	**100%**	**65.697**	**100%**	**1.143.648**	**100%**	**12.890.553**	**100%**

Notes to the Financial Statements

3.16 Concentration of the Credit risks to the Non Financial Sector by economic activity

We detail below the Non Financial Sector's Loan portfolio's concentration classified by economic activity, including contingent risks, as at December 31, 2011.

In thousands of Uruguayan pesos

	Amounts before allowances				
Loan destination	**Outstanding**	**Overdue**	**Other accounts receivable**	**Contingent**	**Total**
Public Sector (1)	308.517	—	293	54.071	362.881
Agriculture	1.498.463	21	10.587	4.542	1.513.613
Industry	3.720.640	55.449	1.041	198.595	3.975.725
Construction	552.551	—	5	181.888	734.444
Commerce	2.792.169	1.010	23	284.296	3.077.498
Hotels and Restaurants	4.287	—	15	456	4.758
Transportation, warehouse and communications	261.843	207	752	57.110	319.912
Financial services	50.561	—	42	639	51.242
Other services	1.280.854	1.286	11.941	93.541	1.387.622
Families	812.465	7.639	6.108	124.503	950.715
Other	—	—	—	—	—
Credits to Residents' Total	**11.282.350**	**65.612**	**30.807**	**999.641**	**12.378.410**
Non residents	107.087	85	3.752	144.007	254.931
Credits to Non-Fin. Sector's Total (2)	**11.389.437**	**65.697**	**34.559**	**1.143.648**	**12.633.341**
Other accounts receivable	—	—	59.305	—	59.305
90% of forward contracts and forward contracts' losses not accrued	291.771	—	—	—	291.771
Other contingencies	—	—	—	—	—
TOTAL	**11.681.208**	**65.697**	**93.864**	**1.143.648**	**12.984.417**

(1) The Public Sector includes all credits maintained with state owned companies or with the Central Administration, independently from their sector of activity.

(2) It corresponds to all accounts included in the Credit Risk Information.

3.17 Non Financial Sector deposits' concentration

We detail below the non financial sector deposits' concentration as at December 31, 2011.

In thousands of Uruguayan pesos

	Deposits in local and foreign currency (includes interest accrued)			
	Residents		**Non Residents**	
	Amount	**%**	**Amount**	**%**
10 main depositors	2.311.415	22%	679.177	10%
50 main depositors	4.421.803	41%	1.543.757	23%
100 main depositors	5.416.348	51%	2.090.357	32%
Total deposits	**10.677.302**	**100%**	**6.620.510**	**100%**

Additionally, the account Deposits of the Non Financial Sector, includes $ 52.018 thousand corresponding to other obligations with the Non Financial Sector.

3.18 Classification by type of deposit

The non financial sector deposits' breakdown by type is:

In thousands of Uruguayan pesos

Type of deposit	Residents Local Currency	Residents Foreign Currency	Total residents	Annual variation	Non Residents Local Currency	Non Residents Foreign Currency	Total non residents	Annual variation	Total Amount	%
Current accounts	917.554	3.710.034	4.627.588	1.682.561	6.238	229.804	236.042	92.117	4.863.630	28%
Demand deposits	301.634	2.845.526	3.147.160	448.494	54.763	5.895.886	5.950.649	674.944	9.097.809	53%
Savings accounts	—	—	—	—	—	—	—	—	—	0%
Time deposits	653.307	861.070	1.514.377	523.579	31.294	185.223	216.517	(125.930)	1.730.894	10%
Other deposits	521.082	860.270	1.381.352	487.924	—	214.709	214.709	(70.825)	1.596.061	9%
Accrued interest	4.619	2.206	6.825	(1.466)	446	2.147	2.593	(2.728)	9.418	0%
Total deposits NFS	**2.398.196**	**8.279.106**	**10.677.302**	**3.141.092**	**92.741**	**6.527.769**	**6.620.510**	**567.578**	**17.297.812**	**100%**

Additionally, the account Deposits of the Non Financial Sector, includes $ 52.018 thousand corresponding to other obligations with the Non Financial Sector.

3.19 Distribution of loans and obligations from financial intermediation with non residents by country

We detail below the distribution of credits and obligations arising from financial intermediation with non residents by country of residence as at December 31, 2011.

In thousands of Uruguayan pesos

Concept	Capital and accrued interests (net of suspended interests) Demand Deposits	Credits Financial Sector (1)	Credits Non Financial Sector (1)	Outstanding Credits Forward Contracts	Other accounts receivable	Total
Argentina	54	20.280	79.038	—	424	99.796
Mexico	—	185.955	68	—	—	186.023
Brazil	—	23.878	8.719	—	51	32.648
EEUU	23.783	11.757	18	46.519	44	82.121
Bahamas	—	179.690	—	—	—	179.690
Belgium	59.747	—	159	—	4	59.910
Cayman Islands	—	338.451	—	—	—	338.451
United Kingdom	16.403	111.864	60	3.128	2.239	133.694
Other	3.461	26.773	19.109	—	4.155	53.498
Subtotal (2)	**103.448**	**898.648**	**107.171**	**49.647**	**6.917**	**1.165.831**
Other accounts receivable	—	—	—	—	109	109
90% forward contracts and forward contracts losses not accrued	—	—	—	447.033	—	447.033
Other contingencies	—	—	—	—	—	—
TOTAL	**103.448**	**898.648**	**107.171**	**496.680**	**7.026**	**1.612.973**

(1) Forward contracts and other accounts receivable are not included.

(2) It corresponds only to accounts included in the Credit Risk Information.

Concept	Capital and accrued interests: Obligations Financial Sector (1)	Obligations Non Financial Sector (1)	Forward Contracts	Total
Argentina	9.277	4.840.124	—	4.849.401
Chile	201.936	33.558	—	235.494
Brazil	9.610	256.894	—	266.504
China	80.726	3.023	—	83.749
Mexico	139.866	22.227	—	162.093
U.S.A.	26.589	36.097	468.391	531.077
Other	71.869	1.430.432	31.275	1.533.576
TOTAL	**539.873**	**6.622.355**	**499.666**	**7.661.894**

(1) Forward contracts are not included.

3.20 Transactions with related parties

Related parties are individuals or companies, local or foreign, which form an economic group with the Bank, in accordance with the definition given by article 64, article 86 and article 399.1 of the Compilation of Central Bank Regulations.

At the close of the year the balances with related parties and the results originated by transactions with them were as follows:

	Thousands $ (local currency and foreign currency equiv. in local currency)			
	Placements (1)	Securities	Obligations	Results
Financial Sector				
Local companies	—	—	—	—
Head Office, foreign branches and subsidiaries of Head Office	—	—	—	—
Controlling entity, foreign branches and subsidiaries of the controlling entity	—	—	—	—
Foreign branches	—	—	—	—
Foreign subsidiaries	—	—	—	—
Related banks and other foreign institutions	948.425	—	990.871	(145.893)
Non Financial Sector				
Pension fund managers	—	—	—	—
Investment funds	—	—	—	—
Credit administrators	—	—	—	—
Others—individuals	3.570	—	2.401	224
Others—legal entities	—	—	—	—
Net result with related parties				**$(145.669)**

(1) Includes demand deposits.

3.21 Other relevant events

There is no other significant event to disclose.

Notes to the Financial Statements

Note 4—Shareholders' equity

4.1 Capital Adequacy

The Central Bank regulations require the maintenance of a Net Equity Responsibility comprised of the "Essential Net Equity" and the "Complementary Net Equity", with the condition that the "Complementary Net Equity" should not exceed the "Essential Net Equity".

The Net Equity Responsibility should not be lower than the highest of three parameters, as established by Article 14 of the Compilation of Central Bank Regulations (C.C.B.R.).

These three parameters are:

- Capital requirement for credit and market risks.
- Basic Equity Responsibility, determined by article 15 of the Compilation of Central Bank Regulations.
- 4% of the total assets and contingencies, net of allowances.

As at December 31, 2011, the net equity responsibility (essential net equity plus complementary net equity) amounts to $ 1.501.496 thousand and the Minimum Net Equity Responsibility required by the Central Bank of Uruguay amounts to $ 1.182.664 thousand, equivalent to the capital requirement for credit and market risks, according to Articles 14.1 and 14.2 of the Compilation of Central Bank Regulations (C.C.B.R.).

In thousands of Uruguayan pesos

Concept	Local Currency
Essential Net Equity (E.N.E.)	**1.163.230**
—Common stock	317.143
—Capital contribution	1.369.740
—Adjustments to shareholders' equity	155.690
—Reserves	—
—Retained earnings	(670.539)
—Cooperative shares with interest (regulated by law N° 17.613)	—
—Credits with Head Office and subsidiaries	—
—Special investments and intangible assets	(8.804)
Complementary Net Equity (C.N.E.)	**338.266**
—Subordinated loans (up to 50% C.N.E.)	338.266
—General allowances (up to 1,25% assets and contingencies weighed up by credit risk)	—
Net Equity Responsibility (N.E.R. = E.N.E. + C.N.E.)	**1.501.496**
Subordinated loans admitted to hedge market risk (S.L.M.R)	**—**
—Subordinated loans admitted to hedge market risk (up to the maximum between 250% of the E.N.E. assigned to cover said risk and the difference between E.N.E. and C.N.E)	—
Minimum Net Equity Responsibility (M.N.E.R.)	**1.182.664**
—Capital requirement for credit risk (art. 14.1 C.C.B.R.)	1.098.263
—Capital requirement for market risk (art. 14.2 C.C.B.R.)	84.401
—4% of assets and contingent accounts (art. 14 C.C.B.R.)	835.551
—Basic Equity Responsibility (art. 15 C.C.B.R.)	301.223
(N.E.R. + S.L.M.R) / M.N.E.R.	**1,27**
(N.E.R. + S.L.M.R) / (Assets weighted according to their risk+12,5 * Market risk)	**0,10**

Notes to the Financial Statements

Note 5—Information regarding results

5.1 Recognition of gains and losses

Income and expenses are recognized on the basis of the accrual principle. Nonetheless, in compliance with Rule 3.3 of the Accounting Standards and Chart of Accounts for Financial Institutions, financial products may not be recognized as profit –unless received in cash– when the corresponding debtors are classified as "Debtors with compromised repayment capacity", "Debtors with highly compromised repayment capacity" or "Irrecoverable Debtors". When, in accordance with regulations in force, a transaction must be reclassified to any of the categories mentioned above, financial products recognized as profit during the period and not effectively collected should be adjusted with credit to the accounts "Financial products in suspense".

Loans include $ 255.509 thousand net of allowances ($ 343.858 thousand before allowances) which do not accrue interest in compliance with Central Bank regulations.

5.2 Result from services

In thousands of Uruguayan pesos

	Local Currency	Foreign Currency (equiv. Local Currency)
COMMISSION INCOME	**18.425**	**178.288**
Guarantees granted	1.576	5.632
Credit Cards	4.082	10.035
Foreign trade	100	40.873
Other commissions income	12.667	121.748
COMMISSION EXPENSES	**26.354**	**27.281**
Commissions paid to foreign banks	—	—
Brokerage commissions	1.309	1.787
Rural business	—	—
Other commission expenses	25.045	25.494

Note 6—Taxes

We detail below the results corresponding to the period ended December 31, 2011 for each of the taxes levied on the company's activities.

In thousands of Uruguayan pesos

Concept	Inputted to result of the period
Income Tax	76
Capital Tax	28.491
V.A.T.	—
Financial System control Tax	6.488
Other	1.107
TOTAL	**36.162**

The Income Tax is calculated using the balance sheet liability method.

Notes to the Financial Statements

Note 7—Operations with derivatives

The derivatives used by the Company comprise forward and swap contracts. Forward contracts are tailored according to the expiration and amounts requested by the counter-parties or clients, in order to mitigate the risks associated to the underlying transactions. Swap agreements depend on liquidity needs, based on the terms governing the clients' deposits.

Pursuant to the policies implemented by headquarters, the amounts and terms of all open net positions are subject to close monitoring. As regards those transactions entered into for the account and order of clients, our monitoring focuses on the risk definition, the authority level, and the renewal of lines for each client, where total exposure is controlled on daily basis, based on the price variation of the underlying instrument.

Hedge positions are expressly authorized based on the Treasury's Terms of Reference, and a market-risk monitoring report is generated on daily basis. As regards the interest-rate risk, positions are also limited in terms of currency and PVBP (Present Value Basic Point) ceilings. As of this date, the financial statements under consideration do not include any such transaction.

The accounting and result acknowledgement policies used follow the criteria required under the regulations established in the Accounting Standards and Chart of Accounts for Financial Intermediation Entities issued by the Central Bank of Uruguay.

The balance of transactions to be settled as at December 31, 2011 –assets amounting to Uruguayan Pesos 1.056 million and liabilities amounting to Uruguayan Pesos 950 million represents repurchase transactions entered into with the Central Bank of Uruguay. Under these instruments, the Bank sells the Central Bank of Uruguay local-currency-denominated Uruguayan Government Securities subject to a future repurchase agreement. These transactions are performed within the scope of our management of local-currency-denominated assets and liabilities.

There follows a break-down of current forward transactions as at the date of the financial statements:

	Assets		Liabilities	
Type	Amount of transactions	Balance	Amount of transactions	Balance
By client request	28	324.010	28	321.650
Operations with Central Bank of Uruguay	0	—	0	—
Trading Operations	16	496.471	16	499.700
		820.481		821.350
Operations “REPO” with Central Bank of Uruguay	43	1.055.709	21	949.715
		1.055.709		949.715
Total		**1.876.190**		**1.771.065**

Note 8—Integral Risk Management System

As regards our Bank's exposure to the market risk, in terms of either prices or interest rates, we have followed the corporate guidelines.

Positions are determined on daily basis per currency and line of business, subject to the predetermined maximum daily and monthly exposure ceilings. All additions and deletions to our position and all losses and profits deriving from the various transactions are daily confirmed against the accounting entries and, at least once a month, against the Bank's ledger.

Items are checked individually, based on the predetermined ceilings for each currency and instrument in which the Bank has a position of its own.

In addition, the market risk is subject to a mix of monitoring measurements. On the one hand, through a system used by the Group, we compute the VAR (Value at Risk) and, on the other, we compute the PVBP (Present Value Basic Point), *i.e.,* the loss deriving from a fall in the price of net assets upon the variation of one basic point in the interest rate.

Additional information on our integral risk management system is included in the (unaudited information) Annual Corporate Governance Report required under Section 36.3 of the Compilation of Central Bank available in our website (www.hsbc.com.uy).

Note 9—Trusts ("Fideicomisos")

During this year the bank has not transferred credits to financial trusts.

Note 10—Subsequent events

No subsequent events took place that should be informed following the date of the financial statements.

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KPMG Sociedad Civil
Edificio Torre Libertad
Plaza de Cagancha 1335 - Piso 7
11.100 Montevideo - Uruguay
Casilla de Correo 646

Teléfono: 598 2902 4546
Telefax: 598 2902 1337
E-mail: kpmg@kpmg.com.uy
http//: www.kpmg.com/Uy/es

Independent Auditors' Report

To the Board of Directors of
HSBC Bank (Uruguay) S.A.

We have audited the accompanying financial statements of HSBC Bank (Uruguay) S.A., which comprise the balance sheet as at December 31, 2011 and the income statement, cash flow statement and statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards and valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and with standards established by Central Bank of Uruguay. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Bank (Uruguay) S.A. as at December 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with accounting standards and valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay.

KPMG

Emphasis of matters that do not affect our opinion

The regulations and criteria mentioned in the preceding paragraph constitute the legal accounting standards enacted in Uruguay for the presentation of financial statements of entities regulated by the Central Bank of Uruguay. The differences which could eventually arise between these financial statements and those which could be prepared in accordance with International Financial Reporting Standards (IFRS) have not been determined nor quantified.

Montevideo, March 26, 2012

KPMG

Franklin Sibille
Partner
C.J.y P.P.U. 48.719

HSBC Bank (Uruguay) S.A.

BALANCE SHEET
AS OF DECEMBER 31, 2010
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
ASSETS	**2.868.689**	**13.370.343**	**16.239.032**
I) Cash and cash equivalents	**277.638**	**2.699.411**	**2.977.049**
1.- Cash and cash equivalents	277.638	2.555.258	2.832.896
1.1.- Cash	159.802	197.770	357.572
1.2.- Central Bank of Uruguay	51.420	2.170.813	2.222.233
1.3.- Other financial institutions in Uruguay	4.043	32.396	36.439
1.4.- Clearing documents	62.373	154.279	216.652
2.- Other foreign financial institutions	—	144.153	144.153
II) Securities	**4.894**	**1.864.966**	**1.869.860**
1.- Securities held for trading	4.894	534.554	539.448
1.1.- Uruguayan	4.894	233.342	238.236
1.2.- Foreign	—	301.212	301.212
2.- Securities available for sale	—	1.330.412	1.330.412
2.1.- Uruguayan	—	471.632	471.632
2.2.- Foreign	—	858.780	858.780
3.- Securities held to maturity	—	—	—
3.1.- Uruguayan	—	—	—
3.2.- Foreign	—	—	—
III) Credits (net of allowances)	**2.351.160**	**8.805.506**	**11.156.666**
1.- Outstanding credits	2.082.241	8.738.385	10.820.626
1.1.- Financial sector	1.226.125	1.942.256	3.168.381
1.1.1.- Central Bank of Uruguay	1.226.125	435.797	1.661.922
1.1.2.- Other financial institutions in Uruguay	—	16.275	16.275
1.1.3.- Other foreign financial institutions	—	956.289	956.289
1.1.4.- Head office, branches and related institutions	—	533.895	533.895
1.2.- Non financial sector	856.116	6.796.129	7.652.245
1.2.1.- Uruguayan public sector	10.902	324.835	335.737
1.2.2.- Non resident public sector	—	—	—
1.2.3.- Resident private sector	843.021	6.382.357	7.225.378
1.2.4.- Non resident private sector	2.193	88.937	91.130
2.- Forward contracts	220.691	25.892	246.583
2.1.- Residents	220.691	7.475	228.166
2.2.- Non residents	—	18.417	18.417
3.- Overdue	357	683	1.040
3.1.- Financial sector	—	—	—
3.2.- Non financial sector	357	683	1.040
3.2.1.- Uruguayan public sector	—	—	—
3.2.2.- Non resident public sector	—	—	—
3.2.3.- Resident private sector	357	681	1.038
3.2.3.1.- Overdue loans	295	681	976
3.2.3.2.- Under management for recovery	62	—	62
3.2.3.3.- Delinquent loans	—	—	—
3.2.4.- Non resident private sector	—	2	2
3.2.4.1.- Overdue loans	—	2	2
3.2.4.2.- Under management for recovery	—	—	—
3.2.4.3.- Delinquent loans	—	—	—
4.- Other accounts receivable	47.871	40.546	88.417

HSBC Bank (Uruguay) S.A.

BALANCE SHEET
AS OF DECEMBER 31, 2010
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
IV) Investments	**712**	**460**	**1.172**
1.- Uruguayan	712	460	1.172
2.- Foreign	—	—	—
V) Fixed assets	**201.486**	**—**	**201.486**
VI) Intangible assets	**32.799**	**—**	**32.799**
LIABILITIES	**2.404.574**	**13.131.412**	**15.535.986**
I) Obligations	**2.404.574**	**13.131.412**	**15.535.986**
1.- From financial intermediation	2.054.834	13.001.500	15.056.334
1.1.- Financial Sector	87.560	1.238.902	1.326.462
1.1.1.- Central Bank of Uruguay	—	2	2
1.1.2.- Other financial institutions in Uruguay	87.107	28.287	115.394
1.1.3.- Other foreign financial institutions	—	77.747	77.747
1.1.4.- Head Office, branches and related institutions	453	1.132.866	1.133.319
1.2.- Non financial sector	1.967.274	11.762.598	13.729.872
1.2.1.- Uruguayan public sector	107.429	5.448	112.877
1.2.2.- Resident private sector	1.824.096	5.738.328	7.562.424
1.2.3.- Non residents	35.749	6.018.822	6.054.571
2.- Forward contracts	207.307	17.445	224.752
2.1.- Residents	197.337	8.991	206.328
2.2.- Non residents	9.970	8.454	18.424
3.- Other accounts payable	32.155	18.961	51.116
4.- Accrued Expenses	99.816	66.243	166.059
5.- Allowances	10.462	27.263	37.725
SHAREHOLDERS' EQUITY	**703.046**	**—**	**703.046**
1.- Common Stock	1.091.123	—	1.091.123
2.- Adjustments to shareholders' equity	134.257	—	134.257
3.- Reserves	—	—	—
4.- Retained deficit	(270.249)	—	(270.249)
5.- Current year results	(252.085)	—	(252.085)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3.107.620**	**13.131.412**	**16.239.032**
CONTINGENT ACCOUNTS	**196.981**	**790.919**	**987.900**
1.- Credit lines agreed	55.660	249.594	305.254
1.1.- Credit cards	35.997	168.776	204.773
1.2.- Current accounts	19.633	18.125	37.758
1.3.- Others	30	62.693	62.723
2.- Guarantees granted	141.321	125.133	266.454
3.- Foreign trade	—	416.192	416.192
4.- Options	—	—	—
5.- Other contingencies	—	—	—
MEMORANDUM ACCOUNTS	**1.446.030**	**35.089.447**	**36.535.477**
1.- Guarantees received	425.400	11.903.919	12.329.319
2.- Custody of goods and securities	1.019.265	6.624.395	7.643.660
3.- Foreign trade	—	2.694.218	2.694.218
4.- Other memorandum accounts	1.365	13.866.915	13.868.280

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2010
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial income before exchange differences and provisions	**234.955**	**401.945**	**636.900**
1.- Outstanding credits from financial intermediation	**172.121**	**271.335**	**443.456**
1.1.- Financial sector	116.208	35.200	151.408
1.1.1.- Uruguayan financial institutions	116.208	19.081	135.289
1.1.2.- Foreign financial institutions	—	16.119	16.119
1.2.- Non financial sector	55.913	236.135	292.048
1.2.1.- Uruguayan public sector	1.021	12.188	13.209
1.2.2.- Non resident public sector	—	—	—
1.2.3.- Resident private Sector	54.870	220.697	275.567
1.2.4.- Non resident private sector	22	3.250	3.272
2.- Lease, readjustments and quotation differences of securities	**25.154**	**128.512**	**153.666**
2.1.- Securities held for trading	25.154	92.320	117.474
2.1.1.- Uruguayan	25.154	89.967	115.121
2.1.2.- Foreign	—	2.353	2.353
2.2.- Securities available for sale	—	36.192	36.192
2.2.1.- Uruguayan	—	27.791	27.791
2.2.2.- Foreign	—	8.401	8.401
2.3.- Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Obligations readjustment	**—**	**—**	**—**
3.1.- Financial sector	—	—	—
3.2.- Non financial sector	—	—	—
4.- Forward contracts	**37.584**	**—**	**37.584**
4.1.- Financial sector	36.035	—	36.035
4.1.1.- Uruguayan	11.256	—	11.256
4.1.2.- Foreign	24.779	—	24.779
4.2.- Non financial sector	1.549	—	1.549
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	1.549	—	1.549
4.2.3.- Non residents	—	—	—
5.- Overdue loans	**96**	**2.098**	**2.194**
5.1.- Financial sector	—	10	10
5.2.- Non financial sector	96	731	827
5.2.1.- Uruguayan public sector	—	—	—
5.2.2.- Non resident public sector	—	—	—
5.2.3.- Resident private sector	96	727	823
5.2.3.1.- Overdue loans	88	584	672
5.2.3.2.- Under management for recovery	4	12	16
5.2.3.3.- Delinquent loans	4	131	135
5.2.4.- Non resident private sector	—	4	4
5.2.4.1.- Overdue loans	—	4	4
5.2.4.2.- Under management for recovery	—	—	—
5.2.4.3.- Delinquent loans	—	—	—
5.3.- Debtors refinanced under law 16.243	—	—	—
5.4.- Recovery of doubtful debtors	—	1.357	1.357

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2010
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial losses before exchange differences and provisions	**(115.617)**	**(130.778)**	**(246.395)**
1.- Obligations	**(96.956)**	**(33.385)**	**(130.341)**
1.1.- Financial sector	(26.841)	(14.048)	(40.889)
1.1.1.- Uruguayan financial institutions	(26.841)	(509)	(27.350)
1.1.2.- Foreign financial institutions	—	(13.539)	(13.539)
1.2.- Non financial sector	(70.115)	(19.337)	(89.452)
1.2.1.- Uruguayan public sector	(8.099)	(7)	(8.106)
1.2.2.- Resident private sector	(60.771)	(7.433)	(68.204)
1.2.3.- Non residents	(1.245)	(11.897)	(13.142)
2.- Readjustments and quotation differences of securities	**(18.485)**	**(97.393)**	**(115.878)**
2.1. Securities held for trading	(18.485)	(97.393)	(115.878)
2.1.1.- Uruguayan	(18.485)	(96.586)	(115.071)
2.1.2.- Foreign	—	(807)	(807)
2.2. Securities available for sale	—	—	—
2.2.1.- Uruguayan	—	—	—
2.2.2.- Foreign	—	—	—
2.3. Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Credit readjustment	**—**	**—**	**—**
3.1.- Outstanding	—	—	—
3.2.- Overdue	—	—	—
4.- Forward contracts	**(176)**	**—**	**(176)**
4.1.- Financial sector	(59)	—	(59)
4.1.1.- Uruguayan	(50)	—	(50)
4.1.2.- Foreign	(9)	—	(9)
4.2.- Non financial sector	(117)	—	(117)
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	(117)	—	(117)
4.2.3.- Non residents	—	—	—
I) Financial margin before exchange differences and provisions	**119.338**	**271.167**	**390.505**
Foreign exchange differences from assets and liabilities valuation	**(30.757)**	**—**	**(30.757)**
1.- Income	8.840.627	—	8.840.627
2.- Losses	(8.871.384)	—	(8.871.384)
II) Financial margin before provisions	**88.581**	**271.167**	**359.748**
PROVISIONS	**(13.885)**	**3.554**	**(10.331)**
Decrease of provisions and credit revaluation	**426.992**	**468.913**	**895.905**
1.- Decrease of provisions	123.002	468.913	591.915
1.1.- Residents	75.121	384.322	459.443
1.2.- Non residents	47.881	84.591	132.472
1.3.- General provisions	—	—	—
2.- Credit revaluation	303.990	—	303.990

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2010
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Increase of provisions and credit depreciation	**(440.877)**	**(465.359)**	**(906.236)**
1.- Provisions	(195.410)	(465.359)	(660.769)
1.1.- Residents	(104.524)	(424.545)	(529.069)
1.2.- Non residents	(90.886)	(40.814)	(131.700)
1.3.- General provisions	—	—	—
2.- Credits depreciation	(245.467)	—	(245.467)
III) Financial margin	**74.696**	**274.721**	**349.417**
COMMISSION INCOME	**13.796**	**136.300**	**150.096**
1.- Residents	12.175	93.077	105.252
2.- Non residents	1.621	43.223	44.844
COMMISSION EXPENSES	**(15.586)**	**(11.821)**	**(27.407)**
1.- Residents	(15.307)	(4.321)	(19.628)
2.- Non residents	(279)	(7.500)	(7.779)
Commission margin	**(1.790)**	**124.479**	**122.689**
OTHER RESULTS FROM EXCHANGE DIFFERENCES	**58.943**	**114.592**	**173.535**
1.- From operations	60.495	114.592	175.087
1.1.- Income	148.848	118.730	267.578
1.2.- Losses	(88.353)	(4.138)	(92.491)
2.- From valuation of other assets and liabilities in foreign currency	(1.552)	—	(1.552)
2.1.- Income	48.549	—	48.549
2.2.- Losses	(50.101)	—	(50.101)
IV) Gross result	**131.849**	**513.792**	**645.641**
OPERATING INCOME	**14.834**	**477**	**15.311**
1.- Income from other accounts receivable	8	6	14
1.1.- Residents	8	6	14
1.2.- Non residents	—	—	—
2.- Investment in local shares	—	—	—
3.- Foreign branches	—	—	—
4.- Leases	—	—	—
5.- Other operating income	1.201	471	1.672
5.1.- Residents	1.201	471	1.672
5.2.- Non residents	—	—	—
6.- Income from accounting restatements	—	—	—
7.- Income from inflation adjustment	13.625	—	13.625
OPERATING LOSSES	**(698.316)**	**(214.363)**	**(912.679)**
1.- Personnel remunerations and social charges	(443.852)	(21.234)	(465.086)
2.- Insurance expenses	(2.721)	(2.810)	(5.531)
3.- Depreciations	(64.527)	—	(64.527)
4.- Taxes and duties	(22.708)	—	(22.708)
5.- Other operating expenses	(124.084)	(189.194)	(313.278)
6.- Losses from other operations	(1.176)	(1.125)	(2.301)
7.- Investments in local shares	—	—	—
8.- Foreign branches	—	—	—
9.- Losses from accounting restatements	—	—	—
10.- Losses from inflation adjustments	(39.248)	—	(39.248)
11.- Other accounts payable	—	—	—
V) Exploitation margin	**(551.633)**	**299.906**	**(251.727)**
EXTRAORDINARY RESULTS	**11**	**(297)**	**(286)**
1.- Extraordinary income	11	16	27
2.- Extraordinary losses	—	(313)	(313)
PREVIOUS YEAR RESULTS	**—**	**—**	**—**
1.- Income	—	—	—
2.- Losses	—	—	—
VI) RESULTS FOR CURRENT YEAR BEFORE INCOME TAX	**(551.622)**	**299.609**	**(252.013)**
Income Tax	(72)	—	(72)
VII) Results for current year after income tax	**(551.694)**	**299.609**	**(252.085)**

HSBC Bank (Uruguay) S.A.

Statement of Changes in Shareholder's equity
for the year ended December 31, 2010
In Thousands of Uruguayan Pesos

Changes over the year	COMMON STOCK	CAPITAL CONTRIBUTION	ADJUSTMENTS TO SHARE-HOLDERS' EQUITY	RESERVES	RETAINED EARNINGS	TOTAL SHARE-HOLDERS' EQUITY
BALANCE AS OF 12.31.09	**317.143**	**383.900**	**88.934**	**—**	**(270.249)**	**519.728**
Contributed capital	—	390.080	—	—	—	390.080
Profit allocation	—	—	—	—	—	—
Advanced payment of results	—	—	—	—	—	—
Restatements:	—	—	—	—	—	—
- Revaluation of fixed assets	—	—	12.936	—	—	12.936
- Inflation adjustment	—	—	25.622	—	—	25.622
- Variation in the fair value of securities available for sale	—	—	6.765	—	—	6.765
- Accounting restatements	—	—	—	—	—	—
- Variation in the fair value of investments due to equity adjustments in controlled companies and branches	—	—	—	—	—	—
Results for fiscal year	—	—	—	—	(252.085)	(252.085)
BALANCE AS OF 12.31.10	**317.143**	**773.980**	**134.257**	**—**	**(522.334)**	**703.046**

HSBC Bank (Uruguay) S.A.

Statement of Cash Flows
for the year ended December 31, 2010
In Thousands of Uruguayan Pesos

	12.31.10
CASH FLOWS FROM OPERATING ACTIVITIES	
Gain (loss) for the year	**(252.085)**
Adjustments that reconcile the net profit of the year with the net cash provided by operating activities:	**260.107**
Depreciation of fixed assets	39.410
Amortization of intangible assets	25.117
Effects of changes in monetary correction and foreign currency translation	57.930
Difference in quotations and value adjustments for securities held for trading and securities available for sale	17.324
Adjustment to cost of securities held to maturity	—
Securities allowances	—
Securities income accrued not received	(5.404)
Accrued expenses	74.943
Accrued interest income not received	(22.751)
Allowance for doubtful debtors	68.855
Accrued income not received	3.955
Accrued interest expense not paid	728
Not accrued income received	—
Not accrued interest paid	—
Result from sales of fixed assets	—
Result from booking premises at their market value	—
(INCREASE) DECREASE IN OPERATING ASSETS	**(2.856.996)**
Securities (held for trading and available for sale)	(1.120.353)
Credits—Financial Sector (*)	1.462.383
Credits—Non Financial Sector (*)	(3.179.471)
Other assets	(19.555)
INCREASE (DECREASE) IN OPERATING LIABILITIES	**4.516.276**
Obligations—Financial Sector (**)	457.390
Obligations—Non Financial Sector (**)	4.029.080
Other liabilities	23.133
Net variation of forward contracts	**6.673**
Net cash provided (used) by operating activities	**1.667.302**
CASH FLOWS FROM INVESTING ACTIVITIES	
Net cash flow from securities held to maturity	—
Net cash flow from fixed assets	(36.256)
Increase in intangible assets	(17.466)
Net cash flow from special investments	(11)
Net cash flow from other investments	11
Net cash provided (used) by investing activities	**(53.722)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contribution /(profit allocation)	390.080
Net cash flow from subordinated loans	106.074
Debentures received	—
Other obligations originated by financing activities	—
Net cash provided (used) by financing activities	**496.154**
Net increase (decrease) in cash and cash equivalents	**2.109.734**
Exchange differences generated from cash and cash equivalents	(25.108)
Cash and cash equivalents at the beginning of the year	**892.423**
Cash and cash equivalents at the end of the year	**2.977.049**

(*) Except forward contracts

(**) Except subordinated loans, debentures and forward contracts.

Notes to the Financial Statements

Note 1—Approval by the Stockholders' Meeting

Financial Statements for the year ended December 31, 2010, have not yet been considered by the Ordinary Stockholders' Meeting in accordance with article 344 of Law N° 16.060 dated September 4, 1989.

Note 2—Information about the financial institution

2.1 Legal nature

HSBC Bank (Uruguay) S.A. ("the Bank"), a subsidiary of HSBC Latin America Holding (UK) Limited, operates in Uruguay under the legal regime established by Law N° 15.322 dated September 17, 1982 and its subsequent amendments. It was authorized to act as a bank by resolution of the Executive Power as of June 29th, 1987 and authorized by the Central Bank of Uruguay (C.B.U.)

The Central Bank of Uruguay exercises control on banks and monitors compliance with minimum requirements regarding legal cash reserves, credit allowances and capital adequacy.

2.2 Accounting basis

Financial statements are presented in compliance with the regulatory provisions enacted in Uruguay and prepared in accordance with accounting standards, valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay.

Financial statements were prepared on the basis of historical cost, except for assets and liabilities in foreign currency, securities and fixed assets which are valued according to the criteria expressed in Note 3, and the result of the year, which has been corrected to reflect the effects of inflation based on a simplified inflation adjustment methodology required by the Central Bank of Uruguay.

Such methodology, in force since January 1, 2009, consists in applying an integral monetary adjustment using, until December 31, 2009, the Wholesale Price Index and afterwards, the Consumer Price Index issued by the National Institute of Statistics. The result of this adjustment is exposed in the Profit and Loss Account in the account "Inflation adjustment result" and in the Balance Sheet in "Adjustments to Shareholders' Equity".

For the preparation of the Statement of Cash Flows, cash and cash equivalents were defined as cash and due from banks.

2.3 Capital and shares

The Bank's authorized capital amounts to $ 1.000.000.000 (Uruguayan Pesos one thousand million).

As at March 30, 2010 the Extraordinary General Assembly decided to set the authorized capital in $ 1.800.000.000 (Uruguayan Pesos one thousand and eight hundred million) represented by ordinary shares of $ 1 (one Uruguayan Peso) each.

The subscribed capital, which was totally paid in, amounts to $ 317.142.885 and is represented by ordinary shares of $ 1 (one Uruguayan Peso) each.

As at August 1st, 2008 the Extraordinary General Assembly decided to contribute capital in the amount of US$ 20.000.000 (twenty million dollars) equivalent to $ 383.900.000 (Uruguayan Pesos three hundred eighty three million nine hundred thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 33.151.750,40 (Uruguayan Pesos thirty three million one hundred fifty one thousand seven hundred fifty with 40/100) . This amount comes from the special balance sheet according to article 287 of the Law 16.060.

As at March 30, 2010 the Extraordinary General Assembly decided to contribute capital in the amount of US$ 20.000.000 (twenty million dollars) equivalent to $ 390.080.000 (Uruguayan Pesos three hundred ninety million eighty thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 42.487.891,45 (Uruguayan Pesos forty two million four hundred eighty seven thousand eight hundred ninety one with 45/100).

HSBC Latin America Holding (UK) Limited owns 100% of the Bank's shares.

Additional information regarding the Bank's ownership structure is included in the Corporate Government's Annual Report (non audited information) required by article 36.3 of the Compilation of Central Bank Regulations, which is available on the Bank's website.

2.4 Board of Directors and Executive Staff

The Bank's Board of Directors is comprised as follows:

Virginia Suárez	President—General Manager
Leonel Puppo	Director—Vice-President
Frank L. Lawson	Director
Alan Wilkinson	Director
Mónica Suffia	Director—Deputy General Manager

The Executive Staff, defined in accordance with article 38.11 of the Compilation of Central Bank Regulations, is comprised of:

Enrique Goyetche	Exchange Desk Manager
José Francisco Flores Junco	Finance Manager
José Miranda	General Accountant
Patricia Dopazo	Planning Manager
José Luis Pelaez	Personal Financial Services Manager
Alberto Mello	Risk Manager
Fernando Lacurcia	Corporate Banking Manager
Gonzalo Berro	Internal Audit Manager
Martín Meharu	Compliance Officer
Christopher Kenneth Groucott	Member of the Audit Committee
Diego Gandioli	Branches Manager
Daniel Lima	Operations Manager

Since October, 2010, Ec. José Francisco Flores Junco takes the responsibilities of de Financial Management and Reporting to Central Bank. At the same moment, Cr. José Miranda started to take responsibilities in different projects of the Group, taking definitely these responsibilities in February, 2011.

Additional information regarding the Bank's management and control structure is included in the Corporate Government's Annual Report (non audited information) required by article 36.3 of the Compilation of Central Bank Regulations, which is available on the Bank's website.

Notes to the Financial Statements

Note 3—Information regarding assets and liabilities 3.1 Foreign currency translation

Assets and liabilities denominated in foreign currency are translated into U.S. Dollars at the exchange rates published by the foreign exchange desk of the Central Bank of Uruguay as at the close of the year.

The resulting amounts in US Dollars are then translated into local currency at the exchange rate as at the end of the year (US$ 1 = $ 20,094).

3.2 Foreign currency position

The global position in foreign currency as at December 31, 2010 is broken down as follows:

Currency	Assets in foreign currency	Liabilities in foreign currency	Net position in foreign currency		Equivalent net position in US$
			Asset	Liability	
United States Dollars	630.849	619.066	11.783	—	11.783
Argentine Pesos	162	95	67	—	17
Real	17	—	17	—	10
Euro	24.272	24.260	12	—	16
Other	—	—	—	—	65
TOTAL					**11.891**

3.3 Securities

Securities are valued in accordance with criteria established in Rule 2.2 of the Accounting Standards and Chart of Accounts for Financial Institutions as described below:

Securities held for trading are valued at their market value including transaction costs and deducting accrued interests. Market value adjustments are included in the result of the year.

Securities available for sale are valued at their fair value including transaction costs and deducting accrued interests. Fair value adjustments are included directly in equity until such securities are sold or refunded, and at that moment the adjustments are charged to the result of the year.

The company does not hold Securities held to maturity.

The accrued interest receivable is included in the account “Securities”.

The interests’ accrual is included in the results for the year.

Notes to the Financial Statements

The composition of the securities portfolio as at December 31, 2010 is as follows:

SECURITIES	Currency of issuance	Amounts in thousands of $ Book Value	Market Value
Securities held for trading		**539.448**	**539.448**
Uruguayan Government Securities		236.123	236.123
Uruguayan Government Securities	Uruguayan Pesos	4.850	4.850
Uruguayan Government Securities	Euro	—	—
Uruguayan Government Securities	Dollars	231.273	231.273
Foreign Government Securities		—	—
U.S.A.	Dollars	—	—
Private Securities		301.212	301.212
Uruguay	Uruguayan Pesos	—	—
Bahamas	Dollars	301.212	301.212
Accrued interest receivable from Uruguayan Government Securities		2.113	2.113
Accrued interest receivable from Foreign Government Securities		—	—
Accrued interest receivable from Private Securities		—	—
Securities available for sale		**1.330.412**	**1.330.412**
Uruguayan Government Securities		465.738	465.738
Uruguayan Government Securities	Dollars	441.073	441.073
Uruguayan Government Securities	Euro	24.665	24.665
Foreign Government Securities		854.128	854.128
U.S.A.	Dollars	769.917	769.917
France and Netherlands	Euro	84.211	84.211
Private Securities			
U.S.A.	Dollars	—	—
Accrued interest receivable from Uruguayan Government Securities		5.894	5.894
Accrued interest receivable from Foreign Government Securities		4.652	4.652
Accrued interest receivable from Private Securities		—	—
Impairment provisions		—	—
Securities held to maturity		—	—
TOTAL SECURITIES		**1.869.860**	**1.869.860**
SECURITIES ISSUED BY THE CENTRAL BANK OF URUGUAY (1)			
Securities held for trading		372.740	372.740
		372.740	372.740
Securities available for sale		850.460	850.460
		850.460	850.460
Accrued interest receivable from Central Bank of Uruguay Securities		2.924	2.924
TOTAL SECURITIES ISSUED BY THE CENTRAL BANK OF URUGUAY		**1.226.124**	**1.226.124**

(1) Recorded under Outstanding credits to the Financial Sector.

Notes to the Financial Statements

3.4 Limitations to the free disposal of assets or equity and restrictions to property rights

There are no limitations to the free disposal of assets or equity, except for Uruguayan Government Securities in Uruguayan Pesos used in operations “REPO” with Central Bank of Uruguay detailed in Note 7.

Nonetheless, in accordance with article 51 of the Compilation of Regulations of Operations and with the purpose of being able to use the line of credit established in article 49 of said compilation, the Bank has set up an irrevocable pledge with displacement over the entirety of the financial instruments, current accounts and securities, with free disposal, that the Bank has booked or deposited in the Central Bank, and that were either issued by the Central Bank or by the Uruguayan Government. As at December 31, 2010, the bank has not used the line of credit established in the mentioned articles.

3.5 Assets and liabilities with restatement clause

We detail below the Bank’s assets and liabilities with restatement clause:

In thousands of Uruguayan pesos **Restatement factor**	**Assets**	**Liabilities**
Consumer Price Index	2.654	—
Indexed Units (I.U.)	517.183	75.032
Total	**519.837**	**75.032**

3.6 Credit Risks—Financial Sector and Non-Financial Sector

The credit portfolio has been classified in accordance with the criteria established in Rule 3.8 of the Accounting Standards and Chart of Accounts for Financial Institutions issued by the Central Bank of Uruguay.

Receivables include the receivable capital amount of each transaction and the corresponding interest accrued from thereon.

Unpaid transactions of the Non Financial Sector are booked in “Overdue loans” after a period of 60 days from their expiration; those corresponding to the Financial Sector are booked in “Overdue loans” when they have 1 day of expiration.

Loans are booked as “Under management for recovery” after 90 days past due in the case of Consumption loans, 180 days in the case of Mortgage Loans and 120 days in the case of Commercial Loans and Financial Sector Loans.

Loans are booked as “Delinquent loans” after 120 days past due in the case of Consumption loans, 240 days in the case of Mortgage Loans and 180 days in the case of Commercial Loans and Financial Sector Loans.

In accordance with the risk definition included in article 65 of the Compilation of Central Bank Regulations, forward contracts are considered at 10% of their value.

The allowances necessary to cover eventual losses derived from bad debts have been booked, in accordance with Rule 3.12 of the Accounting Standards and Chart of Accounts for Financial Institutions. In order to determine the amount to be provisioned, guarantees admitted by Rules 3.16 and 3.17 of such Accounting Standards have been deducted.

Notes to the Financial Statements

Risks of Non-Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Credits local currency	Credits foreign currency (equiv. local currency)	Contin-gencies	TOTAL RISK	Computed guarantees	Constituted Allowances (1) Minimum %	Constituted Allowances (1) Amount	Risk net of allowances
1A Op. with liquidity collateral	1.563	675.898	31.506	**708.967**	697.468	0,0%	1.654	**707.313**
1C Debtors with strong repayment capacity	599.362	3.631.223	658.094	**4.888.679**	940.934	Equal to or more than 0,5% and less than 3%	23.694	**4.864.985**
2A Debtors with acceptable repayment capacity	99.537	1.466.565	111.008	**1.677.110**	520.092	Equal to or more than 3% and less than 7%	35.189	**1.641.921**
2B Debtors with potential repayment problems	90.442	1.009.034	72.927	**1.172.403**	374.819	Equal to or more than 7% and less than 20%	56.982	**1.115.421**
3 Debtors with impaired repayment capacity	6.661	128.867	10.328	**145.856**	29.755	Equal to or more than 20% and less than 50%	21.758	**124.098**
4 Debtors with highly compromised repayment capacity	82.354	18.513	233	**101.100**	74.248	Equal to or more than 50% and less than 100%	19.037	**82.063**
5 Irrecoverable	890	531	191	**1.612**	—	100%	1.602	**10**
SUBTOTAL (2)	**880.809**	**6.930.631**	**884.287**	**8.695.727**	**2.637.316**		**159.916**	**8.535.811**
Other accounts receivable	47.796	29.773	—	**77.569**	—		—	**77.569**
90% forward contracts and not accrued forward contracts' losses	—	7.234	—	**7.234**	—		—	**7.234**
Other contingencies	—	—	—	**—**	—		—	**—**
TOTAL	**928.605**	**6.967.638**	**884.287**	**8.780.530**	**2.637.316**		**159.916**	**8.620.614**

(1) In accordance with Rule 3.12 some transactions are not provisioned.

(2) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value.

Notes to the Financial Statements

Risks Composition of Non-Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Outstanding	Allowances	Overdue credits	Allowances	Other accounts receivable	Allowances	Contingencies	Allowances
1A Op. with liquidity collateral	677.428	1.653	—	—	33	—	31.506	1
1C Debtors with strong repayment capacity	4.222.126	20.593	—	—	8.459	294	658.094	2.807
2A Debtors with acceptable repayment capacity	1.564.987	32.151	—	—	1.115	6	111.008	3.032
2B Debtors with potential repayment problems	1.099.476	52.405	—	—	—	—	72.927	4.577
3 Debtors with impaired repayment capacity	133.567	19.884	779	75	1.182	54	10.328	1.745
4 Debtors with highly compromised repayment capacity	100.214	18.628	653	316	—	—	233	93
5 Irrecoverable	229	228	1.142	1.142	50	42	191	190
SUBTOTAL (1)	**7.798.027**	**145.542**	**2.574**	**1.533**	**10.839**	**396**	**884.287**	**12.445**
Other accounts receivable	—	—	—	—	77.569	—	—	
90% forward contracts and not accrued forward contracts' losses	7.234	—	—	—	—	—	—	
Other contingencies	—	—	—	—	—	—	—	
TOTAL	**7.805.261**	**145.542**	**2.574**	**1.533**	**88.408**	**396**	**884.287**	**12.445**

(1) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value.

Notes to the Financial Statements

Risks of Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Demand Deposits Local Currency	Demand Deposits Foreign Currency (equiv. local currency)	Credits Local currency	Credits Foreign currency (equiv. local currency)	Contin-gencies	Other accounts receivable	TOTAL RISK	Computed guarantees	Constituted Allowances (1) Minimum %	Constituted Allowances (1) Amount	Risk net of allowances
1A Outstanding resident debtors or non-residents BBB+ or higher	55.463	2.266.387	22.069	1.476.824	41.355	304	**3.862.402**	1.041	0,0%	1.005	**3.861.397**
1B Non-resident debtors with very strong repayment capacity	—	4.397	—	245.765	37.397	25	**287.584**	—	Equal to or more than 0,2% and less than 0,5%	545	**287.039**
1C Non-resident debtors with strong repayment capacity	—	75.974	—	187.371	8.858	56	**272.259**	—	Equal to or more than 0,5% and less than 3%	491	**271.768**
2A Non-resident debtors with acceptable repayment capacity	—	—	—	13.053	3.670	14	**16.737**	—	Equal to or more than 3% and less than 7%	502	**16.235**
2B Non-resident debtors with potential repayment problems	—	602	—	24.114	12.331	—	**37.047**	—	Equal to or more than 7% and less than 20%	2.563	**34.484**
3 Non-resident debtors with impaired repayment capacity	—	—	—	—	—	—	**—**	—	Equal to or more than 20% and less than 50%	—	**—**
4 Non-resident debtors with highly compromised repayment capacity	—	—	—	—	—	—	**—**	—	Equal to or more than 50% and less than 100%	—	**—**
5 Irrecoverable	—	—	—	—	—	—	**—**	—	100%	—	**—**
SUBTOTAL (2)	**55.463**	**2.347.360**	**22.069**	**1.947.127**	**103.611**	**399**	**4.476.029**	**1.041**		**5.106**	**4.470.923**
Other accounts receivable	—	—	—	—	—	—	**—**	—		—	
90% forward contracts and not accrued forward contracts' losses	—	—	198.622	16.575	—	—	**215.197**	—		—	**215.197**
Other contingencies	—	—	—	—	—	—	**—**	—		—	**—**
TOTAL	**55.463**	**2.347.360**	**220.691**	**1.963.702**	**103.611**	**399**	**4.691.226**	**1.041**		**5.106**	**4.686.120**

(1) In accordance with Rule 3.12, some transactions are not provisioned.

(2) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value. Securities issued by the Central Bank of Uruguay (detailed in Note 3.3) are not considered.

Notes to the Financial Statements

Risks Composition of Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Demand Deposits	Outstanding Credits	Overdue Credits	Contingencies	Other accounts receivable	Total Risk
1A Outstanding resident debtors or non-residents BBB+ or higher	2.321.850	1.498.893	—	41.355	304	3.862.402
1B Non-resident debtors with very strong repayment capacity	4.397	245.765	—	37.397	25	287.584
1C Non-resident debtors with strong repayment capacity	75.974	187.371	—	8.858	56	272.259
2A Non-resident debtors with acceptable repayment capacity	—	13.053	—	3.670	14	16.737
2B Non-resident debtors with potential repayment problems	602	24.114	—	12.331	—	37.047
3 Non-resident debtors with impaired repayment capacity	—	—	—	—	—	—
4 Non-resident debtors with highly compromised repayment capacity	—	—	—	—	—	—
5 Irrecoverable	—	—	—	—	—	—
SUBTOTAL (1)	**2.402.823**	**1.969.196**	**—**	**103.611**	**399**	**4.476.029**
Other accounts receivable	**—**	**—**	**—**	**—**	**—**	**—**
90% forward contracts and not accrued forward contracts' losses	**—**	**215.197**	**—**	**—**	**—**	**215.197**
TOTAL	**2.402.823**	**2.184.393**	**—**	**103.611**	**399**	**4.691.226**

(1) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value. Securities issued by the Central Bank of Uruguay (detailed in Note 3.3) are not considered.

3.7 Allowance for loan losses

The amounts recorded in allowance for loan losses as at December 31, 2010 of \$ 188.226 thousand is as follows:

- \$ 150.501 thousand deducted from the respective asset accounts;
- \$ 14.511 thousand in the liability account "Allowances" (corresponding to contingencies accounts);
- \$ 23.214 thousand in the liability account "Allowances" (corresponding to statistical reserve).

Notes to the Financial Statements

The following chart shows the movement in the asset account “Allowance for doubtful debtors”, and in the liability accounts “Allowance for contingency accounts”, “General Provisions” and “Statistical Reserve”.

In thousands of Uruguayan pesos

Allowances for:	Opening balances	Additions	Deductions	Write offs against debt	Other net movements	Final balances
Outstanding Credits—Financial Sector (1)	1.252	11.729	10.340	—	389	3.030
Outstanding Credits—Non Financial Sector	84.507	548.606	494.791	—	7.220	145.542
Other accounts receivable	513	2.432	2.191	—	(358)	396
Overdue loans—Financial Sector	—	—	—	—	—	—
Overdue loans—Non Financial Sector	20	6.297	5.856	—	(119)	342
Under management for recovery	1	1.302	1.267	—	24	60
Delinquent loans	7.502	13.341	11.725	5.243	(2.744)	1.131
Allowance for Contingency Accounts	9.160	73.516	65.745	—	(2.420)	14.511
General Provisions	—	—	—	—	—	—
Statistical Reserve	19.675	3.546	—	—	(7)	23.214
TOTAL	**122.630**	**660.769**	**591.915**	**5.243**	**1.985**	**188.226**

(1) Includes Demand Deposits.

3.8 Restructured problematic credit

As at December 31, 2010 the bank does not have restructured credits.

3.9 Investments

The composition of investments as at December 31, 2010 is as follows:

In thousands of Uruguayan pesos

Concept	Total
Assets received in exchange for loan claims	—
Idle premises	—
Participations in capital authorized by the Central Bank of Uruguay (*)	712
Foreign branches	—
Investments in shares	—
Other investments	460
Investment provision	—
TOTAL	**1.172**

(*) The balance of the account “Participations in capital authorized by the Central Bank of Uruguay” corresponds to the Bank’s share in the following company:

BEVSA: Thousand of Uruguayan Pesos 712 which represents 3.84% of the company’s capital. The investment is valued at cost, which does not exceed its equity value based on financial statements prepared in accordance with Uruguayan generally accepted accounting standards.

3.10 Fixed Assets

Fixed assets are accounted for their acquisition cost, restated for inflation applying the change in the Uruguayan Wholesale Price Index (WPI) until December 31st, 2009 and afterwards applying the Consumer Price

Index issued by the National Institute of Statistics, net of the corresponding accumulated depreciation. The net variation generated by the year's restatement (increase or reduction) is booked with credit or debit to the respective equity account.

Depreciations are computed on restated values as at the close of the year, using the following percentages set forth by the Central Bank of Uruguay:

	Annual depreciation rate
Buildings and safekeeping	2%
Furniture, fixtures and fittings	10%
Vehicles	20%
Computer equipment	20%

Reparation and maintenance costs are included in the results of the year.

Depreciation period for "Improvements on leased properties" does not exceed the remaining lease period.

In compliance with Communication 2004/021, the Bank compared the book value of its premises with their market value as at the close of 2010, booking them by the latter in those cases in which the valuations were lower than 90% of the revalued cost, net of depreciations.

We are including below the breakdown of the corresponding balances:

In thousands of Uruguayan pesos

Concept	Cost restated for inflation	Annual depreciation rate (%)	Accumulated depreciation	Depreciation over the year	Net Value	Market Value	Book Value
Owned Fixed Assets	**362.282**		**185.700**	**34.028**	**176.582**	**63.859**	**161.446**
Premises—Lands Premises—Buildings	114.373	2%	38.391	1.321	75.982	63.859	60.846
Furniture, fixtures and fittings	66.741	10%	47.108	4.470	19.633		19.633
Computer equipment	48.636	20%	40.413	3.320	8.223		8.223
Safekeeping boxes	4.630	2%	2.202	93	2.428		2.428
Vehicles	6.393	20%	3.444	1.279	2.949		2.949
Improvements on leased properties	121.509		54.142	23.545	67.367		67.367
Taken in financial leasing	**64.427**		**24.387**	**5.382**	**40.040**		**40.040**
Computer equipment	18.482	20%	12.668	1.194	5.814		5.814
Vehicles	—	—	—	—	—		—
Other	45.945	10%	11.719	4.188	34.226		34.226
Buildings under construction		—			**—**		**—**
TOTAL	**426.709**	**—**	**210.087**	**39.410**	**216.622**	**63.859**	**201.486**

Notes to the Financial Statements

3.11 Intangible assets

The acquisition costs of application software are amortized during 3 years from the initial recognition date.

We are including below the breakdown of the corresponding balances:

In thousands of Uruguayan pesos

Concept	Net Opening Balance	Increases	Amortization over the year	Net Ending Balance
Application software	40.451	17.465	25.117	32.799
Authorized by the Central Bank of Uruguay	—	—	—	—
TOTAL	**40.451**	**17.465**	**25.117**	**32.799**

3.12 Subordinated Debentures

The bank classified debentures subordinated as other liabilities, pursuant to authorization of the Central Bank of Uruguay. Their balance is taken into consideration in order to determine the minimum net equity requirements under Central Bank regulations, as the subordinated debentures comply with the obligatory requirements established by Article 121 of the Compilation of Central Bank Regulations. These requirements are: the debentures' term must exceed five years, the debentures may not be paid in advance without previous consent from the Central Bank of Uruguay and the debentures may not be used as guarantees.

It is clearly stated that, in the case of the bank's liquidation, the holders renounce to their participation rights as creditors and will have preference rights only with respect to the shareholders and in equal conditions to other holders of subordinated loans, if they exist.

On May 27, 2008, after receiving the Central Bank of Uruguay's authorization N° 157/2008/0370 dated April 21, 2008, the Bank issued a subordinated debenture for US$ 7.000 thousand (equivalent to Uruguayan Pesos 140.658 thousand) with HSBC—México S.A. Institución de Banca Múltiple—Grupo Financiero HSBC with maturity date 5/27/2018.

On December 31, 2009, after receiving the Central Bank of Uruguay's authorization N° 157/2009/3563 dated December 30, 2009, the Bank issued a subordinated debenture for US$ 5.000 thousand (equivalent to Uruguayan Pesos 100.470 thousand) with HSBC—Chile with maturity date 12/30/2019.

On December 10, 2010, after receiving the Central Bank of Uruguay's authorization N° 157/2010/2069 dated December 10, 2010, the Bank issued a subordinated debenture for US$ 5.000 thousand (equivalent to Uruguayan Pesos 100.470 thousand) with HSBC—Chile with maturity date 17/12/2020.

As at December 31, 2010, the subordinated loans' principal is the following:

In thousands of Uruguayan pesos

Expiration	Local Currency	Foreign currency (equiv. local currency)	TOTAL
Less than 12 months	—	—	—
Between 12 and 24 months	—	—	—
Between 24 and 36 months	—	—	—
Between 36 and 48 months	—	—	—
Over 48 months	—	341.598	341.598
TOTAL	**—**	**341.598**	**341.598**

Notes to the Financial Statements

3.13 Guarantees granted on liabilities

As at December 31, 2010 there are no guarantees granted on liabilities.

3.14 Distribution of loans and financial intermediation obligations by their maturity based on the remaining period

The Bank's loans and obligations as at December 31, 2010, are exposed in the following chart classified by their maturity calculated as the remaining period at year end:

In thousands of Uruguayan pesos

	Amounts by maturity terms:			
Concept	**Less than 1 year**	**1 to 3 years**	**More than 3 years**	**Total**
Outstanding Credits—Financial Sector (1)	4.342.381	5.727	—	4.348.108
Outstanding Credits—Non Financial Sector (2)	6.376.377	856.067	564.779	7.797.223
Outstanding Credits—Forward contracts	247.146	—	—	247.146
Total Outstanding Credits	**10.965.904**	**861.794**	**564.779**	**12.392.477**
Obligations—Financial Sector (2)	976.532	8.332	341.598	1.326.462
Obligations—Non Financial Sector (2)	13.624.087	30.753	75.032	13.729.872
Obligations—Forward contracts	224.752	—	—	224.752
Total Obligations	**14.825.371**	**39.085**	**416.630**	**15.281.086**

(1) Includes demand deposits. Forward contracts, and other accounts receivable are not included.

(2) Forward contracts and other accounts receivable or payable are not included.

Credits and liabilities in installments are distributed among the three maturity terms computing in each term the balance of the installments that effectively mature in such period.

3.15 Concentration of the Credit risks to the Non Financial Sector

We detail below the Non Financial Sector's Loan portfolio's concentration as at December 31, 2010, including contingent risks. As established in Article 86 of the Compilation of Central Bank Regulations, the definition of risk includes that of an individual or legal entity together with that of the economic group it belongs to.

In thousands of Uruguayan pesos

	Amounts before allowances (net of suspended financial interests)							
	Outstanding	**%**	**Overdue**	**%**	**Contingent**	**%**	**Total**	**%**
10 main risks	1.994.196	26%	—	0%	4.047	0%	1.998.243	23%
50 main risks	4.814.571	62%	—	0%	316.325	36%	5.130.896	59%
100 main risks	6.074.182	78%	—	0%	485.740	55%	6.559.922	75%
Total portfolio	**7.805.261**	**100%**	**2.574**	**100%**	**884.287**	**100%**	**8.692.122**	**100%**

Notes to the Financial Statements

3.16 Concentration of the Credit risks to the Non Financial Sector by economic activity

We detail below the Non Financial Sector's Loan portfolio's concentration classified by economic activity, including contingent risks, as at December 31, 2010.

In thousands of Uruguayan pesos

	Amounts before allowances				
Loan destination	**Outstanding**	**Overdue**	**Other accounts receivable**	**Contingent**	**Total**
Public Sector (1)	332.526	—	—	—	332.526
Agriculture	1.563.400	—	1.735	16.894	1.582.029
Industry	2.335.426	2	4	194.571	2.530.003
Construction	520.214	1	—	150.268	670.483
Commerce	1.337.279	91	2.284	222.448	1.562.102
Hotels and Restaurants	7.080	15	—	207	7.302
Transportation, warehouse and communications	367.745	—	—	13.899	381.644
Financial services	73.729	—	66	646	74.441
Other services	826.803	1.009	1.206	84.781	913.799
Families	342.609	1.212	80	81.103	425.004
Credits to Residents' Total	**7.706.811**	**2.330**	**5.375**	**764.817**	**8.479.333**
Non residents	91.216	244	5.464	119.470	216.394
Credits to Non-Fin. Sector's Total (2)	**7.798.027**	**2.574**	**10.839**	**884.287**	**8.695.727**
Other accounts receivable	—	—	77.569	—	77.569
90% of forward contracts and forward contracts' losses not accrued	7.234	—	—	—	7.234
Other contingencies	—	—	—	—	—
TOTAL	**7.805.261**	**2.574**	**88.408**	**884.287**	**8.780.530**

(1) The Public Sector includes all credits maintained with state owned companies or with the Central Administration, independently from their sector of activity.

(2) It corresponds to all accounts included in the Credit Risk Information.

3.17 Non Financial Sector deposits' concentration

We detail below the non financial sector deposits' concentration as at December 31, 2010.

In thousands of Uruguayan pesos

	Deposits in local and foreign currency (includes interest accrued)			
	Residents		**Non Residents**	
	Amount	**%**	**Amount**	**%**
10 main depositors	1.261.150	17%	878.940	15%
50 main depositors	2.830.234	38%	1.796.677	30%
100 main depositors	3.599.995	48%	2.349.269	39%
Total deposits	**7.536.211**	**100%**	**6.052.933**	**100%**

Additionally, the account Deposits of the Non Financial Sector, includes $ 113.728 thousand corresponding to other obligations with the Non Financial Sector.

Notes to the Financial Statements

3.18 Classification by type of deposit

The non financial sector deposits' breakdown by type is:

In thousands of Uruguayan pesos

	Residents				Non Residents				Total	
Type of deposit	Local Currency	Foreign Currency	Total residents	Annual variation	Local Currency	Foreign Currency	Total non residents	Annual variation	Amount	%
Current accounts	585.038	2.359.989	2.945.027	1.602.415	5.178	138.747	143.925	76.870	3.088.952	23%
Demand deposits	229.368	2.469.299	2.698.667	1.081.185	19.215	5.256.492	5.275.707	1.073.863	7.974.374	59%
Savings accounts	—	—	—	—	—	—	—	—	—	0%
Time deposits	727.870	262.928	990.798	347.238	11.205	331.241	342.446	(457.277)	1.333.244	10%
Other deposits	268.468	624.960	893.428	476.245	—	285.534	285.534	(59.337)	1.178.962	9%
Accrued interest	6.549	1.742	8.291	1.731	150	5.171	5.321	(290)	13.612	0%
Total deposits NFS	**1.817.293**	**5.718.918**	**7.536.211**	**3.508.814**	**35.748**	**6.017.185**	**6.052.933**	**633.829**	**13.589.144**	**100%**

Additionally, the account Deposits of the Non Financial Sector, includes $ 113.728 thousand corresponding to other obligations with the Non Financial Sector.

3.19 Distribution of loans and obligations from financial intermediation with non residents by country

We detail below the distribution of credits and obligations arising from financial intermediation with non residents by country of residence as at December 31, 2010.

In thousands of Uruguayan pesos

	Capital and accrued interests (net of suspended interests)					
Concept	Demand Deposits	Credits Financial Sector (1)	Credits Non Financial Sector (1)	Outstanding Credits Forward Contracts	Other accounts receivable	Total
Argentina	602	5.852	68.603	—	302	75.359
Belgium	13.126	—	49	—	1.362	14.537
Brazil	—	22.536	5.433	—	26	27.995
Germany	34.380	—	34	—	—	34.414
U.S.A.	75.974	710.437	18	1.842	303	788.574
United Kingdom	8.826	416.235	25	—	10	425.096
Other	11.245	338.153	17.298	—	6.519	373.215
Subtotal (2)	**144.153**	**1.493.213**	**91.460**	**1.842**	**8.522**	**1.739.190**
Other accounts receivable	—	—	—	—	79	79
90% forward contracts and forward contracts losses not accrued	—	—	—	16.575	—	16.575
Other contingencies	—	—	—	—	—	—
TOTAL	**144.153**	**1.493.213**	**91.460**	**18.417**	**8.601**	**1.755.844**

(1) Forward contracts and other accounts receivable are not included.

(2) It corresponds only to accounts included in the Credit Risk Information.

Notes to the Financial Statements

Concept	Capital and accrued interests: Obligations Financial Sector (1)	Obligations Non Financial Sector (1)	Forward Contracts	Total
Argentina	664	4.140.085	—	4.140.749
Brazil	11.595	224.566	—	236.161
U.S.A.	52.875	20.929	18.424	92.228
Mexico	141.218	13.322	—	154.540
Panama	584.755	361.563	—	946.318
Chile	201.255	32.663	—	233.918
Other	218.704	1.261.443	—	1.480.147
TOTAL	**1.211.066**	**6.054.571**	**18.424**	**7.284.061**

(1) Forward contracts are not included.

3.20 Transactions with related parties

Related parties are individuals or companies, local or foreign, which form an economic group with the Bank, in accordance with the definition given by article 64, article 86 and article 399.1 of the Compilation of Central Bank Regulations.

At the close of the year the balances with related parties and the results originated by transactions with them were as follows:

Thousands $ (local currency and foreign currency equiv. in local currency)	Placements (1)	Securities	Obligations	Results
Financial Sector				
Local companies	—	—	—	—
Head Office, foreign branches and subsidiaries of Head Office	—	—	—	—
Controlling entity, foreign branches and subsidiaries of the controlling entity	—	—	—	—
Foreign branches	—	—	—	—
Foreign subsidiaries	—	—	—	—
Related banks and other foreign institutions	677.182	—	1.151.743	(96.749)
Non Financial Sector				
Pension fund managers	—	—	—	—
Investment funds	—	—	—	—
Credit administrators	—	—	—	—
Others—individuals	3.999	—	1.637	53
Others—legal entities	—	—	—	—
Net result with related parties				**$(96.696)**

(1) Includes demand deposits.

3.21 Other relevant events

There is no other significant event to disclose.

Notes to the Financial Statements

Note 4—Shareholders' equity

4.1 Capital Adequacy

The Central Bank regulations require the maintenance of a Net Equity Responsibility comprised of the "Essential Net Equity" and the "Complementary Net Equity", with the condition that the "Complementary Net Equity" should not exceed the "Essential Net Equity".

The Net Equity Responsibility should not be lower than the highest of three parameters, as established by Article 14 of the Compilation of Central Bank Regulations (C.C.B.R.).

These three parameters are:

- Capital requirement for credit and market risks.
- Basic Equity Responsibility, determined by article 15 of the Compilation of Central Bank Regulations.
- 4% of the total assets and contingencies, net of allowances.

As at December 31, 2010, the net equity responsibility (essential net equity plus complementary net equity) amounts to $ 999.607 thousand and the Minimum Net Equity Responsibility required by the Central Bank of Uruguay amounts to $ 838.555 thousand, equivalent to the capital requirement for credit and market risks, according to Articles 14.1 and 14.2 of the Compilation of Central Bank Regulations (C.C.B.R.).

In thousands of Uruguayan pesos

Concept	Local Currency
Essential Net Equity (E.N.E.)	**666.405**
—Common stock	317.143
—Capital contribution	773.980
—Adjustments to Shareholders' equity	130.875
—Reserves	—
—Retained earnings	(522.334)
—Cooperative shares with interest (regulated by law N° 17.613)	—
—Credits with Head Office and subsidiaries	—
—Special investments and intangible assets	(33.259)
Complementary Net Equity (C.N.E.)	**333.202**
—Subordinated loans (up to 50% C.N.E.)	333.202
—General allowances (up to 1,25% assets and contingencies weighed up by credit risk)	—
Net Equity Responsibility (N.E.R. = E.N.E. + C.N.E.)	**999.607**
Subordinated loans admitted to hedge market risk (S.L.M.R)	**—**
—Subordinated loans admitted to hedge market risk (up to the maximum between 250% of the E.N.E. assigned to cover said risk and the difference between E.N.E. and C.N.E)	—
Minimum Net Equity Responsibility (M.N.E.R.)	**838.555**
—Capital requirement for credit risk (art. 14.1 C.C.B.R.)	724.899
—Capital requirement for market risk (art. 14.2 C.C.B.R.)	113.656
—4% of assets and contingent accounts (art. 14 C.C.B.R.)	685.227
—Basic Equity Responsibility (art. 15 C.C.B.R.)	278.070
(N.E.R.+S.L.M.R) / M.N.E.R.	**1,19**
(N.E.R. +S.L.M.R) / (Assets weighted according to their risk+12,5 * Market risk)	**0,10**

Notes to the Financial Statements

Note 5—Information regarding results

5.1 Recognition of gains and losses

Income and expenses are recognized on the basis of the accrual principle. Nonetheless, in compliance with Rule 3.3 of the Accounting Standards and Chart of Accounts for Financial Institutions, financial products may not be recognized as profit –unless received in cash– when the corresponding debtors are classified as "Debtors with compromised repayment capacity", "Debtors with highly compromised repayment capacity" or "Irrecoverable Debtors". When, in accordance with regulations in force, a transaction must be reclassified to any of the categories mentioned above, financial products recognized as profit during the period and not effectively collected should be adjusted with credit to the accounts "Financial products in suspense".

Loans include $ 206.171 thousand net of allowances ($ 248.568 thousand before allowances) which do not accrue interest in compliance with Central Bank regulations.

5.2 Result from services

In thousands of Uruguayan pesos

	Local Currency	Foreign Currency (equiv. Local Currency)
COMMISSION INCOME	**13.796**	**136.300**
Guarantees granted	2.977	2.694
Credit Cards	2.482	6.779
Foreign trade	5	33.172
Other commissions income	8.332	93.655
COMMISSION EXPENSES	**15.586**	**11.821**
Commissions paid to foreign banks	—	—
Brokerage commissions	1.368	1.883
Rural business	—	—
Other commission expenses	14.218	9.938

Note 6—Taxes

We detail below the results corresponding to the period ended December 31, 2010 for each of the taxes levied on the company's activities.

The Income Tax is calculated using the balance sheet liability method.

In thousands of Uruguayan pesos

Concept	Inputted to result of the period
Income Tax	72
Capital Tax	17.016
V.A.T.	—
Financial System control Tax	4.462
Other	1.230
TOTAL	**22.780**

Note 7—Operations with derivatives

The Bank operates with futures, forwards and swaps. The futures are conducted in well known stock exchange and are standardized regarding maturity date and currency. The forwards are customized regarding maturity date and balance at counterparties' position. The swaps are also customized according to the clients' deposits conditions. The accounting policies and the recognition of results are in accordance with accounting standards established in the Accounting Standards and Chart of Accounts for Financial Institutions issued by the Central Bank of Uruguay.

The bank enters into derivatives at clients' request. There is no market risk associated with these transactions because they are completely matched to the client request. The market risk is on the client side, so credit risk analysis of the client is performed and a collateral is requested and the position is monitored on a daily basis (in other words the collateral is compared with the variation in the price of the futures contract). As at December 31, 2010 there are no transactions of this type.

Forwards and swaps done by the bank are customized transactions with specific amounts and maturities, in order to mitigate the price risk associated with a particular active or passive position. With the objective of make a perfect matching that cancels the price risk on a particular currency or instrument, the future operation is performed with the same amount and maturity of the assets or liabilities that generates it. The Bank can also perform forward operations for and on behalf of client, that is, the open operation with the client and closed with the counterparty. Client's credit risk is also evaluated with the appropriate monitoring. The bank is not exposed to price risk.

Our institutions controls and monitors the risk associated with these operations, based on the risk involved. Operations for and on behalf of customers are monitored with definitions of risk, authorization and upgrade of lines for each client, with a daily monitoring of exposure, based on fluctuations in the instrument price. According to the bank's policies, a collateral is requested to cover the whole transaction (Plain Vanilla).

Hedge positions are authorized by Treasury and control reports are issued on a daily basis. Also it sets limits on position by currency and PVBP (Present Value Basic Point) limits in the case of interest rate risks.

As at December 31, 2010 forward transactions amount to $ 246.583 thousand assets and $ 224.752 thousand liabilities, and includes operations "REPO" with the Central Bank of Uruguay in which the Bank sells to the Central Bank Uruguayan Government Securities denominated in Uruguayan Pesos with a buy-back condition. These operations are performed according to the Uruguayan Pesos' assets and liabilities management framework.

The operations with derivatives as at December 31, 2010 include the following:

	Assets		Liabilities	
Type	Amount of transactions	Balance	Amount of transactions	Balance
By client request	3	12.436	3	12.954
Operations with Central Bank of Uruguay	1	4.014	1	4.039
Trading Operations	3	18.417	3	18.427
		34.867		35.420
Operations "REPO" with Central Bank of Uruguay	4	211.716	7	189.332
		211.716		189.332
Total		**246.583**		**224.752**

Note 8—Integral Risk Management System

As regards our Bank's exposure to the market risk, in terms of either prices or interest rates, we have followed the corporate guidelines.

Positions are determined on daily basis per currency and line of business, subject to the predetermined maximum daily and monthly exposure ceilings. All additions and deletions to our position and all losses and profits deriving from the various transactions are daily confirmed against the accounting entries and, at least once a month, against the Bank's ledger.

Items are checked individually, based on the predetermined ceilings for each currency and instrument in which the Bank has a position of its own.

In addition, the market risk is subject to a mix of monitoring measurements. On the one hand, through a system used by the Group, we compute the VAR (Value at Risk) and, on the other, we compute the PVBP (Present Value Basic Point), *i.e.,* the loss deriving from a fall in the price of net assets upon the variation of one basic point in the interest rate.

Additional information on our integral risk management system is included in the (unaudited information) Annual Corporate Governance Report required under Section 36.3 of the Compilation of Central Bank available in our website (www.hsbc.com.uy).

Note 9—Trusts ("Fideicomisos")

During this year the bank has not transferred credits to financial trusts.

Note 10—Subsequent events

As at January 27, 2011, US$ 20.000.000 (US Dollars twenty million) equivalent to $ 395.000.000 (Uruguayan Pesos three hundred ninety five million) were contributed and Adjustment to Shareholders' Equity for $ 58.617.915 (Uruguayan Pesos fifty eight million six hundred and seventeen thousand nine hundred and fifteen) will be recorded.

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KPMG

KPMG Sociedad Civil
Edificio Torre Libertad
Plaza de Cagancha 1335 - Piso 7
11.100 Montevideo, Uruguay
Casilla de Correo 646

Teléfono: 598 - 2902 4546
Telefax: 598 - 2902 1337
E-mail: kpmg@kpmg.com.uy
http: www.kpmg.com.uy

Independent Auditors' Report

To the Board of Directors of
HSBC Bank (Uruguay) S.A.

We have audited the accompanying financial statements of HSBC Bank (Uruguay) S.A., which comprise the balance sheet as at December 31, 2010 and the income statement, cash flow statement and statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards and valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and with standards established by Central Bank of Uruguay. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Bank (Uruguay) S.A. as at December 31, 2010 and of its financial performance and its cash flows for the year then ended in accordance with accounting standards and valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay.

Emphasis of matters that do not affect our opinion

The regulations and criteria mentioned in the preceding paragraph constitute the legal accounting standards enacted in Uruguay for the presentation of financial statements of entities regulated by the Central Bank of Uruguay. The differences which could eventually arise between these financial statements and those which could be prepared in accordance with International Financial Reporting Standards (IFRS) have not been determined nor quantified.

Montevideo, March 31, 2011

KPMG

Cr. Mario Amelotti
Partner
C.J. y P.P.U. 39.446

HSBC Bank (Uruguay) S.A.

BALANCE SHEET
AS OF DECEMBER 31, 2009
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
ASSETS	**1.975.361**	**9.468.859**	**11.444.220**
I) Cash and cash equivalents	**197.225**	**695.198**	**892.423**
1.- Cash and cash equivalents	197.225	565.122	762.347
1.1.- Cash	154.081	178.311	332.392
1.2.- Central Bank of Uruguay	20.505	275.975	296.480
1.3.- Other financial institutions in Uruguay	3.176	14.754	17.930
1.4.- Clearing documents	19.463	96.082	115.545
2.- Other foreign financial institutions	—	130.076	130.076
II) Securities	**54.766**	**746.311**	**801.077**
1.- Securities held for trading	54.766	314.215	368.981
1.1.- Uruguayan	54.766	115.290	170.056
1.2.- Foreign	—	198.925	198.925
2.- Securities available for sale	—	432.096	432.096
2.1.- Uruguayan	—	269.893	269.893
2.2.- Foreign	—	162.203	162.203
3.- Securities held to maturity	—	—	—
3.1.- Uruguayan	—	—	—
3.2.- Foreign	—	—	—
III) Credits (net of allowances)	**1.490.503**	**8.026.901**	**9.517.404**
1.- Outstanding credits	785.427	7.832.660	8.618.087
1.1.- Financial sector	378.086	3.821.116	4.199.202
1.1.1.- Central Bank of Uruguay	378.086	1.277.516	1.655.602
1.1.2.- Other financial institutions in Uruguay	—	23.785	23.785
1.1.3.- Other foreign financial institutions	—	1.343.247	1.343.247
1.1.4.- Head office, branches and related institutions	—	1.176.568	1.176.568
1.2.- Non financial sector	407.341	4.011.544	4.418.885
1.2.1.- Uruguayan public sector	4.085	167.738	171.823
1.2.2.- Non resident public sector	—	—	—
1.2.3.- Resident private sector	400.677	3.791.313	4.191.990
1.2.4.-Non resident private sector	2.579	52.493	55.072
2.- Forward contracts	669.788	157.371	827.159
2.1.- Residents	447.298	72.594	519.892
2.2.- Non residents	222.490	84.777	307.267
3.- Overdue	26	1.185	1.211
3.1.- Financial sector	—	—	—
3.2.- Non financial sector	26	1.185	1.211
3.2.1.- Uruguayan public sector	—	—	—
3.2.2.- Non resident public sector	—	—	—
3.2.3.- Resident private sector	26	1.180	1.206
3.2.3.1.- Overdue loans	26	1.180	1.206
3.2.3.2.- Under management for recovery	—	—	—
3.2.3.3.- Delinquent loans	—	—	—
3.2.4.- Non resident private sector	—	5	5
3.2.4.1.- Overdue loans	—	3	3
3.2.4.2.- Under management for recovery	—	2	2
3.2.4.3.- Delinquent loans	—	—	—
4.- Other accounts receivable	35.262	35.685	70.947

HSBC Bank (Uruguay) S.A.

BALANCE SHEET
AS OF DECEMBER 31, 2009
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
IV) Investments	**712**	**449**	**1.161**
1.- Uruguayan	712	449	1.161
2.- Foreign	—	—	—
V) Fixed assets	**191.704**		**191.704**
VI) Intangible assets	**40.451**		**40.451**
LIABILITIES	**1.658.120**	**9.266.372**	**10.924.492**
I) Obligations	**1.658.120**	**9.266.372**	**10.924.492**
1.- From financial intermediation	1.150.340	8.870.637	10.020.977
1.1.- Financial Sector	146.130	367.106	513.236
1.1.1.- Central Bank of Uruguay	952	—	952
1.1.2.- Other financial institutions in Uruguay	143.965	30.458	174.423
1.1.3.- Other foreign financial institutions	—	24.990	24.990
1.1.4.- Head Office, branches and related institutions	1.213	311.658	312.871
1.2.- Non financial sector	1.004.210	8.503.531	9.507.741
1.2.1.- Uruguayan public sector	37.430	—	37.430
1.2.2.- Resident private sector	945.767	3.103.720	4.049.487
1.2.3.- Non residents	21.013	5.399.811	5.420.824
2.- Forward contracts	399.069	358.983	758.052
2.1.- Residents	396.889	60.988	457.877
2.2.- Non residents	2.180	297.995	300.175
3.- Other accounts payable	21.021	6.037	27.058
4.- Accrued Expenses	81.964	7.606	89.570
5.- Allowances	5.726	23.109	28.835
SHAREHOLDERS' EQUITY	**519.728**	**—**	**519.728**
1.- Common Stock	701.043	—	701.043
2.- Adjustments to shareholders' equity	88.934	—	88.934
3.- Reserves	—	—	—
4.- Retained deficit	(37.198)	—	(37.198)
5.- Current year results	(233.051)	—	(233.051)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2.177.848**	**9.266.372**	**11.444.220**

HSBC Bank (Uruguay) S.A.

BALANCE SHEET
AS OF DECEMBER 31, 2009
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
CONTINGENT ACCOUNTS	**87.543**	**523.150**	**610.693**
1.- Credit lines agreed	8.638	108.717	117.355
1.1.- Credit cards	1.175	102.671	103.846
1.2.- Current accounts	7.453	5.653	13.106
1.3.- Others	10	393	403
2.- Guarantees granted	78.905	128.891	207.796
3.- Foreign trade	—	285.542	285.542
4.- Options	—	—	—
5.- Other contingencies	—	—	—
MEMORANDUM ACCOUNTS	**510.876**	**25.373.150**	**25.884.026**
1.- Guarantees received	152.261	6.709.710	6.861.971
2.- Custody of goods and securities	357.280	5.251.547	5.608.827
3.- Foreign trade		1.156.638	1.156.638
4.- Other memorandum accounts	1.335	12.255.255	12.256.590

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2009
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial income before exchange differences and provisions	**162.054**	**340.323**	**502.377**
1.- Outstanding credits from financial intermediation	**123.840**	**234.261**	**358.101**
1.1.- Financial sector	94.351	32.180	126.531
1.1.1.- Uruguayan financial institutions	94.351	20.593	114.944
1.1.2.- Foreign financial institutions	—	11.587	11.587
1.2.- Non financial sector	29.489	202.081	231.570
1.2.1.- Uruguayan public sector	270	4.641	4.911
1.2.2.- Non resident public sector			—
1.2.3.- Resident private Sector	29.196	194.470	223.666
1.2.4.- Non resident private sector	23	2.970	2.993
2.- Lease, readjustments and quotation differences of securities	**35.307**	**102.919**	**138.226**
2.1.- Securities held for trading	35.232	84.343	119.575
2.1.1.- Uruguayan	34.636	79.327	113.963
2.1.2.- Foreign	596	5.016	5.612
2.2.- Securities available for sale	75	18.576	18.651
2.2.1.- Uruguayan	75	17.363	17.438
2.2.2.- Foreign	—	1.213	1.213
2.3.- Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Obligations readjustment	—	—	—
3.1.- Financial sector	—	—	—
3.2.- Non financial sector	—	—	—
4.- Forward contracts	**2.901**	**—**	**2.901**
4.1.- Financial sector	2.901	—	2.901
4.1.1.- Uruguayan	1.040		1.040
4.1.2.- Foreign	1.861		1.861
4.2.- Non financial sector	—	—	—
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	—	—	—
4.2.3.- Non residents	—	—	—
5.- Overdue loans	**6**	**3.143**	**3.149**
5.1.- Financial sector	—	78	78
5.2.- Non financial sector	6	74	80
5.2.1.- Uruguayan public sector	—	—	—
5.2.2.- Non resident public sector	—	—	—
5.2.3.- Resident private sector	6	74	80
5.2.3.1.- Overdue loans	3	5	8
5.2.3.2.- Under management for recovery	3	63	66
5.2.3.3.- Delinquent loans		6	6
5.2.4.- Non resident private sector	—	—	—
5.2.4.1.- Overdue loans	—	—	—
5.2.4.2.- Under management for recovery	—	—	—
5.2.4.3.- Delinquent loans	—	—	—
5.3.- Debtors refinanced under law 16.243	—	—	—
5.4.- Recovery of doubtful debtors		2.991	2.991

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2009
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial losses before exchange differences and provisions	**(109.739)**	**(76.018)**	**(185.757)**
1.- Obligations	**(66.748)**	**(41.856)**	**(108.604)**
1.1.- Financial sector	(37.191)	(10.424)	(47.615)
1.1.1.- Uruguayan financial institutions	(37.191)	(1.396)	(38.587)
1.1.2.- Foreign financial institutions		(9.028)	(9.028)
1.2.- Non financial sector	(29.557)	(31.432)	(60.989)
1.2.1.- Uruguayan public sector	(513)	—	(513)
1.2.2.- Resident private sector	(28.322)	(6.367)	(34.689)
1.2.3.- Non residents	(722)	(25.065)	(25.787)
2.- Readjustments and quotation differences of securities	**(42.931)**	**(34.162)**	**(77.093)**
2.1. Securities held for trading	(42.930)	(34.162)	(77.092)
2.1.1.- Uruguayan	(37.340)	(34.065)	(71.405)
2.1.2.- Foreign	(5.590)	(97)	(5.687)
2.2 Securities available for sale	(1)	—	(1)
2.2.1.- Uruguayan	(1)	—	(1)
2.2.2.- Foreign	—	—	—
2.3. Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Credit readjustment	—	—	—
3.1.- Outstanding	—	—	—
3.2.- Overdue	—	—	—
4.- Forward contracts	**(60)**	**—**	**(60)**
4.1.- Financial sector	(17)	—	(17)
4.1.1.- Uruguayan	(17)	—	(17)
4.1.2.- Foreign	—	—	—
4.2.- Non financial sector	(43)	—	(43)
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	(43)	—	(43)
4.2.3.- Non residents	—	—	—
I) Financial margin before exchange differences and provisions	**52.315**	**264.305**	**316.620**
Foreign exchange differences from assets and liabilities valuation	**(72.324)**	**—**	**(72.324)**
1.- Income	8.344.906		8.344.906
2.- Losses	(8.417.230)		(8.417.230)
II) Financial margin before provisions	**(20.009)**	**264.305**	**244.296**
PROVISIONS	**22.152**	**(31.788)**	**(9.636)**
Decrease of provisions and credit revaluation	**255.173**	**284.048**	**539.221**
1.- Decrease of provisions	58.489	284.048	342.537
1.1.- Residents	58.410	239.797	298.207
1.2.- Non residents	79	44.251	44.330
1.3.- General provisions	—	—	—
2.- Credit revaluation	196.684	—	196.684

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2009
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Financial losses before exchange differences and provisions	**(109.739)**	**(76.018)**	**(185.757)**
1.- Obligations	**(66.748)**	**(41.856)**	**(108.604)**
1.1.- Financial sector	(37.191)	(10.424)	(47.615)
1.1.1.- Uruguayan financial institutions	(37.191)	(1.396)	(38.587)
1.1.2.- Foreign financial institutions		(9.028)	(9.028)
1.2.- Non financial sector	(29.557)	(31.432)	(60.989)
1.2.1.- Uruguayan public sector	(513)	—	(513)
1.2.2.- Resident private sector	(28.322)	(6.367)	(34.689)
1.2.3.- Non residents	(722)	(25.065)	(25.787)
2.- Readjustments and quotation differences of securities	**(42.931)**	**(34.162)**	**(77.093)**
2.1. Securities held for trading	(42.930)	(34.162)	(77.092)
2.1.1.- Uruguayan	(37.340)	(34.065)	(71.405)
2.1.2.- Foreign	(5.590)	(97)	(5.687)
2.2 Securities available for sale	(1)	—	(1)
2.2.1.- Uruguayan	(1)	—	(1)
2.2.2.- Foreign	—	—	—
2.3. Securities held to maturity	—	—	—
2.3.1.- Uruguayan	—	—	—
2.3.2.- Foreign	—	—	—
3.- Credit readjustment	**—**	**—**	**—**
3.1.- Outstanding	—	—	—
3.2.- Overdue	—	—	—
4.- Forward contracts	**(60)**	**—**	**(60)**
4.1.- Financial sector	(17)	—	(17)
4.1.1.- Uruguayan	(17)	—	(17)
4.1.2.- Foreign	—	—	—
4.2.- Non financial sector	(43)	—	(43)
4.2.1.- Uruguayan public sector	—	—	—
4.2.2.- Resident private sector	(43)	—	(43)
4.2.3.- Non residents	—	—	—
I) Financial margin before exchange differences and provisions	**52.315**	**264.305**	**316.620**
Foreign exchange differences from assets and liabilities valuation	**(72.324)**	**—**	**(72.324)**
1.- Income	8.344.906		8.344.906
2.- Losses	(8.417.230)		(8.417.230)
II) Financial margin before provisions	**(20.009)**	**264.305**	**244.296**
PROVISIONS	**22.152**	**(31.788)**	**(9.636)**
Decrease of provisions and credit revaluation	**255.173**	**284.048**	**539.221**
1.- Decrease of provisions	58.489	284.048	342.537
1.1.- Residents	58.410	239.797	298.207
1.2.- Non residents	79	44.251	44.330
1.3.- General provisions	—	—	—
2.- Credit revaluation	196.684	—	196.684

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2009
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
Increase of provisions and credit depreciation	**(233.021)**	**(315.836)**	**(548.857)**
1.- Provisions	(68.385)	(315.836)	(384.221)
1.1.- Residents	(67.783)	(273.209)	(340.992)
1.2.- Non residents	(602)	(42.627)	(43.229)
1.3.- General provisions	—	—	—
2.- Credits depreciation	(164.636)	—	(164.636)
III) Financial margin	**2.143**	**232.517**	**234.660**
COMMISSION INCOME	**7.337**	**110.658**	**117.995**
1.- Residents	7.234	69.287	76.521
2.- Non residents	103	41.371	41.474
COMMISSION EXPENSES	**(10.326)**	**(7.507)**	**(17.833)**
1.- Residents	(10.323)	(2.311)	(12.634)
2.- Non residents	(3)	(5.196)	(5.199)
Commission margin	**(2.989)**	**103.151**	**100.162**
OTHER RESULTS FROM EXCHANGE DIFFERENCES	**59.853**	**23.073**	**82.926**
1.- From operations	50.765	23.073	73.838
1.1.- Income	4.375.184	108.290	4.483.474
1.2.- Losses	(4.324.419)	(85.217)	(4.409.636)
2.- From valuation of other assets and liabilities in foreign currency	9.088	—	9.088
2.1.- Income	55.153	—	55.153
2.2.- Losses	(46.065)	—	(46.065)
IV) Gross result	**59.007**	**358.741**	**417.748**
OPERATING INCOME	**13.140**	**4**	**13.144**
1.- Income from other accounts receivable	—	4	4
1.1.- Residents	—	4	4
1.2.- Non residents	—	—	—
2.- Investment in local shares	—	—	—
3.- Foreign branches	—	—	—
4.- Leases	—	—	—
5.- Other operating income	—	—	—
5.1.- Residents	—	—	—
5.2.- Non residents			—
6.- Income from accounting restatements	—	—	—
7.- Income from inflation adjustment	13.140	—	13.140
OPERATING LOSSES	**(545.217)**	**(117.979)**	**(663.196)**
1.- Personnel remunerations and social charges	(336.960)	(15.605)	(352.565)
2.- Insurance expenses	(2.213)	(1.023)	(3.236)
3.- Depreciations	(48.199)	—	(48.199)
4.- Taxes and duties	(15.794)	—	(15.794)
5.- Other operating expenses	(94.492)	(98.907)	(193.399)
6.- Losses from other operations	(1.286)	(2.444)	(3.730)
7.- Investments in local shares	—	—	—
8.- Foreign branches	—	—	—
9.- Losses from accounting restatements	—	—	—
10.- Losses from inflation adjustments	(46.273)	—	(46.273)
11.- Other accounts payable	—	—	—

HSBC Bank (Uruguay) S.A.

Income Statement
for the year ended December 31, 2009
In Thousands of Uruguayan Pesos

	Local Currency	Foreign currency Equiv. Local currency	TOTAL
V) Exploitation margin	**(473.070)**	**240.766**	**(232.304)**
EXTRAORDINARY RESULTS	**29**	**484**	**513**
1.- Extraordinary income	29	1.113	1.142
2.- Extraordinary losses		(629)	(629)
PREVIOUS YEAR RESULTS	**—**	**—**	**—**
1.- Income	—	—	—
2.- Losses	—	—	—
VI) RESULTS FOR CURRENT YEAR BEFORE INCOME TAX	**(473.041)**	**241.250**	**(231.791)**
Income Tax	(1.260)	—	(1.260)
VII) Results for current year after income tax	**(474.301)**	**241.250**	**(233.051)**

HSBC Bank (Uruguay) S.A.

Statement of Changes in Shareholders' equity
for the year ended December 31, 2009
In Thousands of Uruguayan Pesos

Changes over the year	COMMON STOCK	CAPITAL CONTRIBUTION	ADJUSTMENTS TO SHARE-HOLDERS' EQUITY	RESERVES	RETAINED EARNINGS	TOTAL SHARE-HOLDERS' EQUITY
BALANCE AS OF 12.31.08	**317.143**	**383.900**	**22.482**	**—**	**(37.198)**	**686.327**
Contributed capital	**—**	**—**	**—**	**—**	**—**	**—**
Profit allocation	**—**	**—**	**—**	**—**	**—**	**—**
Advanced payment of results	**—**	**—**	**—**	**—**	**—**	**—**
Restatements:	**—**	**—**	**—**	**—**	**—**	**—**
- Revaluation of fixed assets	—	—	16.083	—	—	16.083
- Inflation adjustment	—	—	33.133	—	—	33.133
- Variation in the fair value of securities available for sale	—	—	17.236	—	—	17.236
- Accounting restatements	—	—	—	—	—	—
- Variation in the fair value of investments due to equity adjustments in controlled companies and branches	—	—	—	—	—	—
Results for fiscal year	**—**	**—**	**—**	**—**	**(233.051)**	**(233.051)**
BALANCE AS OF 12.31.09	**317.143**	**383.900**	**88.934**	**—**	**(270.249)**	**519.728**

HSBC Bank (Uruguay) S.A.

Statement of Cash Flows
for the year ended December 31, 2009
In Thousands of Uruguayan Pesos

	12.31.09
CASH FLOWS FROM OPERATING ACTIVITIES	
Gain (loss) for the year	**(233.051)**
Adjustments that reconcile the net profit of the year with the net cash provided by operating activities:	**128.025**
Depreciation of fixed assets	30.063
Amortization of intangible assets	18.136
Effects of changes in monetary correction and foreign currency translation	96.368
Difference in quotations and value adjustments for securities held for trading and securities available for sale	(26.058)
Adjustment to cost of securities held to maturity	—
Securities allowances	—
Securities income accrued not received	(875)
Accrued expenses	(4.398)
Accrued interest income not received	(194.654)
Allowance for doubtful debtors	206.323
Accrued income not received	(2.710)
Accrued interest expense not paid	5.851
Not accrued income received	—
Not accrued interest paid	—
Result from sales of fixed assets	(21)
Result from booking premises at their market value	—
(INCREASE) DECREASE IN OPERATING ASSETS	**(4.330.334)**
Securities (held for trading and available for sale)	(447.711)
Credits—Financial Sector (*)	(1.672.408)
Credits—Non Financial Sector (*)	(2.170.913)
Other assets	(39.302)
INCREASE (DECREASE) IN OPERATING LIABILITIES	**3.761.489**
Obligations—Financial Sector (**)	175.857
Obligations—Non Financial Sector (**)	3.587.088
Other liabilities	5.148
Net variation of forward contracts	**(6.604)**
Net cash provided (used) by operating activities	**(673.871)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Net cash flow from securities held to maturity	—
Net cash flow from fixed assets	(46.670)
Increase in intangible assets	(14.772)
Net cash flow from special investments	108
Net cash flow from other investments	152
Net cash provided (used) by investing activities	**(61.182)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contribution /(profit allocation)	—
Net cash flow from subordinated loans	65.074
Debentures received	—
Other obligations originated by financing activities	—
Net cash provided (used) by financing activities	**65.074**
Net increase (decrease) in cash and cash equivalents	**(669.979)**
Exchange differences generated from cash and cash equivalents	(192.827)
Cash and cash equivalents at the beginning of the year	**1.755.229**
Cash and cash equivalents at the end of the year	**892.423**

(*) Except forward contracts

(**) Except subordinated loans, debentures and forward contracts.

Notes to the Financial Statements

Note 1—Approval by the Stockholders' Meeting

Financial Statements for the year ended December 31, 2009, have not yet been considered by the Ordinary Stockholders' Meeting in accordance with article 344 of Law N° 16.060 dated September 4, 1989.

Note 2—Information about the financial institution

2.1 Legal nature

HSBC Bank (Uruguay) S.A. ("the Bank"), a subsidiary of HSBC Latin America Holding (UK) Limited, operates in Uruguay under the legal regime established by Law N° 15.322 dated September 17, 1982 and its subsequent amendments. It was authorized to act as a bank by resolution of the Executive Power as of June 29th, 1987 and authorized by the Central Bank of Uruguay (C.B.U.)

The Central Bank of Uruguay exercises control on banks and monitors compliance with minimum requirements regarding legal cash reserves, credit allowances and capital adequacy.

2.2 Accounting basis

Financial statements are presented in compliance with the regulatory provisions enacted in Uruguay and prepared in accordance with accounting standards, valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay.

Financial statements were prepared on the basis of historical cost, except for assets and liabilities in foreign currency, securities and fixed assets which are valued according to the criteria expressed in Note 3, and the result of the current year has been corrected to reflect the effects of inflation based on a standard simplified methodology established by the Central Bank of Uruguay.

Such methodology, with application since January 1st 2009, is based on applying an integral monetary adjustment using the Uruguayan Wholesale Price Index (WPI). The result of this adjustment is exposed in the Income statement as "Income or Loss from inflation adjustment" and in the Balance Sheet in chapter "Adjustments to shareholders' equity".

For the preparation of the Statement of Cash Flows, cash and cash equivalents were defined as cash and due from banks.

2.3 Capital and shares

The Bank's authorized capital amounts to $ 1.000.000.000 (Uruguayan Pesos one thousand million).

The subscribed capital, which was totally paid in, amounts to $ 317.142.886,31 (Uruguayan pesos three hundred seventeen million one hundred forty two thousand eight hundred eighty six with 31/100) and is represented by ordinary shares of $ 1 (one Uruguayan Peso) each.

As at August 1st, 2008 the Extraordinary General Assembly decided to contribute capital in the amount of US$ 20.000.000 (twenty million dollars) equivalent to $ 383.900.000 (Uruguayan Pesos three hundred eighty three million nine hundred thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 33.151.750,40 (Uruguayan Pesos thirty three million one hundred fifty one thousand seven hundred fifty with 40/100) . This amount comes from the special balance sheet according to article 287 of the Law 16.060.

HSBC Latin America Holding (UK) Limited owns 100% of the Bank's shares.

Notes to the Financial Statements

Additional information regarding the Bank's ownership structure will be included in the Corporate Government's Annual Report (non audited information) required by article 36.3 of the Compilation of Central Bank Regulations, which will be available on the Bank's website, before March 31, 2010.

2.4 Board of Directors and Executive Staff

The Bank's Board of Directors is comprised as follows:

Virginia Suárez	President—General Manager
Leonel Puppo	Director—Vice-President
Frank L. Lawson	Director
Alan Wilkinson	Director
Miguel Bravo	Director—Deputy General Manager
Mónica Suffia	Director—Deputy General Manager

The Executive Staff, defined in accordance with article 38.11 of the Compilation of Central Bank Regulations, is comprised of:

Enrique Goyetche	Exchange Desk Manager
José Miranda	General Accountant
Patricia Dopazo	Planning Manager
Marcelo Plavan	Trader
Jose Luis Pelaez	Personal Banking Manager
Alberto Mello	Risk Manager
Fernando Lacurcia	Corporate Banking Manager
Gonzalo Berro	Internal Audit Manager
Martín Meharu	Compliance Officer
Diego Gandioli	Branches Manager

Since February 24, 2010, Mr. Christopher Kenneth Groucott is member of the Audit Committee.

Additional information regarding the Bank's management and control structure will be included in the Corporate Government's Annual Report (non audited information) required by article 36.3 of the Compilation of Central Bank Regulations, which will be available on the Bank's website, before March 31, 2010.

Note 3—Information regarding assets and liabilities

3.1 Foreign currency translation

Assets and liabilities denominated in foreign currency are translated into U.S. Dollars at the exchange rates published by the foreign exchange desk of the Central Bank of Uruguay as at the close of the year.

The resulting amounts in US Dollars are then translated into local currency at the exchange rate as at the end of the year (US$ 1 = $ 19,627).

Notes to the Financial Statements

3.2 Foreign currency position

The global position in foreign currency as at December 31, 2009 is broken down as follows:

Currency	Assets in foreign currency	Liabilities in foreign currency	Net position in foreign currency		Equivalent net position in US$
			Asset	Liability	
United States Dollars	446.127	435.847	10.280	—	10.280
Argentine Pesos	142	70	72	—	19
Real	20		20	—	11
Euro	24.068	24.076	—	8	(11)
Other					18
TOTAL					**10.317**

3.3 Securities

Securities are valued in accordance with criteria established in Rule 2.2 of the Accounting Standards and Chart of Accounts for Financial Institutions as described below:

Securities held for trading are valued at their market value including transaction costs and deducting accrued interests. Market value adjustments are included in the result of the year.

Securities available for sale are valued at their fair value including transaction costs and deducting accrued interests. Fair value adjustments are included directly in equity until such securities are sold or refunded, and at that moment the adjustments are charged to the result of the year.

The interests' accrual is included in the results for the year.

The accrued interest receivable is included in the account "Securities".

The company does not hold Securities held to maturity.

Notes to the Financial Statements

The composition of the securities portfolio as at December 31, 2009 is as follows:

SECURITIES	Currency of issuance	Amounts in thousands of $ Book Value	Market Value
Securities held for trading		**368.981**	**368.981**
Uruguayan Government Securities		155.444	155.444
Uruguayan Government Securities	Uruguayan Pesos	42.299	42.299
Uruguayan Government Securities	Euro	34.137	34.137
Uruguayan Government Securities	Dollars	79.008	79.008
Foreign Government Securities		100.411	100.411
U.S.A.	Dollars	100.411	100.411
Private Securities		109.757	109.757
Uruguay	Uruguayan Pesos	11.700	11.700
Cayman Islands	Dollars	98.057	98.057
Accrued interest receivable from Uruguayan Government Securities		2.815	2.815
Accrued interest receivable from Foreign Government Securities		458	458
Accrued interest receivable from Private Securities		96	96
Securities available for sale		**432.096**	**432.096**
Uruguayan Government Securities		266.655	266.655
Uruguayan Government Securities	Euro	14.485	14.485
Uruguayan Government Securities	Dollars	252.170	252.170
Foreign Government Securities		161.555	161.555
U.S.A.	Dollars	161.555	161.555
Private Securities		—	—
U.S.A.	Dollars	—	—
Accrued interest receivable from Uruguayan Government Securities		3.237	3.237
Accrued interest receivable from Foreign Government Securities		649	649
Accrued interest receivable from Private Securities		—	—
Impairment provisions		—	—
Securities held to maturity		—	—
TOTAL SECURITIES		**801.077**	**801.077**
SECURITIES ISSUED BY THE CENTRAL BANK OF URUGUAY (1)			
Securities held for trading		146.143	146.143
		146.143	146.143
Securities available for sale		231.225	231.225
		231.225	231.225
Securities held to maturity		—	—
Accrued interest receivable from Central Bank of Uruguay Securities		717	717
TOTAL SECURITIES ISSUED BY THE CENTRAL BANK OF URUGUAY		**378.085**	**378.085**

(1) Recorded under Outstanding credits to the Financial Sector.

Notes to the Financial Statements

3.4 Limitations to the free disposal of assets or equity and restrictions to property rights

There are no limitations to the free disposal of assets or equity, except for Uruguayan Government Securities in Uruguayan Pesos used in operations "REPO" with Central Bank of Uruguay detailed in Note 7.

Nonetheless, in accordance with article 51 of the Compilation of Regulations of Operations and with the purpose of being able to use the line of credit established in article 49 of said compilation, the Bank has set up an irrevocable pledge with displacement over the entirety of the financial instruments, current accounts and securities, with free disposal, that the Bank has booked or deposited in the Central Bank, and that were either issued by the Central Bank or by the Uruguayan Government. As at December 31, 2009, the bank has not used the line of credit established in the mentioned articles.

3.5 Assets and liabilities with restatement clause

We detail below the Bank's assets and liabilities with restatement clause:

In thousands of Uruguayan pesos

Restatement factor	Assets	Liabilities
Consumer Price Index	2.396	—
Indexed Units (I.U.)	178.633	—
Total	**181.029**	**—**

3.6 Credit Risk—Financial Sector and Non-Financial Sector

The credit portfolio has been classified in accordance with the criteria established in Rule 3.8 of the Accounting Standards and Chart of Accounts for Financial Institutions issued by the Central Bank of Uruguay.

Receivables include the receivable capital amount of each transaction and the corresponding interest accrued from thereon.

Unpaid transactions of the Non Financial Sector are booked in "Overdue loans" after a period of 60 days from their expiration; those corresponding to the Financial Sector are booked in "Overdue loans" when they have 1 day of expiration.

Loans are booked as "Under management for recovery" after 90 days past due in the case of Consumption loans, 180 days in the case of Mortgage Loans and 120 days in the case of Commercial Loans and Financial Sector Loans.

Loans are booked as "Delinquent loans" after 120 days past due in the case of Consumption loans, 240 days in the case of Mortgage Loans and 180 days in the case of Commercial Loans and Financial Sector Loans.

In accordance with the risk definition included in article 65 of the Compilation of Central Bank Regulations, forward contracts are considered at 10% of their value.

The allowances necessary to cover eventual losses derived from bad debts have been booked, in accordance with Rule 3.12 of the Accounting Standards and Chart of Accounts for Financial Institutions. In order to determine the amount to be provisioned, guarantees admitted by Rules 3.16 and 3.17 of such Accounting Standards have been deducted.

Notes to the Financial Statements

Risks of Non-Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Credits local currency	Credits foreign currency (equiv. local currency)	Contin-gencies	TOTAL RISK	Computed guarantees	Constituted Allowances (1) Minimum%	Constituted Allowances (1) Amount	Risk net of allowances
1A Op. with liquidity collateral	128	670.370	47.446	**717.945**	(709.963)	0%	62	**717.882**
1C Debtors with strong repayment capacity	255.830	1.901.851	311.835	**2.469.515**	(437.111)	Equal to or more than 0,5% and less than 3%	12.047	**2.457.468**
2A Debtors with acceptable repayment capacity	66.397	728.194	128.301	**922.892**	(239.169)	Equal to or more than 3% and less than 7%	20.447	**902.445**
2B Debtors with potential repayment problems	8.255	667.962	37.301	**713.518**	(242.860)	Equal to or more than 7% and less than 20%	34.720	**678.799**
3 Debtors with impaired repayment capacity	20.573	90.592	1.374	**112.539**	(24.740)	Equal to or more than 20% and less than 50%	17.321	**95.217**
4 Debtors with highly compromised repayment capacity	67.271	34.934	—	**102.205**	(86.851)	Equal to or more than 50% and less than 100%	8.016	**94.189**
5 Irrecoverable	521	7.165	99	**7.786**	—	100%	7.786	**(0)**
SUBTOTAL (2)	**418.975**	**4.101.068**	**526.356**	**5.046.399**	**(1.740.694)**		**100.400**	**4.945.999**
Other accounts receivable	34.890	27.478		**62.368**	—		—	**62.368**
90% forward contracts and not accrued forward contracts' losses	—	23.896		**23.896**	—		—	**23.896**
Other contingencies	—	—	—	**—**	—		—	**—**
TOTAL	**453.865**	**4.152.442**	**526.356**	**5.132.663**	**(1.740.694)**		**100.400**	**5.032.263**

(1) In accordance with Rule 3.12 some transactions are not provisioned.

(2) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value.

Notes to the Financial Statements

Risks Composition of Non-Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Outstanding	Allowances	Overdue credits	Allowances	Other accounts receivable	Allowances	Contingencies	Allowances
1A Op. with liquidity collateral	670.498	61	—	—	—	2	47.446	—
1C Debtors with strong repayment capacity	2.151.854	10.210	—	—	5.827	332	311.835	1.505
2A Debtors with acceptable repayment capacity	794.342	16.949	—	—	249	—	128.301	3.498
2B Debtors with potential repayment problems	676.217	32.192	—	—	—	—	37.301	2.528
3 Debtors with impaired repayment capacity	111.022	17.089	81	14	62	62	1.374	156
4 Debtors with highly compromised repayment capacity	101.030	7.984	1.150	6	25	25	—	—
5 Irrecoverable	19	19	7.574	7.574	93	93	99	99
SUBTOTAL (1)	**4.504.982**	**84.504**	**8.805**	**7.594**	**6.256**	**514**	**526.356**	**7.786**
Other accounts receivable					62.368			
90% forward contracts and not accrued forward contracts' losses	23.896							
Other contingencies	—	—	—	—	—	—	—	—
TOTAL	**4.528.878**	**84.504**	**8.805**	**7.594**	**68.624**	**514**	**526.356**	**7.786**

(1) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value.

Notes to the Financial Statements

Risks of Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Demand Deposits Local Currency	Demand Deposits Foreign Currency (equiv. local currency)	Credits Local currency	Credits Foreign currency (equiv. local currency)	Contin-gencies	Other accounts receivable	TOTAL RISK	Computed guarantees	Constituted Allowances (1) Minimum %	Constituted Allowances (1) Amount	Risk net of allowances
1A Outstanding resident debtors or non-residents BBB+ or higher	23.681	419.436	67.696	3.795.775	41.613	2.464	**4.350.665**	962	0,0%	145	**4.350.520**
1B Non-resident debtors with very strong repayment capacity	—	—	—	2.343	2.787	—	**5.130**	—	Equal to or more than 0,2% and less than 0,5%	13	**5.117**
1C Non-resident debtors with strong repayment capacity	—	738	—	12.067	22.654	311	**35.770**	—	Equal to or more than 0,5% and less than 3%	190	**35.580**
2A Non-resident debtors with acceptable repayment capacity	—	—	—	20.065	—	—	**20.065**	—	Equal to or more than 3% and less than 7%	698	**19.367**
2B Non-resident debtors with potential repayment problems	—	631	—	839	16.202	—	**17.672**	—	Equal to or more than 7% and less than 20%	1.193	**16.479**
3 Non-resident debtors with impaired repayment capacity	—	—	—	—	—	—	**—**	—	Equal to or more than 20% and less than 50%	—	**—**
4 Non-resident debtors with highly compromised repayment capacity	—	—	—	—	—	—	**—**	—	Equal to or more than 50% and less than 100%	—	**—**
5 Irrecoverable	—	—	—	4.470	1.081	—	**5.551**	—	100%	388	**5.163**
SUBTOTAL (2)	**23.681**	**420.805**	**67.696**	**3.835.559**	**84.337**	**2.775**	**4.434.853**	**962**		**2.627**	**4.432.226**
Other accounts receivable	—	—	—	—	—	—	**—**	—	—	—	**—**
90% forward contracts and not accrued forward contracts' losses	—	—	602.809	118.694	—	—	**721.503**	—	—	—	**721.503**
Other contingencies	—	—	—	—	—	—	**—**	—		—	**—**
TOTAL	**23.681**	**420.805**	**670.505**	**3.954.253**	**84.337**	**2.775**	**5.156.356**	**962**		**2.627**	**5.153.729**

(1) In accordance with Rule 3.12, some transactions are not provisioned.

(2) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value. Securities issued by the Central Bank of Uruguay (detailed in Note 3.3) are not considered.

Notes to the Financial Statements

Risks Composition of Financial Sector

In thousands of Uruguayan pesos

Risk Categories	Demand Deposits	Outstanding Credits	Overdue Credits	Contingencies	Other accounts receivable	Total Risk
1A Outstanding resident debtors or non-residents BBB+ or higher	443.117	3.863.470	—	41.613	2.464	4.350.664
1B Non-resident debtors with very strong repayment capacity	—	2.343	—	2.787	—	5.130
1C Non-resident debtors with strong repayment capacity	738	12.067	—	22.654	311	35.770
2A Non-resident debtors with acceptable repayment capacity	—	20.064	—	—	—	20.064
2B Non-resident debtors with potential repayment problems	631	839	—	16.202	—	17.672
3 Non-resident debtors with impaired repayment capacity	—	—	—	—	—	—
4 Non-resident debtors with highly compromised repayment capacity	—	—	—	—	—	—
5 Irrecoverable	—	4.470	—	1.081	—	5.551
SUBTOTAL (1)	**444.486**	**3.903.253**	**—**	**84.337**	**2.775**	**4.434.851**
Other accounts receivable	—	—	—	—	—	—
90% forward contracts and not accrued forward contracts' losses	—	721.503	—	—	—	721.503
TOTAL	**444.486**	**4.624.756**	**—**	**84.337**	**2.775**	**5.156.354**

(1) It corresponds only to accounts included in the Credit Risk Information, forward contracts are included at 10% of their value. Securities issued by the Central Bank of Uruguay (detailed in Note 3.3) are not considered.

3.7 Allowance for loan losses

The amounts recorded in allowance for loan losses as at December 31, 2009 of $ 122.630 thousand is as follows:

- $ 93.795 thousand deducted from the respective asset accounts;
- $ 9.160 thousand in the liability account "Allowances" (corresponding to contingencies accounts);
- $ 19.675 thousand in the liability account "Allowances" (corresponding to statistical reserve).

Notes to the Financial Statements

The following chart shows the movement in the asset account "Allowance for doubtful debtors", and in the liability accounts "Allowance for contingency accounts", "General Provisions" and "Statistical Reserve".

In thousands of Uruguayan pesos

Allowances for:	Opening balances	Additions	Deductions	Write offs against debt	Other net movements	Final balances
Outstanding Credits—Financial Sector (1)	713	6.908	6.049		(320)	1.252
Outstanding Credits—Non Financial Sector	43.244	270.711	223.439		(6.011)	84.505
Other accounts receivable	726	585	499		(298)	514
Overdue loans—Financial Sector	—	873	712		(161)	—
Overdue loans—Non Financial Sector	7	920	858		(49)	20
Under management for recovery	1.379	627	515		(1.490)	1
Delinquent loans	6.675	30.353	25.838		(3.687)	7.503
Contingencies Allowances	8.543	46.112	38.890		(6.605)	9.160
General Provisions	—	—	—			—
Statistical Reserve	41.759	27.132	45.737	—	(3.479)	19.675
TOTAL	**103.046**	**384.221**	**342.537**	**—**	**(22.100)**	**122.630**

(1) Includes Demand Deposits.

3.8 Restructured problematic credit

The restructured credits maintained by the bank as at December 31, 2009 are as follow:

RESTRUCTURED PROBLEMATIC CREDITS	Number of credits reestructured in the current year	Final balance (Thousands $)
Outstanding credits		
Overdue loans	1	70
Total restructured problematic credits	**1**	**70**

3.9 Investments

The composition of investments as at December 31, 2009 is as follows:

In thousands of Uruguayan pesos

Concept	Total
Assets received in exchange for loan claims	—
Idle premises	—
Participations in capital authorized by the Central Bank of Uruguay (*)	712
Foreign branches	—
Investments in shares	—
Other investments	449
Investment provision	—
TOTAL	**1.161**

(*) The balance of the account "Participations in capital authorized by the Central Bank of Uruguay" corresponds to the Bank's share in the following company:

BEVSA: Thousand of Uruguayan Pesos 712 which represents 3.84% of the company's capital. The investment is valued at cost, which does not exceed its equity value based on financial statements prepared in accordance with Uruguayan generally accepted accounting standards.

Notes to the Financial Statements

3.10 Fixed Assets

Fixed assets, except for buildings, are accounted for their acquisition cost, restated for inflation applying the change in the Uruguayan Wholesale Price Index (WPI), net of the corresponding accumulated depreciation. The net variation generated by the year's restatement (increase or reduction) is booked with credit or debit to the respective equity account.

Depreciation is computed on restated values as at the close of the year, using the following percentages set forth by the Central Bank of Uruguay:

	Annual depreciation rate
• Buildings and safekeeping	2%
• Furniture, fixtures and fittings	10%
• Vehicles	20%
• Computer equipment	20%

Reparation and maintenance costs are included in the results of the year.

In compliance with Communication 2004/021, the Bank compared the book value of its premises with their market value as at the close of 2009, as a result one of the buildings is accounted at market value since 90% of mentioned value is less than the acquisition cost restated for inflation offset by depreciation.

We are including below the breakdown of the corresponding balances:

In thousands of Uruguayan pesos

Concept	Cost restated for inflation	Annual depreciation rate (%)	Accumulated depreciation	Depreciation over the year	Net Value	Market Value	Book Value
Owned Fixed Assets	**315.131**		**140.881**	**26.906**	**174.250**	**—**	**160.186**
Premises—Lands Premises—Buildings	104.907	2%	34.032	1.811	70.875	55.427	56.810
Furniture, fixtures and fittings	61.281	10%	39.397	4.153	21.884		21.884
Computer equipment	41.432	20%	34.691	3.930	6.741		6.742
Safekeeping boxes	4.326	2%	1.973	87	2.353		2.353
Vehicles	5.979	20%	2.025	1.196	3.954		3.954
Improvements on leased properties	97.206		28.763	15.729	68.443		68.443
Taken in financial leasing	**49.293**		**17.774**	**3.157**	**31.519**		**31.519**
Computer equipment	15.729	20%	10.730	620	4.999		4.999
Vehicles	—	—	—	—	—		—
Other	33.564	10%	7.044	2.537	26.520		26.520
Buildings under construction	—	—			—		—
TOTAL	**364.424**	**—**	**158.655**	**30.063**	**205.769**	**—**	**191.705**

3.11 Intangible assets

The acquisition costs of application software are amortized during 3 years from the initial recognition date.

We are including below the breakdown of the corresponding balances:

In thousands of Uruguayan pesos

Concept	Net Opening Balance	Increases	Amortization over the year	Net Ending Balance
Application software	43.815	14.772	18.136	40.451
Authorized by the Central Bank of Uruguay	—	—	—	—
TOTAL	**43.815**	**14.772**	**18.136**	**40.451**

3.12 Subordinated Debentures

The bank classified debentures subordinated as other liabilities, pursuant to authorization of the Central Bank of Uruguay. Their balance is taken into consideration in order to determine the minimum net equity requirements under Central Bank regulations, as the subordinated debentures comply with the obligatory requirements established by Article 121 of the Compilation of Central Bank Regulations. These requirements are: the debentures' term must exceed five years, the debentures may not be paid in advance without previous consent from the Central Bank of Uruguay and the debentures may not be used as guarantees.

It is clearly stated that, in the case of the bank's liquidation, the holders renounce to their participation rights as creditors and will have preference rights only with respect to the shareholders and in equal conditions to other holders of subordinated loans, if they exist.

On May 27, 2008, after receiving the Central Bank of Uruguay's authorization N° 157/2008/0370 dated April 21, 2008, the Bank issued a subordinated debenture for US$ 7.000 thousand (equivalent to Uruguayan Pesos 137.389 thousand) with HSBC—México S.A. Institución de Banca Múltiple—Grupo Financiero HSBC with maturity date 5/27/2018.

On December 31, 2009, after receiving the Central Bank of Uruguay's authorization N° 157/2009/3563 dated December 30, 2009, the Bank issued a subordinated debenture for US$ 5.000 thousand (equivalent to Uruguayan Pesos 98.135 thousand) with HSBC—Chile with maturity date 12/30/2019.

As at December 31, 2009, the subordinated loans' principal is the following:

In thousands of Uruguayan pesos

Expiration	Local Currency	Foreign currency (equiv. local currency)	TOTAL
Less than 12 months	—	—	—
Between 12 and 24 months	—	—	—
Between 24 and 36 months	—	—	—
Between 36 and 48 months	—	—	—
Over 48 months	—	235.524	235.524
TOTAL	**—**	**235.524**	**235.524**

3.13 Guarantees granted on liabilities

As at December 31, 2009 there are no guarantees granted on liabilities.

Notes to the Financial Statements

3.14 Distribution of loans and financial intermediation obligations by their maturity based on the remaining period

The Bank's loans and obligations as at December 31, 2009, are exposed in the following chart classified by their maturity calculated as the remaining period at year end:

In thousands of Uruguayan pesos

Concept	Amounts by maturity terms: Less than 1 year	1 to 3 years	More than 3 years	Total
Outstanding Credits—Financial Sector (1)	4.248.176	18.679		4.266.855
Outstanding Credits—Non Financial Sector (2)	3.649.759	433.294	419.275	4.502.328
Outstanding Credits—Forward contracts	828.221	—		828.221
Total Oustanding Credits	**8.726.156**	**451.973**	**419.275**	**9.597.404**
Obligations—Financial Sector (2)	260.201	17.511	235.524	513.236
Obligations—Non Financial Sector (2)	9.472.987	34.754		9.507.741
Obligations—Forward contracts	758.052	—	—	758.052
Total Obligations	**10.491.240**	**52.265**	**235.524**	**10.779.029**

(1) Includes demand deposits. Forward contracts, and other accounts receivable are not included.

(2) Forward contracts and other accounts receivable or payable are not included.

Credits and liabilities in installments are distributed among the three maturity terms computing in each term the balance of the installments that effectively mature in such period.

3.15 Concentration of the credit risks to the Non Financial Sector

We detail below the Non Financial Sector's Loan portfolio's concentration as at December 31, 2009, including contingent risks. As established in Article 86 of the Compilation of Central Bank Regulations, the definition of risk includes that of an individual or legal entity together with that of the economic group it belongs to.

In thousands of Uruguayan pesos

	Amounts before allowances (net of suspended financial interests)							
	Outstanding	%	Overdue	%	Contingent	%	Total	%
10 main risks	1.288.132	28%	—	0%	17.463	3%	1.305.595	26%
50 main risks	3.297.106	73%	—	0%	226.773	43%	3.523.879	70%
100 main risks	4.000.279	88%	—	0%	342.089	65%	4.342.368	86%
Total portfolio	**4.528.878**	**100%**	**8.805**	**100%**	**526.356**	**100%**	**5.064.039**	**100%**

Notes to the Financial Statements

3.16 Concentration of the Credit risks to the Non Financial Sector by economic activity

We detail below the Non Financial Sector's Loan portfolio's concentration classified by economic activity, including contingent risks, as at December 31, 2009.

In thousands of Uruguayan pesos

	Amounts before allowances				
Loan destination	**Outstanding**	**Overdue**	**Other accounts receivable**	**Contingent**	**Total**
Public Sector (1)	176.751	—	987	9.275	187.013
Agriculture	644.236	0	1	913	645.150
Industry	1.652.925	3.042	220	85.878	1.742.065
Construction	550.149	1.148	62	106.006	657.365
Commerce	660.862	3.546	117	154.424	818.949
Hotels and Restaurants	189	—	—	238	427
Transportation, warehouse and communications	252.406	203	—	3.439	256.048
Financial services	48.069	—	20	611	48.700
Other services	368.951	2	366	41.529	410.848
Families	95.229	677	96	38.901	134.903
Other					—
Credits to Residents' Total	**4.449.767**	**8.618**	**1.869**	**441.214**	**4.901.468**
Non residents	55.215	187	4.387	85.142	144.931
Credits to Non-Fin. Sector's Total (2)	**4.504.982**	**8.805**	**6.256**	**526.356**	**5.046.399**
Other accounts receivable	—	—	62.368	—	62.368
90% of forward contracts and forward contracts' losses not accrued	23.896	—	—	—	23.896
Other contingencies	—	—	—	—	—
TOTAL	**4.528.878**	**8.805**	**68.624**	**526.356**	**5.132.663**

(1) The Public Sector includes all credits maintained with state owned companies or with the Central Administration, independently from their sector of activity.

(2) It corresponds to all accounts included in the Credit Risk Information.

3.17 Non Financial Sector deposits' concentration

We detail below the non financial sector deposits' concentration as at December 31, 2009.

In thousands of Uruguayan pesos

	Deposits in local and foreign currency (includes interest accrued)			
	Residents		**Non Residents**	
	Amount	**%**	**Amount**	**%**
10 main depositors	678.113	17%	78.613	1%
50 main depositors	1.650.984	41%	1.752.176	32%
100 main depositors	2.164.295	54%	2.290.968	42%
Total deposits	**4.027.397**	**100%**	**5.419.105**	**100%**

Additionally, the account Deposits of the Non Financial Sector, includes $ 61.239 thousand corresponding to other obligations with the Non Financial Sector.

3.18 Classification by type of deposit

The non financial sector deposits' breakdown by type is:

In thousands of Uruguayan pesos

	Residents				Non Residents				Total	
Type of deposit	**Local Currency**	**Foreign Currency**	**Total residents**	**Annual variation**	**Local Currency**	**Foreign Currency**	**Total non residents**	**Annual variation**	**Amount**	**%**
Current accounts	271.471	1.071.141	1.342.612	864.508	2.049	65.006	67.055	3.132	1.409.667	15%
Demand deposits	151.110	1.466.372	1.617.482	214.698	8.400	4.193.444	4.201.844	463.992	5.819.326	62%
Savings accounts	—	—	—		—	—	—		—	0%
Time deposits	448.458	195.102	643.560	314.589	10.486	789.238	799.724	(237.697)	1.443.284	15%
Other deposits	64.291	352.892	417.183	100.824	—	344.871	344.871	(53.022)	762.054	8%
Accrued interest	4.095	2.465	6.560	5.634	78	5.533	5.611	227	12.171	0%
Total deposits NFS	**939.425**	**3.087.972**	**4.027.397**	**1.500.253**	**21.013**	**5.398.092**	**5.419.105**	**176.632**	**9.446.502**	**100%**

Additionally, the account Deposits of the Non Financial Sector, includes $ 61.239 thousand corresponding to other obligations with the Non Financial Sector.

3.19 Distribution of loans and obligations from financial intermediation with non residents by country

We detail below the distribution of credits and obligations arising from financial intermediation with non residents by country of residence as at December 31, 2009.

In thousands of Uruguayan pesos

	Capital and accrued interests (net of suspended interests)					
Concept	**Demand Deposits**	**Credits Financial Sector (1)**	**Credits Non Financial Sector (1)**	**Outstanding Credits Forward Contracts**	**Other accounts receivable**	**Total**
Argentina	631	4.470	39.363		386	44.850
Belgium	42.952	—	4	—	—	42.956
Brazil	—	899	228		11	1.138
USA	66.599	1.275.770	39	28.577	3.499	1.374.484
United Kingdom	12.579	474.651	49	2.150	1.352	490.781
Cayman Islands	—	549.556	—	—	—	549.556
Other	7.315	215.722	15.719	—	2.555	241.311
Subtotal (2)	**130.076**	**2.521.068**	**55.402**	**30.727**	**7.803**	**2.745.076**
Other accounts receivable	—	—	—	—	—	—
90% forward contracts and forward contracts losses not accrued	—	—	—	276.540	—	276.540
Other contingencies	—	—	—	—	—	—
TOTAL	**130.076**	**2.521.068**	**55.402**	**307.267**	**7.803**	**3.021.616**

(1) Forward contracts and other accounts receivable are not included.

(2) It corresponds only to accounts included in the Credit Risk Information.

Notes to the Financial Statements

In thousands of Uruguayan pesos

Concept	Capital and accrued interests: Obligations Financial Sector (1)	Obligations Non Financial Sector (1)	Forward Contracts	Total
Argentina	8.235	3.838.778	—	3.847.013
Chile	98.135	25.400	—	123.535
Brazil	4.391	162.570		166.961
Japan	44.529	—	—	44.529
Mexico	137.966	11.761	—	149.727
U.S.A.	1.916	30.253	278.959	311.128
Other	42.690	1.352.062	21.216	1.415.968
TOTAL	**337.862**	**5.420.824**	**300.175**	**6.058.861**

(1) Forward contracts are not included.

3.20 Transactions with related parties

Related parties are individuals or companies, local or foreign, which form an economic group with the Bank, in accordance with the definition given by article 64, article 86 and article 399.1 of the Compilation of Central Bank Regulations.

At the close of the year the balances with related parties and the results originated by transactions with them were as follows:

Thousands $ (local currency and foreign currency equiv. in local currency)	Placements (1)	Securities	Obligations	Results
Financial Sector				
Local companies	—	—	—	—
Head Office, foreign branches and subsidiaries of Head Office	—	—	—	—
Controlling entity, foreign branches and subsidiaries of the controlling entity	—	—	—	—
Foreign branches	—	—	—	—
Foreign subsidiaries	—	—	—	—
Related banks and other foreign institutions	1.542.630		589.073	(38.561)
Non Financial Sector				
Pension fund managers	—	—	—	—
Investment funds	—	—	—	—
Credit administrators	—	—	—	—
Others—individuals	4.320		1.487	(358)
Others—legal entities	—	—	—	—
Net result with related parties			**$**	**(38.919)**

(1) Includes demand deposits.

3.21 Other relevant events

There is no other significant event to disclose.

Notes to the Financial Statements

Note 4 – Shareholders' equity

4.1 Capital Adequacy

The Central Bank regulations require the maintenance of a Net Equity Responsibility comprised of the "Essential Net Equity" and the "Complementary Net Equity", with the condition that the "Complementary Net Equity" should not exceed the "Essential Net Equity".

The Net Equity Responsibility should not be lower than the highest of three parameters, as established by Article 14 of the Compilation of Central Bank Regulations (C.C.B.R.).

These three parameters are:

- Capital requirement for credit and market risks.
- Basic Equity Responsibility, determined by article 15 of the Compilation of Central Bank Regulations.
- 4% of the total assets and contingencies, net of allowances.

As at December 31, 2009, the net equity responsibility (essential net equity plus complementary net equity) amounts to $ 706.114 thousand and the Minimum Net Equity Responsibility required by the Central Bank of Uruguay amounts to $555.935 thousand, equivalent to the capital requirement for credit and market risks, according to Articles 14.1 and 14.2 of the Compilation of Central Bank Regulations (C.C.B.R.).

In thousands of Uruguayan pesos

Concept	Local Currency
Essential Net Equity (E.N.E.)	**470.209**
—Common stock	317.143
—Capital contribution	383.900
—Adjustments to shareholders' equity	80.316
—Reserves	—
—Retained earnings	(270.249)
—Cooperative shares with interest (regulated by law N° 17.613)	—
—Credits with Head Office and subsidiaries	—
—Special investments and intangible assets	(40.901)
Complementary Net Equity (C.N.E.)	**235.105**
—Subordinated loans (up to 50% C.N.E.)	235.105
—General allowances (up to 1,25% assets and contingencies weighed up by credit risk)	—
Net Equity Responsibility (N.E.R. = E.N.E. + C.N.E.)	**705.314**
Subordinated loans admitted to hedge market risk (S.L.M.R)	**—**
—Subordinated loans admitted to hedge market risk (up to the maximum between 250% of the E.N.E. assigned to cover said risk and the difference between E.N.E. and C.N.E)	—
Minimum Net Equity Responsibility (M.N.E.R.)	**555.935**
—Capital requirement for credit risk (art. 14.1 C.C.B.R.)	492.721
—Capital requirement for market risk (art. 14.2 C.C.B.R.)	63.214
—4% of assets and contingent accounts (art. 14 C.C.B.R.)	448.812
—Basic Equity Responsibility (art. 15 C.C.B.R.)	260.104
(N.E.R.+S.L.M.R) / M.N.E.R.	**1,27**
(N.E.R. +S.L.M.R) / (Assets weighted according to their risk+12,5 * Market risk)	**0,10**

Notes to the Financial Statements

Note 5—Information regarding results

5.1 Recognition of gains and losses

Income and expenses are recognized on the basis of the accrual principle. Nonetheless, in compliance with Rule 3.3 of the Accounting Standards and Chart of Accounts for Financial Institutions, financial products may not be recognized as profit –unless received in cash– when the corresponding debtors are classified as "Debtors with compromised repayment capacity", "Debtors with highly compromised repayment capacity" or "Irrecoverable Debtors". When, in accordance with regulations in force, a transaction must be reclassified to any of the categories mentioned above, financial products recognized as profit during the period and not effectively collected should be adjusted with credit to the accounts "Financial products in suspense".

Loans include $ 188.188 thousand net of allowances ($ 221.056 thousand before allowances) which do not accrue interest in compliance with Central Bank regulations.

5.2 Result from services

In thousands of Uruguayan pesos

	Local Currency	Foreign currency equivalent local currency
COMMISSION INCOME	**7.337**	**110.658**
Guarantees granted	3.441	2.900
Credit Cards	1.375	4.328
Foreign trade	1	24.243
Other commissions income	2.520	79.187
COMMISSION EXPENSES	**10.326**	**7.507**
Commissions paid to foreign banks	—	38
Brokerage commissions	934	2.911
Rural business	—	—
Other commission expenses	9.392	4.558

Note 6—Taxes

We detail below the results corresponding to the period ended December 31, 2009 for each of the taxes levied on the company's activities.

In thousands of Uruguayan pesos

Concept	Inputted to result of the period
Income Tax	1.260
Capital Tax	10.480
V.A.T.	—
Financial System control Tax	4.073
Other	1.241
TOTAL	**17.054**

The Income Tax is calculated using the balance sheet liability method.

Note 7—Operations with derivatives

The Bank operates with futures, forwards and swaps. The futures are conducted in well known stock exchange and are standardized regarding maturity date and currency. The forwards are customized regarding maturity date and balance at counterparties' position. The swaps are also customized according to the clients' deposits conditions. The accounting policies and the recognition of results are in accordance with accounting standards established in the Accounting Standards and Chart of Accounts for Financial Institutions issued by the Central Bank of Uruguay.

The bank enters into derivatives at clients' request. There is no market risk associated with these transactions because they are completely matched to the client request. The market risk is on the client side, so credit risk analysis of the client is performed and a collateral is requested and the position is monitored on a daily basis (in other words the collateral is compared with the variation in the price of the futures contract). As at December 31, 2009 there are no transactions of this type.

Forwards and swaps done by the bank are customized transactions with specific amounts and maturities, in order to mitigate the price risk associated with a particular active or passive position. With the objective of make a perfect matching that cancels the price risk on a particular currency or instrument, the future operation is performed with the same amount and maturity of the assets or liabilities that generates it. The Bank can also perform forward operations for and on behalf of client, that is, the open operation with the client and closed with the counterparty. Client's credit risk is also evaluated with the appropriate monitoring. The bank is not exposed to price risk.

Our institutions controls and monitors the risk associated with these operations, based on the risk involved. Operations for and on behalf of customers are monitored with definitions of risk, authorization and upgrade of lines for each client, with a daily monitoring of exposure, based on fluctuations in the instrument price. According to the bank's policies, a collateral is requested to cover the whole transaction (Plain Vanilla).

Hedge positions are authorized by Treasury and control reports are issued on a daily basis. Also it sets limits on position by currency and PVBP (Present Value Basic Point) limits in the case of interest rate risks.

As at December 31, 2009 forward transactions amount to \$ 827.158 thousand assets and \$ 758.052 thousand liabilities, and includes operations "REPO" with the Central Bank of Uruguay in which the Bank sells to the Central Bank Uruguayan Government Securities denominated in Uruguayan Pesos with a buy-back condition. These operations are performed according to the Uruguayan Pesos' assets and liabilities management framework.

The operations with derivatives as at December 31, 2009 include the following:

	Assets		Liabilities	
Type	**Amount of transactions**	**Balance**	**Amount of transactions**	**Balance**
By client request	3	26.552	3	26.520
Trading Operations	20	418.519	20	412.100
		445.071		438.620
Operations "REPO" with Central Bank of Uruguay	7	382.087	7	319.432
		382.087		319.432
Total		**827.158**		**758.052**

Notes to the Financial Statements

Note 8—Integral Risk Management System

As regards our Bank's exposure to the market risk, in terms of either prices or interest rates, we have followed the corporate guidelines.

Positions are determined on daily basis per currency and line of business, subject to the predetermined maximum daily and monthly exposure ceilings. All additions and deletions to our position and all losses and profits deriving from the various transactions are daily confirmed against the accounting entries and, at least once a month, against the Bank's ledger.

Items are checked individually, based on the predetermined ceilings for each currency and instrument in which the Bank has a position of its own.

In addition, the market risk is subject to a mix of monitoring measurements. On the one hand, through a system used by the Group, we compute the VAR (Value at Risk) and, on the other, we compute the PVBP (Present Value Basic Point), *i.e.,* the loss deriving from a fall in the price of net assets upon the variation of one basic point in the interest rate.

Additional information on our integral risk management system is included in the (unaudited information) Annual Corporate Governance Report required under Section 36.3 of the Compilation of Central Bank available in our website (www.hsbc.com.uy).

Note 9—Trusts ("Fideicomisos")

During this year the bank has not transferred credits to financial trusts.

Note 10—Subsequent events

As at March 30, 2010 the Extraordinary General Assembly decided to set the authorized capital in $ 1.800.000.000 (Uruguayan Pesos one thousand and eight hundred million) represented by ordinary shares of $ 1 (one Uruguayan Peso) each.

As at March 30, 2010 the Extraordinary General Assembly decided to contribute cash of US$ 20.000.000 (twenty million dollars) equivalent to $ 390.080.000 (Uruguayan Pesos three hundred ninety million eighty thousand) and capitalize the account adjustments to shareholders' equity for an amount of $ 42.487.891,45 (Uruguayan Pesos forty two million four hundred eighty seven thousand eight hundred ninety one with 45/100).

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KPMG Sociedad Civil
Edificio Torre Libertad
Plaza de Cagancha 1335 - Piso 7
11.100 Montevideo, Uruguay
Casilla de Correo 646

Teléfono: 598 - 2902 4546
Telefax: 598 - 2902 1337
E-mail: kpmg@kpmg.com.uy
http: www.kpmg.com.uy

Independent Auditors' Report

To the Board of Directors of
HSBC Bank (Uruguay) S.A.

We have audited the accompanying financial statements of HSBC Bank (Uruguay) S.A., which comprise the balance sheet as at December 31, 2009 and the income statement, cash flow statement and statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards and valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with international Standards on Auditing and with standards established by Central Bank of Uruguay. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Bank (Uruguay) S.A. as at December 31, 2009 and of its financial performance and its cash flows for the year then ended in accordance with accounting standards and valuation criteria, risk classification criteria and presentation regulations established by the Central Bank of Uruguay.

Emphasis of matters that do not affect our opinion

The regulations and criteria mentioned in the preceding paragraph constitute the legal accounting standards in force in Uruguay for the presentation of financial statements of entities regulated by the Central Bank of Uruguay. The differences which could eventually arise between these financial statements and those which could be prepared in accordance with International Financial Reporting Standards (IFRS) have neither been determined nor quantified.

Montevideo, March 31, 2010

KPMG

Alexander Fry
Partner
C.J. y P.P.U. 38.161

APPENDIX A—SUMMARY OF CERTAIN DIFFERENCES BETWEEN COLOMBIAN BANKING GAAP AND U.S. GAAP

We prepare our consolidated financial statements in pesos in accordance with Colombian Banking GAAP, published by the Colombian Superintendency of Finance, and the accounting standards set forth by the Colombian General Accounting Office (*Contaduría General de la Nación*) (such standards, collectively, Colombian Banking GAAP). Colombian Banking GAAP differs in certain material aspects from generally accepted accounting principles adopted in the United States, or "U.S. GAAP."

In the United States, for accounting and financial reporting purposes, non-governmental entities apply criteria issued by the Financial Accounting Standards Board, or "FASB."

The discussion below is based on the differences between the Colombian standards and the generally accepted accounting standards followed by non-governmental entities in the United States.

We have not prepared a complete reconciliation of our consolidated financial statements and related footnote disclosures between Colombian Banking GAAP and U.S. GAAP and have not quantified such differences. Accordingly, we cannot assure you that the following description is complete. In making an investment decision, investors must rely upon their own examination of the Bank, the terms of the offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between Colombian Banking GAAP and U.S. GAAP and how those differences might affect the financial information we have provided in this document. The most significant measurement differences between Colombian Banking GAAP and U.S. GAAP are the following:

Income taxes

Deferred income taxes

Under Colombian Banking GAAP, deferred income taxes are generally recognized for timing differences, except for differences related to the amortization of carry-forward losses and the excess of minimum presumptive income tax.

Under U.S. GAAP, specifically Accounting Standard Codification ("ASC") 740, deferred tax assets or liabilities must be recorded for all temporary differences between the financial and tax bases of assets and liabilities. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized and settled as prescribed in ASC 740 "Income taxes." A valuation allowance is provided for deferred tax assets to the extent that it is more likely than not that they will not be realized.

Under Colombian tax law, certain acquisitions of property, plant and equipment have an additional deduction over the total depreciation of such assets, equivalent to 30% for property, plant and equipment purchased from 2004 through 2006, 40% from 2007 through 2009 and 30% during 2010. For 2011, this additional deduction was eliminated. This additional deduction is recognized in the income tax return on the year when such assets are purchased. Under Colombian Banking GAAP, there is an immediate recognition in the income statement of such deduction through the current income tax expense.

Under U.S. GAAP, specifically ASC 740-10-25, the tax effect of asset purchases that are not business combinations in which the amount paid differs from the tax basis of the asset shall not result in immediate income statement recognition. The simultaneous equations method shall be used to record the assigned value of the asset and the related deferred tax asset. Thereafter, the deductions taken to current income tax expense for Colombian Banking GAAP should be reversed, which decreases the corresponding deferred tax asset under U.S. GAAP.

ASC 740-10 "Uncertainty in income taxes"

Colombian Banking GAAP does not prescribe a comprehensive model for the recognition, measurement, financial statement presentation and disclosure of uncertain tax positions.

In contrast, provisions contained in ASC 740-10 with regard to uncertainty in income taxes, prescribe a comprehensive model for the recognition, measurement, financial statement presentation and disclosure of uncertain tax positions taken or expected to be taken in a tax return. These amounts relate entirely to Colombian income tax matters. We have no uncertain tax positions related to any other countries.

Employee benefit plans

Pension plan

The measurement for pension plan obligations differs from Colombian Banking GAAP to U.S. GAAP basically due to the fact that Colombian Banking GAAP requires a calculation of the estimated liability using the actuarial methodology mortality data and projection rates determined by law, including but not limited to, actuarial assumptions or increase rates.

For U.S. GAAP purposes, actuarial valuation of pension plan are performed annually using the projected unit credit method in accordance with ASC 715 "Compensation-Retirement Benefits," which requires the use of entity, as well as market specific assumptions.

Other benefits

Under Colombian labor regulations, employees are entitled to receive one month's salary for each year of service. This benefit is accumulated annually, transferred to a contribution pension fund and paid to the employees upon their termination or retirement. No differences are recognized for U.S. GAAP purposes. However, employees hired before 1990 are subject to a different regulation under which the Bank has the obligation to pay the accumulated benefits upon their termination or retirement, calculated based on the last salary the employee received, multiplied by the years of service rendered.

Under Colombian Banking GAAP, this benefit is accrued on an annual basis without considering possible future obligations or increases in salaries.

Under U.S. GAAP, these benefits would be recognized using the projected unit credit method in accordance with ASC 715.

Under Colombian labor regulations, employers and employees are entitled to negotiate compensation other than benefit plans required by law by means of private agreements. Based on such agreements, entities should recognize an additional premium to its employees, only upon retirement. Calculation of the premium pension plan varies from Colombian Banking GAAP to U.S. GAAP because the latter is performed using the projected unit credit method, while under Colombian Banking GAAP benefits are recognized when paid.

Active employees are entitled to a seniority bonus which depends on the number of years of service. Benefits are calculated as days of salary (between 15 and 180) and paid at the moment the employee has completed a specific period of service years. Calculation of the seniority bonus differs from Colombian Banking GAAP to U.S. GAAP because the latter applies requirements from ASC 710-10-25. The Bank, for the purpose of this calculation, uses the projected unit credit method, while under Colombian Banking GAAP the seniority bonus is recognized when paid.

Some pensioned retirees are entitled to receive payments related to medical treatment, hospitalization and surgical events. Calculations differ between Colombian Banking GAAP to U.S. GAAP because the latter is performed using the projected unit credit method, while under Colombian Banking GAAP benefits are recognized when paid.

Fixed assets

Under Colombian tax law, certain acquisitions of property plant and equipment have an additional deduction over the total depreciation of such assets, recognized in the income tax return on the year when such assets are purchased.

Under U.S. GAAP, specifically ASC 740-10-25, the tax effect of asset purchases that are not business combinations in which the amount paid differs from the tax basis of the asset does not result in immediate income statement recognition and is thus recorded as a deferred tax asset, which results in a decrease in the book value of such assets.

This adjustment relates to the lower amount of depreciation expense of certain property, plant and equipment to be recognized for U.S. GAAP purposes due to the fact that the book value of these assets is lower than the amount presented under Colombian Banking GAAP, based on the recognition under U.S. GAAP of the related deferred tax asset on additional tax deductions.

Impairment of fixed assets and reversals of provisions recorded under Colombian Banking GAAP

Under Colombian Banking GAAP, technical appraisals for property, plant and equipment are performed every three years. If the value from the appraisal is lower than the carrying value, the difference is recorded as an allowance in the consolidated balance sheet with the corresponding debit entry to equity. Reversal of the allowance is permitted for subsequent recoveries of the appraised asset.

Under U.S. GAAP, in accordance with ASC 360-10, Property, Plant, and Equipment, "Impairment or Disposal of Long-Lived Assets" an impairment test for a long-lived asset must be performed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Reversal of impairment is not permitted for subsequent recoveries in the fair value of the asset.

Reappraisal of assets

In accordance with Colombian Banking GAAP, reappraisals of property, plant and equipment, equity investments and other non-monetary assets are made periodically. The surplus between the appraisal and the book value of the asset is recorded in the balance sheet under the asset caption "reappraisal of assets, net" and the shareholders' equity under the caption "Surplus account: reappraisals of assets." Technical appraisals for property, plant and equipment are performed every three years. This adjustment does not have an effect on the Statement of Income because reappraisals are not amortized under Colombian Banking GAAP.

Under U.S. GAAP, reappraisals of assets are not allowed.

Allowance for loan, lease losses and foreclosed assets

As established by the Superintendency of Finance, the methodology for evaluating loans and financial leases under Colombian Banking GAAP is based on their inherent risk characteristics, and it serves as a basis for recording provisions based on loss percentage estimates. Under Colombian Banking GAAP, the loan loss allowance is determined and monitored on an ongoing basis, and is established through periodic provisions charged to the Statement of Income. There are no models for provisioning microcredit and mortgage loans. Therefore, the Superintendency of Finance has set forth certain provision percentages according to the risk category, established based on its past due days, and a general additional provision of 1% of the total of these loans.

Under Colombian regulations for restructuring troubled loans, financial entities should comply with certain local legal requirements. Once in compliance, troubled loans that have been restructured are assigned a risk category in the same way that the other loans and the allowance are established according to each type of credit and risk category assigned. Recoveries of provisions previously recognized are not permitted until the customer complies with the restructured terms, with the exception of certain loans with guarantees granted by the National Government.

Under U.S. GAAP, per ASC 310, subsequent measurement analysis management should use a systematic methodology to evaluate the amount of allowance for loan losses, and the corresponding provisions, it considers adequate to provide for probable inherent losses in the portfolio.

This estimate is subject to a greater degree of uncertainty as a result of current economic conditions. As future events and their effects cannot be determined with precision, actual results could differ significantly from the estimate.

The allowance consists of specific, historical, and subjective components. The methodology includes the following elements:

- a periodic detailed analysis of the loan portfolio;

- a systematic loan grading system;

- a periodic review of the summary of the allowance for loan loss balance;

- Identification of loans to be evaluated on an individual basis for impairment under ASC Section 310-10-35, “Subsequent Measurement” of ASC Topic 310, “Receivables”;

- Consideration of internal factors such as our size, organizational structure, loan portfolio structure, loan administration procedures, past due and delinquency trends, and historical loss experience;

- Consideration of risks inherent in different kinds of lending; and

- Consideration of external factors such as local, regional, and national economic factors.

Loans are considered impaired when, based on current information and events, it is probable that the entity will be unable to collect all amounts due according to the contractual terms of the original loan agreement, including contractual interest payments. When a loan has been identified as impaired, the amount of impairment is measured using cash flow of expected repayments, discounted using the loan’s contractual interest rate or at the fair value of the underlying collateral, less estimated selling costs when it is determined that the source of repayment is the liquidation of the underlying collateral.

To calculate the allowance required for smaller-balance impaired loans and all performing loans, an analysis should be conducted using historical losses from consumer and performing commercial loan portfolios in order to estimate, for U.S. GAAP purpose, losses resulting from loan losses that had been incurred in such loan portfolios at the balance sheet date, but which had not been individually identified. Loss contingency estimates are analyzed by loan type and thus for homogeneous groups of clients. Historical loss rates used in the process are updated to incorporate the most recent data, reflecting current economic conditions, industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information that may affect the estimation of the allowance for loan losses.

Loans are charged off when deemed uncollectible. Recoveries of previously charged-off loans are recorded by increasing the allowance.

Foreclosed assets

In accordance with Colombian Banking GAAP, foreclosed assets are recognized at fair value and should be sold within two years from the date of foreclosure. During the first year following the date of foreclosure of a real estate asset, a provision equal to 30% of the carrying value of the asset at the time of receipt is recognized in the Consolidated Statement of Income in proportional monthly installments. This provision increases by an additional 30% in proportional monthly installments within the second year following date of foreclosure of the asset. Once the legal term for sale has expired, an authorization for extension is required by the Superintendency of Finance. If the authorization is not granted, a provision equal to 80% of the carrying value of the asset should be recognized. If the extension is granted, the remaining 20% of the provision should be recognized by the end of the extension period.

For foreclosed assets that are not real estate, the provision is equal to 35% of the carrying value of the asset at the time of foreclosure and should be constituted in proportional monthly installments within the first year following the receipt. This provision should be increased by an additional 35% within the second year. Once the legal term for sale has expired without authorization for extension, the provision should be increased up to 100%. If extension is granted, the remaining 30% of the provision should be recognized by the end of the extension period.

Under U.S. GAAP ASC 310-40, foreclosed assets shall be classified as assets "held-for-sale" and recognized at the lower of its carrying amounts at foreclosure or fair value less the cost to sell, in the period in which all of the following criteria are met: (a) management, having the authority to approve the action, commits to a plan to sell the asset; (b) the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; (c) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated; (d) the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year; (e) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (f) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. If at any time the criteria in the paragraph above are no longer met, a long-lived asset classified as held for sale is reclassified as in use.

Therefore, the foreclosed assets population under analysis is the same under both Colombian Banking GAAP and U.S. GAAP. The adjustment reflects the reversal of a portion of the provisions recorded under Colombian Banking GAAP to adjust the value of the asset to the lower of its carrying amount at the date of foreclosure or fair value less costs to sell.

Loan origination fees and costs

Under Colombian Banking GAAP, financial entities recognize loan origination fees, lines of credit and letters of credit in the Statement of Income when collected, and record related direct costs when incurred.

Under U.S. GAAP, specifically ASC 310-20-50 "Accounting for Non-Refundable Fees and Costs Associated with Origination or Acquiring Loans and Initial Direct Costs of Leases," loan origination fees and certain direct loan origination costs that are required to be recognized as a yield adjustment over the life of the related loans are recognized by the interest method, except for certain loan agreements, such as revolving lines of credit and credit cards, which are recognized in the Consolidated Statement of Income on a straight-line basis over the life of the product. For certain consumer loans with a history of prepayment the amortization period should be adjusted according to that history.

Interest recognition on non-accrual loans

Under Colombian Banking GAAP, after a loan is in arrears for more than a certain time, interest ceases to be accrued in the consolidated Statement of Income and begins to be recorded in Memorandum Accounts until effective payment is collected:

Type of loan and financial lease	Arrears in excess of:
Residential mortgage	60 days
Consumer	60 days
Microcredit	30 days
Commercial	90 days

Under U.S. GAAP, accrual of interest income discontinues once a loan becomes more than 90 days past due, in accordance with managements estimates about the recoverability of such interest costs, which is also aligned to customary practices for U.S. banks.

Deferred charges and other assets

For Colombian Banking GAAP purposes, certain expenses and other charges have been deferred, including, among others, remodeling, pre-operating expenses, and certain costs of studies and projects such as administrative projects, improvement of internal processes related to clients, multiple services and benchmark analysis.

Under U.S. GAAP, these charges are expensed as incurred.

Impairment on investments and cautionary provisions

Impairment on investments

Under Colombian Banking GAAP, in the case of the impairment of securities, the Superintendency of Finance's requirements should be followed. Based on such guidance, a credit risk qualification analysis is performed for both debt and equity securities. Based on this analysis, a credit risk rating will be assigned to each investment, thereby also determining the corresponding mandatory provisions.

Under U.S. GAAP, a decline in the estimated fair market value of held to maturity or available for sale debt or equity securities compared with the amortized cost is charged to earnings for the year management considers that this decrease is other than temporary. Management evaluates securities for other than temporary impairment at each balance sheet date or sooner when conditions require such evaluation. Factors considered in determining whether impairment is other than temporary include: (a) the length of time and the extent to which the fair value has been less than cost; (b) the financial condition and the near term prospects of the issuer; and (c) the intent and ability of hold the investment for a period of time sufficient to allow full recovery in fair value.

For debt securities, when an entity does not intend to sell an impaired debt security, and it is more likely than not it will be required to sell the security prior to recovery, the entity must determine whether it will recover its amortized cost basis. If it concludes it will not, a credit loss exists and the resulting Other Than Temporary Impairment is separated into the amount representing the credit loss, which is recognized in the Statement of Income, and the amount related to all other factors, which is recognized in Other Comprehensive Income (OCI).

The guidance requires that the total Other Than Temporary Impairment (difference between the fair value and the amortized cost of the security) be presented in the Consolidated Statement of Income with an offset in a separate line item for any amount of the total Other Than Temporary Impairment that is recognized in other comprehensive income. Under U.S. GAAP, Other Than Temporary Impairment should be recognized for available for sale equity securities.

Cautionary provisions

Under Colombian Banking GAAP during 2010, entities could record a cautionary provision with respect to investments, considering possible scenarios and expectations of future decreases in fair value, as permitted by the Superintendency of Finance.

Under U.S. GAAP, this provision should be removed, since no Other-Than-Temporary Impairment had occurred as of the reporting date, not undergoing financial difficulties and did not meet the Other-Than-Temporary Impairment criterion under ASC 320-10-35. Since their fair value is above their cost, these investments are not subject to impairment under U.S. GAAP.

Foreign exchange differences on available-for-sale investments

Under Colombian Banking GAAP, fluctuations in fair value resulting from changes in foreign currency exchange rates on available-for-sale debt securities are reflected in the Consolidated Statements of Income.

In accordance with U.S. GAAP, based on ASC 320-10 and ASC 830-20, changes in the fair value of available-for-sale debt securities as a result of changes in foreign currency exchange rates are reflected in shareholders' equity.

Derivatives

Fair value of derivative instruments

Under Colombian Banking GAAP, the fair value of derivative instruments is similar to U.S. GAAP, specifically per ASC 820, except for the fact that Colombian Banking GAAP does not take into account counterparty risk or consideration of collateral, in addition to any previously mentioned difference.

In addition, since January 1, 2010 and following new rules established by the Superintendency of Finance for measuring the fair value of derivative instruments under Colombian Banking GAAP, any day-one gains or losses derived from the new valuation requirements on swaps are deferred and amortized during the life of the instrument. For U.S. GAAP purposes, such deferrals should be reversed through the consolidated income statement since these derivative instruments were classified as trading under U.S. GAAP.

Hedge of a net investment in a foreign operation

Entities designate foreign exchange forwards and foreign currency denominated debt to hedge the foreign exchange risk associated with investments in non-peso functional currency subsidiaries. In the case of the designated forwards, these are entered into for a short-term period, and as they expire, new forwards are again entered into (known as "rolling hedge" strategy), so as to preserve the portion of the net equity investment in terms of pesos if the U.S. dollar depreciates against the entity's functional currency.

Investments in unaffiliated companies

Under Colombian Banking GAAP, investments in unaffiliated companies are initially recognized at cost and subsequently measured at their fair market value. Non-listed equity securities, issued and traded in Colombia are valued based on acquisition cost, which is later increased or decreased depending upon the investor's percentage stake in all subsequent changes in the issuer's shareholders' equity.

Prior to August 24, 2009, equity securities were valued based on a liquidity-weighted stock index, calculated by the Colombian Stock Exchange, applicable on each of the dates on which such valuations were conducted. Depending on their liquidity levels, equity securities were valued as follows:

- high-liquidity equity securities: based on the last daily average trade-weighted price published by the Colombian Stock Exchange;

- medium-liquidity equity securities: based on the average price published by the Colombian Stock Exchange, which corresponded to the average trade-weighted price for the last five days on which such securities were traded; and

- low-liquidity equity securities or those not listed on a stock exchange: based on the increase or decrease of an investor's percentage stake in the issuers' shareholders' equity updated using the latest audited financial statements released by the issuer.

Under U.S. GAAP, investments in securities for which an investor does not have significant influence over the investee's operations are accounted for at fair value if their fair value is readily determinable. Certain reclassifications made under Colombian Banking GAAP from available-for-sale to trading would be reversed for U.S. GAAP purposes.

Business combinations

Purchase method of accounting

Under Colombian Banking GAAP, the accounting for business combinations requires that the purchase price be allocated to the acquired assets and liabilities on the basis of their book values. The difference between the purchase price, without including acquisition costs, is recognized as goodwill. For acquisitions made before 2006, goodwill should be amortized over a 10-year period, and for acquisitions effectively made after 2006, over a period of 20 years.

Under Colombian Banking GAAP, the purchase price should be allocated to the acquired assets mainly on the basis of their book value, although unlike in prior years, certain assets such as property, plant and equipment are reappraised to fair value. Goodwill is amortized in accordance to the applicable standards mentioned above.

U.S. GAAP requires that the purchase price be allocated to the identifiable assets acquired, including any intangible assets and liabilities assumed, on the basis of their respective fair values. The difference between such amount and the purchase price is recognized as goodwill. Goodwill is not amortized but is subject to an annual impairment test.

Under U.S. GAAP, goodwill should be tested for impairment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit. The first step is a screen for potential impairment and the second step measures the amount of impairment.

Under U.S. GAAP, the differences between the fair value and book value of the depreciable assets are amortized during the estimated period of time.

The fair value of assets acquired and liabilities assumed are based on information available on the date of acquisition. The appraisal and allocation of amounts paid are expected to be completed as soon as practically possible but in no event later than one year after the date of acquisition.

The methods used under U.S. GAAP to determine of the fair value of assets acquired and liabilities assumed are described below:

Loan portfolio. The fair value of a loan portfolio should be determined on the basis of discounted cash flows, through utilization of net returns. The portfolio should be segmented in sets of loans with similar characteristics, including, but not limited to, the type of loan, its currency of disbursement, applicable interest rate, collateral, among other factors. The estimated flows for each set of loans should be prepared on the basis of the outstanding principal amount, the applicable weighted average interest rate, prepayments and the remaining weighted tenure for maturity. Forecasted cash flows should be discounted at a market rate deemed appropriate for each specific group of loans under analysis. Market rates should be established through utilization of observable market prices and internal pricing policies for extension of such loans.

Securities. Securities are predominantly valued at the prices quoted by the market. In the case of non-availability of a given price, the fair value is determined using the market price of a similar instrument. In the event that the most significant elements of valuation are not directly observable in the market, the incumbent securities are valued using the best information available. Such information may be developed internally and does take into account the premiums that would be required by a market participant.

Relationship with depositors. The relationship with depositors (hereinafter, "CDI") should be measured using the value of sight deposits, savings deposits and monetary market deposits that are acquired through business combinations. The fair value of CDI is determined on the basis of the present value of cost savings attributable to financing received from depositors, as compared with an alternative financing source.

Relationship with customers. The value of relationships with credit cards, commercial customers and affiliated commerce establishments is measured given the history of recurrent cash flows derived from current customers and the likelihood that those customers continue generating flows in the future. The reasonable value of intangible assets should be established through use of the multi-period excess income methodology with the underlying basis assumption that the fair value of a customer relationship may be determined on the basis of the present value of net future flows collected through the life of the underlying asset.

Trademarks and brands. A brand or trademark of high recognition in the market has considerable value for an entity. The determination of the fair value of trademarks and brands takes into consideration, among other factors, the industry standard for royalty payment rate and the total forecasted income flows generated by the banking business.

Assets held for sale. Assets held for sale include real estate properties acquired in lieu of loan payments. Assets assigned should be booked at their estimated fair value less the cost of their sale on the date of acquisition, through estimations conducted by the administration, on the basis of available appraisals or on the opinion of real estate brokers. Estimated sales costs are based on the divestiture experience of properties of a similar nature and on regular market conditions for real estate transactions.

Deposit liabilities. Fair value used for sight and savings deposits is, by definition, equal to the amount payable at sight as of the date of acquisition. The fair value for fixed-term deposits should be estimated using the method of discounted cash flows, based on the interest rates offered by similar banks operating in each country and each currency, as applicable to the different groups of outstanding maturities. In those cases in which there are no available market interest rates for a particular maturity, rate extrapolation should be conducted on the basis of available interest rates.

Deferred taxes. Deferred income taxes are those arising from differences between amounts registered in the financial statements and the amounts registered on the fiscal basis of assets acquired and liabilities assumed as a result of the acquisition.

Debt instruments. The reasonable value of debt instruments should be estimated using discounted cash flows. Contractual interest rates should be compared to market interest rates on the date of valuation. Those debt instruments whose contractual interest rates were either above or below market rates should be adjusted to reflect either a premium or a discount.

Other assets and liabilities. Due to the relative short term nature of both other assets and liabilities, their book value is considered to fairly approach their fair value.

Non-controlling interest

Under Colombian Banking GAAP, the non-controlling interest is presented as a separate line within total liabilities, and thus is not part of shareholders' equity.

For U.S. GAAP purposes, as of January 1, 2009, ASC 810-10-65-65-1 requires the non-controlling interest in subsidiaries to be classified as a separate component of shareholders' equity in the consolidated financial statements. Additionally, consolidated net income and comprehensive income are reported with separate disclosures of the amounts attributable to the parent company and the non-controlling interest.

Guarantees and contingencies

Guarantees

Under Colombian Banking GAAP, at the inception of a guarantee, the full guaranteed amount is recognized in Memorandum Accounts. Any premium received is recognized as collected in the Consolidated Statements of Income.

Under U.S. GAAP, at the inception of a guarantee, a liability for guarantees granted is recognized in the Consolidated Balance Sheet. The liability recognized is the premium received or receivable, which represents the fair value of the guarantee at its inception and it is subsequently amortized over the term of the guarantee.

Contingencies

Under Colombian Banking GAAP, contingencies are recognized in the following events:

- information available prior to issuance of the financial statements indicates that it is probable (>50%) that an asset had been impaired or a liability had been incurred at the date of the financial statements; and the amount of loss can be reasonably estimated;

- a provision for a contingent event is recorded at the time judgment is issued against the entity, without reference to the evaluation of the provable final outcome.

For U.S. GAAP, ASC 450, "Accounting for Contingencies," provides guidance for recording contingencies. Under ASC 450, there are three levels of assessment of contingent events—probable, reasonably possible and remote. The term "probable" in ASC 450 is defined as "the future event or events are likely to occur." The term "reasonably possible" is defined as "the chance of the future event or events occurring is more than remote but less than likely." In addition, the term "remote" is defined as "the chance of the future event or events occurring is slight."

Under ASC 450, an estimated loss related to a contingent event is to be accrued by a charge to income if each of the following conditions are met:

- information available prior to issuance of the financial statements indicates that it is probable (>75%) that an asset had been impaired or a liability been incurred at the date of the financial statements;

- the amount of loss can be reasonably estimated.

The amount recorded is an estimate of the amount of loss at the date of the financial statements. If the contingent event is evaluated to be reasonably possible, no provision for the contingent event may be made, but disclosure of the event is required.

Equity tax

In accordance with Law 1111 of 2006, companies and individuals who possess liquid equity in excess of Ps 3,000 are subject to an equity tax. Under Colombian Banking GAAP, the equity tax may be recorded directly in shareholders' equity.

Under U.S. GAAP, tax expense derived from the equity tax is recorded directly on the Consolidated Statements of Income.

Variable interest entities

Under Colombian Banking GAAP, consolidation is appropriate when an entity holds the majority of voting rights of another entity.

Under U.S. GAAP, application of the majority voting interest requirement to certain types of entities may not identify the party with a controlling financial interest because that interest may be achieved through other arrangements. Although ASC 810-10-15-14 states that consolidated financial statements include subsidiaries in which the entity has a controlling financial interest, (i.e., a majority voting interest), U.S. GAAP also requires a company to consolidate a variable interest entity, or "VIE," if that company is a primary beneficiary that has the power to direct the activities of a variable interest entity that most significantly affects the entity's economic performance and has the power to direct the activities of a variable interest entity that most significantly affects the entity's economic performance and has the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity, or the right to receive benefits from the entity that could potentially be significant to the variable interest. Under Colombian Banking GAAP, no such concept as a variable interest entity exists.

The overall methodology for evaluating transactions and relationships under the VIE requirements includes the following two steps:

- determine whether the entity meets the criteria to qualify as a VIE; and
- determine whether the entity is the primary beneficiary of a VIE.

In performing the first step, significant factors and judgments were considered in making the determination as to whether an entity is a VIE.

For each VIE identified, the entity performs the second step and evaluates whether it is the primary beneficiary of the VIE by considering the following criteria:

- whether the entity has the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity;
- whether the entity has the right to receive benefits from the entity that could potentially be significant to the variable interest; and
- whether the entity has the power to direct the activities of the variable interest entity that most significantly affect the entity's economic performance.

Cumulative translation adjustment

For Colombian Banking GAAP purposes, translation adjustments originated in the statement of income accounts of subsidiaries with a functional currency different from the reporting currency (peso) are included in the consolidated statement of income.

Under U.S. GAAP, according to ASC 830 and ASC 220, translation adjustments are presented as a component of shareholders' equity within other comprehensive income.

Forwards

On December 30, 2010, for both Colombian Banking GAAP and U.S. GAAP, U.S. dollar forward contracts were formally designated as hedging instruments over a portion of the net investment in Leasing Bogotá Panamá. These forwards are entered into with other financial counterparties and follow a documented "rolling hedge" strategy, by means of entering into new forwards simultaneously as those previously incepted expire. This hedge strategy mitigates the risk of the U.S. dollar depreciating against the peso, which creates a loss within the Cumulative Translation Adjustment reflected within the Other Comprehensive Income in Shareholders Equity.

Under Colombian Banking GAAP, changes in the fair value of derivatives used as hedges of net investment in foreign operations, to the extent ineffective, are recorded as a component of stockholders' equity. The effective portion of the hedge relationship is recorded in the income statement.

Under U.S. GAAP, changes in the carrying values of derivative and non-derivative financial instruments used as hedges of net investments in foreign operations are, to the extent ineffective, recorded in the income statement. The effective portion of the hedge relationship is recorded in the foreign currency translation adjustment account within accumulated other comprehensive income (loss).

Foreign currency-denominated debt

Under Colombian Banking GAAP, only derivative financial instruments can be designated as accounting hedges. Under this regime no hedge accounting is applied and, hence any exchange rate fluctuation is recorded in the consolidated statement of income.

Under U.S. GAAP, according to ASC 815 "Derivatives and Hedging," entities may designate a non-derivative financial instrument that gives rise to a foreign currency transaction gain or loss, in accordance with ASC 830 "Foreign Currency Matters," as a hedge of the foreign currency exposure of a net investment in a foreign operation. Therefore, under U.S. GAAP exchange rate fluctuations derived from the U.S. dollar-denominated debt designated as the hedging instrument are recorded in shareholders' equity in accordance with the requirements for hedge accounting.

Effectiveness test

Colombian Banking GAAP requires entities to perform effectiveness tests on a monthly basis and for each reporting period, retrospective and prospective, in order to assess whether the derivative used in its hedging transaction has been and can be expected to continue to be highly effective, in a range between 80% and 100%, in offsetting changes in the fair value of the hedged item. Colombian Banking GAAP does not require or recommend the application of any specific effectiveness test method for net investment hedges.

U.S. GAAP requires entities to perform effectiveness testing whenever earnings or financial statements are reported and at least every three months. In addition, the effectiveness range for U.S. GAAP is set between 80% and 125%, in offsetting changes in the fair value of the hedged item.

Effectiveness test—forwards

As stated previously, there are no specific requirements under Colombian Banking GAAP regarding the application of a particular effectiveness test.

For U.S. GAAP purposes, the forward-rate method is used to test effectiveness in U.S. dollar forwards.

For a U.S. dollar forward designated as a hedging instrument, any ineffectiveness could be generated between the hedging instrument and the hedged item if both have different notional amounts or different currencies. The entity will measure hedge ineffectiveness by comparing the change in the value of the actual derivative with the change in value of a hypothetical derivative with the same maturity.

Effectiveness test—foreign currency denominated debt

For U.S. GAAP purposes, an entity should follow the spot exchange rate method for the U.S. dollar-denominated debt instrument in order to test effectiveness.

For a U.S. dollar-denominated debt instrument designated as a hedging instrument, the translation gain or loss that is recorded in the foreign currency translation adjustment account is based on the spot exchange rate between the functional currency of the entity and the investor's functional currency. To the extent the notional amount of the hedging instrument exactly matches the hedged net investment, and the underlying exchange rate of the derivative hedging instrument relates to the exchange rate between the functional currency of the net investment and the investor's functional currency (or, in the case of a non-derivative debt instrument, such instrument is denominated in the functional currency of the net investment), no ineffectiveness is recorded in earnings.

Earnings per share

Under Colombian Banking GAAP, earnings per share, or "EPS" are computed by dividing net income by the weighted-average number of common shares outstanding for each period presented.

Under U.S. GAAP, Statement of Financial Accounting Standards—ASC 260 requires dual presentation of basic and diluted EPS for entities with complex capital structures, as well as a reconciliation of the basic EPS computation to the diluted EPS computation. Basic EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted EPS assumes the issuance of common shares for all dilutive potential common shares outstanding during the reporting period.

Estimated fair value of financial instruments

The framework for measuring fair value under Colombian Banking GAAP is consistent with ASC 820 "Fair Value Measurements," except for considerations about credit risk, counterparty risk and valuation of collaterals in the valuation of derivatives. ASC 820 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or non-recurring basis.

Fair-value hierarchy

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2—Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability. Inputs include the following:

- quoted prices for similar assets or liabilities in active markets;

- quoted prices for identical or similar assets or liabilities in non-active markets;
- pricing models whose inputs are observable for substantially the full term of the asset or liability;
- pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means.

Level 3—Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Determination of fair value

Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, option volatilities and currency rates. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include, among others, amounts to reflect counterparty credit quality, liquidity and unobservable parameters that are applied consistently over time.

Segments disclosure

Under Colombian Banking GAAP, segment disclosure is not required.

Under U.S. GAAP, Statement of Financial Accounting Standards—ASC 280 requires the presentation of the reporting segment information as the chief operating decision maker of a public entity to designate which resources are to be allocated to the different types of business activities from which it may earn revenues and incur expenses and assess its performance.

Inflation adjustments

Under Colombian Banking GAAP, even though it was not a hyperinflationary economy, on a prospective basis since January 1, 1992 and up to December 31, 2000, our financial statements were adjusted for the effects of inflation on the basis of changes in the PAAG Index, which is the middle-income consumer price index as established, with a one-month lag, by the National Administrative Statistic Department of Colombia. This index was applied to all non-monetary assets and liabilities and shareholders' equity accounts, except for the revaluation of fixed assets and the current year's net income accounts. The net gain (loss) from exposure to inflation was reflected as "Monetary Correction" in the results.

Under U.S. GAAP, ASC 255 "Changing prices" does not permit inflation adjustments unless the company is a hyperinflationary economy, as defined by U.S. GAAP.

Comprehensive Income Statement

Under Colombian Banking GAAP, a separate Statement of Comprehensive Income is not required.

Under U.S. GAAP, Statement of Financial Accounting Standards—ASC 220 requires the presentation of the Statement of Comprehensive Income which reflects the changes in shareholders' equity other than the changes in equity produced by the company owners through capitalization or dividends distributions. This statement should be presented with the same prominence as the other financial information as part of the income statement or shareholders' equity or in a note.

PRINCIPAL OFFICE

Banco GNB Sudameris S.A.
Cra.7a. No. 75-85/87
Bogotá, Colombia

INDEPENDENT AUDITORS

KPMG Ltda.
Calle 90 No. 19C-74
Bogotá, Colombia

TRUSTEE, SECURITY REGISTRAR, TRANSFER AGENT AND PAYING AGENT

The Bank of New York Mellon
101 Barclay Street, Floor 4E
New York, New York
United States of America

LUXEMBOURG LISTING AND PAYING AGENT

The Bank of New York Mellon (Luxembourg) S.A.
Vertigo Building—Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg

LEGAL ADVISORS TO THE ISSUER

As to U.S. Law
Proskauer Rose LLP
Eleven Times Square
New York, New York 10036

As to Colombian Law
Cardenas & Cardenas Abogados Ltda.
Cra. 7 No. 71-52 Tower B, Office 9
Bogotá, Colombia

LEGAL ADVISORS TO THE INITIAL PURCHASER

As to U.S. Law
Milbank, Tweed, Hadley & McCloy LLP
One Chase Manhattan Plaza
New York, New York 10005

As to Colombian Law
Prieto & Carrizosa S.A.
Cra. 9 No. 74-88 Office 305
Bogotá, Colombia

U.S.$250,000,000

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LISTING PARTICULARS

BofA Merrill Lynch