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Santander

Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México

U.S.$1,000,000,000

4.125% Senior Notes due 2022

Interest payable on May 9 and November 9

Issue Price: 98.183%

We offered U.S.$1,000,000,000 4.125% Senior Notes due 2022 (the "Notes"). The Notes will mature on November 9, 2022, or the "Maturity Date," unless previously redeemed. We may redeem the Notes, in whole but not in part, subject to any regulatory requirements at any time if there are specified changes in Mexican laws affecting the withholding tax applicable to payments under the Notes. We may also redeem the Notes, in whole or in part, at the greater of 100% of their principal amount outstanding and a make-whole amount described in this offering memorandum, in each case, plus Additional Amounts, if any, and any accrued and unpaid interest up to the date of redemption. See "Description of Notes—Redemption—Withholding Tax Redemption" and "Description of Notes—Redemption—Optional Redemption" in this offering memorandum.

The Notes are denominated in U.S. dollars and will bear interest from (and including) November 9, 2012, or the "Issue Date," to (but excluding) the Maturity Date at a fixed rate per annum equal to 4.125%, payable semi-annually in arrears on May 9 and November 9 of each year (each an "Interest Payment Date"), commencing on May 9, 2013.

The Notes will be our direct, unconditional and unsecured general obligations and will, other than as set forth below, at all times rank *pari passu* in right of payment with all of our other unsecured obligations other than obligations that are, by their terms, expressly subordinated in right of payment to the Notes. The Notes will be effectively subordinated to (i) all of our secured indebtedness with respect and up to the value of our assets securing that indebtedness, (ii) certain direct, unconditional and unsecured general obligations that in case of our insolvency are granted preferential treatment pursuant to Mexican law (including tax and labor claims) and (iii) all of the existing and future liabilities of our subsidiaries, including trade payables. We currently do not have any secured indebtedness. See "Description of Notes—Ranking." The Notes will be unsecured and are not guaranteed by the Mexican Savings Protection Agency (*Instituto para la Protección al Ahorro Bancario*).

We have applied to list the Notes on the Official List of the Luxembourg Stock Exchange, or "LSE," and for trading on the Euro MTF market. This offering memorandum constitutes a prospectus for the purpose of the Luxembourg law dated July 10, 2005 on Prospectuses for Securities.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 23.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*, OR THE RNV) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (*COMISIÓN NACIONAL BANCARIA Y DE VALORES*, OR THE CNBV), AND MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO, EXCEPT THAT WE MAY OFFER THE NOTES TO INSTITUTIONAL AND QUALIFIED INVESTORS PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*). AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, WE WILL NOTIFY THE CNBV REGARDING THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY, AND THE DELIVERY OF SUCH NOTICE TO AND THE RECEIPT THEREOF BY THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES AND DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN. THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS EXCLUSIVELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV. THE ACQUISITION OF THE NOTES BY AN INVESTOR WHO IS A RESIDENT OF MEXICO WILL BE MADE UNDER SUCH INVESTOR'S OWN RESPONSIBILITY.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), any state securities laws or the securities laws of any other jurisdiction. Therefore, we may not offer or sell the Notes within the United States or to, or for the account or benefit of, any U.S. person unless the offer or sale would qualify for a registration exemption from the Securities Act and applicable state securities laws. Accordingly, we are only offering the Notes (i) to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and (ii) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act. See "Plan of Distribution" and "Transfer Restrictions" for additional information about eligible offerees and transfer restrictions.

None of the CNBV, the U.S. Securities and Exchange Commission (the "SEC"), or any U.S. state or foreign securities commission has approved or disapproved of these securities or determined if this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

Delivery of the Notes was made to investors in book-entry form through the facilities of The Depository Trust Company ("DTC") on November 9, 2012.

Joint Book-Running Managers

Deutsche Bank Securities **Goldman, Sachs & Co.** **Santander**

November 22, 2012.

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We and the initial purchasers have not authorized anyone to provide any information other than that contained in this offering memorandum. We and the initial purchasers take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, financial condition, results of operations and prospects may have changed since that date. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this offering memorandum.

IMPORTANT NOTICES TO READERS

The Notes are not deposits with us and are not insured or guaranteed by the United States Federal Deposit Insurance Corporation or any other United States governmental agency or any Mexican governmental agency, including, without limitation, the *Instituto para la Protección al Ahorro Bancario* ("IPAB").

For the sale of the Notes in the United States, we are relying upon an exemption from registration under the Securities Act for an offer and sale of securities that do not involve a public offering. By accepting delivery of this offering memorandum or purchasing Notes, you will be deemed to have made certain acknowledgments, representations, restrictions and agreements as set forth under "Transfer Restrictions" in this offering memorandum. Neither we nor any initial purchasers are making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment.

We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and in offshore transactions to persons other than U.S. persons so they can consider a purchase of the Notes. This offering memorandum has been prepared solely for use in connection with the placement of the Notes, for the listing of the Notes on the Official List of the Luxembourg Stock Exchange, or "LSE," and for trading on the Euro MTF market. This offering memorandum may only be used for the purpose for which it has been published.

By your purchase of the Notes, you will also be deemed to have acknowledged that (i) neither we nor any person representing us has made any representation to you with respect to us or the offering and sale of the Notes other than the information contained in this offering memorandum and, if given or made, any such other information or representation must not be relied upon as having been authorized by us or any person representing us, (ii) you have received a copy of this offering memorandum and have had access to such financial and other information, including the information in this offering memorandum, and have been offered the opportunity to ask us questions and received answers thereto, as you deemed necessary in connection with the decision to purchase the Notes, and (iii) you are relying only on the information contained in this offering memorandum in making your investment decision with respect to the Notes. In making an investment decision, you must rely on your own examination of us and the terms of the offering and the Notes, including the merits and risks involved.

This offering memorandum is based on information provided by us and other sources that we believe to be reliable. Neither we nor the initial purchasers can assure you that such information provided is accurate or complete. This offering memorandum summarizes certain documents and other information and we refer you to them for a more complete understanding of what we discuss in this offering memorandum.

We are responsible for this offering memorandum and, having made all reasonable inquiries, we confirm that this offering memorandum contains all information with regard to us and the Notes that is material in the context of the issuance and offering of the Notes, that the information contained in this offering memorandum is true and accurate in all material respects and is not misleading and that there are no other facts the omission of which would make this offering memorandum as a whole misleading in any material respect.

We are not making any representation to any purchaser regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own counsel, accountant, business advisor and tax advisor for legal, tax, business and financial advice regarding any investment in the Notes.

You should contact the initial purchasers with any questions about this offering or if you require additional information to verify the information contained in this offering memorandum.

This offering memorandum does not constitute an offer of, or an invitation by or on behalf of, us or the initial purchasers or any of our or their respective directors, officers or affiliates to subscribe for or purchase any securities in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the Notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the initial purchasers will have any responsibility therefor.

The Notes have been issued under an indenture to be entered into among Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, as issuer, The Bank of New York Mellon, as trustee, and The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg paying agent, transfer agent and listing agent.

The Notes may not be offered or sold, directly or indirectly, in Mexico or to any resident of Mexico, except as permitted by applicable Mexican law.

This offering memorandum contains some of our trademarks, trade names and service marks, including our logos. Each trademark, trade name or service mark of any company appearing in this offering memorandum belongs to its respective holder.

We reserve the right to withdraw this offering of the Notes at any time, and we and the initial purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part, for any reason, and to allot to any prospective investor less than the full amount of Notes sought by that investor. The initial purchasers and certain related entities may acquire for their own account a portion of the Notes.

This offering memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer of Notes in that Relevant Member State in accordance with this offering memorandum may only do so in circumstances in which no obligation arises for us or the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither we nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for us or any initial purchaser to publish or supplement a prospectus for such offer. The expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

This offering memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

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

CERTAIN TERMS AND CONVENTIONS

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to "Banco Santander Mexico," the "Bank," "we," "our," "ours," "us" or similar terms refer to Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, together with its consolidated subsidiaries.

When we refer to "Grupo Financiero Santander Mexico," we refer to our holding company, Grupo Financiero Santander México, S.A.B. de C.V.

When we refer to "Banco Santander Spain," we refer to our parent company, Banco Santander, S.A.

When we refer to the "Santander Group," we refer to the worldwide Banco Santander Spain conglomerate and its consolidated subsidiaries.

Unless otherwise indicated, all references in this offering memorandum to "initial purchasers" refer to Deutsche Bank Securities Inc., Goldman, Sachs & Co. and Santander Investment Securities Inc.

References in this offering memorandum to certain financial terms have the following meanings:

- References to "Mexican Banking GAAP" are to the accounting principles and regulations prescribed by the CNBV for credit institutions, as amended.
- References to "U.S. GAAP" are to the accounting principles generally accepted in the United States of America.
- References to our "audited financial statements" are to the audited consolidated financial statements of Banco Santander Mexico as of December 31, 2009, 2010 and 2011, and for the fiscal years ended December 31, 2009, 2010 and 2011, together with the notes thereto. The audited financial statements were prepared in accordance with Mexican Banking GAAP and are contained in this offering memorandum.
- References to our "unaudited condensed consolidated interim financial statements" are to the unaudited condensed consolidated interim financial statements of Banco Santander Mexico as of June 30, 2012 and as of December 31, 2011 and for each of the six-month periods ended June 30, 2011 and 2012, together with the notes thereto. The unaudited condensed consolidated interim financial statements were prepared in accordance with Mexican Banking GAAP and are contained in this offering memorandum.

As used in this offering memorandum, the term "billion" means one thousand million (1,000,000,000).

In this offering memorandum, the term "Mexico" refers to the United Mexican States. The terms "Mexican government" or the "government" refer to the federal government of Mexico, and the term "Mexican Central Bank" refers to *Banco de México*. References to "U.S.$," "U.S. dollars" and "dollars" are to United States dollars and references to "Mexican pesos," "pesos" or "Ps." are to Mexican pesos. References to "euros" or "€" are to the common legal currency of the member states participating in the European Economic and Monetary Union.

Our principal executive offices are located at Avenida Prolongación Paseo de la Reforma 500, Colonia Lomas de Santa Fe, Delegación Álvaro Obregón, 01219, México, Distrito Federal, Mexico. Our telephone number at that address is +52 55 5257-8000 and our website is www.santander.com.mx. None of the information contained on our website is incorporated by reference into, or forms part of, this offering memorandum.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, OR THE "RSA," 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 A 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.

The Notes will be available initially only in book-entry form. The Notes have been issued in the form of registered global notes. The global notes have been deposited with, or on behalf of, DTC and registered in the name of Cede & Co., its nominee. Securities entitlements in respect of the global notes will be shown on, and transfers of securities entitlements in respect of the global notes will be effected through, records maintained by DTC and its participants. We expect the Regulation S global notes to be deposited with The Bank of New York Mellon as custodian for DTC, and securities entitlements in respect of them may be held through the Euroclear System, Clearstream Banking, S.A. or other participants. See "Description of Notes" for further discussion of these matters.

ADDITIONAL INFORMATION

We file annual and quarterly reports and other information, all of which is in the Spanish language, with the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*, or the "BMV") in accordance with the requirements applicable to issuers of securities registered with the Mexican National Securities Registry maintained by the CNBV. Our BMV filings are available to the public on the Internet at our website, www.santander.com.mx, and at the BMV's website, www.bmv.com.mx. Our website is included in this offering memorandum as an active textual reference only. The information on our website is not a part of, and is not incorporated by reference into, this offering memorandum.

While any Notes remain outstanding, we will make available, upon request, to any holder and any prospective purchaser of Notes the information required pursuant to Rule 144A(d)(4)(i) under the Securities Act, during any period in which we are not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, or the "Exchange Act," or exempt from the requirements of the Exchange Act pursuant to Rule 12g3-2(b) thereunder.

We will make available to the holders of the Notes, at the corporate trust office of the trustee at no cost, copies of the indenture as well as this offering memorandum, and audited financial statements prepared in conformity with Mexican Banking GAAP. Information is also available at the office of the Luxembourg paying agent, transfer agent and listing agent.

We have applied to list the Notes on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF market. See "Description of Notes—Listing." This offering memorandum forms, in all material respects, the listing memorandum for admission to the Luxembourg Stock Exchange. We will be required to comply with any undertakings given by us from time to time to the Luxembourg Stock Exchange in connection with the Notes, and to furnish to it all such information as the rules of the Luxembourg Stock Exchange may require in connection with the listing of the Notes.

ENFORCEMENT OF CIVIL LIABILITIES

We are a commercial bank (*institución de banca múltiple*), incorporated in accordance with the laws of Mexico as a corporation with limited liability (*sociedad anónima*). All of our directors and officers and experts named herein are non-residents of the United States, and substantially all of the assets of such persons and substantially all of our assets are located outside the United States. As a result, it may not be possible for holders of the Notes to effect service of process within the United States upon us or these persons with respect to matters arising under United States federal securities or other U.S. laws or to enforce against us or any of them judgments of courts of the United States, whether or not predicated upon the civil liability provisions of the federal securities or other laws of the United States or any state thereof.

We have been advised by our special Mexican counsel, Ritch Mueller, S.C., that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of United States courts obtained in actions predicated upon the civil liability provisions of U.S. federal securities laws. We have been advised by such special Mexican counsel that no bilateral treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of civil foreign judgments. In the past, Mexican courts have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, consisting of the review in Mexico of the United States judgment, in order to ascertain, among other matters, whether Mexican legal principles of due process and public policy (*orden público*) have been complied with, without reviewing the merits of the subject matter of the case.

We have appointed CT Corporation System as our authorized agent upon which process may be served in any action which may be instituted in any United States federal or state court having subject matter jurisdiction in the Borough of Manhattan, The City of New York, New York arising out of or based upon the Notes or the indenture governing the Notes. See "Description of Notes."

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this offering memorandum that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, principally under the captions “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Our Business.” These statements appear throughout this offering memorandum and include statements regarding our intent, belief or current expectations in connection with:

- asset growth and sources of funding;
- growth of our fee-based business;
- expansion of our distribution network;
- financing plans;
- competition;
- impact of regulation;
- action to modify or revoke our banking license;
- exposure to market risks including interest rate risk, foreign exchange risk and equity price risk;
- exposure to credit risks including credit default risk and settlement risk;
- projected capital expenditures;
- capitalization requirements and level of allowance for loan losses;
- liquidity;
- trends affecting the economy generally; and
- trends affecting our financial condition and our results of operations.

Many important factors, in addition to those discussed elsewhere in this offering memorandum, could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

- changes in capital markets in general that may affect policies or attitudes towards lending to Mexico or Mexican companies;
- changes in economic conditions, in Mexico in particular, in the United States or globally;
- the monetary, foreign exchange and interest rate policies of the Mexican Central Bank;
- inflation;
- deflation;
- unemployment;
- unanticipated turbulence in interest rates;
- movements in foreign exchange rates;
- movements in equity prices or other rates or prices;

- changes in Mexican and foreign policies, legislation and regulations;
- changes in requirements to make contributions to, for the receipt of support from programs organized by or requiring deposits to be made or assessments observed or imposed by, the Mexican government;
- changes in taxes;
- competition, changes in competition and pricing environments;
- our inability to hedge certain risks economically;
- economic conditions that affect consumer spending and the ability of customers to comply with obligations;
- the adequacy of allowance for loan losses and other losses;
- increased default by borrowers;
- technological changes;
- changes in consumer spending and saving habits;
- increased costs;
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms;
- changes in, or failure to comply with, banking regulations; and
- the other risk factors discussed under "Risk Factors" in this offering memorandum.

The words "believe," "may," "will," "aim," "estimate," "continue," "anticipate," "intend," "expect," "forecast" and similar words are intended to identify forward-looking statements. You should not place undue reliance on such statements, which speak only as of the date they were made. We undertake no obligation to update publicly or to revise any forward-looking statements after we distribute this offering memorandum because of new information, future events or other factors. Our independent public auditors have neither examined nor compiled the forward-looking statements and, accordingly, do not provide any assurance with respect to such statements. In light of the risks and uncertainties described above, the future events and circumstances discussed in this offering memorandum might not occur and are not guarantees of future performance. Because of these uncertainties, you should not make any investment decision based upon these estimates and forward-looking statements.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

Banco Santander Mexico is a Mexican bank and maintains its financial books and records in Mexican pesos. The audited financial statements contained in this offering memorandum have been prepared in accordance with Mexican Banking GAAP.

Mexican Banking GAAP differs in certain respects from Mexican Financial Reporting Standards (*Normas de Información Financiera*) ("Mexican GAAP" or "MFRS") currently in effect as issued by the Mexican Board of Financial Reporting Standards (*Consejo Mexicano de Normas de Información Financiera A.C.*), which is the body responsible for determining Mexican accounting principles applicable to non-bank Mexican issuers. For a summary of certain differences between Mexican Banking GAAP and MFRS, see note 3 to our audited financial statements included elsewhere in this offering memorandum.

Mexican Banking GAAP also differs in certain respects from U.S. GAAP and SEC guidelines applicable to banking institutions in the United States. For a summary of certain differences between Mexican Banking GAAP and U.S. GAAP, as they relate to our audited financial statements contained in this offering memorandum, see "Annex A: Summary of Certain Differences Between Mexican Banking GAAP and U.S. GAAP." Such differences might be material to the financial information contained in this offering memorandum. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of Banco Santander Mexico, the terms of this offering memorandum and the financial information contained herein. Potential investors should consult their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP and how those differences might affect the financial information contained herein. No reconciliation of any of our financial statements to U.S. GAAP has been prepared for purposes of this offering memorandum.

Effective January 1, 2008, we adopted the guidelines of the MFRS B-10 "Recognition of the Effects of Inflation," which provide that the effects of inflation will no longer be recognized in financial statements in a non-inflationary environment. After that date, the recording of inflation effects will only be required in an environment where cumulative inflation over the three preceding years is equal to or greater than 26%. Because of the relatively low level of Mexican inflation in recent years, the cumulative inflation rate in Mexico over the three-year period preceding December 31, 2011 does not qualify as inflationary.

Consequently, beginning on January 1, 2008, we were no longer required by Mexican Banking GAAP to recognize the effects of inflation in our financial statements. Accordingly, our financial information through December 31, 2007 is stated in pesos in purchasing power as of December 31, 2007. The financial information as of December 31, 2008, 2009, 2010 and 2011, and the financial information for the years ended December 31, 2008, 2009, 2010 and 2011, are not directly comparable to prior periods due to the recognition of inflation effects in financial information in prior periods. Our financial information for the years ended December 31, 2008, 2009, 2010 and 2011 maintained the inflation adjustments recognized in prior years in our consolidated shareholders' equity, and the inflation-adjusted amounts for non-monetary assets and liabilities at December 31, 2007 became the accounting basis for those assets and liabilities beginning on January 1, 2008 and for subsequent periods.

Unless otherwise specified, in accordance with Mexican Banking GAAP, our financial statements and the other financial information with respect to us contained in this offering memorandum are presented in consolidated form. We consolidate subsidiaries over which we exercise control as a result of owning more than a majority of their outstanding voting securities or other factors. Our investments in associated companies, which are not consolidated, are accounted for under the equity method whereby we reflect a gain or loss related to the valuation of our associated companies in our consolidated statement of income. See notes 4 and 16 to our audited financial statements included elsewhere in this offering memorandum.

We include summary and selected financial data for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 and for the six months ended June 30, 2011 and 2012 in this offering memorandum. Our audited financial statements for the years ended December 31, 2009, 2010 and 2011 and our unaudited condensed consolidated interim financial statements for the six months ended June 30, 2011 and 2012 are included elsewhere in this offering memorandum, but our audited financial statements for the years ended December 31, 2007 and 2008 are not included in this offering memorandum. We also include limited information for the quarter ended and the nine months ended September 30, 2012 in "Summary—Recent Developments" in this offering memorandum.

Our Reclassification

On January 27, 2011, the CNBV issued certain changes to Mexican Banking GAAP. The objective of these changes is to achieve greater consistency with MFRS and International Financial Reporting Standards ("IFRS"), as adopted by the International Accounting Standards Board ("IASB"). These changes include various modifications to the presentation and classification of certain line items in the statement of income, beginning as of January 1, 2011.

Our audited financial statements for the years ended December 31, 2009 and 2010 appearing elsewhere in this offering memorandum have been reclassified to facilitate comparison with our audited financial statements for the year ended December 31, 2011 appearing elsewhere in this offering memorandum. In addition, the summary and selected statement of income data corresponding to the years ended December 31, 2007, 2008, 2009 and 2010 included in this offering memorandum have been reclassified to reflect these changes in presentation and classification and thereby facilitate comparison of amounts across periods. See "Selected Consolidated Financial and Operating Data—Reclassified Statement of Income Data."

Currency of Presentation

This offering memorandum contains translations of certain peso amounts into dollars at specified rates solely for your convenience. These translations should not be construed as representations by us that the peso amounts actually represent such U.S. dollar amounts or could, at this time, be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated peso amounts into U.S. dollars at an exchange rate of Ps.13.4084 to U.S.$1.00, the rate calculated on June 29, 2012 (the last business day in June) and published on July 2, 2012 in the *Diario Oficial de la Federación* ("Official Gazette of the Federation") by the Mexican Central Bank, as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico (*tipo de cambio para solventar obligaciones denominadas en moneda extranjera*). The translation of statement of income transactions expressed in pesos using such rates may result in presentation of dollar amounts that differ from the dollar amounts that would have been obtained by translating Mexican pesos into dollars at the exchange rate prevailing when such transactions were recorded. See "Exchange Rates" for information regarding exchange rates between the peso and the U.S. dollar for the periods specified therein.

References herein to "UDIs" are to *Unidades de inversión*, a peso-equivalent unit of account indexed for Mexican inflation. UDIs are units of account created by the Mexican Central Bank on April 4, 1995, the value of which in pesos is indexed to inflation on a daily basis, as measured by the change in the National Consumer Price Index (*Índice Nacional de Precios al Consumidor*, or "NCPI"). Under a UDI-based loan or financial instrument, the borrower's nominal peso principal balance is converted either at origination or upon restructuring to a UDI principal balance, and interest on the loan or financial instrument is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount of pesos equivalent to the amount due in UDIs at the stated value of UDIs on the day of payment. As of June 30, 2012, one UDI was equal to Ps.4.741055 (U.S.$0.3536).

Terms Relating to Our Loan Portfolio

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

"Total performing loans" and "total performing loan portfolio" refer to the aggregate of (i) the total principal amount of loans outstanding as of the date presented, (ii) amounts attributable to accrued but unpaid interest, (iii) "rediscounted loans" and (iv) UDI trusts. Under Mexican Banking GAAP, we include as income for any reporting period interest accrued but unpaid during that period. Such accrued interest is reported as part of our total performing loan portfolio in the financial statements until it is paid or becomes part of the total non-performing loan portfolio in accordance with the CNBV's rules. "Rediscounted loans" are peso- and dollar-denominated loans made to finance projects in industries that qualify for priority status under the wholesale lending programs of the Mexican government's development banks and are generally funded in part by such development banks. In accordance with Mexican Banking GAAP, rediscounted loans are recorded on the balance sheet as outstanding loans until paid or becoming non-performing in accordance with the CNBV's rules. As is mandated by the CNBV, total performing loans include any off-balance sheet portfolio trusts, or "UDI trusts," which are trusts holding loans converted into UDIs that were consolidated in our financial statements. Under a UDI-based loan or financial instrument, interest is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount of pesos equivalent to the amount due in UDIs at the stated value of the UDIs on the day of payment. Under the UDI trust program, we were liable for all future losses, if any, on the loans in the UDI trusts.

Unless otherwise specified herein, the terms "total performing loans" and "total performing loan portfolio," as used in this offering memorandum, do not include "total non-performing loans," as defined below. The term "net total performing loans" refers to total performing loans less allowance for loan losses on these loans.

The terms "total non-performing loans" and "total non-performing loan portfolio" include past due principal and past due interest. The term "net non-performing loans" refers to total non-performing loans less allowance for loan losses on these loans.

References in this offering memorandum to "provisions for loan losses" are to additions to the allowance for loan losses recorded in a particular period and charged to income, except in the case of certain provisions for loan losses associated with loans and other loan losses that were charged to shareholders' equity (net of deferred taxes) in 2009 and 2011. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Effects of Changes in Allowance for Loan Losses Methodologies."

References in this offering memorandum to "allowance for loan losses" are to the aggregate allowance for loan losses shown as of a particular date as a balance sheet item.

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

The loan portfolio information provided in "Selected Statistical Information" was determined in accordance with the manner in which we have presented the components of our loan portfolio in other sections of this offering memorandum as described above. See "Selected Statistical Information—Loan Portfolio" and the footnotes to the tables included therein.

Terms Relating to Our Capital Adequacy

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

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

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

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

- "Capital Ratio" refers to the ratio of the total net capital (*capital neto*) to risk-weighted assets, market risk, credit risk and operational risk calculated in accordance with the methodology established or adopted from time to time by the CNBV pursuant to the Rules for Capitalization and the Mexican Capitalization Requirements.

- "General Rules Applicable to Mexican Banks" means the General Provisions Applicable to Credit Institutions (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) issued by the CNBV.

- "Rules for Capitalization" means the provisions relating to capitalization of Mexican commercial banks set forth under the Mexican Banking Law and the General Rules Applicable to Mexican Banks.

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

Effect of Rounding

Certain amounts and percentages included in this offering memorandum and in the audited financial statements and unaudited condensed consolidated interim financial statements have been rounded for ease of presentation. Percentage figures included in this offering memorandum have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this offering memorandum may vary from those obtained by performing the same calculations using the figures in the audited financial statements. Certain other amounts that appear in this offering memorandum may not sum due to rounding.

Market Share and Ranking Information

We make statements in this offering memorandum about our competitive position and market share in the Mexican financial services industry and the market size of the Mexican financial services industry. We have made these statements on the basis of statistics and other information from third-party sources, primarily the CNBV, that we believe are reliable.

SUMMARY

This summary highlights selected information appearing elsewhere in this offering memorandum. While this summary highlights what we consider to be the most important information about us, you should carefully read this offering memorandum in its entirety before making an investment decision, including "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes beginning on page F-1. Unless otherwise indicated, all financial information provided in this section has been prepared in accordance with Mexican Banking GAAP.

Overview

Our Business

We are a corporation (*sociedad anónima*) authorized to operate as a multiple-purpose banking institution (*institución de banca múltiple*) under Mexican Banking Law (*Ley de Instituciones de Crédito*). We are the second largest multi-purpose bank in Mexico based on net income, the third largest multi-purpose bank in Mexico based on total assets and the fourth largest multi-purpose bank in Mexico based on loans and deposits as of June 30, 2012, according to information published by the CNBV. We provide a wide range of financial and related services, primarily in Mexico, including peso- and foreign currency-denominated loans to finance a variety of commercial transactions, trade, foreign currency forward contracts and credit lines and a variety of retail banking services, including mortgage financing and credit cards. We also seek to offer our customers a wide range of products while providing high levels of service. In addition to our traditional banking operations, we offer a variety of ancillary financial services including financial leasing, financial advisory services, insurance brokerage and investment management. For the six months ended June 30, 2012, we had net income of Ps.10.1 billion (U.S.$0.8 billion), and as of June 30, 2012, we had total assets of Ps.837.3 billion (U.S.$62.4 billion), total loans net of allowance for loan losses of Ps.327.8 billion (U.S.$24.4 billion), total deposits of Ps.330.9 billion (U.S.$24.7 billion) and shareholders' equity of Ps.96.6 billion (U.S.$7.2 billion). As of June 30, 2012, we employed 12,224 people and had 1,097 branches located throughout Mexico. Our headquarters are located in Mexico City, Distrito Federal, and we operate in every state in Mexico.

We offer a differentiated financial services platform in Mexico focused on the client segments that we believe are most profitable, such as high- and mid-income individuals and small and medium-sized enterprises, or "SMEs," while also providing integrated financial services to low-income individuals, as well as to medium and large companies in Mexico. We began to implement our client segmentation strategy in 2008 through the development of our information technology systems, product offerings, distribution channels and internal practices.

The following chart sets forth our Retail Banking and Global Wholesale Banking operating segments and their main focus.

Retail Banking

- *Individuals*
- *Private banking*, for individuals with net wealth in excess of Ps.3 million
- *SMEs*, with annual gross revenues of less than Ps.100 million
- *Middle-market corporations*, with annual gross revenues between Ps.100 million and Ps.1,050 million
- *Government institutions*, comprised of Mexican federal government agencies, state agencies and municipalities, as well as Mexican universities

Global Wholesale Banking

- *Global transaction banking*, which includes cash management, global custody and security services, trade finance and funding alternatives for institutions with international operations
- *Credit markets*, which includes origination units, distribution of structured credit and debt products, debt capital markets, project finance and asset and capital structuring
- *Corporate finance*, which includes mergers and acquisitions as well as equity capital markets
- *Equity custodial and related services*, which includes equity derivatives, exchange-traded derivatives, cash equities and equity research
- *Treasury trading activities*, which offers our customers derivative products, foreign exchange transactions (including for individuals) and other financial products and structures
- *Proprietary trading*, which is responsible for the management of our proprietary investment portfolio
- *Global wholesale banking products and solutions for retail customers*, which offers retail segment clients tailor-made wholesale banking products and solutions in order to meet specific needs

In addition, we have a Corporate Activities operating segment comprised of all other operational and administrative activities that are not assigned to a specific segment or product listed above. These activities include the centralized management of our financial investments, the financial management of our structural interest rate risk and foreign exchange position and the management of our liquidity and equity through securities offerings and the management of assets and liabilities.

The following table sets forth the breakdown of our financial margin and income from continuing operations before income taxes by operating segment.

	Financial margin				Income from continuing operations before income taxes			
	For the year ended December 31,		For the six months ended June 30,		For the year ended December 31,		For the six months ended June 30,	
	2010	2011	2011	2012	2010	2011	2011	2012
	(Millions of pesos)							
Retail Banking	Ps. 18,750	Ps. 21,208	Ps. 9,916	Ps. 12,390	Ps. 5,673	Ps. 10,028	Ps. 4,928	Ps. 6,624
Global Wholesale Banking	2,363	3,656	1,728	1,966	3,501	2,694	1,425	2,161
Corporate Activities	5,102	3,849	1,850	2,049	5,577	3,438	1,869	3,826
Total	**Ps. 26,215**	**Ps. 28,713**	**Ps. 13,494**	**Ps. 16,405**	**Ps. 14,751**	**Ps. 16,160**	**Ps. 8,222**	**Ps. 12,611**

The following table shows certain of our financial and operational data.

	As of and for the year ended December 31,		As of and for the six months ended June 30,
	2010	2011	2012
	(Millions of pesos, except percentages, branch and customer data)		
Branches	1,073	1,097	1,097
Customers	9,073,942	9,301,222	9,583,468
Total assets	Ps. 672,482	Ps. 739,063	Ps. 837,290
Total loans	227,556	313,673	338,905
Deposits(1)	276,854	315,643	330,892
Shareholders' equity	79,268	91,710	96,584
Non-performing loans as a percentage of total loans(2)	1.68%	1.69%	1.46%
Efficiency(3)	39.92	43.42	34.34
Return on average shareholders' equity (ROAE)(4)	16.50	16.18	22.45

(1) Includes demand deposits and time deposits.

(2) Non-performing loans include (i) all credits past due by more than (x) 30 days, in the case of single-payment loans, (y) 60 days, in the case of revolving loans (including consumer loans and credit cards), and (z) 90 days, in the case of periodic-payment loans (including non-revolving consumer loans, mortgages and commercial loans) and (ii) all loans to debtors that are declared insolvent under the Mexican Bankruptcy Act (*Ley de Concursos Mercantiles*).

(3) Efficiency ratios are equal to administrative and promotional expenses, which includes depreciation and amortization, divided by total income.

(4) Calculated based upon the average daily balance of shareholders' equity.

Banco Santander Spain controls us through its equity interest in Grupo Financiero Santander Mexico, of which we are the principal subsidiary. The equity interest Banco Santander Spain holds in our holding company gives Banco Santander Spain control over 99.86% of our shares. We believe that our relationship with Banco Santander Spain and the Santander Group as a whole offers us significant competitive advantages over our peer Mexican banks. As of June 30, 2012, the Santander Group had total assets of €1,292,677 million (U.S.$1,626,191 million), shareholders' equity of €81,821 million (U.S.$102,931 million) and a market capitalization of €49,261 million (U.S.$61,970 million). It also generated an attributable profit of €1,704 million (U.S.$2,144 million) in the six months ended June 30, 2012. Grupo Financiero Santander Mexico represented approximately 12% of the Santander Group's attributable profit in the six months ended June 30, 2012, making it the third largest contributor of attributable profits to the Santander Group relative to other banks in the Santander Group. Grupo Financiero Santander Mexico also represented approximately 4% of the Santander Group's assets in the six months ended June 30, 2012 according to the interim report of the Santander Group for the first half of 2012.

In Latin America, the Santander Group was one of the overall largest banking groups in terms of assets as of December 31, 2011, based on publicly available annual reports. The Santander Group had 5,991 branches, 90,622 employees and an attributable profit of €2,240 million (U.S.$2,818 million) for the six months ended June 30, 2012, according to the interim report of the Santander Group for the first half of 2012.

Market Opportunity

We believe that the current sustained growth of the Mexican economy, the young age of the Mexican population, the stable and well-regulated Mexican financial system and the low penetration rates of financial services in Mexico offer a significant opportunity for us to continue growing.

Stable economy with high potential – Mexico has the second largest population in Latin America, according to the United Nations Development Program, and it is expected to grow by 9% from 2011 to 2025, according to estimates from the Mexican National Population Council (*Consejo Nacional de Población*, or "CONAPO"). Mexico's economy, the second largest in Latin America in terms of GDP in 2011, according to the International Monetary Fund's World Economic Outlook Database, posted GDP growth rates of 5.5% and 3.9% in 2010 and 2011, respectively, despite past disruptions and current uncertainty surrounding the global economy, according to figures from the Mexican National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*, or "INEGI"). Mexico has been rated investment grade by Moody's Investor Services, Inc., or "Moody's," Standard & Poor's Rating Services, or "S&P," and Fitch Ratings Ltd., or "Fitch," since 2002.

Expansion of the middle class – According to the Mexican Group of Economists and Associates (*Grupo de Economistas y Asociados*, or "GEA"), from 1992 to 2006 the share of the population that has monthly income greater than five times the minimum salary tripled, which in turn increased the number of potential clients of financial institutions in Mexico. In addition, according to CONAPO, the dependency ratio of the Mexican population is expected to reach its lowest levels in the period from 2012 to 2028, which in turn would increase the number of working individuals that require financial services.

Low credit penetration – The country remains underbanked in comparison with more mature markets and even other countries in Latin America as demonstrated by relatively low ratios of total loans and total deposits as a percentage of nominal GDP, according to the International Monetary Fund's Financial Access Survey. Also, the level of banking penetration in Mexico (as measured by the loans to GDP ratio) currently remains below the peak banking penetration levels reached before the 1994 crisis.

Stable and well-regulated financial system – The Mexican financial sector is regulated by several government agencies. Banking regulation in Mexico has undergone extensive reform and has improved over the past decade and we believe the Mexican banking system is among the most well-regulated financial systems in the world, based on the Financial System Stability Assessment published by the International Monetary Fund in December 2011. The Mexican government has stated that the country will be an early adopter of the Basel III international rules. According to the CNBV, as of June 2012, the banking system in Mexico had a 16.0% total capital ratio, above the 10.5% threshold that will be required by the Basel III international rules.

Our Competitive Strengths

We believe our business model provides us with the following competitive advantages:

Leading market position – We rank second in terms of net income, third in terms of total assets and fourth in terms of deposits and total loans among private banks in Mexico as of June 30, 2012, according to information published by the CNBV. We believe that our scale and market leadership provide us with exceptional competitive opportunities, including the ability to gather market intelligence to support decision-making in determining business opportunities and in meeting our customers' needs.

Focus on well-defined profitable client segments resulting in superior track record – We believe our increasing market share in our key client segments (high- and mid-income individuals and SMEs) will continue to contribute to our profitability.

Efficient and business-oriented operational platform – Our operational platform efficiently combines modern business-oriented IT, our multichannel distribution strategy and well-developed customer relationship management, or "CRM," tools, enabling us to deliver better service to our clients and increase our sales ratios. Our distribution network provides integrated financial services and products to our customers through a variety of channels, including our traditional proprietary branch network and on-site service units and complementary distribution channels such as ATMs, our contact centers and other direct sales distribution channels like internet banking, which we refer to as alternative distribution channels. Our multichannel distribution strategy consists of using both traditional and alternative distribution channels tailored to each of our client segments and designed to reach a broad spectrum of customers in a cost-efficient manner. We believe our efficient operations allow us to realize synergies and more profitable growth. As of June 30, 2012, we were the second most efficient bank among the seven largest private banks in Mexico, according to information published by the CNBV. We calculate the efficiency ratio as administrative and promotional expenses (which includes depreciation and amortization) divided by total income, using information published by the CNBV. We believe our efficiency ratio provides us with operating flexibility and enables us to be competitive in pricing when compared to our peers.

Synergies from our affiliation with the Santander Group – We believe that being an affiliate of the Santander Group offers us significant competitive advantages including the ability to (i) benefit from the Santander Group's operational expertise in areas such as internal control and risk management, (ii) leverage the Santander Group's latest-generation, customer-centered, global information technology platform, and (iii) access the Santander Group's multinational client base and benefit from the Santander Group's global presence, particularly in Latin America. Although we benefit from our affiliation with the Santander Group, our executive officers are responsible for the management of our business independent from Banco Santander Spain.

Proven risk management practices – The incorporation of the Santander Group's worldwide risk management platform into various levels of our organization, as well as the application of rigorous credit assessment and approval processes, has been an integral part of our efforts to control the level of non-performing loans while growing our loan portfolio and we believe it will continue to do so. As of June 30, 2012, we had a non-performing loans ratio of 1.5% and a coverage ratio (defined as allowance for loan losses divided by total non-performing loans) of 224.1%, compared to industry averages of 2.5% and 186.6%, respectively, according to information published by the CNBV, which we believe indicate our prudent levels of asset growth.

Strong and sustainable funding and capitalization profile – Since we are primarily a transactional bank, customer deposits, a comparatively less expensive source of funding, constitute the main source of liquidity in our financing structure. We believe we have attractive capitalization levels based on our Tier 1 capital ratio, which has been at or near the median of the seven largest banks in Mexico over the past 5 years. As of June 30, 2012, our total capitalization ratio was 14.6% and our Tier 1 capital ratio was 14.3%.

Experienced management team and skilled workforce – We benefit from a highly experienced management team. Our senior management has an average of 20 years of experience in the financial industry and 15 years in the Santander Group. Our management has concentrated its efforts on establishing a successful working environment and employee culture. The experience and commitment of our senior management team has been a critical component in the growth of our franchise, as well as in the continuing enhancement of our operations and financial performance.

Our Strategy

As demonstrated by our strong profitability and growth in key business lines, we believe our strategy of focusing on retail banking for Mexico's emerging middle class and SMEs has been a success. We intend to continue leveraging our competitive advantages to expand our business in the most dynamic and profitable segments of the Mexican economy (which we consider to be individuals and SMEs based on our historical growth and profitability in these segments), focusing on deposit growth and enhancing our leading banking franchise in Mexico while focusing on sustained growth and profitability.

We intend to achieve these objectives through the following strategies:

Leverage our leading market position to benefit from the significant growth potential of the Mexican banking sector – We seek to continue increasing our market penetration, focusing on our well-defined client segments and targeted products (such as mortgages, consumer lending and SME lending). At the same time we intend to continue developing our profitable and client-centered wholesale bank. To achieve these objectives, we will continue to leverage our strong brand name, distribution network and products. We intend to improve our competitiveness by further strengthening our brand awareness, particularly through the marketing of our products and the use of our multichannel distribution platform, and by continuing to focus on the development of innovative products that we believe satisfy the needs of each of our different client segments.

***Continue to expand and develop our customer base in our focused client segments and enhance customer loyalty* –** We intend to continue to use our extensive distribution network to proactively pursue and strengthen our relationships with high- and mid-income customers through the offering of key products and business solutions for SMEs and middle-market corporations. We also believe our high quality customer service capabilities allow us to differentiate ourselves in the highly competitive Mexican banking environment.

***Expand product offerings and distribution channels, particularly in the Retail Banking segment* –** We intend to further increase our business and operations throughout Mexico, expanding our retail banking services to existing and prospective retail customers. We plan to offer new products and services to existing customers according to client segmentation and the development of value-added offers. By improving our information technology and our processes, we believe we will be able to produce business intelligence by acquiring detailed information about the current and future needs and behaviors of our customers enabling us to improve the ways we serve our customers through our various distribution channels.

***Capitalize on our risk management practices and cost-efficient culture to promote profitable and sustainable growth* –** As we pursue our growth and profitability objectives, we intend to continue to carefully monitor the credit quality of our asset portfolio while diversifying our balance sheet. We plan to maintain a balanced growth profile with a strong emphasis on liquidity, a stable, low-cost funding base and strong capital ratios.

We plan to make effective use of technology through alternative channels, such as mobile banking, internet banking and our telephone contact centers, in order to control the expenses associated with the continued expansion of our multichannel distribution strategy. At the same time, we will continue to monitor our administrative and promotional expenses in order to maintain a low efficiency ratio.

Risks and Challenges

Our ability to leverage our strengths and successfully pursue the strategies described above is subject to a high degree of risk. See "Risk Factors" and the other information included in this offering memorandum for a discussion of factors you should consider before making an investment decision. Such risks include, but are not limited to, the following:

***Continued adverse economic conditions or a worsening of those conditions globally and in Mexico could have an adverse effect on us* –** Continued adverse economic conditions globally, and in the United States in particular, could negatively impact the Mexican economy and lead to increased regulation of our industry, reduced demand for our products and services, the inability of our borrowers to timely or fully comply with their existing obligations and the inability to access capital and liquidity on financial terms acceptable to us, if at all, among other adverse consequences. In addition, decreases in the growth rate of the Mexican economy, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our services and products, lower real pricing of our services and products or a shift to lower margin services and products. Because a large portion of our costs and expenses are fixed, we may not be able to reduce costs and expenses upon the occurrence of any of these events, and our profit margins may suffer as a result.

***Mexican government laws and regulations, including possible restrictions on interest rates and increased reserve requirements, may have a material adverse effect on us* –** We are subject to extensive Mexican government laws and regulations regarding our organization, operations, lending and funding activities, capitalization, transactions with related parties, taxation and other matters. Future changes to the legal or regulatory system or in the interpretation and enforcement of laws and regulations, such as the possible imposition of limits on the interest rate that a bank may charge and or the implementation of increased reserve requirements in Mexico, could have a material adverse effect on us, for example by decreasing our revenues and operating cash flow, by increasing our operating costs and decreasing our margins or by subjecting us to fines and penalties in the event of violations.

Our financial results are constantly exposed to market risk – We are subject to fluctuations in interest rates and other market risks, which may materially and adversely affect us. Changes in interest rates affect our financial margin, the volume of loans we originate, the market value of our securities holdings and our gains from the sale of loans and securities, among other aspects of our business. We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies and to equity price risk in connection with our trading investments in equity securities. To the extent any of these risks materialize, our financial results, including our financial margin or the market value of our assets and liabilities, could be adversely affected.

Liquidity risks could have a material adverse effect on us – We anticipate that our customers will continue, in the near future, to make short-term deposits, and we intend to maintain our emphasis on the use of banking deposits as a source of funds. The short-term nature of deposit funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed. If a substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, we may be materially and adversely affected.

The credit card industry is highly competitive and entails significant risks, including the possibility of over-indebtedness of customers, that could have a material adverse effect on us – The credit card industry in Mexico is dominated by institutions that may possess greater financial resources and broader coverage in this market than we do. Moreover, our credit card business is subject to a number of risks and uncertainties, including the possibility of over-indebtedness of our customers and the higher rate of consumer default in the credit card industry than other credit industries. Part of our current growth strategy is to increase volume in the credit card portfolio, at the same or a slightly greater rate than the market, which may increase our exposure to risk in our loan portfolio, which could have a material adverse effect on us.

Credit, market and liquidity risk may have a material adverse effect on our credit ratings and our cost of funds. Any downgrading in our credit rating would likely increase our cost of funding, require us to post additional collateral or take other actions under some of our derivative contracts and could have a material adverse effect on us, including our interest margins and our results of operations – We believe downgrades of Spain's sovereign debt, Banco Santander Spain's debt and our related downgrades could materially and adversely impact our cost of funding related to the Notes and any other debt issuances in the international capital markets that we may pursue in the future as part of our funding strategy. Although we have not been required to post additional collateral as a result of the recent downgrades of Spain's sovereign debt, Banco Santander Spain's debt and our related downgrades, we may be contractually required to post additional collateral or terminate certain of our derivative contracts as a result of a future downgrade.

The retail banking market is exposed to macroeconomic shocks that may negatively impact household income, and a downturn in the economy could result in increased loan losses that could have a material adverse effect on us – One of our main strategies is to focus on the retail banking sector and to grow our retail loan portfolio. The recoverability of these loans and our ability to increase the amount of loans outstanding may become increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses that could have a material adverse effect on us.

Our increasing focus on individuals and small and medium-sized businesses could lead to higher levels of non-performing loans and subsequent charge-offs that could have a material adverse effect on us – As part of our business strategy, we are seeking to increase lending and other services to individuals and SMEs. However, individuals and SMEs are more likely to be adversely affected by downturns in the Mexican economy than large corporations and high-income individuals who have greater resources, which could have a material adverse effect on us.

Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties, and we may not be able to manage various risks we face as we expand our range of products and services, which in turn could have a material adverse effect on us – We cannot guarantee that our new products and services will be responsive to client demands or successful once they are offered to our clients. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive and we may not be able to develop new products that meet our clients' changing needs. As we expand the range of our products and services, we will be exposed to new and potentially increasingly complex risks and development expenses, with respect to which our experience and the experience of our partners may not be helpful. Any or all of these factors could have a material adverse effect on us.

Our businesses rely heavily on data collection, processing and storage systems, the failure of which could have a material adverse effect on us, including the effectiveness of our risk management and internal control systems – A partial or complete failure of our financial control, accounting or other data collection and processing systems could materially and adversely affect our decision-making process, our risk management and internal control systems and our ability to respond on a timely basis to changing market conditions. We may also experience operational problems with our information systems as a result of system failures (including failure to update systems), viruses, computer "hackers" or other causes, which could have a material adverse effect on us.

Our Corporate Structure

Banco Santander Spain controls us through its equity interest in Grupo Financiero Santander Mexico, of which we are the principal subsidiary. The equity interest Banco Santander Spain holds in our holding company gives Banco Santander Spain control over 99.86% of our shares.

As of June 30, 2012, our subsidiaries collectively accounted for 9.50% of our total consolidated assets. All of our subsidiaries are incorporated in Mexico. The following table sets forth the percentage of each subsidiary owned by us as of the dates indicated.

	As of December 31, 2011	As of June 30, 2012
	(%)	
Santander Consumo, S.A. de C.V. SOFOM, E.R. ("Santander Consumo")	99.99%	99.99%
Almacenadora Somex, S.A. ("Almacenadora Somex")(1)	97.24	–
Santander Hipotecario, S.A. de C.V. SOFOM, E.R. ("Santander Hipotecario")(2)	87.87	87.87
Banco Santander, S.A., Fideicomiso 100740	100.00	100.00
Fideicomiso GFSSLPT Banco Santander, S.A.	94.18	93.83
Santander Holding Vivienda, S.A. de C.V.	99.99	99.99
Santander Servicios Corporativos, S.A. de C.V.	99.99	99.99
Santander Servicios Especializados, S.A. de C.V.	99.99	99.99

(1) Liquidated on July 3, 2012.

(2) We directly and indirectly own a total of 87.87% of the equity of Santander Hipotecario through our ownership of the equity of Santander Holding Vivienda, S.A. de C.V., which owns 12.13% of the equity of Santander Hipotecario.

History

We were incorporated on November 16, 1932, under the name Banco Mexicano. In 1955, Sociedad Mexicana de Crédito Industrial (subsequently Banco Somex), which was incorporated in 1941, purchased a controlling portion of the shares of Banco Mexicano. In 1958, Banco Mexicano merged with Banco Español, with Banco Mexicano as the surviving entity.

In 1970, Banco de Londres y México merged with Compañía General de Aceptaciones (formerly a shareholder of Banco de Londres), with Banco de Londres y México under its new name, Banca Serfin, as the surviving entity. In 1992, Grupo Financiero Serfin was incorporated following the acquisition of Banca Serfin by Operadora de Bolsa.

In 1979, Banco Mexicano changed its corporate name to Banco Mexicano Somex, S.A., operating as a multiple-purpose banking institution.

In 1982, Mexican commercial banks were nationalized by the Mexican government.

In 1990, the Mexican Constitution was amended to permit the total reprivatization of Mexican commercial banks, and the Mexican government enacted the Mexican Banking Law, which led to the reprivatization of such banks starting in 1991. As part of this banking privatization process, in 1992, Grupo InverMéxico acquired Banco Mexicano Somex, which then took the corporate name of Banco Mexicano, S.A., Institución de Banca Múltiple, Grupo Financiero InverMéxico.

In April 1997, Banco Santander Central Hispano (subsequently Banco Santander Spain) acquired Grupo InverMéxico, which became Grupo Financiero Santander Mexicano. Banco Mexicano later became Banco Santander Mexicano. In May 2000, Banco Santander Spain acquired Grupo Financiero Serfin, which was merged into Grupo Financiero Santander Mexicano and changed its corporate name to Grupo Financiero Santander Serfin. In 2001, Banco Santander Mexicano adopted the corporate name of Banco Santander Mexicano, S.A., Institución de Banca Múltiple, Grupo Financiero Santander Serfin.

Banco Santander Mexicano and Banca Serfin initially operated independently. In 2004, Banca Serfin was merged into Banco Santander Mexicano, with the surviving entity being Banco Santander Serfin, S.A., Institución de Banca Múltiple, Grupo Financiero Santander Serfin. Subsequently, in 2006, the bank was renamed Banco Santander, S.A., Institución de Banca Múltiple, Grupo Financiero Santander.

On February 21, 2008, the corporate name of the Bank was changed to Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander.

On December 23, 2010, we entered into a stock and assets purchase agreement to acquire the residential mortgage business of General Electric Capital Corporation and its subsidiaries, or "GE Capital," in Mexico, or the "GE Capital mortgage business." The purchase price for the acquisition was Ps.2,042 million (U.S.$152 million) and, in addition, we repaid at closing to GE Capital the Ps.21,009 million (U.S.$1,567 million) intercompany debt at that date relating to the GE Capital mortgage business, which GE Capital historically had financed through intercompany debt. The total volume of assets at the time of closing was Ps.23,904 million (U.S.$1,783 million), including a total loan portfolio of Ps.21,926 million (U.S.$1,635 million), while the total volume of liabilities was Ps.21,494 million (U.S.$1,603 million). The transaction closed on April 29, 2011. The acquisition made us the second-largest provider of residential mortgages in Mexico in terms of residential mortgages outstanding in 2011, according to the CNBV.

Our holding company obtained shareholder approval on August 13, 2012 to change its name from Grupo Financiero Santander, S.A.B. de C.V. to Grupo Financiero Santander México, S.A.B. de C.V., and such name change was subsequently authorized by the Mexican Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*, or "SHCP"). We obtained shareholder approval on September 12, 2012 to change our name to Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, and such name change was subsequently authorized by the CNBV.

We are registered before the Public Registry of Real Estate and Commerce of Mexico City, Federal District (*Registro Público de la Propiedad y de Comercio del Distrito Federal*), under commercial folio number 63608.

Recent Developments

Third Quarter 2012 Financial Information

Net income for the quarter ended September 30, 2012 was Ps.4,069 million, a 3.4% increase from net income for the quarter ended September 30, 2011, and a 22.3% decrease from net income for the quarter ended June 30, 2012. Our net income for the quarter ended June 30, 2012 was positively impacted by the extraordinary net profit from our real estate sale and leaseback transaction with Fibra Uno in April 2012 relating to 220 properties (branches, offices and parking lots). See "Our Business—Properties." Excluding this non-recurring item, our net income for the quarter ended September 30, 2012 increased by 27.7% compared to the quarter ended June 30, 2012. Our net income for the nine months ended September 30, 2012 was Ps.14,180 million, a 36.6% or Ps.3,799 million increase from Ps.10,381 million for the nine months ended September 30, 2011.

Our financial margin for the quarter ended September 30, 2012 was Ps.8,575 million, a 14.9% or Ps.1,114 million increase from Ps.7,461 million for the same period in 2011, and a 2.5% or Ps.207 million increase from the quarter ended June 30, 2012. Our financial margin for the nine months ended September 30, 2012 was Ps.24,980 million, a 19.2% or Ps.4,025 million increase from Ps.20,955 million for the nine months ended September 30, 2011. This was mainly due to an increase in interest income, driven by the increase in the average volume, and change in mix (consisting mainly of increased volumes of consumer, credit card and SME loans and decreased volumes of corporate loans), of our loan portfolio in the last twelve months.

Provisions for loan losses were Ps.2,534 million in the third quarter of 2012, a 134.6% or Ps.1,454 million increase compared to the third quarter of 2011, and a 27.1% or Ps.540 million increase compared to the second quarter of 2012. Provisions for loan losses were Ps.6,496 million for the nine months ended September 30, 2012, a 43.9% or Ps.1,981 million increase compared to the nine months ended September 30, 2011. This increase was mainly due to a 10.7% increase in our loan portfolio over the last twelve months, combined with a change in methodology used to determine allowance for loan losses from an incurred loss model to an expected loss model. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010—Provisions for Loan Losses." We believe our current allowance for loan losses is adequate to cover all known or knowable losses in our loan portfolio.

Our financial margin after provisions for loan losses for the quarter ended September 30, 2012 was Ps.6,041 million, a decrease of 5.3% and 5.2% compared to the quarter ended September 30, 2011 and the quarter ended June 30, 2012, respectively. For the nine months ended September 30, 2012, our financial margin after provisions for loan losses was Ps.18,484 million, a 12.4% or Ps.2,044 million increase from Ps.16,440 million for the nine months ended September 30, 2011.

Our net commission and fee income for the quarter ended September 30, 2012 was Ps.2,635 million, a 8.6% or Ps.209 million increase from the same period in 2011 and virtually unchanged from Ps.2,636 million for the quarter ended June 30, 2012. The increase in the third quarter of 2012 compared to the third quarter of 2011 was mainly due to the increase in sales of insurance and credit card commissions charged to customers. For the nine months ended September 30, 2012, our net commission and fee income was Ps.7,940 million, a 13.4% or Ps.940 million increase from the net commission and fee income for the nine months ended September 30, 2011.

Net gain on financial assets and liabilities for the quarter ended September 30, 2012 was Ps.886 million, an increase of Ps.828 million and Ps.813 million from the quarter ended September 30, 2011 and the quarter ended June 30, 2012, respectively. This was mainly due to the combined effect of a gain of Ps.487 million in the purchase-sale result of derivatives, foreign exchange and equity positions and a gain of Ps.399 million in the valuation result from debt instruments. For the nine months ended September 30, 2012, our net gain on financial assets and liabilities was Ps.1,635 million, a 68.6% or Ps.665 million increase from the net gain on financial assets and liabilities for the nine months ended September 30, 2011.

Other operating income for the quarter ended September 30, 2012 was Ps.160 million, a 47.5% decrease compared to Ps.303 million for the quarter ended September 30, 2011, and a 92.1% decrease compared to Ps.2,020 million for the quarter ended June 30, 2012, mainly as a result of the Ps.1,710 million gained from the Fibra Uno transaction. For the nine months ended September 30, 2012, our other operating income was Ps.2,890 million compared to Ps.862 million for the nine months ended September 30, 2011.

Our administrative and promotional expenses for the quarter ended September 30, 2012 were Ps.4,990 million, a 12.4% or Ps.552 million increase compared to the quarter ended September 30, 2011, and a 14.1% or Ps.618 million increase compared to the quarter ended June 30, 2012. Administrative and promotional expenses increased by Ps.1,281 million, or 10.4%, from Ps.12,360 million for the nine months ended September 30, 2011 to Ps.13,641 million for the nine months ended September 30, 2012, primarily due to increased expenses to support the growth of our business and our branch expansion plans, including expenses for personnel, technology and systems, leasehold, credit card operations and other expenses, as well as leasehold expenses related to our sale and leaseback transaction with Fibra Uno.

Total operating income for the quarter ended September 30, 2012 was Ps.4,731 million, which was unchanged compared to the quarter ended September 30, 2011, and represents a 29.7% or Ps. 2,000 million decrease compared to the quarter ended June 30, 2012. Our total operating income for the quarter ended June 30, 2012 includes the non-recurring income obtained from our real estate sale and leaseback transaction with Fibra Uno in April 2012 relating to 220 properties (branches, offices and parking lots). Total operating income for the nine months ended September 30, 2012 was Ps.17,308 million, a 34.0% or Ps.4,396 million increase from Ps.12,912 million for the nine months ended September 30, 2011.

Non-performing loans as of September 30, 2012 were Ps.5,530 million, a 17.6% or Ps.1,180 million decrease compared to Ps.6,710 million in non-performing loans as of September 30, 2011, and an increase of 11.7% or Ps.577 million compared to non-performing loans of Ps.4,953 million as of June 30, 2012. Non-performing loans increased primarily as a result of increased growth in our consumer and credit card loan portfolios. Total non-performing loans as a percentage of total loans was 1.61% for the nine months ended September 30, 2012, compared to 2.16% for the nine months ended September 30, 2011 and virtually unchanged from 1.46% for the six months ended June 30, 2012. Our coverage ratio for the nine months ended September 30, 2012 was 205.4%, an increase compared to the 162.5% coverage ratio for the nine months ended September 30, 2011 but lower than the 224.1% coverage ratio for the six months ended June 30, 2012.

Our capital ratio as of September 30, 2012 was 14.5%, compared with 14.2% as of September 30, 2011 and 14.6% as of June 30, 2012. The capital ratio as of September 30, 2012 reflects the payment of dividends in the amount of Ps.7,300 million in September 2012.

THE OFFERING

Issuer	Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México.
The Offering	We offered our 4.125% senior notes due 2022, which we refer to as the "Notes."
Terms of the Notes	
Principal Amount	U.S.$1,000,000,000 aggregate principal amount of Notes.
Interest and Principal	The Notes will bear interest from (and including) November 9, 2012, or the "Issue Date," to (but excluding) November 9, 2022, or the "Maturity Date," at a fixed rate per annum equal to 4.125%, payable semi-annually in arrears on May 9 and November 9 of each year (each an "Interest Payment Date"), commencing on May 9, 2013. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date up to (but excluding) the Maturity Date is called an "Interest Period." If any Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay. Principal will be paid on the Maturity Date unless the Notes have been redeemed prior thereto, as provided in this offering memorandum. "Business Day" shall mean any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York, New York or Mexico City, Mexico are authorized or required by law or executive order to remain closed.
Issue Price	98.183% of the principal amount.
Issue Date	November 9, 2012.
Maturity Date	November 9, 2022.

Additional Terms of the Notes

Indenture...	The Notes have been issued pursuant to an indenture dated as of November 9, 2012 among The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent, The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg paying agent, transfer agent and listing agent, and us.
Unsecured; Not Guaranteed...................................	The Notes will not be secured or guaranteed by any of our affiliated companies, by the IPAB or any other Mexican governmental agency, or by any other entity, and the Notes are not convertible, by their terms, into our shares or equity capital.
Ranking	The Notes will be our direct, unconditional and unsecured general obligations and will, other than as set forth below, at all times rank *pari passu* in right of payment with all of our other unsecured obligations other than obligations that are, by their terms, expressly subordinated in right of payment to the Notes. The Notes will be effectively subordinated to (i) all of our secured indebtedness with respect and up to the value of our assets securing that indebtedness, (ii) certain direct, unconditional and unsecured general obligations that in case of our insolvency are granted preferential treatment pursuant to Mexican law (including tax and labor claims) and (iii) all of the existing and future liabilities of our subsidiaries, including trade payables. We currently do not have any secured indebtedness. As of June 30, 2012, we had approximately Ps.21,581 million (approximately U.S.$1,609 million) aggregate principal amount of indebtedness outstanding that ranked *pari passu* with the Notes (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Long-term Funding Outstanding") and Ps.330,892 million (U.S.$24,678 million) outstanding demand obligations to depositors that ranked senior to the Notes. The indenture does not limit the amount of senior, secured or other additional indebtedness or other obligations that we may incur.
Original Issue Discount	The Notes may be issued with original issue discount for U.S. federal income tax purposes. In that event, for U.S. federal income tax purposes, a holder of a Note subject to U.S. federal income taxation generally would be required to include the original issue discount in gross income (as ordinary income) as it accrues on a constant-yield basis, in advance of the receipt of the cash payment to which such income is

	attributable (regardless of whether such holder uses the cash or accrual method of tax accounting). For a summary of the material U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes, see "Taxation—Certain U.S. Federal Income Tax Considerations."
Redemption	We may not redeem the Notes, in whole or in part, other than as described below under "Withholding Tax Redemption" and "Optional Redemption."
Withholding Tax Redemption	We have the option under the indenture for the Notes to redeem the Notes at any time prior to the Maturity Date, in whole but not in part, at par plus accrued and unpaid interest due on, or with respect to, the Notes upon the occurrence of certain specified changes in Mexican laws affecting the withholding tax applicable to payments under the Notes. See "Description of Notes—Redemption—Withholding tax redemption."
Optional Redemption...	We may redeem the Notes, in whole or in part, at the greater of 100% of their principal amount outstanding and a make-whole amount described in this offering memorandum, in each case, plus Additional Amounts, if any, and any accrued and unpaid interest up to the date of redemption. See "Description of Notes—Redemption—Optional Redemption."
Events of Default; Acceleration.............................	For a discussion of certain events of default that will permit or require acceleration of the principal of all outstanding Notes and the interest accrued thereon, if any, see "Description of Notes—Events of Default."
Voting Rights	None.
Use of Proceeds	Our net proceeds from the issuance and sale of the Notes, after paying initial purchasers' fees and commissions but excluding expenses related to the offering, are estimated to be approximately U.S.$977.6 million. We intend to use the net proceeds from the offering to extend the duration of our liabilities and to partly or entirely refinance indebtedness maturing in the first half of 2013, which currently is an aggregate of approximately Ps.9,700 million.
Additional Amounts	Payments of interest on the Notes to investors that are non-residents of Mexico will be subject to Mexican withholding taxes at a rate of 4.9%. Subject to certain specified exceptions, we will pay such additional amounts as may be required so that the net amount received by the holders of the Notes in respect of principal, interest or other payments on the Notes, after any such withholding or deduction, will not be less

	than the amount that each holder of the Notes would have received in respect of the Notes in the absence of any such withholding or deduction. See "Description of Notes—Payment of Additional Amounts."
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." The Notes will not be registered with the Mexican National Securities Registry (*Registro Nacional de Valores*) and may not be offered or sold publicly in Mexico, as part of the initial distribution, except that the Notes may be offered to Mexican qualified and institutional investors pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico.
Listing..	We have applied to list the Notes on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF market.
Benefit Plan Investor Considerations	Sales of the Notes to specified types of employee benefit plans and affiliates are subject to certain conditions. See "Benefit Plan Investor Considerations."
Governing Law...	The indenture and the Notes will be governed by, and will be construed in accordance with, the laws of the State of New York.
Form and Denomination.......................................	We have issued the Notes in minimum denominations of U.S.$150,000 and integral multiples of U.S.$1,000 in excess thereof and the Notes are represented by global notes. The global notes representing the Notes have been deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee for DTC. DTC will act as depositary.
Securities Identification Numbers	144A ISIN: US05969BAA17 144A CUSIP: 05969B AA1 144A Common Code: 085435582 Reg S ISIN: USP1507SAC19 Reg S CUSIP: P1507S AC1 Reg S Common Code: 085435604

Ratings...	The Notes have been rated “BBB” by S&P and “BBB+” by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice.

We urge you to carefully review the risk factors beginning on page 23 for a discussion of factors you should consider before purchasing the Notes.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

The tables below present summary financial and operating data from our financial statements for the periods indicated and should be read in conjunction with, and are qualified in their entirety by, our financial statements and related notes appearing elsewhere in this offering memorandum.

We have derived our summary statement of income data for the years ended December 31, 2009, 2010 and 2011 and our summary balance sheet data as of December 31, 2009, 2010 and 2011 from our audited financial statements for the years ended December 31, 2009, 2010 and 2011 and as of December 31, 2009, 2010 and 2011 included elsewhere in this offering memorandum. Our audited financial statements have been prepared on a consolidated basis in accordance with Mexican Banking GAAP, which differs in certain respects from Mexican GAAP (see note 3 to our audited financial statements included elsewhere in this offering memorandum) and U.S. GAAP. See "Annex A: Summary of Certain Differences Between Mexican Banking GAAP and U.S. GAAP."

We have derived our summary statement of income data for the six months ended June 30, 2011 and 2012 and our summary balance sheet data as of June 30, 2012 from our unaudited condensed consolidated interim financial statements included in this offering memorandum, which have been prepared in accordance with Mexican Banking GAAP. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the remainder of the year ended December 31, 2012 or any future reporting period. See "Presentation of Financial and Other Information."

We have derived our summary statement of income data for the years ended December 31, 2007 and 2008 and our summary balance sheet data as of December 31, 2007 and 2008 from our audited financial statements for the years ended December 31, 2007 and 2008 and as of December 31, 2007 and 2008 prepared on a consolidated basis in accordance with Mexican Banking GAAP, which are not included in this offering memorandum.

Beginning on January 1, 2008, we were no longer required by Mexican Banking GAAP to recognize the effects of inflation in our financial statements. Accordingly, our financial information through December 31, 2007 is stated in pesos in purchasing power as of December 31, 2007. The financial information as of December 31, 2008, 2009, 2010 and 2011 and June 30, 2012, and the financial information for the years ended December 31, 2008, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, are not directly comparable to prior periods due to the recognition of inflation effects in financial information in prior periods. Our financial information for the years ended December 31, 2008, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 maintained the inflation adjustments recognized in prior years in our consolidated shareholders' equity, and the inflation-adjusted amounts for non-monetary assets and liabilities at December 31, 2007 became the accounting basis for those assets and liabilities beginning on January 1, 2008 and for subsequent periods.

You should read the following summary financial and other data in conjunction with "Presentation of Financial and Other Information," "Selected Consolidated Financial and Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this offering memorandum. Our historical results are not necessarily indicative of our results for any future period.

For limited information for the quarter ended and the nine months ended September 30, 2012, see "Summary—Recent Developments" in this offering memorandum.

	For the year ended December 31,					For the six months ended June 30,		
	2007(1)	2008(1)	2009	2010	2011	2011	2012	2012
	(Millions of constant Ps. as of December 31, 2007)	(Millions of pesos)				(Millions of pesos)		(Millions of U.S.$)(2)
CONSOLIDATED STATEMENT OF INCOME								
(Mexican Banking GAAP)								
Interest income	57,145	59,443	45,934	39,626	46,885	21,656	27,298	2,036
Interest expense	(29,371)	(28,929)	(18,772)	(13,411)	(18,172)	(8,162)	(10,893)	(812)
Monetary loss, net(3)	(1,749)	0	0	0	0	0	0	0
Financial margin	**26,025**	**30,514**	**27,162**	**26,215**	**28,713**	**13,494**	**16,405**	**1,224**
Provisions for loan losses	(7,662)	(15,832)	(15,320)	(8,425)	(6,556)	(3,435)	(3,962)	(295)
Financial margin after provisions for loan losses	**18,363**	**14,682**	**11,842**	**17,790**	**22,157**	**10,059**	**12,443**	**929**
Commission and fee income	11,565	11,788	10,043	10,076	11,303	5,466	6,465	482
Commission and fee expense	(3,767)	(3,106)	(2,438)	(1,770)	(1,998)	(892)	(1,160)	(87)
Net gain (loss) on financial assets and liabilities	(3,232)	(640)	7,266	3,954	834	912	749	56
Other operating income (expense)	708	38	673	54	1,177	559	2,731	204
Administrative and promotional expenses	(14,381)	(15,765)	(15,096)	(15,380)	(17,382)	(7,922)	(8,651)	(645)
Total operating income	**9,256**	**6,997**	**12,290**	**14,724**	**16,091**	**8,182**	**12,577**	**939**
Equity in results of associated companies	35	47	89	27	69	40	34	3
Income from continuing operations before income taxes	**9,291**	**7,044**	**12,379**	**14,751**	**16,160**	**8,222**	**12,611**	**942**
Current income taxes	(3,946)	(1,696)	(4,650)	(1,933)	(4,125)	(5,026)	(2,840)	(212)
Deferred income taxes (net)	2,454	2,424	3,421	(318)	1,675	3,257	341	25
Income from continuing operations	**7,799**	**7,772**	**11,150**	**12,500**	**13,710**	**6,453**	**10,112**	**755**
Discontinued operations	3,185	0	34	386	0	0	0	0
Consolidated income before non-controlling interest	**10,984**	**7,772**	**11,184**	**12,886**	**13,710**	**6,453**	**10,112**	**755**
Non-controlling interest	(1)	(4)	(2)	(2)	(10)	(6)	(1)	0
Net income	**10,983**	**7,768**	**11,182**	**12,884**	**13,700**	**6,447**	**10,111**	**755**

(1) In 2010, we sold to Elavon Merchant Services Mexico, or "Elavon," the rights to certain revenues generated by point-of-sale terminals and title to certain assets used in connection with these point-of-sale terminals. We have presented the revenues and associated costs generated by these point-of-sale terminals as "Discontinued operations" in 2009 and 2010, but we have not included them in "Discontinued operations" in 2007 and 2008.

(2) Translated into U.S. dollars, for convenience purposes only, using the exchange rate of Ps.13.4084 per U.S.$1.00 as calculated on June 29, 2012 and reported by the Mexican Central Bank in the Official Gazette of the Federation on July 2, 2012 as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico.

(3) Beginning on January 1, 2008, we were no longer required by Mexican Banking GAAP to recognize the effects of inflation in our consolidated statement of income. See "Presentation of Financial and Other Information—General."

	As of December 31,					As of June 30,	
	2007	2008	2009	2010	2011	2012	2012
	(Millions of constant Ps. as of December 31, 2007)	(Millions of pesos)				(Millions of pesos)	(Millions of U.S.$)(1)
CONSOLIDATED BALANCE SHEETS (Mexican Banking GAAP)							
Assets:							
Funds available	63,718	134,366	78,144	102,141	84,862	96,468	7,195
Margin accounts	4,994	7,398	3,025	7,812	7,910	3,825	285
Investment in securities	211,619	185,776	180,116	204,206	221,930	262,894	19,607
Debtors under sale and repurchase agreements	6,484	405	12,890	10,834	4,602	5,832	435
Derivatives	31,923	77,189	78,528	97,815	85,980	87,860	6,553
Valuation adjustment for hedged financial assets	89	12	19	8	122	220	16
Total loan portfolio	218,499	229,662	207,737	227,556	313,673	338,905	25,276
Allowance for loan losses	(5,735)	(9,926)	(11,368)	(10,254)	(11,191)	(11,101)	(828)
Loan portfolio (net)	212,764	219,736	196,369	217,302	302,482	327,804	24,448
Other receivables (net)	24,398	28,279	15,669	19,399	13,355	35,962	2,682
Foreclosed assets (net)	153	171	180	163	253	196	15
Property, furniture and fixtures (net)	5,640	5,875	5,628	5,481	5,604	3,771	281
Long-term investment in shares	402	363	395	109	139	99	7
Deferred taxes (net)	–	1,886	5,804	5,083	8,058	8,522	636
Other assets (net)	1,587	1,894	2,124	2,129	3,766	3,837	286
Discontinued operations	0	0	55	0	0	0	0
Total assets	**563,771**	**663,350**	**578,946**	**672,482**	**739,063**	**837,290**	**62,446**
Liabilities:							
Deposits(2)	247,438	302,723	243,808	276,854	315,643	330,892	24,678
Credit instruments issued	0	1,182	1,305	6,237	21,676	21,878	1,632
Bank and other loans	4,740	21,655	9,745	18,863	19,554	24,804	1,850
Creditors under sale and repurchase agreements	165,659	131,370	130,509	114,254	122,901	170,121	12,688
Collateral sold or pledged as guarantee	9,590	4,670	9,479	21,299	15,478	18,766	1,400
Derivatives	29,755	83,452	76,022	91,048	90,497	87,960	6,560
Subordinated debentures outstanding	3,309	4,183	3,933	0	0	0	0
Other payables, deferred revenues and other advances	40,812	46,172	33,053	64,659	61,604	86,285	6,435
Deferred taxes (net)	684	0	0	0	0	0	0
Discontinued operations	0	0	0	0	0	0	0
Total liabilities	**501,987**	**595,407**	**507,854**	**593,214**	**647,353**	**740,706**	**55,243**
Total shareholders' equity	**61,784**	**67,943**	**71,092**	**79,268**	**91,710**	**96,584**	**7,203**
Total liabilities and shareholders' equity	**563,771**	**663,350**	**578,946**	**672,482**	**739,063**	**837,290**	**62,446**

(1) Translated into U.S. dollars, for convenience purposes only, using the exchange rate of Ps.13.4084 per U.S.$1.00 as calculated on June 29, 2012 and reported by the Mexican Central Bank in the Official Gazette of the Federation on July 2, 2012 as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico.

(2) Equal to the sum of demand deposits and time deposits.

SELECTED RATIOS AND OTHER DATA

The selected financial data and ratios presented below have been derived from and should be read in conjunction with our audited financial statements included elsewhere in this offering memorandum and the other financial information contained in this offering memorandum.

	As of and for the year ended December 31,		As of and for the six months ended June 30,	
	2010	2011	2011	2012
	(Millions of pesos or percentages, except per share, branch and employee data)			
Profitability and performance				
Net interest margin(1)	5.88%	5.06%	5.14%	4.83%
Total margin(2)	7.75%	6.70%	6.89%	6.39%
Return on average total assets (ROAA)(3)	2.48%	2.06%	2.13%	2.60%
Return on average shareholders' equity (ROAE)(4)	16.50%	16.18%	16.18%	22.45%
Efficiency ratio(5)	39.92%	43.42%	40.54%	34.34%
Net commission and fee income as a percentage of administrative and promotional expenses(6)	54.01%	53.53%	57.74%	61.32%
Yield on average interest-earning assets	8.89%	8.26%	8.25%	8.04%
Average cost of interest-bearing liabilities	3.81%	3.80%	3.69%	3.91%
Net interest spread	5.08%	4.46%	4.57%	4.13%
Common stock dividend payout ratio(7)	n/a	55.56%	n/a	n/a
Average interest-earning assets	445,622	567,361	524,840	679,153
Average interest-bearing liabilities	351,551	478,044	442,967	556,672
Capital adequacy				
Net tangible book value	77,408	88,274	81,207	93,193
Net tangible book value per share	0.99	1.13	1.04	1.17
Average shareholders' equity as a percentage of average total assets	15.02%	12.75%	13.14%	11.58%
Total capital	69,792	73,144	71,558	75,107
Tier 1 capital	68,703	71,674	70,177	73,579
Tier 1 capital to risk-weighted assets	15.31%	14.53%	14.53%	14.33%
Total capital to risk-weighted assets(8)	15.56%	14.82%	14.82%	14.63%
Asset quality				
Non-performing loans as a percentage of total loans(9)	1.68%	1.69%	2.33%	1.46%
Non-performing loans as a percentage of computable credit risk(9)(10)	1.53%	1.56%	2.18%	1.36%
Loan charge-offs as a percentage of average total loans	4.66%	3.31%	2.79%	2.31%
Loan charge-offs as a percentage of computable credit risk(10)	3.81%	2.64%	2.28%	2.00%
Allowance for loan losses as a percentage of average total loans	5.01%	4.12%	5.09%	3.53%
Allowance for loan losses as a percentage of non-performing loans(9)(11)	268.57%	210.52%	190.46%	224.13%
Allowance for loan losses as a percentage of loan charge-offs(11)	107.53%	124.59%	182.19%	153.03%
Allowance for loan losses as a percentage of total loans(11)	4.51%	3.57%	4.44%	3.28%
Liquidity				
Liquid assets as a percentage of deposits(12)	101.53%	93.42%	106.60%	104.18%
Loan portfolio (net) as a percentage of deposits(13)	78.49%	95.83%	92.63%	99.07%
Total loan portfolio as a percentage of total funding(14)	54.67%	65.38%	56.56%	61.88%
Deposits as a percentage of total funding(13)(14)	66.52%	65.79%	58.35%	60.42%
Operations				
Branches	1,073	1,097	1,073	1,097
Employees (full-time equivalent)	11,579	12,151	11,989	12,224

(1) Net interest margin is defined as financial margin (which includes income from equity investments) divided by average interest-earning assets, which are loans, receivables, debt instruments and other financial assets which yield interest or similar income.

(2) Total margin is defined as financial margin (which includes income from equity investments) plus commission and fee income (net) over average interest-earning assets.

(3) Calculated based upon the average daily balance of total assets.

(4) Calculated based upon the average daily balance of shareholders' equity.

(5) Efficiency ratio is defined as administrative and promotional expenses, which includes depreciation and amortization, divided by total income.

(6) Net commission and fee income divided by administrative and promotional expenses, which includes depreciation and amortization.

(7) Dividends paid per share divided by net income per share.

(8) Tier 1 plus Tier 2 capital divided by total risk-weighted assets, calculated according to the Mexican Capitalization Requirements.

(9) Non-performing loans include (i) all credits past due by more than (x) 30 days, in the case of single-payment loans, (y) 60 days, in the case of revolving loans (including consumer loans and credit cards), and (z) 90 days, in the case of periodic-payment loans (including non-revolving consumer loans, mortgages and commercial loans), and (ii) all loans to debtors that are declared insolvent under the Mexican Bankruptcy Act (*Ley de Concursos Mercantiles*). See "Supervision and Regulation—Classification of Loans and Allowance for Loan Losses."

(10) Computable credit risk is the sum of the face amounts of total loan portfolio (including non-performing loans), guarantees and documentary credits. When guarantees or documentary credits are contracted, we book them as off-balance sheet accounts. As of the date we make the payment to the beneficiary, we claim the payment from the solicitor (i.e., the debtor in the case of a guarantee or the buyer in the case of a documentary credit). The account becomes non-performing as of the date when the payment was due if we do not receive payment from the solicitor on that date. We maintain the account as a non-performing loan until recovery or, in the case of practical impossibility for recovery (e.g., when the creditor is declared bankrupt or upon the death of a creditor who is a natural person), until our Comprehensive Risk Management Committee decides to charge off the account. Such decision is at the discretion of our Comprehensive Risk Management Committee.

(11) Allowance for loan losses were Ps.10,254 million and Ps.11,191 million as of December 31, 2010 and 2011, respectively. Allowance for loan losses were Ps.12,892 million and Ps.11,101 million as of June 30, 2011 and 2012, respectively.

(12) Liquid assets include funds available, margin accounts and debt instruments issued by the Mexican government and by the Mexican Central Bank, both recorded at market prices. We believe we could obtain cash for our liquid assets immediately, although under systemic stress scenarios, we would likely be subject to a discount to the face value of these assets. As of December 31, 2010 and 2011, we had a total amount of liquid assets of Ps.281,089 million and Ps.294,871 million, respectively. For the years ended December 31, 2010 and 2011, the average amounts outstanding were Ps.217,814 million and Ps.243,800 million, respectively. As of June 30, 2011 and 2012, we had a total amount of liquid assets of Ps.319,430 million and Ps.344,711 million, respectively. For the six months ended June 30, 2011 and 2012, the average amounts outstanding were Ps.229,182 million and Ps.303,762 million, respectively.

As of December 31, 2010, liquid assets were composed of the following: 36.3% funds available (cash at our branches and ATMs, the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit), over-the-counter margin accounts and foreign currency purchase-sale transactions settled in 24 to 48 hours); 2.8% margin accounts for collateral submitted on derivative transactions in organized markets; 37.8% debt instruments issued by the Mexican government; and 23.1% debt instruments issued by the Mexican Central Bank. As of June 30, 2011, liquid assets were composed of the following: 32.8% funds available (cash at our branches and ATMs, the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit), over-the-counter margin accounts and foreign currency purchase-sale transactions settled in 24 to 48 hours); 2.6% margin accounts for collateral submitted on derivative transactions in organized markets, 44.8% debt instruments issued by the Mexican government; and 19.8% debt instruments issued by the Mexican Central Bank.

As of December 31, 2011, liquid assets were composed of the following: 28.8% funds available (cash at our branches and ATMs, the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit), over-the-counter margin accounts and foreign currency purchase-sale transactions settled in 24 to 48 hours); 2.7% margin accounts for collateral submitted on derivative transactions in organized markets; 44.8% debt instruments issued by the Mexican government; and 23.7% debt instruments issued by the Mexican Central Bank. As of June 30, 2012, liquid assets were composed of the following: 28.0% funds available (cash at our branches and ATMs, the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit), over-the-counter margin accounts and foreign currency purchase-sale transactions settled in 24 to 48 hours); 1.1% margin accounts for collateral submitted on derivative transactions in organized markets; 44.0% debt instruments issued by the Mexican government; and 26.9% debt instruments issued by the Mexican Central Bank.

(13) For the purpose of calculating this ratio, the amount of deposits includes the sum of demand deposits and time deposits.

(14) For the purpose of calculating this ratio, the amount of total funding comprises demand deposits, time deposits, creditors under sale and repurchase agreements, credit instruments issued and bank and other loans.

For December 31, 2010 and 2011, our demand and time deposits and creditors under sale and repurchase agreements amounted to Ps.391,109 million and Ps.438,544 million, respectively, and our credit instruments issued and bank and other loans amounted to Ps.25,100 million and Ps.41,230 million, respectively.

For June 30, 2011 and June 30, 2012, our demand deposits and time deposits and creditors under sale and repurchase agreements amounted to Ps.472,816 million and Ps.501,013 million, respectively, and our credit instruments issued and bank and other loans amounted to Ps.40,711 million and Ps.46,682 million, respectively.

RISK FACTORS

You should carefully consider the risks described below with all of the other information included in this offering memorandum before making a decision whether to invest in the Notes. If any of the following risks actually occurs, it may materially harm our business, results of operations or financial condition. The risks described below are those known to us or that we currently believe may materially and adversely affect us; other risks not currently known to us may arise in the future or may reach a greater level of materiality, which may materially and adversely affect us and our business.

Risks Associated with Our Business

We are vulnerable to the current disruptions and volatility in the global financial markets.

In the past five years, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. Global economic conditions deteriorated significantly between 2007 and 2009, and many countries, including the United States, fell into recession. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, have been experiencing significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions). The global economic slowdown and U.S. economic slowdown in particular had a negative impact on the Mexican economy and have adversely affected our business.

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

- We potentially face increased regulation of our industry. Compliance with such regulation may increase our costs, may affect the pricing for our products and services, and limit our ability to pursue business opportunities.
- Reduced demand for our products and services.
- Inability of our borrowers to timely or fully comply with their existing obligations.
- The process we use to estimate losses inherent in our credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates, which may, in turn, impact the reliability of the process and the quality of our assets.
- The value and liquidity of the portfolio of investment securities that we hold may be adversely affected.
- Worsening of the global economic conditions may delay the recovery of the international financial industry and impact our financial condition and results of operations.

Some uncertainty remains concerning the future economic environment and there is no assurance when such conditions will improve. While certain segments of the global economy are currently experiencing a moderate recovery, we expect these conditions to continue to have an ongoing negative impact on our business and results of operations. Global investor confidence remains cautious and recent downgrades of the sovereign debt of Ireland, Greece, Portugal, Spain, Italy and France have caused renewed volatility in the capital markets. A slowing or failing of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry.

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on us, including our ability to access capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on our interest margins.

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

Mexican government laws and regulations may have a material adverse effect on us.

We are subject to extensive laws and regulations regarding our organization, operations, lending and funding activities, capitalization, transactions with related parties and taxation and other matters. These laws and regulations impose numerous requirements on us, including the maintenance of minimum risk-based and operating-risk capital levels and allowance for loan losses, regulation of our business practices, regulation on money laundering, rates charged, application of required accounting regulations and tax obligations. Many of the applicable laws and regulations have changed extensively in recent years, with a negative impact on us. There may be future changes in the legal or regulatory system or in the interpretation and enforcement of the laws and regulations, including changes in tax legislation, that could have a material adverse effect on us.

As a reaction to the 2008 economic crisis, Mexican regulatory entities increased allowance for loan losses requirements for credit cards in 2009, which resulted in substantial increases to our allowance for loan losses in the amount of Ps.5,952 million as of December 31, 2009, as calculated in accordance with Mexican Banking GAAP. We believe that the allowance for loan losses that we recognized under Mexican Banking GAAP in 2009 are different from the allowance for loan losses that we would have been required to recognize under MFRS or U.S. GAAP. No attempt has been made to quantify the allowance for loan losses that we would be required to recognize under MFRS or U.S. GAAP.

We believe that recoveries of non-performing loans as a percentage of our total non-performing loan portfolio are likely to decline over time because of the aging of our non-performing loan portfolio. In addition, because the mortgage foreclosure process relating to collateral in Mexico takes two to three years on average to be fully completed due to procedural requirements under Mexican law, other factors such as third-party claims, mechanic liens and deterioration of the relevant property may impair the value of the collateral during the foreclosure process.

In July 2010, the Mexican government enacted the Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*) that protects personal data collected and requires that we ensure the confidentiality of information received from clients. We have begun to modify our processes, procedures and systems as required to implement this law and the supervision of our activities thereunder. We can provide no assurances as to how this legislation will be interpreted and how strictly Mexican authorities will enforce its application. However, if strictly interpreted and enforced, this legislation could have a material adverse effect on us, including increasing our operating costs and subjecting us to fines and penalties in the event of violations of the provisions of such law.

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

Future Mexican government restrictions on interest rates or changes in allowance for loan losses requirements could have a material adverse effect on us.

In Mexico, the Law for the Protection and Defense of Financial Services Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) does not impose any limit on the interest rate, subject to certain exceptions, that a bank may charge. However, the possibility of imposing such limits has been and continues to be debated by the Mexican Congress, Mexican regulators and different borrowers' groups on a conceptual level. Although the Mexican government could impose limitations or additional informational requirements regarding such interest rates in the future, as of the date of this offering memorandum the Mexican Congress and Mexican regulators have not yet proposed any specific limit to the interest rates we may charge. A portion of our revenues and operating cash flow is generated by the interest rates we charge to our customers, and any such limitations or additional informational requirements could have a material adverse effect on us.

In September 2010, the Basel Committee on Banking Regulations and Supervisory Practices, or the "Basel Committee," proposed comprehensive changes to the capital adequacy framework, known as Basel III. On December 16, 2010 and January 13, 2011, the Basel Committee issued its final guidance on a number of regulatory reforms to the regulatory capital framework in order to strengthen minimum capital requirements, including the phasing out of innovative Tier 1 and 2 Capital instruments with incentive-based redemption clauses and implementing a leverage ratio on institutions in addition to current risk-based regulatory requirements. In June 2011, the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, or "CNBV") distributed an outline of the projected implementation of Basel III standards in Mexico, which is expected to result in changes to Mexican regulations, that are likely to result in new requirements in respect of regulatory capital, liquidity/funding and leverage ratios that will be applicable to Mexican banks such as us.

If, as is likely, Mexican governmental authorities require Mexican banks to increase their allowance for loan losses requirements or change the manner in which such allowance for loan losses are calculated or change capitalization requirements, it could have a material adverse effect on us, including our results of operations.

Allowance for loan losses requirements in Mexico differ from those in the United States and other countries.

Our allowance for loan losses is maintained in accordance with the rules for the classification and rating of loan portfolios of Mexican banks, or the "Loan Classification and Rating Rules," as set forth under the General Rules Applicable to Mexican Banks. The allowance for loan losses for our commercial loan portfolio is calculated primarily based on the classification of the loans into prescribed categories, as described in "Supervision and Regulation—Classification of Loans and Allowance for Loan Losses—Classification of the Loan Portfolio and Allowance for Loan Losses." To calculate our commercial allowance for loan losses, the Loan Classification and Rating Rules require that we follow a methodology that incorporates an evaluation of the borrower's ability to repay its loan and of the related collateral and guarantees in the loan's rating analysis to estimate a probable loss and define the percentage of necessary allowance for loan losses. The commercial portfolio must be rated every three months. For revolving consumer credit card loans, mortgage loans, other non-revolving consumer loans and credits granted to states and municipalities, we consider the type of credit, the estimated probability of default of the borrowers, the severity of the loss associated with the value and nature of the credit's collateral and the exposure to default. Mexican banking regulations relating to loan classification and determination of allowance for loan losses are generally different and may be less stringent than those applicable to banks in the United States and certain other countries.

In addition, with respect to our commercial, corporate and financial institutions portfolios, we have requested and received permission from the CNBV to use a proprietary methodology to determine allowance for loan losses as an alternative to the standard methodology starting as of January 1, 2012. Our approach is based on the Foundation Internal Ratings-Based Approach as defined in the Basel II accords and is based on the evaluation of four main factors: country risk, financial risk, industry risk and payment performance. This results in an overall determination of debtor risk, which is then applied to each loan operation and mitigated by any collateral to obtain a risk grade which is associated to a provision factor. We have a mapping between this risk grade and the internal customer rating that has been approved by the CNBV. While our proprietary methodology has resulted in the calculation of probabilities of default that are lower than the probabilities of default calculated and established by the CNBV in its standard methodology, the use of a proprietary methodology does not necessarily result in a reduction of capital requirements or in the allowance for loan losses.

We may be required or deem it necessary to materially increase our allowance for loan losses in the future. Increasing the allowance for loan losses could have a material adverse effect on us.

We are constantly exposed to market risk and are subject to fluctuations in interest rates and other market risks, which may materially and adversely affect us.

Market risk refers to the probability of variations in our financial margin or in the market value of our assets and liabilities due to interest rate volatility. Changes in interest rates affect the following areas, among others, of our business:

- financial margin;

- the volume of loans originated;
- the market value of our securities holdings; and
- gains from sales of loans and securities.

Variations in short-term interest rates could affect our financial margin, which comprises the majority of our revenue. When interest rates rise, we may be required to pay higher interest on our floating-rate borrowings while interest earned on our fixed-rate assets does not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of our portfolio. Interest rate variations could adversely affect us, including our financial margin, reducing its growth rate or even resulting in losses. We monitor our interest rate risk using the Net Interest Margin, or "NIM," sensitivity, which is the difference between the return on assets and the financial cost of our financial liabilities based on a one-year time frame and a parallel movement of 100 basis points (1%) in market interest rates. As of June 30, 2012, the 1% NIM sensitivity was Ps.845 million.

Increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets. Increases in interest rates may also reduce the propensity of our customers to prepay or refinance fixed-rate loans. Increases in interest rates may reduce the value of our financial assets. We hold a substantial portfolio of loans and debt securities that have both fixed and floating interest rates.

If interest rates decrease, although this is likely to decrease our funding costs, it is likely to adversely impact the income we receive arising from our investments in securities.

The market value of a security with a fixed interest rate generally decreases when the prevailing interest rates rise, which may have an adverse effect on our earnings and financial condition. In addition, we may incur costs (which, in turn, will impact our results) as we implement strategies to reduce future interest rate exposure. The market value of an obligation with a floating interest rate can be adversely affected when interest rates increase, due to a lag in the implementation of repricing terms or an inability to refinance at lower rates.

Increases in interest rates may reduce gains or require us to record losses on sales of our loans or securities. In recent years, interest rates have been low by historical standards. However, there can be no assurance that such low rates will continue in the future.

We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies and to equity price risk in connection with our trading investments in equity securities. As a commercial bank, we are also exposed to credit risk as part of our normal course of business. To the extent any of these risks materialize, our financial margin or the market value of our assets and liabilities could be adversely affected.

The volatility in peso exchange rates and interest rates in Mexico could have a material adverse effect on us.

We are exposed to currency risk any time we hold an open position in a currency other than pesos and to interest rate risk when we have an interest rate repricing gap or carry interest-earning securities having fixed real or nominal interest rates. Peso exchange rates and interest rates in Mexico have been subject to significant fluctuations in recent years. Because of the historical volatility in peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Our foreign currency liabilities are subject to regulation by the Mexican Central Bank, which imposes liquidity requirements in matching currencies, depending upon the maturities of such liabilities. As of June 30, 2012, the value at risk, or "VaR," associated with our financial instruments sensitive to interest rates and foreign currency exchange rates was U.S.$8.80 million (Ps.118 million) and U.S.$0.93 million (Ps.12.5 million), respectively. Although we follow various risk management procedures in connection with our trading and treasury activities and are subject to regulations that seek to avoid important mismatches, there can be no assurance that we will not experience losses with respect to these positions in the future, any of which could have a material adverse effect on us, including our results of operations.

Severe devaluation or depreciation of the peso may have an adverse effect on us by, for example, increasing in peso terms the amount of our foreign currency-denominated liabilities and the rate of default among our borrowers or affecting our results of operations when measured in U.S. dollar terms. In addition, severe devaluations may result, as in the past, in the implementation of exchange controls that may impact our ability to convert pesos into U.S. dollars or to transfer currencies outside of Mexico, which may have an impact on our business and results of operations.

As a result of the negative economic conditions in the United States and in other parts of the world, local and international markets have experienced high volatility, which has contributed to the devaluation of the peso by 26.7% in 2008. Although the peso increased in value relative to the U.S. dollar by 5.5% and 5.5% in 2009 and 2010, respectively, it depreciated in 2011 by 12.9%, closing at 13.95 pesos per U.S. dollar at the end of December 2011. At the end of March 2012, the peso had appreciated to 12.81 pesos per U.S. dollar, and at the end of June 2012, the peso had depreciated to 13.41 pesos per U.S. dollar compared to the exchange rate at the end of March 2012 but appreciated slightly relative to the exchange rate at the end of December 2011. As of August 31, 2012, the peso had appreciated to Ps.13.26 pesos per U.S. dollar relative to the end of June 2012 exchange rate. The peso continues to be affected by uncertainty and volatility in the global markets. The Mexican government has consistently implemented a series of measures to limit the volatility of the peso, varying from auctioning U.S. dollars to intervening in interest rates and regulating hedges of foreign currency-denominated liabilities of Mexican banks. However, we cannot assure you that such measures will be effective or maintained or how such measures will impact the Mexican economy.

Severe devaluation or depreciation of the peso may also result in government intervention, as has occurred in other countries, or disruption of international foreign exchange markets. While the Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer other currencies outside of Mexico, the Mexican government has taken such measures in the past and could institute restrictive exchange control policies in the future. Accordingly, fluctuations in the value of the peso against the U.S. dollar could have a material adverse effect on us and impair our ability to make payments under the Notes.

If we are unable to effectively control the level of non-performing or poor credit quality loans in the future, or if our allowance for loan losses is insufficient to cover future loan losses, this could have a material adverse effect on us.

Non-performing or low credit quality loans can negatively impact our results of operations. We cannot assure you that we will be able to effectively control the level of the impaired loans in our total loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our total loan portfolio, including as a result of loan portfolios that we may acquire in the future, or factors beyond our control, such as the impact of economic trends and political events affecting Mexico, events affecting certain industries or events affecting financial markets and global economies. As part of our business strategy, we are seeking to increase lending and other services to individuals and SMEs, which are more likely to be adversely affected by downturns in the Mexican economy than large corporations and high-income individuals who have greater resources. Consequently, in the future we may experience higher levels of non-performing loans, which could result in higher provisions for loan losses, which in turn will affect our financial condition and results of operations. Part of our current growth strategy is also to increase volume in the credit card portfolio, at the same or a slightly higher rate than the market, which may increase the level of non-performing loans in our loan portfolio. In addition, the introduction of new products, such as Hipoteca Light (a residential mortgage product that has increasing payments over time and a fixed interest rate) may lead to greater loan losses.

As of June 30, 2012, our allowance for loan losses was Ps.11,101 million under Mexican Banking GAAP. We believe our current allowance for loan losses is adequate to cover all known or knowable losses in our loan portfolio. However, our current allowance for loan losses may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. As a result, if the quality of our total loan portfolio deteriorates, for any reason, including the increase in lending to individuals and SMEs, the volume increase in the credit card portfolio and the introduction of new products, we may be required to increase our allowance for loan losses, which may adversely affect us. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our allowance for loan losses will be sufficient to cover actual losses. If we are unable to control or reduce the level of our non-performing or poor credit quality loans, this could have a material adverse effect on us.

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

Our loan and investment portfolios are subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate environment, prepayment activity increases, which reduces the weighted average lives of our earning assets and could have a material adverse effect on us. We would also be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and financial margin. Prepayment risk also has a significant adverse impact on credit card and collateralized mortgage loans, since prepayments could shorten the weighted average life of these assets, which may result in a mismatch in our funding obligations and reinvestment at lower yields. While we did not experience a significant increase in prepayments on our loan portfolios from 2010 to 2011, prepayment risk is inherent to our commercial activity and an increase in prepayments could have a material adverse effect on us.

Competition with other financial institutions could adversely affect us.

We face substantial competition in all parts of our business, including in originating loans and in attracting deposits. The competition in originating loans comes principally from other Mexican and foreign banks, mortgage banking companies, consumer finance companies, insurance companies and other lenders and purchasers of loans. We anticipate that we will encounter greater competition as we expand our operations. In addition, certain of our competitors, such as *Sociedades Financieras de Objeto Limitado*, or "*Sofoles*," and *Sociedades Financieras de Objeto Múltiple*, or "*Sofomes*," are not licensed financial institutions and, as such, not subject to the same extensive banking regulation, including capitalization and allowance for loan losses requirements. As a result, certain of our competitors may have advantages in conducting certain businesses and providing certain services and particularly, may be more aggressive in their loan origination activities.

Our principal competitors are BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer; Banco Nacional de México, S.A., Integrante del Grupo Financiero Banamex; Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC; Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa; and Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank.

For a number of years, foreign financial institutions have been permitted to establish subsidiary financial groups, banks, broker-dealers and other financial entities in Mexico. According to the CNBV, as of June 30, 2012, Mexico's ten largest domestic banks, measured in terms of assets, held 85.2% of the total assets in the Mexican banking system. Seven of these ten banks are foreign-owned. These foreign financial institutions are generally well-capitalized, and have substantial resources (such as personnel, technology and product development and organization); if any of them pursue the Mexican market aggressively, by establishing or expanding operations, we may be unable to compete with them.

The CNBV continues, from time to time, to grant banking licenses, including licenses to niche banks, that are solely permitted to engage in limited activities. Newly licensed banks are likely to aggressively pursue market expansion, which may adversely affect us.

In addition, legal and regulatory reforms in the Mexican banking industry have also increased competition among banks and among other financial institutions. We believe that the Mexican government's policies of adopting market-oriented reforms in the financial industry have brought greater competition. As financial sector reform continues, foreign financial institutions, some having greater resources than we do, have entered and may continue to enter the Mexican market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There can be no assurance that we will be able to compete successfully with such domestic or foreign financial institutions.

Increasing competition could also require that we increase our rates offered on deposits or lower the rates we charge on loans, which could also have a material adverse effect on us, including our profitability.

We are exposed to risks faced by other financial institutions.

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

We may be required to make significant contributions to IPAB.

IPAB manages the bank savings protection system and the financial support granted to banks in Mexico. Under Mexican law, banks are required to make monthly contributions to IPAB to support its operations that are equal to 1/12 of 0.004% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. Mexican authorities impose regular assessments on banking institutions covered by IPAB for funding. We contributed to IPAB Ps.1,146 million in 2009, Ps.982 million in 2010, Ps.1,228 million in 2011 and Ps.646 million in the six months ended June 30, 2012. In the event that IPAB's reserves are insufficient to manage the Mexican bank savings protection system and provide the necessary financial support required by troubled banking institutions, IPAB maintains the right to require extraordinary contributions to participants in the system that we may be required to make. Although we have not been required to make extraordinary contributions to the IPAB in the past, we may be required to make extraordinary contributions in the future. Such extraordinary contributions would increase our expenses and could have a material adverse effect on us.

We are subject to Mexican regulatory inspections, examinations, inquiries or audits, and future sanctions, fines and other penalties resulting from such inspections and audits, including the revocation of our banking license, could have a material adverse effect on us.

We are subject to comprehensive regulation and supervision by Mexican regulatory authorities, such as the Mexican Central Bank, the CNBV and the SHCP. See "The Mexican Financial System." These regulatory authorities have broad powers to adopt regulations and other requirements affecting or restricting virtually all aspects of our capitalization, organization and operations, including changes to capital adequacy and reserve requirements, supervision of compliance with rules relating to secrecy, the imposition of anti-money laundering measures and the authority to regulate the terms of products, including the interest rates we charge and the fees we collect in exchange for services. Moreover, Mexican financial regulatory authorities possess significant powers to enforce applicable regulatory requirements, including the imposition of fines, requiring that new capital be contributed, inhibiting us from paying dividends to shareholders or paying bonuses to employees, or the revocation of our banking license. In the event we encounter significant financial problems or become insolvent or in danger of becoming insolvent, Mexican banking authorities would have the power to take over our management and operations. See "Supervision and Regulation."

Liquidity risks could have a material adverse effect on us.

Many Mexican banks have suffered severe liquidity problems from time to time.

We anticipate that our customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as a source of funds. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed. If a substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, we may be materially and adversely affected.

We cannot assure you that in the event of a sudden or unexpected shortage of funds in the banking system, we will be able to maintain levels of funding without incurring high funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If this were to happen, we could be materially adversely affected.

We have not suffered material liquidity problems since the 1995 to 1996 period, when we experienced a significant increase in the cost of funding as a result of the financial crisis in Mexico. During this period, we were able to obtain the required funding, but at a higher cost. While we have not suffered material liquidity problems in recent years, we cannot assure you that liquidity problems will not affect the Mexican banking system in the future or that liquidity constraints will not affect us in the future. While we expect to be able to refinance our liabilities, we cannot assure you that we will be able to repay our liabilities or refinance our liabilities on favorable terms or at all.

The credit card industry is highly competitive and entails significant risks, including the possibility of over-indebtedness of customers, which could have a material adverse effect on us.

The credit card industry in Mexico is dominated by institutions that may possess greater financial resources and broader coverage in this market than we do. There is no assurance that we will be able to effectively compete for and retain customers in this competitive industry or that we will be able to implement our experience in the Mexican market successfully.

Our credit card business is subject to a number of risks and uncertainties, including the possibility of over-indebtedness of our customers, despite our focus on low-risk, medium- and high-income customers. We currently use a segmentation policy in order to measure the risk of our credit card portfolio. Pursuant to this segmentation policy, we segment our credit card portfolio into ten groups based on a composite score comprised of a behavior score based on internal and external data and a credit capacity score based primarily on external data. We perform monthly validations of our scores to test their predictive capacity so that the methodologies can be adjusted, if necessary. We measure the loss rates for each of the ten groups over a one-year period and compare the average loss rate to our appetite for risk within the credit card portfolio. As of June 30, 2012, approximately 70% of our credit card portfolio was included in the top five groups, which together had an average loss rate of 3.7%, which we consider to be low risk.

The credit card industry is characterized by higher consumer default than other credit industries, and defaults are highly correlated with macroeconomic indicators that are beyond our control. From 2008 to 2010, our credit card portfolio decreased by Ps.22,832 million, or 48%, primarily due to write-offs, tightening of credit policies and a reduction in the origination of new credit cards, all of which were a response to a material deterioration in credit quality in our credit card portfolio. Part of our current growth strategy is to increase volume in the credit card portfolio, at the same or a slightly higher rate than the market, which may increase our exposure to risk in our loan portfolio. If Mexican economic growth slows or declines, or if we fail to effectively analyze the creditworthiness of our customers (including by targeting certain sectors), we may be faced with unexpected losses that could have a material adverse effect on us.

Failure to successfully implement and continue to improve our credit risk management system could materially and adversely affect us.

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

Credit, market and liquidity risk may have an adverse effect on our credit ratings and our cost of funds. Any downgrading in our credit rating would likely increase our cost of funding, require us to post additional collateral or take other actions under some of our derivative contracts and adversely affect our interest margins and results of operations.

Credit ratings affect the cost and other terms upon which we are able to obtain funding. Rating agencies regularly evaluate us, and their ratings of our debt are based on a number of factors, including our financial strength as well as conditions affecting the financial services industry generally.

Any downgrade in our ratings would likely increase our borrowing costs and require us to post additional collateral or take other actions under some of our derivative contracts, and could limit our access to capital markets and adversely affect our commercial business. For example, a ratings downgrade could adversely affect our ability to sell or market certain of our products, such as subordinated securities, engage in certain longer-term and derivatives transactions and retain our customers, particularly customers who need a minimum rating threshold in order to invest. In addition, under the terms of certain of our derivative contracts, we may be required to maintain a minimum credit rating or terminate such contracts. Any of these results of a ratings downgrade, in turn, could reduce our liquidity and have an adverse effect on us, including our operating results and financial condition.

The long-term debt of Banco Santander Spain is currently rated investment grade by the major rating agencies—Baa2 by Moody's Investors Service España, S.A., A- by S&P and BBB+ by Fitch—all of which have a negative outlook due to the difficult economic environment in Spain. All three agencies downgraded Banco Santander Spain's rating in October 2011 and February 2012 together with that of the other main Spanish banks, due to the weaker-than-previously-anticipated macroeconomic and financial environment in Spain with dimming growth prospects in the near term, depressed real estate market activity and heightened turbulence in the capital markets. In addition, S&P downgraded Banco Santander Spain's rating by two notches in April 2012 together with that of 15 other Spanish banks following that rating agency's decision to downgrade Spain's sovereign debt rating by two notches. Moody's Investors Service España, S.A. further downgraded Banco Santander Spain's rating in May 2012, together with downgrades of 15 other Spanish banks and Santander UK plc, a United Kingdom-domiciled subsidiary of Banco Santander Spain. In June 2012, Fitch cut the rating of Spanish sovereign debt three notches to BBB- with a negative outlook, and Moody's followed shortly thereafter by downgrading Spanish sovereign debt three notches to Baa3, its lowest investment grade rating. Following its downgrade of Spanish sovereign debt, Fitch further downgraded Banco Santander Spain's rating on June 11, 2012 from A to BBB+. Moody's downgraded Banco Santander Spain's rating on June 25, 2012 from A3 to Baa2. On October 16, 2012, S&P further downgraded Banco Santander Spain's rating from A- to BBB, with a negative outlook, following S&P's additional downgrade of the Spanish sovereign debt rating.

On June 13, 2012, as a result of its downgrade of Banco Santander Spain, Fitch took various rating actions against us, including downgrading our long-term debt rating for any issuances in the international capital markets from A- to BBB+ with a negative outlook while affirming our rating with respect to long-term issuances in the local Mexican market of AAA(mex) with a stable outlook.

On June 28, 2012, as a result of its downgrade of Banco Santander Spain, Moody's took various rating actions against us, including downgrading our standalone financial strength rating to C-, our long-term peso-denominated debt rating for any issuances in the international capital markets from A2 to A3 and our short-term peso-denominated debt rating for any international issuances to Prime-2 from Prime 1. However, Moody's long-term debt rating for issuances in the local Mexican market was maintained at AAA.mx with a stable outlook.

On July 11, 2012, S&P raised our local and foreign currency short-term debt ratings for any issuances in the international capital markets from A-3 to A-2, which mirrored S&P's decision to raise Mexico's sovereign short-term foreign currency rating to A-2 on July 9, 2012. S&P's rating of our long-term debt issued in the local Mexican market was maintained at mxAAA. S&P confirmed our ratings on October 16, 2012, despite their downgrade of Banco Santander Spain's ratings on the same date, as described above.

Our funding costs have not been affected by the recent downgrades of Spain's sovereign debt, Banco Santander Spain's debt and our related downgrades because we currently do not have outstanding debt securities in the international capital markets. For debt financing, we currently rely entirely on local, peso-denominated issuances and we continue to be rated mxAAA, Aaa.mx and AAA(mex) by S&P, Moody's and Fitch, respectively, with respect to our local peso-denominated long-term debt, with equivalent ratings for our local peso-denominated short-term debt. Nor have we been required to post additional collateral or take other actions under any of our derivative contracts.

However, downgrades of Spain's sovereign debt, Banco Santander Spain's debt and our related downgrades would adversely affect our cost of funding related any issuances of debt in the international capital markets, including the issuance of the Notes. While certain potential impacts are contractual and quantifiable, the full consequences of a credit ratings downgrade to a financial institution are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of a firm's long-term credit ratings precipitates downgrades to its short-term credit ratings, and assumptions about the potential behaviors of various customers, investors and counterparties. However, we estimate that if the rating agencies were to downgrade our long-term senior debt ratings by one or two notches, it would increase our borrowing costs for debt issued in the international capital markets by approximately 10 to 20 basis points for our short-term debt. The effect on our long-term debt is much more uncertain due to the factors described above; however, we estimate that there would be an increase of approximately 30 to 50 basis points in our borrowing costs for long-term debt issued in the international capital markets in the event of a downgrade by one or two notches. In addition, we expect that we would be required to post up to U.S.$51.8 million in additional collateral in respect of our derivative arrangements in the event of such a downgrade, based on our derivatives portfolio as of June 30, 2012. As a result, any such downgrade could have a material adverse effect on us. In addition, if we were required to cancel our derivatives contracts with certain counterparties and were unable to replace such contracts, our market risk profile could be altered. For a further discussion of liquidity matters, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain our current ratings or outlooks. Our failure to maintain favorable ratings and outlooks would likely increase our cost of funding and adversely affect our interest margins, which could have a material adverse effect on us.

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

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

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

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

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

One of our main strategies is to focus on the retail banking sector and to grow our retail loan portfolio. The recoverability of these loans in particular and our ability to increase the amount of loans outstanding, and our results of operations and financial condition in general, may become increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses that could have a material adverse effect on us.

Furthermore, because the penetration of bank lending products in the Mexican retail sector historically has been low, there is little basis on which to evaluate how the retail sector will perform in the event of an economic crisis, such as a recession or a significant devaluation, among others. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio in the future.

Our increasing focus on individuals and small and medium-sized businesses could lead to higher levels of non-performing loans and subsequent charge-offs that could have a material adverse effect on us.

As part of our business strategy, we are seeking to increase lending and other services to individuals and to SMEs. Individuals and SMEs are, however, more likely to be adversely affected by downturns in the Mexican economy than large corporations and high-income individuals who have greater resources. Consequently, in the future we may experience higher levels of non-performing loans, which could result in higher provisions for loan losses, which in turn will affect our financial condition and results of operations. For the six months ended June 30, 2012, non-performing loans were Ps.4,953 million and total charge-offs against allowance for loan losses were Ps.3,627 million. Non-performing loans related to individuals and SMEs represented 73.5% and 11.6%, respectively, of our total non-performing loans for the six months ended June 30, 2012, as compared to 74.0% and 6.1%, respectively, for the six months ended June 30, 2011. Charge-offs related to individual and SME loans represented 79.9% and 16.4%, respectively, of our total charge-offs for the six months ended June 30, 2012, as compared to 85.0% and 11.8%, respectively, for the six months ended June 30, 2011. There can be no assurance that the levels of non-performing loans and subsequent charge-offs will not be materially higher in the future.

Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties, and we may not be able to manage various risks we face as we expand our range of products and services that could have a material adverse effect on us.

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services—such as Autocompara (a program that allows potential clients to compare automobile insurance quotes from the seven largest insurance companies in Mexico), Hipoteca Light (a residential mortgage product that has increasing payments over time and a fixed interest rate) and Banca Móvil (a program that allows banking operations to be carried out by means of cell phones and other mobile devices)—will be responsive to client demands or successful once they are offered to our clients, or that they will be successful in the future. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive and we may not be able to develop new products that meet our clients' changing needs. If we cannot respond in a timely fashion to the changing needs of our clients, we may lose clients, which could in turn materially and adversely affect us.

As we expand the range of our products and services, some of which may be at an early stage of development in the Mexican market, we will be exposed to new and potentially increasingly complex risks and development expenses, with respect to which our experience and the experience of our partners may not be helpful. Our employees and our risk management systems may not be adequate to handle such risks. In addition, the cost of developing products that are not launched is likely to affect our results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on us.

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

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

We are also dependent on information systems to operate our website, 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 (including failure to update systems), viruses, computer "hackers" or other causes.

Technological services are provided to us by two different companies that are part of the Santander Group: Produban Servicios Informáticos Generales, S.L., or "Produban," for hardware, production environment and information security and Ingeniería de Software Bancario, L.L. and affiliated companies, or "Isban," for software development and implementation. We have a local information security officer who is responsible for assessing that security policies are properly implemented and that our technological environment is secure. We are required to report every event related to information security issues, such as hacking or hacking attempts, events where customer information may be compromised, unauthorized access and other security breaches, to the CNBV. As of the date of this offering memorandum, we have not experienced information security problems and we have not had to report any such events to the CNBV. 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 clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect us.

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

Our ability to remain competitive depends in part on our ability to upgrade our information technology on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. For 2012, 30% of our capital expenditures budget for information technology is designated for information technology infrastructure in order to decrease technological risk. We cannot assure you that in the future we will be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of our information technology infrastructure. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on us.

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

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

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

We are required to comply with applicable anti-money laundering, anti-terrorism and other laws and regulations in Mexico. These laws and regulations require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision. See "Supervision and Regulation—Banking Regulation—Money Laundering Regulations."

While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering and related activities, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, the personnel we employ in supervising these activities may not have experience that is comparable to the level of sophistication of criminal organizations. While we have not been subject to fines or other penalties as a result of money laundering activities, to the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us, including the revocation of licenses. In addition, although we have not suffered business or reputational harm as a result of money laundering activities in the past, our business and reputation could suffer if customers use our banking network for money laundering or illegal or improper purposes.

We engage in transactions with our subsidiaries or affiliates that others may not consider to be on an arm's-length basis.

We and our subsidiaries and affiliates have entered into a number of services agreements pursuant to which we render services, such as administrative, accounting, finance, treasury, legal services and others. In 2011, the aggregate amount of our expenses related to the service agreements we have with our subsidiaries and affiliates was Ps.2,045 million, or 11.8% of our administrative expenses, and we had an insignificant amount of income related to such agreements. In addition, we have entered into services agreements with certain affiliates to allow these companies to offer their products and services within our branch network or that assist with our activities in consideration for certain fees.

Mexican law applicable to public companies and financial groups and institutions, as well as our bylaws, provide for several procedures designed to ensure that the transactions entered into with or among our financial subsidiaries do not deviate from prevailing market conditions for those types of transactions, including the requirement that our Board of Directors approve such transactions.

We are likely to continue to engage in transactions with our subsidiaries or affiliates (including Banco Santander Spain). While the CNBV has not disagreed with our determinations that the terms of these transactions are "substantially on market conditions" in the past, we can provide no assurances that the CNBV will agree with any of our future determinations. In addition, future conflicts of interests between us and any of our subsidiaries or affiliates, or among our subsidiaries and affiliates, may arise, which conflicts are not required to be and may not be resolved in our favor. See "Related Party Transactions."

Banco Santander Spain, through its controlling equity interest in Grupo Financiero Santander Mexico, has a great deal of influence over our business and its interests could conflict with yours.

As of the date of this offering memorandum, Banco Santander Spain controls us through its controlling equity interest in Grupo Financiero Santander Mexico, of which we are the principal subsidiary. The equity interest Banco Santander Spain holds in our holding company gives Banco Santander Spain control over 99.86% of our shares, which gives it the ability to:

- elect the majority of the directors and exercise control over our company and subsidiaries;
- cause the appointment of our principal officers;
- declare the payment of any dividends;
- agree to sell or otherwise transfer its controlling stake in us; and
- determine the outcome of substantially all actions requiring shareholder approval, including amendments of our bylaws, transactions with related parties, corporate reorganizations, acquisitions and disposals of assets and issuance of securities.

The interests of Banco Santander Spain may differ from our interests or those of our noteholders. As a result, we may take actions that our noteholders do not view as beneficial.

We may make acquisitions that may not be successful.

From time to time, we evaluate acquisition opportunities that we believe offer additional value to our shareholders and are consistent with our business strategy. These acquisitions may be acquisitions of assets or of existing operations, such as the GE Capital mortgage business that we acquired in 2011. However, we may not be able to identify suitable acquisition candidates, and we may not be able to acquire promising targets on favorable terms or at all. Our ability to benefit from any such acquisitions will depend in part on our successful integration of those businesses. The integration of acquired businesses entails significant risks, including:

- unforeseen difficulties in integrating operations and systems;
- inability to modify accounting standards rapidly;
- problems assimilating or retaining the employees of acquired businesses;
- challenges retaining customers of acquired businesses;
- unexpected liabilities or contingencies relating to the acquired businesses, including legal claims;
- the possibility that management may be distracted from day-to-day business concerns by integration activities and related problem-solving; and
- the possibility of regulatory restrictions that prevent us from achieving the expected benefits of the acquisition.

In addition, an acquisition could result in the loss of key employees and inconsistencies in standards, controls, procedures and policies. Moreover, the success of the acquisition will at least in part be subject to a number of political, economic and other factors that are beyond our control. Any or all of these factors, individually or collectively, could have a material adverse effect on us.

We are exposed to risk of loss from legal and regulatory proceedings.

We face various issues that may give rise to risk of loss from legal and regulatory proceedings, including tax litigation. These issues, including appropriately dealing with potential conflicts of interest, and legal and regulatory requirements, could increase the amount of damages asserted against us or subject us to regulatory enforcement actions, fines and penalties. The current regulatory environment, which suggests an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material operational and compliance costs.

We are from time to time subject to certain claims and parties to certain legal proceedings incidental to the normal course of our business, including in connection with our lending activities, relationships with our employees and other commercial or tax matters. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, we cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines or penalties related to each pending matter may be. We believe that we have made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings. As of June 30, 2012, we have set aside Ps.1,133 million (U.S.$84.5 million) as provisions for these legal actions (including tax-related litigation). See note 15 to our unaudited condensed consolidated interim financial statements. However, in light of the uncertainties involved in such claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us. As a result, the outcome of a particular matter may be material to our operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and our level of income for that period. See "Business—Legal Proceedings."

Risks Relating to Mexico

Adverse economic conditions in Mexico could have a negative effect on us.

We are a Mexican financial institution, and substantially all of our operations and assets are in Mexico and are dependent upon the performance of the Mexican economy. As a result, our business, financial condition and results of operations may be affected by the general condition of the Mexican economy, the devaluation of the peso as compared to the dollar, price instability, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on us. We cannot assume that such conditions will not return or that such conditions will not have a material and adverse effect on us.

According to the Mexican National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*, or "INEGI") and the Mexican Central Bank, in 2007, the Mexican gross domestic product ("GDP") grew by approximately 3.3% and inflation declined to 3.8%. In 2008, GDP grew by approximately 1.2% and inflation was 6.5%. Mexico was in a recession for five consecutive quarters from the fourth quarter of 2008 until the fourth quarter of 2009. In 2009, GDP decreased by approximately 6.2% and inflation reached 3.6%. In 2010, GDP was 5.5% and inflation was 4.4%. In 2011, GDP was 3.9% and inflation was 3.8%. In the six months ended June 30, 2012, GDP increased by 4.3% and inflation reached 4.3%.

Mexico also has, and is expected to continue to have, volatility in exchange and interest rates. The annualized interest rates on 28-day Mexican Treasury bills (*Certificados de la Tesorería de la Federación*, or "*Cetes*") averaged approximately 7.2%, 7.7%, 5.4%, 4.4% and 4.2% for 2007, 2008, 2009, 2010 and 2011, respectively. Relative to the U.S. dollar, the peso depreciated by 1.0% in 2007, depreciated by 26.7% in 2008, appreciated by 5.5% in 2009, appreciated by 5.5% in 2010 and depreciated by 12.9% in 2011, all in nominal terms. The peso continues to be affected by uncertainty and volatility in the global markets. While the peso appreciated by 3.9% in the first six months of 2012, the exchange rate was Ps.13.95 per U.S. dollar at the end of December 2011, Ps.12.81 per U.S. dollar at the end of March 2012 and Ps.13.41 per U.S. dollar at the end of June 2012. At the end of September 2012, the peso had appreciated to Ps.12.87 pesos per U.S. dollar compared to Ps.13.41 per U.S. dollar at the end of June 2012 and Ps.13.95 per U.S. dollar at the end of December 2011. To the extent that we incur peso-denominated debt in the future, it could be at high interest rates.

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

Political events in Mexico could have a material adverse effect on us.

The Mexican government exercises significant influence over many aspects of the Mexican economy. As a result, the actions of the Mexican government concerning the economy and regulating certain industries, including the banking sector, could have a significant effect on Mexican private sector entities, including us, and on market conditions, prices and returns on Mexican securities, including our securities.

Presidential and federal congressional elections in Mexico were held in July 2012. The candidate from the *Partido Revolucionario Institucional*, or "PRI," Enrique Peña Nieto, was declared the winner of the presidential election. In his economic platform, Peña Nieto proposed structural reforms such as labor, energy and fiscal reforms in order to promote economic growth. However, since the PRI did not win a majority in Congress, the approval of these reforms would require extensive negotiations between the political parties in Congress. The winner of the election is scheduled to take office in December 2012. We cannot predict whether changes in Mexican governmental and economic policy will result from the change in administration. Any such changes could adversely affect economic conditions in Mexico or the sector in which we operate and therefore could have an adverse effect on us.

We cannot provide any assurance that future political developments in Mexico, over which we have no control, will not have an unfavorable impact on our financial position or results of operations. In particular, the current government or the next government may implement significant changes in laws, public policies and/or regulations that could affect Mexico's political and economic situation, which could have a material adverse effect on us.

Developments in other countries may affect us, including the prices for our securities.

The Mexican economy may be, to varying degrees, affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to adverse developments in other countries may have an adverse effect on the market value of securities of Mexican issuers. For example, during 2007 and 2008, prices of both Mexican debt and equity securities decreased substantially as a result of the global financial crisis. According to Bloomberg, the Dow Jones Industrial Average fell by 39% from its average level in July 2007 to its January 2009 average level, while Mexico's NCPI fell by 36% in the same period. In 2009, 2010, 2011 and the first six months of 2012, the Dow Jones Industrial Average increased by approximately 19%, 11%, 6% and 5%, respectively, while Mexico's Stock Exchange Prices and Quotations Index (*Índice de Precios y Cotizaciones*, or "IPC") increased by 44% and 20% in 2009 and 2010, respectively, fell by approximately 4% in 2011, and increased by approximately 8% in the first six months of 2012.

In addition, in recent years economic conditions in Mexico have become increasingly correlated to economic conditions in the United States as a result of the North American Free Trade Agreement, or "NAFTA," and increased economic activity between the two countries, which was highlighted during the recent economic crisis affecting the United States. The Mexican economy continues to be influenced by the U.S. economy, and therefore, the deterioration of the United States' economy, the termination of NAFTA or other related events, or delays in the recovery of the U.S. economy may impact the economy of Mexico. In 2009, the gross domestic product of the United States contracted by 3.5% while Mexican gross domestic product fell by 6.2%. This recession caused unemployment to increase from an average of 5.8% in 2008 to an average of 9.3% in 2009 in the United States and from 4.3% in September 2008 to 6.4% in September 2009 in Mexico. This sudden change in economic conditions reduced credit demand, caused a 32.8% depreciation of the peso from September 2008 to March 2009 and triggered a monetary policy response by the Mexican Central Bank that resulted in lower interest rates, which dropped to 4.5% in December 2009 from its December 2008 level of 8.0%. These changes in macroeconomic conditions in Mexico did not have a material impact on our business or operations. However, we cannot assure you that any developments in the United States or elsewhere will not materially and adversely affect us in the future.

During 2011 and the first half of 2012, the developments in the global economy, and particularly in Europe, have increased the risk premiums in global credit markets, which in turn have generated volatility in the Mexican financial markets. Given the transitory nature of such volatility, due to several measures taken by the European authorities, the Mexican economy has not been materially affected by it. In turn, these developments in Europe have not had a material impact on us. However, if the risks associated with the developments in Europe increase, these developments could have a material adverse effect on us. We cannot assure you that the events in the Europe or elsewhere will not materially and adversely affect us in the future.

The recent increase in violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy and could have a material adverse effect on us.

Mexico has experienced a significant increase over the past few years in violence relating to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border. This increase in violence has had an adverse impact on the economic activity in Mexico generally. Also, social instability in Mexico or adverse social or political developments in or affecting Mexico could adversely affect us, our ability to conduct our business and offer our services and our ability to obtain financing. We cannot assure you that the levels of violent crime in Mexico, over which we have no control, will not increase or decrease and will have no further adverse effects on Mexico's economy or on us.

Furthermore, illegal activities have resulted in more detailed and comprehensive anti-money laundering rules and an increased supervision of such activities by Mexican regulators, which have impacted the way in which we conduct our foreign-currency cash business and have resulted in an enhancement of our systems and the reinforcement of our compliance measures. Our failure to detect and report anti-money laundering activities may result in fines and may have an impact on our business and results of operations.

Our corporate disclosure may differ from disclosure regularly published by issuers of securities in other countries, including the United States.

Issuers of securities in Mexico are required to make public disclosures that are different from, and that may be reported under presentations that are not consistent with, disclosures required in countries with more developed capital markets, including the United States. In addition, accounting and other reporting principles and standards for credit and other financial institutions in Mexico and the financial results reported using such principles and standards may differ substantially from those results that would have been obtained using other principles and standards, such as U.S. GAAP. See "Annex A: Summary of Certain Differences Between Mexican Banking GAAP and U.S. GAAP." Accordingly, the information about us available to you will not be the same as the information available to holders of securities of a U.S. company and may be reported in a manner that you are not familiar with.

Risks Relating to our Notes

The Notes will be effectively subordinated to our secured debt, our subsidiaries' indebtedness and other liabilities and to certain claims preferred by statute.

Our obligations under the Notes are unsecured. Banks in Mexico are not allowed to post security except for (i) derivative transactions, (ii) obligations in favor of the Mexican Central Bank, Mexican development banks, public trusts incorporated by the Mexican government for economic promotion and IPAB, and (iii) specific cases expressly authorized by the CNBV. We currently have engaged in no secured obligations, except for derivative transactions. The Notes will be effectively subordinated to all of our secured debt to the extent of the value of the collateral securing such debt. In the event that we are not able to repay amounts due under such secured debt obligations, creditors could proceed against the collateral securing such indebtedness. In that event, any proceeds upon a realization of the collateral would be applied first to amounts due under the secured debt obligations before any proceeds would be available to make payments on the Notes. If there is a default, the value of this collateral may not be sufficient to repay both our secured creditors and the holders of the Notes. The Notes will also rank effectively junior to all of our subsidiaries' indebtedness and other liabilities. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of holders of the Notes to participate in those assets would be effectively subordinated to the claims of those subsidiaries' creditors, including trade creditors. Additionally, the claims of holders of the Notes will rank effectively junior to certain obligations that are preferred by statute, including certain claims relating to taxes and labor.

The Notes are subject to redemption in the event of changes affecting the taxation of the Notes and at any time at our option.

Upon the occurrence and continuation of certain specified changes affecting taxation of the Notes of a particular series, as described under "Description of Notes—Redemption—Withholding Tax Redemption," we will have the option under the indenture for the Notes to redeem the Notes, at any time prior to the Maturity Date, in whole (but not in part). In addition, the Notes are redeemable, in whole or in part, at any time prior to the Maturity Date at our option, as described under "Description of Notes—Redemption—Optional Redemption."

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

The rating of the Notes addresses the likelihood of payment of principal at their maturity. The rating also addresses the timely payment of interest on each payment date. The rating of the Notes is not a recommendation to purchase, hold or sell the Notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure you that the rating of the Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. A downgrade in or withdrawal of the rating of the Notes will be an event of default under the indenture. An assigned rating may be raised or lowered depending, among other things, on the respective rating agency's assessment of our financial strength, as well as its assessment of Mexican sovereign risk generally.

The Notes are a new issue of securities for which there is currently no public market and you may be unable to sell your Notes if a trading market for the Notes does not develop.

The offer and sale of the Notes have not been registered under the Securities Act or the securities law of any other jurisdiction and the Notes are being offered and sold only to qualified institutional buyers within the meaning of Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons pursuant to Regulation S under the Securities Act. Application has been made to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. The Notes will constitute a new issue of securities with no established trading market. If a trading market does not develop or is not maintained, holders of the Notes may experience difficulty in reselling the Notes or may be unable to sell them at all. Accordingly, we cannot assure you that an active trading market for the Notes will develop. In addition, in the event there are changes in the listing requirements, we may conclude that continued listing on the Luxembourg Stock Exchange is unduly burdensome.

Even if a market develops, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. The initial purchasers have informed us that they may make a market in the Notes. However, the initial purchasers are not obligated to do so and any such market-making activity may be terminated at any time without notice to you. In addition, such market-making activity will be subject to restrictions under the Securities Act. Accordingly, we cannot assure you as to the development or liquidity of any market for the Notes. If an active trading market 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 upon prevailing interest rates, the market for similar securities, general economic conditions, our performance and business prospects and other factors.

The Notes are subject to certain transfer restrictions.

The Notes are being offered in reliance upon an exemption from registration under the Securities Act. Therefore, the Notes may be transferred or resold only in a transaction registered under or exempt from the registration requirements of the Securities Act and in compliance with any other applicable securities law. We do not intend to provide registration rights to holders of the Notes and do not intend to file any registration statement with the SEC in respect of the Notes. See "Transfer Restrictions."

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

We and all of our subsidiaries are organized under the laws of Mexico. Our directors, officers and controlling persons reside outside of the United States. In addition, all or a substantial portion of our assets and their assets are located outside of the United States. Although we have appointed an agent for service of process in any action against us in the United States under the indenture or the Notes, none of our directors, officers or controlling persons has consented to service of process in the United States or to the jurisdiction of any United States court. As a result, it may be difficult for investors to effect service of process within the United States on such persons.

Additionally, investors may experience difficulty in Mexico enforcing foreign judgments obtained against us and our executive officers, directors and controlling persons, including in any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of our Mexican counsel, there is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws. See "Enforcement of Civil Liabilities."

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

Under the Mexican Monetary Law (*Ley Monetaria de los Estados Unidos Mexicanos*), if proceedings are brought in Mexico seeking to enforce in Mexico our obligations under the Notes, we would not be required to discharge such obligations in Mexico in a currency other than Mexican currency. Pursuant to the Mexican Monetary Law, an obligation that is payable in Mexico in a currency other than Mexican currency, whether by agreement or as a result of the enforcement of a judgment, may be satisfied in Mexican currency at the rate of exchange in effect on the date and in the place payment occurs. Such rate currently is determined by the Mexican Central Bank every business banking day in Mexico and published the following business banking day in the Official Gazette of the Federation. Accordingly, we will be legally entitled to make payment of amounts due on the Notes in pesos, if payment of the Notes is sought in Mexico through the enforcement of a non-Mexican judgment or otherwise. If we elect to make payments due on the Notes in pesos in accordance with the Mexican Monetary Law, we cannot assure you that the amounts paid may be converted into U.S. dollars or that, if converted, such amounts would be sufficient to purchase U.S. dollars equal to the amount of principal, interest or additional amounts due on the Notes.

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

Under the Mexican Bankruptcy Law (*Ley de Concursos Mercantiles*), upon our declaration of insolvency (*concurso mercantil*) or bankruptcy *(quiebra*), our obligations under the Notes:

- would be converted into pesos at the exchange rate published by the Mexican Central Bank prevailing at the time such declaration is deemed effective and subsequently converted into UDIs;
- would be dependent upon the outcome of and subject to the priorities recognized in the insolvency (*concurso mercantil*) or bankruptcy (*quiebra*) proceedings;
- would be paid at the time claims of creditors are satisfied;
- would not be adjusted to take into account depreciation of the peso against the U.S. dollar occurring after the declaration of insolvency (*concurso mercantil*) or bankruptcy (*quiebra*); and
- would cease to accrue interest from the day of the date insolvency (*concurso mercantil*) or bankruptcy (*quiebra*) was declared.

In addition, in the event of bankruptcy, Mexican law provides preferential treatment for certain claims, such as those relating to labor, taxes and secured creditors (*acreedores con garantía real*).

Moreover, under Mexican law, it is possible that in the event we are declared bankrupt or become subject to insolvency (*concurso mercantil*), any amount by which the stated principal amount of the Notes exceeds their accreted value may be regarded as not matured, and, therefore, claims of holders of the Notes may only be allowed to the extent of the accreted value of the Notes. There is no legal precedent in connection with bankruptcy or insolvency (*concurso mercantil*) in Mexico on this point, and, accordingly, it is uncertain how a Mexican court would measure the value of claims of holders of the Notes.

USE OF PROCEEDS

Our net proceeds from the issuance and sale of the Notes, after paying initial purchasers' fees and commissions but excluding expenses related to the offering, are estimated to be approximately U.S.$977.6 million. We intend to use the net proceeds from the offering to extend the duration of our liabilities and to partly or entirely refinance indebtedness maturing in the first half of 2013, which currently is an aggregate of approximately Ps.9,700 million.

EXCHANGE RATES

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

The following tables set forth, for the periods indicated, the low, high, average and period-end exchange rates expressed in pesos per U.S. dollar published by the Mexican Central Bank in the Official Gazette of the Federation as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico. The rates shown below are in nominal pesos and have not been restated in constant currency units. No representation is made that the peso amounts referred to in this offering memorandum could have been or could be converted into U.S. dollars at any particular rate or at all. As of November 16, 2012, the exchange rate for U.S. dollars was Ps.13.2063 per U.S. dollar.

Year	Low	High	Average(1)	Period End
2007	Ps. 10.66	Ps. 11.27	Ps. 10.93	Ps. 10.92
2008	9.92	13.92	11.21	13.83
2009	12.60	15.37	13.57	13.07
2010	12.16	13.18	12.64	12.35
2011	11.50	14.24	12.47	13.95

(1) Average end-of-month exchange rates for 2007, 2008, 2009, 2010 and 2011.

Quarter	Low	High	Average(1)	Period End
First Quarter 2011	Ps. 11.91	Ps. 12.26	Ps. 12.06	Ps. 11.91
Second Quarter 2011	11.50	11.96	11.61	11.72
Third Quarter 2011	11.57	13.89	12.63	13.80
Fourth Quarter 2011	13.11	14.24	13.58	13.95
First Quarter 2012	12.63	13.93	12.87	12.81
Second Quarter 2012	12.73	14.39	13.57	13.41
Third Quarter 2012	12.75	13.68	13.14	12.87

(1) Average end-of-month exchange rates for the quarters ended March 31, 2011, June 30, 2011, September 30, 2011, December 31, 2011, March 31, 2012, June 30, 2012 and September 30, 2012.

Month	Low	High	Average(1)	Period End
November 2011	Ps. 13.39	Ps. 14.24	Ps. 13.70	Ps. 13.61
December 2011	13.48	13.99	13.77	13.95
January 2012	12.93	13.93	13.42	13.01
February 2012	12.65	12.89	12.78	12.79
March 2012	12.63	12.98	12.76	12.81
April 2012	12.73	13.23	13.07	12.99
May 2012	12.96	14.30	13.66	14.30
June 2012	13.41	14.39	13.92	13.41
July 2012	13.12	13.68	13.37	13.28
August 2012	13.07	13.42	13.18	13.26
September 2012	12.75	13.19	12.94	12.87
October 2012	12.70	13.09	12.89	13.09
November 2012 (through November 16)	12.98	13.25	13.14	13.21

(1) Average daily exchange rates for November and December 2011 and January, February, March, April, May, June, July, August, September, October and November (through November 16), 2012.

Unless otherwise indicated, U.S. dollar amounts that have been translated from pesos have been so translated at an exchange rate of Ps.13.4084 to U.S.$1.00, the exchange rate as calculated on June 29, 2012 and reported by the Mexican Central Bank in the Official Gazette of the Federation on July 2, 2012 as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico.

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

CAPITALIZATION

The following table sets forth our actual capitalization under Mexican Banking GAAP as of June 30, 2012, and our capitalization as adjusted to give effect to the issuance of U.S.$1,000,000,000 aggregate principal amount of the Notes offered hereby, as if such issuance had occurred on June 30, 2012. The following table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Use of Proceeds" and our audited and unaudited financial statements and the notes thereto included elsewhere in this offering memorandum.

	As of June 30, 2012			
	Actual	As adjusted	Actual	As adjusted
	(Millions of pesos)		(Millions of U.S.$)(1)	
Long-term indebtedness:				
Notes offered hereby	Ps. —	Ps. 13,408	U.S.$ —	U.S.$ 1,000
Current portion of long-term debt excluding the Notes offered hereby(2)	9,391	9,391	700	700
Long-term debt, less current portion, excluding the Notes offered hereby(3)	12,585	12,585	939	939
Total indebtedness	**21,976**	**35,384**	**1,639**	**2,639**
Shareholders' equity:				
Paid-in capital:				
Capital stock	11,348	11,348	846	846
Share premium	23,450	23,450	1,749	1,749
Other capital:				
Capital reserves	9,401	9,401	701	701
Retained earnings	40,844	40,844	3,046	3,046
Result from valuation of available for sale securities, net	685	685	51	51
Result from valuation of cash flow hedge instruments, net	690	690	51	51
Cumulative effect from conversion	9	9	1	1
Net income	10,111	10,111	754	754
Non-controlling interests	46	46	3	3
Total shareholders' equity	**96,584**	**96,584**	**7,202**	**7,202**
Total indebtedness and shareholders' equity	**Ps. 118,560**	**Ps. 131,968**	**U.S.$ 8,841**	**U.S.$ 9,841**

(1) Converted, for convenience purposes only, using the exchange rate for U.S. dollars of Ps.13.4084 per U.S.$1.00 as calculated on June 29, 2012 and reported by the Mexican Central Bank in the Official Gazette of the Federation on July 2, 2012 as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico.

(2) Consists of structured bank bonds (*bonos bancarios estructurados*), unsecured bonds (*certificados bursátiles bancarios*) and promissory notes with interest payable at maturity (*certificados de depósito bancario de dinero a plazo*), all of which are unsecured. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Long-term Funding Outstanding."

(3) Consists of structured bank bonds (*bonos bancarios estructurados*), which are unsecured, and unsecured bonds (*certificados bursátiles bancarios*). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Long-term Funding Outstanding."

Our issued share capital consists of 67,792,912,762 series F shares, par value Ps.0.10 per share, and 13,062,491,041 series B shares, par value Ps.0.10 per share, all of which are fully paid.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The tables below present selected financial and operating data from our financial statements for the periods indicated and should be read in conjunction with, and are qualified in their entirety by, our financial statements and related notes appearing elsewhere in this offering memorandum.

We have derived our selected statement of income data for the years ended December 31, 2009, 2010 and 2011 and our selected balance sheet data as of December 31, 2009, 2010 and 2011 from our audited financial statements for the years ended December 31, 2009, 2010 and 2011 and as of December 31, 2009, 2010 and 2011 included elsewhere in this offering memorandum. Our audited financial statements have been prepared on a consolidated basis in accordance with Mexican Banking GAAP, which differs in certain respects from Mexican GAAP (see note 3 to our audited financial statements included elsewhere in this offering memorandum) and U.S. GAAP. See "Annex A: Summary of Certain Differences Between Mexican Banking GAAP and U.S. GAAP."

We have derived our selected statement of income data for the six months ended June 30, 2011 and 2012 and our selected balance sheet data as of June 30, 2012 from our unaudited condensed consolidated interim financial statements included in this offering memorandum, which have been prepared in accordance with Mexican Banking GAAP. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the remainder of the year ended December 31, 2012 or any future reporting period. See "Presentation of Financial and Other Information."

We have derived our selected statement of income data for the years ended December 31, 2007 and 2008 and our selected balance sheet data as of December 31, 2007 and 2008 from our audited financial statements for the years ended December 31, 2007 and 2008 and as of December 31, 2007 and 2008 prepared on a consolidated basis in accordance with Mexican Banking GAAP, which are not included in this offering memorandum.

Beginning on January 1, 2008, we were no longer required by Mexican Banking GAAP to recognize the effects of inflation in our financial statements. Accordingly, our financial information through December 31, 2007 is stated in pesos in purchasing power as of December 31, 2007. The financial information as of December 31, 2008, 2009, 2010 and 2011 and June 30, 2012, and the financial information for the years ended December 31, 2008, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, are not directly comparable to prior periods due to the recognition of inflation effects in financial information in prior periods. Our financial information for the years ended December 31, 2008, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 maintained the inflation adjustments recognized in prior years in our consolidated shareholders' equity, and the inflation-adjusted amounts for non-monetary assets and liabilities at December 31, 2007 became the accounting basis for those assets and liabilities beginning on January 1, 2008 and for subsequent periods.

You should read the following selected financial and other data in conjunction with "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this offering memorandum. Our historical results are not necessarily indicative of our results for any future period.

For limited information for the quarter ended and the nine months ended September 30, 2012, see "Summary—Recent Developments" in this offering memorandum.

	For the year ended December 31,					For the six months ended June 30,		
	2007(1)	2008(1)	2009	2010	2011	2011	2012	2012
	(Millions of constant Ps. as of December 31, 2007)	(Millions of pesos)				(Millions of pesos)		(Millions of U.S.$)(2)
CONSOLIDATED STATEMENT OF INCOME (Mexican Banking GAAP)								
Interest income	57,145	59,443	45,934	39,626	46,885	21,656	27,298	2,036
Interest expense	(29,371)	(28,929)	(18,772)	(13,411)	(18,172)	(8,162)	(10,893)	(812)
Monetary loss, net(3)	(1,749)	0	0	0	0	0	0	0
Financial margin	**26,025**	**30,514**	**27,162**	**26,215**	**28,713**	**13,494**	**16,405**	**1,224**
Provisions for loan losses	(7,662)	(15,832)	(15,320)	(8,425)	(6,556)	(3,435)	(3,962)	(295)
Financial margin after provisions for loan losses	**18,363**	**14,682**	**11,842**	**17,790**	**22,157**	**10,059**	**12,443**	**929**
Commission and fee income	11,565	11,788	10,043	10,076	11,303	5,466	6,465	482
Commission and fee expense	(3,767)	(3,106)	(2,438)	(1,770)	(1,998)	(892)	(1,160)	(87)
Net gain (loss) on financial assets and liabilities	(3,232)	(640)	7,266	3,954	834	912	749	56
Other operating income (expense)	708	38	673	54	1,177	559	2,731	204
Administrative and promotional expenses	(14,381)	(15,765)	(15,096)	(15,380)	(17,382)	(7,922)	(8,651)	(645)
Total operating income	**9,256**	**6,997**	**12,290**	**14,724**	**16,091**	**8,182**	**12,577**	**939**
Equity in results of associated companies	35	47	89	27	69	40	34	3
Income from continuing operations before income taxes	**9,291**	**7,044**	**12,379**	**14,751**	**16,160**	**8,222**	**12,611**	**942**
Current income taxes	(3,946)	(1,696)	(4,650)	(1,933)	(4,125)	(5,026)	(2,840)	(212)
Deferred income taxes (net)	2,454	2,424	3,421	(318)	1,675	3,257	341	25
Income from continuing operations	**7,799**	**7,772**	**11,150**	**12,500**	**13,710**	**6,453**	**10,112**	**755**
Discontinued operations	3,185	0	34	386	0	0	0	0
Consolidated income before non-controlling interest	**10,984**	**7,772**	**11,184**	**12,886**	**13,710**	**6,453**	**10,112**	**755**
Non-controlling interest	(1)	(4)	(2)	(2)	(10)	(6)	(1)	0
Net income	**10,983**	**7,768**	**11,182**	**12,884**	**13,700**	**6,447**	**10,111**	**755**

(1) In 2010, we sold to Elavon the rights to certain revenues generated by point-of-sale terminals and title to certain assets used in connection with these point-of-sale terminals. We have presented the revenues and associated costs generated by these point-of-sale terminals as "Discontinued operations" in 2009 and 2010, but we have not included them in "Discontinued operations" in 2007 and 2008.

(2) Translated into U.S. dollars, for convenience purposes only, using the exchange rate of Ps.13.4084 per U.S.$1.00 as calculated on June 29, 2012 and reported by the Mexican Central Bank in the Official Gazette of the Federation on July 2, 2012 as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico.

(3) Beginning on January 1, 2008, we were no longer required by Mexican Banking GAAP to recognize the effects of inflation in our consolidated statement of income. See "Presentation of Financial and Other Information—General."

	As of December 31,					As of June 30,	
	2007	2008	2009	2010	2011	2012	2012
	(Millions of constant Ps. as of December 31, 2007)	(Millions of pesos)				(Millions of pesos)	(Millions of U.S.$)(1)
CONSOLIDATED BALANCE SHEETS (Mexican Banking GAAP)							
Assets:							
Funds available	63,718	134,366	78,144	102,141	84,862	96,468	7,195
Margin accounts	4,994	7,398	3,025	7,812	7,910	3,825	285
Investment in securities	211,619	185,776	180,116	204,206	221,930	262,894	19,607
Debtors under sale and repurchase agreements	6,484	405	12,890	10,834	4,602	5,832	435
Derivatives	31,923	77,189	78,528	97,815	85,980	87,860	6,553
Valuation adjustment for hedged financial assets	89	12	19	8	122	220	16
Total loan portfolio	218,499	229,662	207,737	227,556	313,673	338,905	25,276
Allowance for loan losses	(5,735)	(9,926)	(11,368)	(10,254)	(11,191)	(11,101)	(828)
Loan portfolio (net)	212,764	219,736	196,369	217,302	302,482	327,804	24,448
Other receivables (net)	24,398	28,279	15,669	19,399	13,355	35,962	2,682
Foreclosed assets (net)	153	171	180	163	253	196	15
Property, furniture and fixtures (net)	5,640	5,875	5,628	5,481	5,604	3,771	281
Long-term investment in shares	402	363	395	109	139	99	7
Deferred taxes (net)	0	1,886	5,804	5,083	8,058	8,522	636
Other assets (net)	1,587	1,894	2,124	2,129	3,766	3,837	286
Discontinued operations	0	0	55	0	0	0	0
Total assets	**563,771**	**663,350**	**578,946**	**672,482**	**739,063**	**837,290**	**62,446**
Liabilities:							
Deposits(2)	247,438	302,723	243,808	276,854	315,643	330,892	24,678
Credit instruments issued	0	1,182	1,305	6,237	21,676	21,878	1,632
Bank and other loans	4,740	21,655	9,745	18,863	19,554	24,804	1,850
Creditors under sale and repurchase agreements	165,659	131,370	130,509	114,254	122,901	170,121	12,688
Collateral sold or pledged as guarantee	9,590	4,670	9,479	21,299	15,478	18,766	1,400
Derivatives	29,755	83,452	76,022	91,048	90,497	87,960	6,560
Subordinated debentures outstanding	3,309	4,183	3,933	0	0	0	0
Other payables, deferred revenues and other advances	40,812	46,172	33,053	64,659	61,604	86,285	6,435
Deferred taxes (net)	684	0	0	0	0	0	0
Discontinued operations	0	0	0	0	0	0	0
Total liabilities	**501,987**	**595,407**	**507,854**	**593,214**	**647,353**	**740,706**	**55,243**
Total shareholders' equity	**61,784**	**67,943**	**71,092**	**79,268**	**91,710**	**96,584**	**7,203**
Total liabilities and shareholders' equity	**563,771**	**663,350**	**578,946**	**672,482**	**739,063**	**837,290**	**62,446**

(1) Translated into U.S. dollars, for convenience purposes only, using the exchange rate of Ps.13.4084 per U.S.$1.00 as calculated on June 29, 2012 and reported by the Mexican Central Bank in the Official Gazette of the Federation on July 2, 2012 as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico.

(2) Equal to the sum of demand deposits and time deposits.

SELECTED RATIOS AND OTHER DATA

The selected financial data and ratios presented below have been derived from and should be read in conjunction with our audited financial statements included elsewhere in this offering memorandum and the other financial information contained in this offering memorandum.

	As of and for the year ended December 31,		As of and for the six months ended June 30,	
	2010	2011	2011	2012
	(Millions of pesos or percentages, except per share, branch and employee data)			
Profitability and performance				
Net interest margin(1)	5.88%	5.06%	5.14%	4.83%
Total margin(2)	7.75%	6.70%	6.89%	6.39%
Return on average total assets (ROAA)(3)	2.48%	2.06%	2.13%	2.60%
Return on average shareholders' equity (ROAE)(4)	16.50%	16.18%	16.18%	22.45%
Efficiency ratio(5)	39.92%	43.42%	40.54%	34.34%
Net commission and fee income as a percentage of administrative and promotional expenses(6)	54.01%	53.53%	57.74%	61.32%
Yield on average interest-earning assets	8.89%	8.26%	8.25%	8.04%
Average cost of interest-bearing liabilities	3.81%	3.80%	3.69%	3.91%
Net interest spread	5.08%	4.46%	4.57%	4.13%
Common stock dividend payout ratio(7)	n/a	55.56%	n/a	n/a
Average interest-earning assets	445,622	567,361	524,840	679,153
Average interest-bearing liabilities	351,551	478,044	442,967	556,672
Capital adequacy				
Net tangible book value	77,408	88,274	81,207	93,193
Net tangible book value per share	0.99	1.13	1.04	1.17
Average shareholders' equity as a percentage of average total assets	15.02%	12.75%	13.14%	11.58%
Total capital	69,792	73,144	71,558	75,107
Tier 1 capital	68,703	71,674	70,177	73,579
Tier 1 capital to risk-weighted assets	15.31%	14.53%	14.53%	14.33%
Total capital to risk-weighted assets(8)	15.56%	14.82%	14.82%	14.63%
Asset quality				
Non-performing loans as a percentage of total loans(9)	1.68%	1.69%	2.33%	1.46%
Non-performing loans as a percentage of computable credit risk(9)(10)	1.53%	1.56%	2.18%	1.36%
Loan charge-offs as a percentage of average total loans	4.66%	3.31%	2.79%	2.31%
Loan charge-offs as a percentage of computable credit risk(10)	3.81%	2.64%	2.28%	2.00%
Allowance for loan losses as a percentage of average total loans	5.01%	4.12%	5.09%	3.53%
Allowance for loan losses as a percentage of non-performing loans(9)(11)	268.57%	210.52%	190.46%	224.13%
Allowance for loan losses as a percentage of loan charge-offs(11)	107.53%	124.59%	182.19%	153.03%
Allowance for loan losses as a percentage of total loans(11)	4.51%	3.57%	4.44%	3.28%
Liquidity				
Liquid assets as a percentage of deposits(12)	101.53%	93.42%	106.60%	104.18%
Loan portfolio (net) as a percentage of deposits(13)	78.49%	95.83%	92.63%	99.07%
Total loan portfolio as a percentage of total funding(14)	54.67%	65.38%	56.56%	61.88%
Deposits as a percentage of total funding(13)(14)	66.52%	65.79%	58.35%	60.42%
Operations				
Branches	1,073	1,097	1,073	1,097
Employees (full-time equivalent)	11,579	12,151	11,989	12,224

(1) Net interest margin is defined as financial margin (which includes income from equity investments) divided by average interest-earning assets, which are loans, receivables, debt instruments and other financial assets which yield interest or similar income.

(2) Total margin is defined as financial margin (which includes income from equity investments) plus commission and fee income (net) over average interest-earning assets.

(3) Calculated based upon the average daily balance of total assets.

(4) Calculated based upon the average daily balance of shareholders' equity.

(5) Efficiency ratio is defined as administrative and promotional expenses, which includes depreciation and amortization, divided by total income.

(6) Net commission and fee income divided by administrative and promotional expenses, which includes depreciation and amortization.

(7) Dividends paid per share divided by net income per share.

(8) Tier 1 plus Tier 2 capital divided by total risk-weighted assets, calculated according to the Mexican Capitalization Requirements.

(9) Non-performing loans include (i) all credits past due by more than (x) 30 days, in the case of single-payment loans, (y) 60 days, in the case of revolving loans (including consumer loans and credit cards), and (z) 90 days, in the case of periodic-payment loans (including non-revolving consumer loans, mortgages and commercial loans), and (ii) all loans to debtors that are declared insolvent under the Mexican Bankruptcy Act (*Ley de Concursos Mercantiles*). See "Supervision and Regulation—Classification of Loans and Allowance for Loan Losses."

(10) Computable credit risk is the sum of the face amounts of total loan portfolio (including non-performing loans), guarantees and documentary credits. When guarantees or documentary credits are contracted, we book them as off-balance sheet accounts. As of the date we make the payment to the beneficiary, we claim the payment from the solicitor (i.e., the debtor in the case of a guarantee or the buyer in the case of a documentary credit). The account becomes non-performing as of the date when the payment was due if we do not receive payment from the solicitor on that date. We maintain the account as a non-performing loan until recovery or, in the case of practical impossibility for recovery (e.g., when the creditor is declared bankrupt or upon the death of a creditor who is a natural person), until our Comprehensive Risk Management Committee decides to charge off the account. Such decision is at the discretion of our Comprehensive Risk Management Committee.

(11) Allowance for loan losses were Ps.10,254 million and Ps.11,191 million as of December 31, 2010 and 2011, respectively. Allowance for loan losses were Ps.12,892 million and Ps.11,101 million as of June 30, 2011 and 2012, respectively.

(12) Liquid assets include funds available, margin accounts and debt instruments issued by the Mexican government and by the Mexican Central Bank, both recorded at market prices. We believe we could obtain cash for our liquid assets immediately, although under systemic stress scenarios, we would likely be subject to a discount to the face value of these assets. As of December 31, 2010 and 2011, we had a total amount of liquid assets of Ps.281,089 million and Ps.294,871 million, respectively. For the years ended December 31, 2010 and 2011, the average amounts outstanding were Ps.217,814 million and Ps.243,800 million, respectively. As of June 30, 2011 and 2012, we had a total amount of liquid assets of Ps.319,430 million and Ps.344,711 million, respectively. For the six months ended June 30, 2011 and 2012, the average amounts outstanding were Ps.229,182 million and Ps.303,762 million, respectively.

As of December 31, 2010, liquid assets were composed of the following: 36.3% funds available (cash at our branches and ATMs, the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit), over-the-counter margin accounts and foreign currency purchase-sale transactions settled in 24 to 48 hours); 2.8% margin accounts for collateral submitted on derivative transactions in organized markets; 37.8% debt instruments issued by the Mexican government; and 23.1% debt instruments issued by the Mexican Central Bank. As of June 30, 2011, liquid assets were composed of the following: 32.8% funds available (cash at our branches and ATMs, the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit), over-the-counter margin accoutns and foreign currency purchase-sale transactions settled in 24 to 48 hours); 2.6% margin accounts for collateral submitted on derivative transactions in organized markets, 44.8% debt instruments issued by the Mexican government; and 19.8% debt instruments issued by the Mexican Central Bank.

As of December 31, 2011, liquid assets were composed of the following: 28.8% funds available (cash at our branches and ATMs, the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit), over-the-counter margin accounts and foreign currency purchase-sale transactions settled in 24 to 48 hours); 2.7% margin accounts for collateral submitted on derivative transactions in organized markets; 44.8% debt instruments issued by the Mexican government; and 23.7% debt instruments issued by the Mexican Central Bank. As of June 30, 2012, liquid assets were composed of the following: 28.0% funds available (cash at our branches and ATMs, the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit), over-the-counter margin accounts and foreign currency purchase-sale transactions settled in 24 to 48 hours); 1.1% margin accounts for collateral submitted on derivative transactions in organized markets; 44.0% debt instruments issued by the Mexican government; and 26.9% debt instruments issued by the Mexican Central Bank.

(13) For the purpose of calculating this ratio, the amount of deposits includes the sum of demand deposits and time deposits.

(14) For the purpose of calculating this ratio, the amount of total funding comprises demand deposits, time deposits, creditors under sale and repurchase agreements, credit instruments issued and bank and other loans.

For December 31, 2010 and 2011, our demand and time deposits and creditors under sale and repurchase agreements amounted to Ps.391,109 million and Ps.438,544 million, respectively, and our credit instruments issued and bank and other loans amounted to Ps.25,100 million and Ps.41,230 million, respectively.

For June 30, 2011 and June 30, 2012, our demand deposits and time deposits and creditors under sale and repurchase agreements amounted to Ps.472,816 million and Ps.501,013 million, respectively, and our credit instruments issued and bank and other loans amounted to Ps.40,711 million and Ps.46,682 million, respectively.

Reclassified Statement of Income Data

On January 27, 2011, the CNBV issued certain changes to Mexican Banking GAAP. The objective of these changes is to achieve greater consistency with MFRS and IFRS, as adopted by the IASB.

These changes include the following modifications to the presentation and classification of certain line items in the statement of income, beginning as of January 1, 2011:

- The line item "other income (expenses), net" is combined with "other operating income (expense)."
- Certain items previously reported as "administrative and promotional expenses" are reclassified to "other operating income (expense)."
- The line item "equity in results of associated companies" is moved up in the statement of income to above "income from continuing operations before income taxes."

Our audited financial statements for the years ended December 31, 2009 and 2010 have been reclassified with the objective of making them comparable to our audited financial statements for the year ended December 31, 2011 and our unaudited condensed consolidated interim financial statements for the six months ended June 30, 2012, which we have prepared in accordance with Mexican Banking GAAP. In addition, the summary and selected statement of income data corresponding to the years ended December 31, 2007, 2008, 2009 and 2010 included in this offering memorandum have been reclassified to reflect these changes in presentation and classification and thereby facilitate comparison of amounts across periods. As a result, our selected statement of income data for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 presented in this section and our audited financial statements for the years ended December 31, 2009, 2010 and 2011 and unaudited condensed consolidated interim financial statements for the six months ended June 30, 2011 and 2012 appearing elsewhere in this offering memorandum reflect the changes described above.

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

This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors" and the matters set forth in this offering memorandum generally.

The following discussion is based on, and should be read in conjunction with, our financial statements and related notes contained elsewhere in this offering memorandum. Our audited financial statements as of and for the years ended December 31, 2010 and 2011 and our unaudited condensed consolidated interim financial statements as of June 30, 2012 and for the six months ended June 30, 2011 and 2012 have been prepared in accordance with Mexican Banking GAAP. Mexican Banking GAAP differs in certain respects from MFRS currently in effect as issued by the Mexican Board of Financial Reporting Standards, which is the body responsible for determining Mexican accounting principles applicable to non-bank Mexican issuers. For a summary of certain differences between Mexican Banking GAAP and MFRS, see note 3 to our audited financial statements included elsewhere in this offering memorandum. Mexican Banking GAAP also differs in certain respects from U.S. GAAP and SEC guidelines applicable to banking institutions in the United States. For a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP, see "Annex A: Summary of Certain Differences Between Mexican Banking GAAP and U.S. GAAP." No reconciliation of any of our financial statements to U.S. GAAP has been prepared for this offering memorandum. Any such reconciliation could result in material quantitative differences. See "Presentation of Financial and Other Information."

Overview

We are a corporation (*sociedad anónima*) authorized to operate as a multiple-purpose banking institution (*institución de banca múltiple*) under the Mexican Banking Law (*Ley de Instituciones de Crédito*). We are the second largest multi-purpose bank in Mexico based on net income, the third largest multi-purpose bank in Mexico based on total assets and the fourth largest multi-purpose bank in Mexico based on loans and deposits as of June 30, 2012, according to information published by the CNBV. We provide a wide range of financial and related services, primarily in Mexico, including peso- and foreign currency-denominated loans to finance a variety of commercial transactions, trade, foreign currency forward contracts and credit lines and a variety of retail banking services, including mortgage financing and credit cards. We also seek to offer our customers a wide range of products while providing high levels of service. In addition to our traditional banking operations, we offer a variety of ancillary financial services including financial leasing, financial advisory services, insurance brokerage and investment management. For the six months ended June 30, 2012, we had net income of Ps.10.1 billion (U.S.$0.8 billion), and as of June 30, 2012, we had total assets of Ps.837.3 billion (U.S.$62.4 billion), total loans net of allowance for loan losses of Ps.327.8 billion (U.S.$24.4 billion), total deposits of Ps.330.9 billion (U.S.$24.7 billion) and shareholders' equity of Ps.96.6 billion (U.S.$7.2 billion). As of June 30, 2012, we employed 12,224 people and had 1,097 branches located throughout Mexico. Our headquarters are located in Mexico City, Distrito Federal, and we operate in every state in Mexico.

We offer a differentiated financial services platform in Mexico focused on the client segments that we believe are most profitable, such as high- and mid-income individuals and small and medium-sized enterprises, or "SMEs," while also providing integrated financial services to low-income individuals, as well as to medium and large companies in Mexico. We began to implement our client segmentation strategy in 2008 through the development of our information technology systems, product offerings, distribution channels and internal practices.

Principal Factors Affecting Us

All of our operations are located in Mexico. Consequently, our results of operations and our financial condition are strongly affected by the general economic environment and political conditions existing in Mexico.

Economic Environment

During 2009, the world economy experienced its sharpest decline in decades. Given its important commercial ties with the economy of the United States, Mexico suffered the sharpest decline in its GDP since 1932, with an annual GDP growth rate of (6.2)%. The deep deterioration of external demand in 2009 caused a drastic decline in Mexican exports linked to key sectors such as manufacturing. The Mexican financial system was affected by considerable volatility of the economy in general. In addition, during the second quarter of 2009, the A/H1N1 influenza outbreak temporarily affected economic activity in several sectors, especially those related to tourism and leisure. The economic slowdown, as well as the decline in global food and energy prices, caused inflation pressures to ease.

In 2010, economic activity recovered from the lows observed in 2009, mainly driven by a sharp rebound in external demand. GDP growth was 5.5% in 2010, with broad recoveries in all sectors, particularly in the manufacturing and services sectors. Manufacturing increased 10.0%, while electricity, water and gas supply sectors grew 10.3% in real annual terms in the same period. Headline inflation reached 4.4% for the year, slightly above the Mexican Central Bank’s long-term objective of 3.0%. The consequences of the worldwide financial crisis that began in 2008 continued to affect our operating performance during the first half of 2010. Specifically, write-offs related to our credit card business were made during this period, while low interest rates had an adverse impact on our financial margins. However, as the Mexican economy strengthened in the second half of 2010, business conditions improved in Mexico.

In 2011, the Mexican economy continued to grow. Mexico’s GDP grew 3.9 %, with strong growth rates in the industrial and services sectors. Manufacturing increased 5.2 % in 2011 compared to 2010, while construction increased by 4.9% during 2011. At the same time, headline inflation decreased slightly to 3.8% for the year compared to 4.4% in 2010. In April 2011, the peso strengthened to levels not reached since October 2008. However, global uncertainty increased volatility in the foreign exchange market.

During the first half of 2012, the Mexican economy continued to grow. Mexico’s GDP grew 4.3% on an annualized basis, with particularly strong growth rates in agricultural activities at 7.6% during the period. Service activities grew 4.4% in the first half of 2012 compared to the first half of 2011, driven partially by financial services and insurance which increased by 12.3% during the same period. At the same time, headline inflation remained stable during the first and second quarter of 2012 at 3.9% on an annualized basis. The peso strengthened slightly during the first half of the year. However, global uncertainty continues to increase volatility in the foreign exchange market. For more detailed information on the Mexican economy, see “Business—Market Opportunity—Stable economy with high potential.”

Recent Trends Affecting Us

The Mexican financial services sector is likely to remain competitive with a large number of financial services providers and alternative distribution channels. Additionally, further consolidation in the sector (through mergers, acquisitions or alliances) is likely to occur as other major banks look to increase their market share, combine with complementary businesses or strengthen their balance sheets. In addition, regulatory changes will take place in the future that we expect will increase the overall level of regulation in the sector.

The following are the most important trends, uncertainties and events that are reasonably likely to have a material adverse effect on us or that would cause the disclosed financial information not to be indicative of our future operating results or our financial condition:

- uncertainties relating to economic growth expectations and interest rate cycles in Mexico and continued instability and volatility in the financial markets, and the impact they may have over the yield curve and exchange rates;
- the resulting effect of the global economic slowdown on the United States and Europe and fluctuations in local interest and exchange rates;
- changes in the credit quality of our loan portfolio as a result of inorganic or organic growth;
- increases in our cost of funding could adversely affect our financial margin as a consequence of timing differences in the repricing of our assets and liabilities;
- increased competition may lead to tightening of our margins;

- inflationary pressures that may lead to increases in interest rates and decreases in growth;
- acquisitions or restructurings of businesses that do not perform in accordance with our expectations or that subject us to previously unknown risks; and
- increased regulation, government intervention and new laws prompted by the global financial crisis which could change our industry and require us to modify our businesses or operations.

The Mexican economy continues to be influenced by the U.S. economy, and therefore, the deterioration of the United States' economy or delays in recovery of the U.S. economy may impact the economy of Mexico. In 2009, the gross domestic product of the United States contracted by 3.5% while Mexican gross domestic product fell by 6.2%. This recession caused unemployment to increase from an average of 5.8% in 2008 to an average of 9.3% in 2009 in the United States and from 4.3% in September 2008 to 6.4% in September 2009 in Mexico. This sudden change in economic conditions reduced credit demand, caused a 32.8% depreciation of the peso from September 2008 to March 2009 and triggered a monetary policy response by the Mexican Central Bank that resulted in lower interest rates, which dropped to 4.5% in December 2009 from its December 2008 level of 8.0%. The continued adverse effects of the U.S. economic slowdown on gross domestic product, unemployment, credit demand, exchange rates and interest rates in Mexico are reasonably likely to have a material adverse effect on our financial condition and results of operations. In addition, during 2011 and the first half of 2012, the developments in Europe have increased the risk premiums in global credit markets, which in turn have generated volatility in the Mexican financial markets. Given the transitory nature of such volatility, due to several measures taken by the European authorities, the Mexican economy has not been materially affected by it. However, if the risks associated with the developments in Europe increase, the Mexican economy and its financial sector could be adversely affected, which, in turn, could adversely affect our business and results of operations.

Effects of Changes in Interest Rates

During 2009, the performance of financial markets in Mexico was affected by global factors and benefitted from the rally in risky assets that began in March. However, Mexico's close ties with the economy of the United States, along with uncertainties on the fiscal front, caused a negative differentiation of Mexican financial variables, particularly the peso, which appreciated to a significantly lesser extent against the U.S. dollar relative to most other currencies. In the face of the sharpest economic recession since 1995, the Mexican Central Bank reduced interest rates to 4.5%, taking real rates to a negative level for the first time in an easing monetary policy cycle. The 28-day *Cetes* rate ranged between 4.5% and 7.9%, with an average interest rate of 5.4% for the year.

In 2010, economic activity recovered after the crisis of the previous two years and central banks around the world contributed to the economic recovery with monetary policies that kept interest rates close to zero. Given the fragility of the economic recovery and the situation in the labor markets coming from sharp increases in the prices of commodities, central banks maintained the monetary stimulus in 2010, regardless of inflationary pressures. In this context, the Mexican Central Bank left the interest rate unchanged at 4.5%, a level set in July 2009. The 28-day *Cetes* rate started at 4.5% and by the end of 2010 was at 4.5%, with an average of 4.4% during the year.

In 2011, the Mexican economy continued to recover without experiencing a significant increase in inflation. In this context, monetary authorities in Mexico have not changed the interest rate, which has been 4.5% since July 2009. Short-term interest rates, as measured by the 28-day *Cetes* rate, began 2011 at a level of 4.16% and have remained relatively stable, closing at 4.31% at the end of 2011. The low interest rate environment over the past two years has impacted both our cost of funding and our interest income in different ways depending on the portfolio or activity conducted. The Assets and Liabilities Committee (*Comité de Activos y Pasivos*, or "ALCO") portfolio (which was comprised of fixed rate positions, mainly Mexican sovereign bonds, in addition to fixed rate swaps) provided a hedge against reductions in interest rates, and our sensitivity to a parallel shift of 100 basis points in the interest rate curve at December 31, 2009 was less than 1% of the net interest margin for that year. Similarly, and given that interest rates have remained stable since 2009, we consider the effects of low interest rates on our net interest margin as non-material in 2010 and 2011. Our balance sheet is currently positioned such that increases in interest rates would result in increases in net interest margin. This is reflected in the current levels of NIM consumption which show that a 100 basis point parallel shift in the interest rate curve would result in an increase in the net interest margin. For further detail, see "Risk Management—Market Risk—Market Risk Management Policies—Assets and Liabilities Management (Banking Books)."

Critical Accounting Policies

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

Allowance for Loan Losses

Our allowance for loan losses is maintained in accordance with the rules for the classification and rating of loan portfolios of Mexican banks, or the "Loan Classification and Rating Rules," set forth under the General Rules Applicable to Mexican Banks.

The allowance for loan losses for our commercial loan portfolio is calculated primarily based on the classification of the loans into prescribed categories. To calculate our commercial allowance for loan losses, the Loan Classification and Rating Rules require that we follow a methodology that incorporates an evaluation of the borrower's ability to repay its loan and of the related collateral and guarantees in the loan's rating analysis to estimate a probable loss and define the percentage of necessary allowance for loan losses. The commercial portfolio must be rated every three months.

The determination of the allowance for loan losses for our commercial loan portfolio requires management's judgment. The allowance for loan losses calculation for our commercial loan portfolio that results from using the estimated and prescribed loss percentages may not be indicative of future losses. Differences between the estimate of the allowance for loan losses and the actual loss will be reflected in our financial statements at the time of charge-off.

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

For revolving consumer credit card loans, mortgage loans, non-revolving consumer loans and credits granted to states and municipalities, we consider the type of credit, the estimated probability of default of the borrowers, the severity of the loss associated with the value and nature of the credit's collateral and the exposure to default. As of the date hereof, we believe that our allowance for loan losses is sufficient to cover all known or knowable losses in our portfolio.

Fair Value of Financial Instruments

The balance sheet reflects certain assets and liabilities related to our debt and equity securities and to our derivative financial instruments at their estimated fair value. Such amounts are based on either listed market prices or estimated values derived by utilizing dealer quotes or internally generated modeling techniques. The modeling techniques used are often based on a discounted cash flow analysis that uses, where available, market-based or independently sourced market parameters including yield curves, interest rates, volatilities, equity or debt prices, foreign currency change rates and credit risk curves. Fair value measurements may vary widely depending on the inputs or assumptions incorporated in the valuation methodology. In addition, future settlements or sales of financial instruments will reflect market conditions at the time the transaction is carried out and may differ significantly from the estimated fair values reflected on the balance sheet.

Changes in the fair value of the trading securities, trading derivatives and derivatives in a fair value hedge relationship are recorded to net gain (loss) on financial assets and liabilities.

Changes in the fair value of available-for-sale securities, and the effective portion of changes in the valuation of derivatives in qualifying cash flow hedging relationships, are recorded in a specific line item of shareholders' equity on the balance sheet.

We periodically evaluate whether there is objective evidence that a financial instrument is impaired as of the balance sheet date.

A financial instrument is considered to be impaired and, accordingly, a loss from impairment is incurred if, and only if, there is objective evidence of the impairment as a result of one or more events that took place after the initial recognition of the financial instrument, which had an impact on its estimated future cash flows that can be reliably determined. It is very unlikely that one identified event can be the sole cause of the impairment, and it is more feasible that the combined effect of different events might have caused the impairment. The expected losses as a result of future events are not recognized, regardless of how probable they are of occurring.

Deferred Income Tax Assets

We determine the deferred tax on the temporary differences, tax losses and tax credits, from the initial recognition of the items and at the end of each period. The deferred tax derived from the temporary differences is recognized by using the assets and liabilities method, which compares the accounting and tax values of the assets and liabilities. This comparison produces deductible and taxable temporary differences, which along with tax losses and the tax credit from the undeducted allowance for loan losses, are then multiplied by the tax rate in effect when the temporary differences will reverse, or when the tax benefit carryforward is realized. The amounts for these three items constitute the deferred tax asset or liability recognized.

We recorded a valuation allowance to recognize only the deferred tax asset for which there is a high probability of recovery based on expectations regarding future taxable income.

In developing its estimates regarding projected taxable income, management considers pre-tax income generated in recent years as well as any information currently available about future years.

Employee Retirement Obligations

In accordance with the Federal Labor Law of Mexico (*Ley Federal del Trabajo*), we have obligations for severance benefits, pensions and seniority premiums payable to employees who cease rendering their services under certain circumstances. Our policy is to record the liabilities for severance, seniority premiums, pensions and postretirement medical benefits as they are accrued based on actuarial calculations using the projected unit credit method, applying nominal interest rates.

The determination of our obligation and expense for these benefits is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in the notes to our financial statements and include, among others, the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation costs, as well as expected contributions to the plan. In accordance with Mexican Banking GAAP, actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense and recorded obligation in such future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other post-retirement obligations and future expenses.

Results of Operations for the Six Months Ended June 30, 2012 Compared to the Six Months Ended June 30, 2011

The following table presents our consolidated results of operations for the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

	For the six months ended June 30,			June 2011/ June 2012
	2011	2012	2012	
	(Millions of pesos)		(Millions of U.S. dollars)(1)	(% Change)
Interest income	Ps. 21,656	Ps. 27,298	U.S.$ 2,036	26.05%
Interest expense	(8,162)	(10,893)	(812)	33.46
Financial margin	**13,494**	**16,405**	**1,224**	**21.57**
Provisions for loan losses	(3,435)	(3,962)	(295)	15.34
Financial margin after provisions for loan losses	**10,059**	**12,443**	**929**	**23.70**
Commission and fee income	5,466	6,465	482	18.28
Commission and fee expense	(892)	(1,160)	(87)	30.04
Net gain (loss) on financial assets and liabilities	912	749	56	(17.87)
Other operating income (expense)	559	2,731	204	388.55
Administrative and promotional expenses	(7,922)	(8,651)	(645)	9.20
Total operating income	**8,182**	**12,577**	**939**	**53.72**
Equity in results of associated companies	40	34	3	(15.00)
Income before income taxes	**8,222**	**12,611**	**942**	**53.38**
Current income taxes	(5,026)	(2,840)	(212)	(43.49)
Deferred income taxes (net)	3,257	341	25	(89.53)
Consolidated income before non-controlling interest	**6,453**	**10,112**	**755**	**56.70**
Non-controlling interest	(6)	(1)	0	(83.33)
Net income	**Ps. 6,447**	**Ps. 10,111**	**U.S.$ 755**	**56.83%**

(1) Results for the six months ended June 30, 2012 have been translated into U.S. dollars, for convenience purposes only, using the exchange rate of Ps.13.4084 per U.S.$1.00 as calculated on June 29, 2012 and reported by the Mexican Central Bank in the Official Gazette of the Federation on July 2, 2012 as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico.

Summary

Net income for the six months ended June 30, 2012 was Ps.10,111 million, a 56.83% or Ps.3,664 million increase from Ps.6,447 million for the six months ended June 30, 2011. The increase for the six months ended June 30, 2012 was mainly due to:

- a 21.57% increase in financial margin due primarily to a Ps.18,895 million increase in average volume in our mortgage loan portfolio and a Ps.30,013 million increase in our commercial, financial and industrial loan portfolio for the six months ended June 30, 2012 compared to the same period in 2011;

- an increase in other operating income (expense) of Ps.2,172 million, Ps.1,710 million of which related to the net profit gained from our real estate sale and leaseback transaction with Fibra Uno in April 2012 relating to 220 properties (branches, offices and parking lots). See "Business—Properties"; and

- a 15.98% increase in net income from commissions and fees to Ps.5,305 million, due to an increase in the sale of insurance products in addition to increased net commissions and fees income related to financial advisory services.

These increases were partly offset by (i) an increase in provisions for loan losses of Ps.527 million, or 15.34%, driven primarily by the increase in the average volume of our total performing loan portfolio of 24.09% and (ii) a Ps.729 million, or 9.20%, increase in administrative and promotional expenses, due primarily to increases in personnel expenses.

Financial Margin

Our interest income consists mainly of interest and commissions from lending activities to customers, which generated Ps.17,995 million, or 65.92%, of our total interest income for the six months ended June 30, 2012, with the balance consisting of interest and yield on securities, interest on funds available, together with interest and premium on sale and repurchase agreements and securities loans. Our interest income for the six months ended June 30, 2012 was Ps.27,298 million, a Ps.5,642 million or 26.05% increase as compared to the same period in 2011, mainly due to an increase in the average volume of our total performing loan portfolio by 24.09%.

Our interest expense consists mainly of interest paid on customer deposits, which represented Ps.3,859 million for the six months ended June 30, 2012, representing 35.43% of our total interest expense for that period, together with interest and premium on sale and repurchase agreements and securities loans, which amounted to Ps.6,159 million for the six months ended June 30, 2012, representing 56.54% of total interest expense. The remaining 8.03% is comprised of interest on interbank loans and on credit instruments issued.

Our financial margin for the six months ended June 30, 2012 was Ps.16,405 million, a 21.57% or Ps.2,911 million increase from Ps.13,494 million for the same period in 2011. This increase was mainly due to an increase in average total interest-earning assets, caused principally by growth in our lending activities, and was offset in part by reduced spreads on our lending activity. The decreased spreads occurred in a stable interest rate environment and mainly reflected the lower yields on loans to SMEs and consumer loans, the average balance of which increased in the first half of 2012.

The following table sets forth the components of our interest income and interest expense for the six months ended June 30, 2011 and 2012.

	For the six months ended June 30,				June 2011/
	2011		2012		June 2012
	(Millions of pesos)				(% Change)
Interest income:					
Interest and yield on loan portfolio	Ps.	10,645	Ps.	13,864	30.24%
Interest and yield on loan portfolio related to credit card transactions		3,148		3,801	20.74
Interest and yield on securities		5,622		6,540	16.33
Interest on funds available		1,248		1,446	15.87
Interest and premium on sale and repurchase agreements and securities loans		628		1,275	103.03
Interest on margin accounts		95		42	(55.79)
Commissions collected on loan originations		270		330	22.22
Total	**Ps.**	**21,656**	**Ps.**	**27,298**	**26.05%**
Interest expense:					
Interest from demand deposits	Ps.	(643)	Ps.	(1,061)	65.01%
Interest from time deposits		(2,504)		(2,798)	11.74
Interest on bank and other loans		(398)		(283)	(28.89)
Interest from credit instruments issued		(356)		(592)	66.29
Interest and premium on sale and repurchase agreements and securities loans		(4,261)		(6,159)	44.54
Total	**Ps.**	**(8,162)**	**Ps.**	**(10,893)**	**33.46%**
Financial margin	**Ps.**	**13,494**	**Ps.**	**16,405**	**21.57%**

The following table sets forth the components of our average total performing loan portfolio for the six months ended June 30, 2011 and 2012.

	As of June 30,		June 2011/
	2011	2012	June 2012
	(Millions of pesos)		(% Change)
Average total performing loan portfolio:			
Commercial, financial and industrial	Ps. 166,804	Ps. 196,817	17.99%
Mortgage loans	44,950	63,845	42.04
Installment loans to individuals	41,587	53,704	29.14
Revolving consumer credit card loans	24,295	30,425	25.23
Non-revolving consumer loans	17,292	23,279	34.62
Total	**Ps. 253,341**	**Ps. 314,366**	**24.09%**

Average total interest-earning assets were Ps.679,153 million for the six months ended June 30, 2012, a 29.40% or Ps.154,313 million increase from Ps.524,840 million for the six months ended June 30, 2011. This increase was due to (i) an increase in the average volume of the non-credit card performing loan portfolio of Ps.54,895 million, or 23.97%, from Ps.229,046 million for the six months ended June 30, 2011 to Ps.283,941 million for the six months ended June 30, 2012, (ii) an increase of Ps.54,359 million, or 29.02%, in the average volume of our investment in securities, from Ps.187,346 million for the six months ended June 30, 2011 to Ps.241,705 million for the six months ended June 30, 2012, (iii) an increase in the average balance of the credit card performing loan portfolio of Ps.6,130 million, or 25.23%, from Ps.24,295 million for the six months ended June 30, 2011 to Ps.30,425 million for the six months ended June 30, 2012, (iv) an increase in the average balance of debtors under sale and repurchase agreements of Ps.28,486 million, or 103.15%, from Ps.27,615 million for the six months ended June 30, 2011 to Ps.56,101 million for the six months ended June 30, 2012, and (v) an increase in the average balance of funds available of Ps.12,748 million, or 24.48%, from Ps.52,080 million for the six months ended June 30, 2011 to Ps.64,828 million for the six months ended June 30, 2012

Interest income from interest-earning assets increased by Ps.5,642 million, or 26.05%, from Ps.21,656 million for the six months ended June 30, 2011 to Ps.27,298 million for the six months ended June 30, 2012, due primarily to an increase in interest income on the non-credit card performing loan portfolio. The increase in interest income on the non-credit card performing loan portfolio was driven primarily by the Ps.54,895 million increase in average volumes in our non-credit card performing loan portfolio for the six months ended June 30, 2012 compared to the same period in 2011, which was comprised of a Ps.18,895 million increase in the average volume of our mortgage loan portfolio, a Ps.30,013 million increase in our average commercial, financial and industrial loan portfolio, together with an increase of Ps.5,987 million in the average volume of our non-revolving consumer loan portfolio. The increase in average volume of our mortgage loan portfolio was mainly due to organic growth and in part to our acquisition of the GE Capital residential mortgage business. The increase in our non-credit card performing loan portfolio was due to heightened commercial activity related to the launch of successful new products intended to be tailored to the diverse needs of our customers.

Average interest rates on interest-earning assets decreased by 21 basis points, from 8.25% for the six months ended June 30, 2011 to 8.04% for the six months ended June 30, 2012, which was mainly due to a 93 basis point decrease in the average interest rate on the credit card performing loan portfolio, from 25.91% for the six months ended June 30, 2011 to 24.99% for the six months ended June 30, 2012, resulting from an increase in the volume of credit cards benefitting from promotional rates, as well a reduction in the average volume of revolving credit card loans that bear higher rates, and a 59 basis point decrease in the average interest rate on investments on securities from 6.00% for the six months ended June 30, 2011 to 5.41% for the six months ended June 30, 2012, together with a 36 basis point average interest rate decrease on margin accounts, from 4.26% for the six months ended June 30, 2011 to 3.90% for the six months ended June 30, 2012. These decreases were offset in part by a 47 basis point increase in the average interest rate on the non-credit card performing loan portfolio.

The increase in the yield earned on our non-credit card performing loan portfolio was mainly due to an increase of 16 basis points in the interest earned on our mortgage loan portfolio, from 10.81% for the six months ended June 30, 2011 to 10.97% for the six months ended June 30, 2012, together with a 15 basis point increase in the average interest rate earned on our Global Wholesale Banking portfolio, from 5.41% for the six months ended June 30, 2011 to 5.56% for the six months ended June 30, 2012. The increase in the interest earned on our mortgage loan portfolio principally resulted from a reduction in the volume of installment payments forgiveness of certain mortgage products offered under our "SuperCasa with Contingent Fund" and "SuperRecompensa" programs with lower effective rates resulting from a feature whereby we forgive specified installments on the loan provided the customer timely pays installments on the loan, partially offset by increased volumes of new mortgage loan products for the six months ended June 30, 2012 that have a lower interest rate than loans in our mortgage loan portfolio originated prior to that period, such as Hipoteca Light and Hipoteca10X1000.

The average volume of commercial, financial and industrial loans grew by Ps.30,013 million, from Ps.166,804 million for the six months ended June 30, 2011 to Ps.196,817 million for the six months ended June 30, 2012. This increase was comprised of an increase of (i) Ps.12,761 million in the average volume of loans to Global Wholesale Banking segment clients, (ii) Ps.9,610 million in the average volume of loans to middle-market corporations, (iii) Ps.7,504 million in the average volume of loans to SMEs and (iv) Ps.836 million in the average volume of loans to institutions (including state and municipal loans and loans to universities). Average Global Wholesale Banking segment loans increased organically as part of that segment's commercial activity, principally in project finance and syndicated medium-term loans. The increase in the average volume of loans to middle-market corporations was due to improved lending execution processes where lending opportunities are identified and closely pursued. Similarly, the increase in SME average loan volumes resulted from increased commercial activity together with more streamlined approval processes and tailored product offerings. The average Global Wholesale Banking segment loan yield increased by 15 basis points, from 5.41% for the six months ended June 30, 2011 to 5.56% for the six months ended June 30, 2012, due to better pricing of new loans, consisting mainly of long- and medium-term loans, including for project finance. The average interest rate earned from loans to middle-market corporations decreased by 8 basis points, from 7.39% for the six months ended June 30, 2011 to 7.31% for the six months ended June 30, 2012, mainly due to the slight increase in volume of secured loans in the first half of 2012 compared to the same period in 2011. The average interest rate earned from loans to SMEs decreased by 23 basis points, from 15.18% for the six months ended June 30, 2011 to 14.95% for the six months ended June 30, 2012, as a result of an increased volume of substitution loans to SMEs, which are higher credit quality loans that SMEs refinance with us as lender due to the lower interest rates we offer for these loans. The average interest rate earned from loans to institutions increased by 20 basis points, from 6.43% for the six months ended June 30, 2011 to 6.63% for the six months ended June 30, 2012, mainly due to a restructured state government entity loan which resulted in a higher interest rate.

Interest income earned from investment in securities increased Ps.918 million, from Ps.5,622 million for the six months ended June 30, 2011 to Ps.6,540 million for the six months ended June 30, 2012, or 16.33%, reflecting an increase of Ps.54,359 million in the average balance of the investment in securities portfolio, from Ps.187,346 million for the six months ended June 30, 2011 to Ps.241,705 million for the six months ended June 30, 2012. The increase in interest income from investment in securities was mainly due to a Ps.53,899 million increase in the average volume of investment in securities administered by our Global Wholesale Banking segment, offset by (i) a 63 basis point decrease from 6.05% for the six months ended June 30, 2011 to 5.42% for the six months ended June 30, 2012 in the average interest rate over investment in securities administered by our Global Wholesale Banking segment and (ii) a 51 basis point decrease from 5.89% for the six months ended June 30, 2011 to 5.38% for the six months ended June 30, 2012 in the average interest rate earned from investment in securities administered by ALCO. The increase in volume of investment in securities administered by the Global Wholesale Banking segment was mainly due to increased sale and repurchase agreements activity in fixed-rate instruments. The decrease in the average balance of investment in securities administered by ALCO was primarily due to debt instruments that matured during the first half of 2012 and were not replaced.

The positive effect of the increase in our average interest-earning assets was partially offset by the overall decrease in the average yield of these assets and an increase in the average cost and average balance of our interest-bearing liabilities in the first half of 2012 compared to the same period in 2011. The combined effect of a decrease of 21 basis points in the average yield on our interest-earning assets together with an increase of 23 basis points in the cost of our interest-bearing liabilities resulted in a decrease in the net interest spread of 44 basis points. However, our financial margin increased by Ps.2,911 million, due mainly to the increase in the average volume of interest-earning assets of Ps.154,313 million with an average interest rate of 8.04%, whereas interest-bearing liabilities increased by Ps.113,705 million with an average cost of 3.91%. The increase in interest expense over average interest-bearing liabilities of Ps.2,731 million is due to the increase in volume of time deposits by Ps.9,479 million, credit balances under sale and repurchase agreements by Ps.90,544 million, credit instruments issued by

Ps.8,082 million and demand deposits by Ps.11,110 million, offset by a decrease of Ps.5,510 million in bank and other loans.

Average total interest-bearing liabilities for the six months ended June 30, 2012 were Ps.556,672 million, a 25.67% or Ps.113,705 million increase from Ps.442,967 million for the six months ended June 30, 2011. Interest expense increased by Ps.2,731 million, or 33.46%, from Ps.8,162 million for the six months ended June 30, 2011 to Ps.10,893 million for the six months ended June 30, 2012. The principal drivers of this increase were (i) an increase of Ps.1,898 million in interest expense over credit balances under sale and repurchase agreements, from Ps.4,261 million for the six months ended June 30, 2011 to Ps.6,159 million for the six months ended June 30, 2012, due to an increase of Ps.90,544 million in the average balance of creditors under sale and repurchase agreements resulting from an increase in activity by clients seeking more stable products given the volatility in the markets, (ii) an increase of Ps.236 million in interest expense related to credit instruments issued, due primarily to an increase in the average balance of Ps.8,082 million, from Ps.13,449 million for the six months ended June 30, 2011 to Ps.21,531 million for the six months ended June 30, 2012, together with an increase in the average interest rate of 20 basis points, from 5.29% for the six months ended June 30, 2011 to 5.50% for the six months ended June 30, 2012, due to an increase in issuance of debt in the local market to fund our loan portfolio growth, (iii) an increase by Ps.418 million in interest expense on demand deposits, from Ps.643 million for the six months ended June 30, 2011 to Ps.1,061 million for the six months ended June 30, 2012, due primarily to an increase of Ps.11,110 million in the average balance, from Ps.88,845 million for the six months ended June 30, 2011 to Ps.99,955 million for the six months ended June 30, 2012, combined with an increase of 68 basis points, from 1.45% in the first half of 2011 to 2.12% in the same period in 2012, (iv) an increase by Ps.294 million in interest expense on time deposits, from Ps.2,504 million for the six months ended June 30, 2011 to Ps.2,798 million for the six months ended June 30, 2012, due primarily to an increase of Ps.9,479 million in the average balance, from Ps.124,794 million for the six months ended June 30, 2011 to Ps.134,273 million for the six months ended June 30, 2012, combined with an increase of 15 basis points, from 4.01% in the first half of 2011 to 4.17% in the same period in 2012.

Provisions for Loan Losses

The following table sets forth the components of our provisions for loan losses:

	As of June 30,		June 2011 / June 2012	
	2011	2012	(Change in millions of pesos)	(% Change)
	(Millions of pesos)			
Provisions for Loan Losses:				
Commercial, financial and industrial	Ps. (674)	Ps. (878)	Ps. (204)	30.27%
Mortgage loans	(211)	(229)	(18)	8.53
Installment loans to individuals	(2,550)	(2,855)	(305)	11.96
Revolving consumer credit card loans	(1,774)	(1,670)	104	(5.86)
Non-revolving consumer loans	(776)	(1,185)	(409)	52.71
Total provisions for loan losses	**Ps. (3,435)**	**Ps. (3,962)**	**Ps. (527)**	**15.34%**

Provisions for loan losses were Ps.3,962 million for the six months ended June 30, 2012, compared to Ps.3,435 million for the six months ended June 30, 2011, an increase of Ps.527 million, or 15.34%. The increase in provisions for loan losses was primarily due to an increase in the average volume of our total loan portfolio. The increase in provisions for our commercial, financial and industrial loans was impacted by a 2.5% increase in charge-offs in our total loan portfolio, while the increase in provisions for loan losses for non-revolving consumer loans was due mainly to an increase in the average volume of our non-revolving consumer loan portfolio.

Total non-performing loans as a percentage of the total loan portfolio was 1.46% for the six months ended June 30, 2012 compared to 2.33% for the six months ended June 30, 2011, a decrease of 87 basis points or 37.3%. The coverage ratio for the six months ended June 30, 2012 reached 224.13%, compared to the 190.46% coverage ratio for the six months ended June 30, 2011, an increase of 33.67 percentage points, which was consistent with a more conservative policy for the provisions for loan losses. The coverage ratio improved primarily due to write-offs related to the GE portfolio of Ps.1,591 million in September 2011 and Ps.461 million in December 2011, which caused total non-performing loans as a percentage of the total loan portfolio to decrease 37.3% in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, whereas allowance for loan losses only decreased 13.9% during the same period.

Charge-offs as a percentage of average total loans was 2.31% as of June 30, 2012 compared to 2.79% as of June 30, 2011. This decrease in charge-offs as a percentage of average total loans was primarily due to better recovery of past-due loans. Recoveries increased 23.69% as of June 30, 2012 as compared to June 30, 2011 due to an increase in recoveries on the mortgage loan portfolio of Ps.103 million, or 109.6%, and an increase in recoveries on the commercial, financial and industrial loan portfolio of Ps.89 million, or 47.8%.

The following table shows the ratio of our computable credit risk and our coverage ratio as of and for the six months ended June 30, 2011 and 2012.

	As of and for the six months ended June 30,	
	2011	**2012**
	(Millions of pesos, except percentages)	
Computable credit risk(1)	Ps. 310,512	Ps. 363,529
Non-performing loans	6,769	4,953
Loan charge-offs	3,538	3,627
Allowance for loan losses	12,892	11,101
Ratios		
Non-performing loans to computable credit risk	2.18%	1.36%
Non-performing loans coverage ratio(2)	190.46%	224.13%
Loan charge-off coverage ratio(3)	2.28%	2.00%

(1) Computable credit risk is the sum of the face amounts of total loan portfolio (including non-performing loans), guarantees and documentary credits. When guarantees or documentary credits are contracted, we book them as off-balance sheet accounts. As of the date we make the payment to the beneficiary, we claim the payment from the solicitor (i.e., the debtor in the case of a guarantee or the buyer in the case of a documentary credit). The account becomes non-performing as of the date when the payment was due if we do not receive payment from the solicitor on that date. We maintain the account as a non-performing loan until recovery or, in the case of practical impossibility for recovery (e.g., when the creditor is declared bankrupt or upon the death of a creditor who is a natural person), until our Comprehensive Risk Management Committee decides to charge off the account. Such decision is at the discretion of our Comprehensive Risk Management Committee.

(2) Allowance for loan losses as a percentage of non-performing loans.

(3) Loan charge-offs as percentage of computable credit risk.

The following table shows our non-performing loans by type of loan as of June 30, 2011 and 2012:

	As of June 30,		June 2011/ June 2012
	2011	**2012**	
	(Millions of pesos)		(% Change)
Commercial, financial and industrial	Ps. 1,758	Ps. 1,313	(25.31)%
Mortgage loans	3,690	1,931	(47.67)
Installment loans to individuals	1,321	1,709	29.37
Total	**Ps. 6,769**	**Ps. 4,953**	**(26.83)%**

Commercial, Financial and Industrial

Non-performing loans in commercial, financial and industrial loans, which as of June 30, 2012 represented 26.51% of our total non-performing loans, decreased Ps.445 million, or 25.31%, from June 30, 2011 to June 30, 2012, primarily due to a restructured loan with a corporate client that is now performing. The ratio of our non-performing loans as a percentage of total loans, or "NPL ratio," with respect to commercial, financial and industrial loans improved from 1.17% as of June 30, 2011 to 0.74% as of June 30, 2012.

Mortgage Loans

Non-performing loans in mortgage loans, which as of June 30, 2012 represented 38.99% of our total non-performing loans, decreased Ps.1,759 million, or 47.67%, from June 30, 2011 to June 30, 2012. Our NPL ratio with respect to mortgage loans improved from 6.09% as of June 30, 2011 to 2.91% as of June 30, 2012. These decreases are related to the acquisition of the GE Capital residential mortgage business in Mexico in April 2011. At the time of the acquisition, 13.8% of the GE residential mortgage portfolio was classified as a non-performing loan, compared to 7.1% at June 30, 2012. These higher levels of non-performing loans in this portfolio are due to the fact that the GE mortgage loans had origination policies that were less robust than those for mortgage loans that we originated. Going forward we do not expect GE mortgages to exhibit different trends from our other mortgage loans as we now use the same loan underwriting procedures that are uniform throughout the Bank. Our mortgage portfolio excluding the GE Capital mortgage business had a NPL ratio of 1.4% at June 30, 2012 compared with 1.8% at June 30, 2011.

Installment Loans to Individuals

Non-performing loans in installment loans to individuals, which as of June 30, 2012 represented 34.50% of our total non-performing loans, increased Ps.388 million, or 29.37%, from June 30, 2011 to June 30, 2012. Our NPL ratio on the revolving consumer credit card loan portfolio as of June 30, 2012 was 2.87%, while as of June 30, 2011 it was 3.35%. Our NPL ratio on the non-revolving consumer loan portfolio was 2.95% as of June 30, 2012, while as of June 30, 2011 it was 2.39%.

Net Commission and Fee Income

Our net commission and fee income consists mainly of commissions and fees charged to customers for credit and debit card purchases, sales of insurance, investment fund management fees, fees from collection and payment services and fees from financial advisory services.

Net commission and fee income for the six months ended June 30, 2012 was Ps.5,305 million, a 15.98% or Ps.731 million increase from Ps.4,574 million for the six months ended June 30, 2011. The following table presents a breakdown, by product, of our commission and fee income and expense for the six months ended June 30, 2011 and 2012.

	For the six months ended June 30,		June 2011/ June 2012
	2011	2012	
	(Millions of pesos)		(% Change)
Commission and fee income			
Credit and debit cards	Ps. 1,572	Ps. 1,790	13.87%
Account management	259	353	36.29
Collection and payment services	658	736	11.85
Insurance	1,063	1,410	32.64
Investment funds management	616	621	0.81
Financial advisory services	336	508	51.19
Capital markets and securities activities	167	205	22.75
Checks	192	179	(6.77)
Foreign trade	271	271	0.00
Other commissions and fees	332	392	18.07
Total	**Ps. 5,466**	**Ps. 6,465**	**18.28%**
Commission and fee expense			
Credit and debit cards	Ps. (441)	Ps. (662)	50.11%
Insurance	(32)	(42)	31.25
Investment funds management	(26)	(29)	11.54
Capital markets and securities activities	(61)	(60)	(1.64)
Checks	(22)	(18)	(18.18)
Other commissions and fees	(310)	(349)	12.58
Total	**Ps. (892)**	**Ps. (1,160)**	**30.04%**
Net commission and fee income	**Ps. 4,574**	**Ps. 5,305**	**15.98%**

Commission and fee income was Ps.6,465 million for the six months ended June 30, 2012, an 18.28%, or Ps.999 million, increase from Ps.5,466 million for the six months ended June 30, 2011, mainly due to an increase in commissions and fees earned from the sale of insurance products of Ps.347 million, or 32.64%, an increase in commissions and fees earned from financial advisory services of Ps.172 million, or 51.19%, from Ps.336 million for the six months ended June 30, 2011 to Ps.508 million for the six months ended June 30, 2012, an increase in service charges on deposits accounts of Ps.94 million, or 36.29%, from Ps.259 million for the six months ended June 30, 2011 to Ps.353 million for the six months ended June 30, 2012, and an increase in commissions and fees earned from collection and payment services of Ps.78 million, or 11.85%, from Ps.658 million for the six months ended June 30, 2011 to Ps.736 million in 2012, due to increased transactional activity.

The total number of credit and debit cards outstanding at period end increased by 1,357,728, or 14.8%, to 10,505,779 as of June 30, 2012 compared to 9,148,051 as of June 30, 2011.

The increase in insurance commissions and fees were due to an increase of 15.3% in insurance policies sold, together with a 40% increase in insurance premiums charged. These increases were mainly due to our strategy to sell insurance products together with certain products such as consumer loans, mortgages and SME loans, in addition to increased sales through alternative channels such as ATMs and contact centers.

The increase in commissions and fees earned from financial advisory services was due to a decrease in commissions paid to other institutions for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to equity capital markets transactions where we acted as lead or co-lead with few financial institutions participating.

Other Operating Income

Other operating income was Ps.2,731 million for the six months ended June 30, 2012 compared to Ps.559 million for the six months ended June 30, 2011, an increase of Ps.2,172 million. This increase was primarily due to the net profit of Ps.1,710 million gained from our real estate sale and leaseback transaction with Fibra Uno in April 2012 relating to 220 properties (branches, offices and parking lots). In addition there was an increase in the recovery of previously written-off loans of Ps.172 million, or 23.69%, for the six months ended June 30, 2012 compared to the same period in 2011, along with an additional income of Ps.378 million related to the release of allowance for loan losses.

The following table sets forth the components of our other operating income:

	For the six months ended June 30,		June 2011/
	2011	**2012**	**June 2012**
	(Millions of pesos)		(% Change)
Recovery of loans previously charged-off	Ps. 726	Ps. 898	23.69%
Cancellation of liabilities and reserves	88	111	26.14
Profit from the sale of real property	0	1,710	100.00
Release of allowance for loan losses	0	378	100.00
Technical advisory services	102	120	17.65
Interest on personnel loans	54	58	7.41
Write-offs and bankruptcies	(211)	(271)	28.44
Portfolio recovery legal expenses and costs	(240)	(314)	30.83
Provision for legal and tax contingencies	(119)	(102)	(14.29)
IPAB (indemnity) provisions and payments	(1)	(26)	2,500.00
Foreclosed assets reserve	(7)	(24)	242.86
Acquisition of discounted credit portfolio	112	0	(100.00)
Profit from sale of foreclosed assets	5	68	1,260.00
Other	50	125	150.00
Total other operating income	**Ps. 559**	**Ps. 2,731**	**388.55%**

Administrative and Promotional Expenses

Our administrative and promotional expenses consist of salaries and employee benefits, promotional and advertising expenses and other general expenses. Our personnel expenses consist mainly of salaries, social security contributions, bonuses and our long-term incentive plan for our executives. Our other general expenses mainly consist of: expenses related to technology services, which are mainly services outsourced in the areas of information technology, taxes other than income tax, leasehold of properties and hardware, advertising and communication, surveillance and cash courier services and expenses related to maintenance, conservation and repair, among others.

Administrative and promotional expenses increased by Ps.729 million, or 9.20%, from Ps.7,922 million for the six months ended June 30, 2011 to Ps.8,651 million for the six months ended June 30, 2012, primarily due to increased expenses for personnel, leasehold of properties and technology services.

The following table sets forth the components of our administrative and promotional expenses:

	For the six months ended June 30,		June 2011 / June 2012
	2011	2012	
	(Millions of pesos)		(% Change)
Salaries and employee benefits	Ps. 3,517	Ps. 3,968	12.82%
Credit card	77	77	0.00
Professional fees	268	242	(9.70)
Leasehold	453	563	24.28
Promotional and advertising expenses	225	217	(3.56)
Taxes and duties	442	362	(18.10)
Technology services	600	686	14.33
Depreciation and amortization	699	748	7.01
Contributions to bank savings protection system (IPAB)	577	646	11.96
Cash protection	230	230	0.00
Other services and expenses	834	912	9.35
Total administrative and promotional expenses	**Ps. 7,922**	**Ps. 8,651**	**9.20%**

Our salaries and employee benefits increased Ps.451 million, or 12.82%, from Ps.3,517 million for the six months ended June 30, 2011 to Ps.3,968 million for the six months ended June 30, 2012, primarily as a result of a 4.45% period-over-period average headcount increase, together with an overall increase of 11.92% in salaries, 5.18% in other personnel expenses and 29.0% in bonuses. Other personnel expenses include personnel benefits such as medical expenses, social security and pension plans. The increase in headcount was in our Retail Banking segment to support growth in the segment. The average headcount in retail banking increased period-over-period by 4.37%.

The increase in salaries and employee benefits resulted from an increase of Ps.430 million, or 14.09%, in the Retail Banking segment, from Ps.3,056 million for the six months ended June 30, 2011 to Ps.3,487 million for the six months ended June 30, 2012, due to an increase of Ps.191 million, or 34.68%, in bonuses, from Ps.551 million in the first half of 2011 to Ps.742 million for the same period in 2012, together with an increase of Ps.190 million in salaries, from Ps.1,551 million in the first half of 2011 to Ps.1,740 million for the same period in 2012. These increases were partially offset by a reduction in bonuses in Global Wholesale Banking of 18.36%, which was due to weaker results.

Total administrative and promotional expenses, excluding salaries and employee benefits and depreciation and amortization, increased by Ps.227 million, or 6.13%, from Ps.3,707 million for the six months ended June 30, 2011 to Ps.3,934 million for the six months ended June 30, 2012, mainly due to an increase of Ps.110 million, or 24.28%, in leasehold expenses related to our sale and leaseback transaction with Fibra Uno for 220 properties (branches, offices and parking lots), and an increase of Ps.85 million, or 45.47%, in maintenance and repairs. In addition, expenses related to technology services increased by Ps.86 million, or 14.33%, due to investments necessary to update and improve our systems, including our CRM tools.

Net Gain (Loss) on Financial Assets and Liabilities

Our net gain (loss) on financial assets and liabilities consists mainly of gains and losses on financial instruments. The following table sets forth the components of our net gain (loss) on financial assets and liabilities:

	For the six months ended June 30, 2011	2012	June 2011 / June 2012
	(Millions of pesos)		(% Change)
Valuation result			
Foreign exchange	Ps. (11)	Ps. 29	(363.64)%
Derivatives	(3,862)	(8)	(99.79)
Equity	(1,321)	58	(104.39)
Debt instruments	(111)	499	(549.55)
Subtotal	**(5,305)**	**578**	**(110.90)**
Purchase-sale result			
Foreign exchange	728	338	(53.57)
Derivatives	4,724	(650)	(113.76)
Equity	481	590	22.66
Debt instruments	284	(107)	(137.68)
Subtotal	**6,217**	**171**	**(97.25)**
Total	**Ps. 912**	**Ps. 749**	**(17.87)%**

Net gain on financial assets and liabilities for the six months ended June 30, 2012 was Ps.749 million, a decrease of Ps.163 million, or 17.87%, from a net gain of Ps.912 million for the six months ended June 30, 2011, mainly due to the combined effect of a gain of Ps.171 million in the purchase-sale result and Ps.578 million in the valuation result for the six months ended June 30, 2012, whereas for the six months ended June 30, 2011, the gain on the purchase-sale result amounted to Ps.6,217 million, partially offset by a loss in the valuation result of Ps.5,305 million.

For the six months ended June 30, 2012, the net derivatives position was a loss of Ps.658 million, mainly due to a loss in the purchase-sale of derivatives of Ps.650 million, together with a loss of Ps.8 million in the valuation result. This loss was comprised of a net loss in equity derivatives of Ps.563 million and a net loss in interest rate derivatives of Ps.268 million, offset in part by a net gain in foreign exchange instrument derivatives of Ps.173 million.

In addition, the net gain in the foreign exchange position was Ps.367 million in the six months ended June 30, 2012. The net gain in the equity position of Ps.648 million was partially offset by the net loss in equity derivatives of Ps.563 million. The negative results from debt instrument derivatives of Ps.268 million were related to the trading activities of our fixed income desks pursuant to which a gain of Ps.392 million was obtained.

For the six months ended June 30, 2011, the net derivatives position was a gain of Ps.862 million, primarily due to a gain in the purchase-sale result of Ps.4,724 million, partially offset by the loss in the valuation result of Ps.3,862 million. The gain is mainly due to the net positive results for equity derivatives of Ps.1,929 million and the net positive results for foreign exchange instrument derivatives of Ps.166 million, partially offset by the net loss for interest rate derivatives of Ps.1,233 million. The net positive derivatives result for foreign exchange instruments covers foreign exchange positions, which generated gains of Ps.717 million during this period. Net losses in interest rate derivatives amounted to Ps.1,233 million and were related to the positions taken by our fixed income desks, which generated a gain of Ps.173 million during this period. The net positive result obtained from equity derivatives of Ps.1,929 million were negatively affected by losses from net equity positions of Ps.840 million, which included an extraordinary gain of Ps.367 million related to the sale of equity shares registered as available for sale.

Current and Deferred Income Tax

Current and deferred income tax was an expense of Ps.2,499 million for the six months ended June 30, 2012, an increase of Ps.730 million, or 41.27%, compared to an expense of Ps.1,769 million for the six months ended June 30, 2011.

Current income taxes were Ps.2,840 for the six months ended June 30, 2012, a decrease of Ps.2,186 million, or 43.49%, compared to Ps.5,026 million for the six months ended June 30, 2011, mainly due to the realization of the valuation of financial instruments, which caused an increase in the income tax as of June 30, 2011, a situation that did not occur in the period ended June 30, 2012, in which there was an increase in the valuation of financial instruments that was not realized.

Deferred income tax was a gain of Ps.341 million, a decrease of Ps.2,916 million, or 89.53%, compared to a gain of Ps.3,257 million for the six months ended June 30, 2011, primarily due to the realization of valuations of financial instruments in the period ended June 30, 2011, which represents a cancellation of deferred income tax liabilities (income). In the six months ended June 30, 2012, there was an increase in the valuation of liabilities that generated a deferred income tax liability (expense), which generated a deferred income tax liability (expense).

Results of Operations for the Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

The following table presents our consolidated results of operations for the year ended December 31, 2011 as compared to the year ended December 31, 2010.

	For the year ended December 31,			
	2010	2011	2011	2010/2011
	(Millions of pesos)		(Millions of U.S. dollars)(1)	(% Change)
Interest income	Ps. 39,626	Ps. 46,885	U.S.$3,497	18.32%
Interest expense	(13,411)	(18,172)	(1,355)	35.50
Financial margin	**26,215**	**28,713**	**2,142**	**9.53**
Provisions for loan losses	(8,425)	(6,556)	(489)	(22.18)
Financial margin after provisions for loan losses	**17,790**	**22,157**	**1,653**	**24.55**
Commission and fee income	10,076	11,303	843	12.18
Commission and fee expense	(1,770)	(1,998)	(149)	12.88
Net gain (loss) on financial assets and liabilities	3,954	834	62	(78.91)
Other operating income (expense)	54	1,177	88	2,079.63
Administrative and promotional expenses	(15,380)	(17,382)	(1,296)	13.02
Total operating income	**14,724**	**16,091**	**1,201**	**9.28**
Equity in results of associated companies	27	69	5	155.56
Income from continuing operations before income taxes	**14,751**	**16,160**	**1,206**	**9.55**
Current income taxes	(1,933)	(4,125)	(308)	113.40
Deferred income taxes (net)	(318)	1,675	125	(626.73)
Income from continuing operations	**12,500**	**13,710**	**1,023**	**9.68**
Discontinued operations	386	0	0	(100.00)
Consolidated income before non-controlling interest	**12,886**	**13,710**	**1,023**	**6.39**
Non-controlling interest	(2)	(10)	(1)	400.00
Net income	**Ps. 12,884**	**Ps. 13,700**	**U.S.$1,022**	**6.33%**

(1) Results for the year ended December 31, 2011 have been translated into U.S. dollars, for convenience purposes only, using the exchange rate of Ps.13.4084 per U.S.$1.00 as calculated on June 29, 2012 and reported by the Mexican Central Bank in the Official Gazette of the Federation on July 2, 2012 as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico.

Summary

Net income for the year ended December 31, 2011 was Ps.13,700 million, a 6.33% or Ps.816 million increase from Ps.12,884 million in 2010. The increase in 2011 was mainly due to:

- a 9.53% increase in financial margin due primarily to a Ps.67,182 million increase in average volumes in our total performing loan portfolio in 2011 compared to 2010, which resulted in part from our acquisition of the GE Capital residential mortgage business, offset in part by decreased spreads;

- a 12.03% increase in net commission and fee income, due to an increase in the sale of insurance products in addition to increased commissions and fees earned from financial advisory services; and
- a 22.18% decrease in provisions for loan losses, driven by improved credit quality in credit cards and commercial, financial and industrial loans.

These increases were partly offset by a lower gain on financial assets and liabilities in 2011, which decreased Ps.3,120 million or 78.91% compared to 2010, primarily due to (i) non-recurrence of gains obtained by the sale of certain ALCO positions in 2010 and (ii) reduced gains in 2011 due to unfavorable market conditions. In addition, these increases were partly offset by higher personnel expenses and other administrative and promotional expenses in 2011, which increased Ps.2,002 million or 13.02% compared to 2010, due primarily to headcount increase, increased salaries and higher advertising and technology services related expenses.

Financial Margin

Our interest income consists mainly of interest and commissions from lending activities to customers, which generated Ps.30,731 million, or 65.55%, of our total interest income in 2011, with the balance consisting of interest and yield on securities, interest on funds available, together with interest and premium on sale and repurchase agreements and securities loans.

Our interest expense consists mainly of interest paid on customer deposits. Interest expense on customer deposits was Ps.7,115 million in 2011, representing 39.15% of our total interest expense in 2011. Interest expense from time deposits, demand deposits and sale and repurchase agreements and securities loans amounted to Ps.5,612 million, Ps.1,503 million, and Ps.9,383 million, respectively, in 2011, representing 30.88%, 8.27% and 51.63% of our total interest expense, respectively. In addition, interest expense on credit instruments issued increased by Ps.657, or 278.39%, representing 4.91% of total interest expense. Interest expense increased by Ps.4,761 million or 35.50% in 2011 compared to 2010.

Our financial margin in 2011 was Ps.28,713 million, a 9.53% or Ps.2,498 million increase from Ps.26,215 million in 2010. This increase was mainly due to an increase in average total interest-earning assets, caused principally by growth in our lending activities and the acquisition of the GE Capital residential mortgage business, and was offset in part by reduced spreads on our lending activity. The decreased spreads occurred in a stable interest rate environment and mainly reflected the lower yields on mortgage loans that were part of the GE Capital mortgage business we acquired and decreased yield on middle market loans.

The following table sets forth the components of our interest income and interest expense in 2010 and 2011.

	For the year ended December 31,		
	2010	**2011**	**2010/2011**
	(Millions of pesos)		**(% Change)**
Interest income:			
Interest and yield on loan portfolio	Ps. 17,323	Ps. 23,549	35.94%
Interest and yield on loan portfolio related to credit card transactions	7,122	6,590	(7.47)
Interest and yield on securities	10,529	11,567	9.86
Interest on funds available	2,793	2,622	(6.12)
Interest and premium on sale and repurchase agreements and securities loans	1,066	1,789	67.82
Interest on margin accounts	180	176	(2.22)
Commissions collected on loan originations	613	592	(3.43)
Total	**Ps. 39,626**	**Ps. 46,885**	**18.32%**

	For the year ended December 31,		
	2010	2011	2010/2011
	(Millions of pesos)		(% Change)
Interest expense:			
Interest from demand deposits	(929)	(1,503)	61.79
Interest from time deposits	(4,608)	(5,612)	21.79
Interest on bank and other loans	(640)	(781)	22.03
Interest from credit instruments issued	(236)	(893)	278.39
Interest on subordinated debentures outstanding	(75)	0	(100.00)
Interest and premium on sale and repurchase agreements and securities loans	(6,923)	(9,383)	35.53
Total	**Ps. (13,411)**	**Ps. (18,172)**	**35.50%**
Financial margin	**Ps. 26,215**	**Ps. 28,713**	**9.53%**

The following table sets forth the components of our average total performing loan portfolio in 2010 and 2011.

	As of December 30,		
	2010	2011	2010/2011
	(Millions of pesos)		(% Change)
Average total performing loan portfolio:			
Commercial, financial and industrial	Ps.133,143	Ps.174,448	31.02%
Mortgage loans	29,641	52,652	77.63
Installment loans to individuals	41,717	44,582	6.87
Revolving consumer credit card loans	26,240	25,719	(1.99)
Non-revolving consumer loans	15,477	18,863	21.88
Total	**Ps.204,501**	**Ps.271,683**	**32.85%**

Average total interest-earning assets were Ps.567,361 million in 2011, a 27.32% or Ps.121,739 million increase from Ps.445,622 million in 2010. This increase was due to (i) an increase in the average volume of the non-credit card performing loan portfolio of Ps.67,703 million, or 37.98%, from Ps.178,261 million in 2010 to Ps.245,964 million in 2011, (ii) an increase of Ps.40,402 million, or 25.83%, in the average volume of our investment in securities, from Ps.156,442 million in 2010 to Ps.196,844 million in 2011, and (iii) an increase in the average balance of debtors under sale and repurchase agreements by Ps.16,408 million, or 72.93%, from Ps.22,498 million in 2010 to Ps.38,906 million in 2011. These increases were offset in part by a slight decrease in the average volume of credit card loans outstanding in 2011 compared to 2010.

Interest income from interest-earning assets increased by Ps.7,259 million, or 18.32%, from Ps.39,626 million in 2010 to Ps.46,885 million in 2011, due primarily to an increase in interest income on the non-credit card performing loan portfolio. The increase in interest income on the non-credit card performing loan portfolio was driven primarily by the Ps.67,703 million increase in average volumes in our non-credit card performing loan portfolio in 2011 compared to 2010, which was comprised mainly of a Ps.23,011 million increase in the average volume of our mortgage loan portfolio and a Ps.41,305 million increase in our average commercial, financial and industrial loan portfolio. The increase in the average volume of our mortgage loan portfolio was mainly due to our acquisition of the GE Capital residential mortgage business in April 2011, in addition to organic growth.

Average interest rates on interest-earning assets decreased by 63 basis points, from 8.89% in 2010 to 8.26% in 2011, which was mainly due to a 14 basis point decrease in the average interest rate on the non-credit card performing loan portfolio from 9.72% in 2010 to 9.57% in 2011, a 152 basis point decrease in the average interest rate over the credit card performing loan portfolio, from 27.14% in 2010 to 25.62% in 2011, and a 85 basis point decrease in the average interest rate on investment in securities from 6.73% in 2010 to 5.88% in 2011.

The decrease in the yield earned on our non-credit card performing loan portfolio was mainly due to a decrease of 153 basis points in the interest earned on our mortgage loan portfolio, from 12.61% in 2010 to 11.08% in 2011. The decrease in the interest earned on our mortgage loan portfolio principally resulted from our acquisition of the GE Capital residential mortgage business, which generally had average interest rates lower than the mortgage portfolio we had originated organically. In addition, increased volumes of new mortgage loan products that have a lower interest rate than loans in our mortgage loan portfolio originated before 2011, such as Hipoteca Light and Hipoteca10X1000, also contributed to the decrease in interest earned on our mortgage loan portfolio.

Average volume of commercial, financial and industrial loans grew by Ps.41,305 million, from Ps.133,143 million in 2010 to Ps.174,448 million in 2011. This increase was comprised primarily of an increase of (i) Ps.24,655 million in average volume of loans to Global Wholesale Banking segment clients, (ii) Ps.7,641 million in average volume of loans to middle-market corporations, (iii) Ps.4,265 million in average volume of loans to SMEs and (iv) Ps.4,577 million in average volume of loans to institutions (including state and municipal loans and loans to universities). Average Global Wholesale Banking segment loans increased in part due to our acquisition of loans granted to Mexican companies by other Santander Group entities of approximately Ps.12,993 million. The increase in average volume of loans to middle-market corporations was due to improved lending execution processes where lending opportunities are identified and closely pursued. Similarly, the increase in SME average loan volumes resulted from more streamlined approval processes and tailored product offerings. The average volume of loans to institutions grew due to increased lending to state governments in Mexico. The average loan yield in the Global Wholesale Banking segment increased by 54 basis points, from 5.84% in 2010 to 6.38% in 2011. The average interest rate earned from loans to middle-market corporations decreased by 43 basis points, from 7.76% in 2010 to 7.33% in 2011, mainly due to the increase in volume of secured loans in 2011 compared to 2010. The average interest rate earned from loans to SMEs decreased by 41 basis points, from 15.67% in 2010 to 15.26% in 2011, as a result of an increased volume of loans to SMEs that are guaranteed in part by Nacional Financiera, a Mexican development bank. The average interest rate earned from loans to institutions decreased by 17 basis points, from 6.68% in 2010 to 6.51% in 2011. These loans are collateralized by *participaciones federales*, representing the portion of federal taxes to which states and municipalities are entitled and that is pledged as security for the loans granted, which in turn leads to loans with lower risk that are charged lower interest rates.

Interest income earned from investment in securities increased by Ps.1,038 million, from Ps.10,529 million in 2010 to Ps.11,567 million in 2011, due to an increase of Ps.40,402 million in the average balance of our investment in securities, from Ps.156,442 million in 2010 to Ps.196,844 million in 2011, partially offset by a decrease in the average interest rate earned on this portfolio of 85 basis points, from 6.73% in 2010 to 5.88% in 2011. The increase in the average balance of this portfolio was due to increased investment activity of our Global Wholesale Banking segment clients. The increase in interest income from investment in securities was mainly due to a Ps.64,015 million increase in the average volume of investment in securities administered by our Global Wholesale Banking segment, offset by (i) a 159 basis point decrease from 7.54% in 2010 to 5.95% in 2011 in the average interest rate over investment in securities administered by our Global Wholesale Banking segment, (ii) a Ps.23,613 million decrease in average balance of investment in securities administered by ALCO and (iii) an 18 basis point decrease from 5.84% in 2010 to 5.66% in 2011 in the average interest rate earned from investment in securities administered by ALCO. The increase in volume of investment in securities administered by the Global Wholesale Banking segment is due to increased sale and repurchase agreements activity, both in our exchange and interest rates' desk and in proprietary trading. The decrease in the average balance of investment in securities administered by ALCO was due to the sale of certain bond positions that took place in 2010, and to debt instruments that matured in 2011 and were not replaced.

Interest income earned from debtors under sale and repurchase agreements increased Ps.723 million, from Ps.1,066 million in 2010 to Ps.1,789 million in 2011, or 67.82%, reflecting an increase of Ps.16,408 million in the average balance of the portfolio, from Ps.22,498 million in 2010 to Ps.38,906 million in 2011.

The positive effect of the increase in our average interest-earning assets was partially offset by the above-described decrease in the average yield of these assets and an increase in the average cost and average balance of our interest-bearing liabilities in 2011 compared to 2010. The combined effect of a decrease of 63 basis points in the average yield on our interest-earning assets together with a decrease of 1 basis point in the cost of our interest-bearing liabilities resulted in a decrease in the net interest spread of 62 basis points. However, our financial margin increased by Ps.2,498 million, due mainly to an increase in the average volume of interest-earning assets of Ps.121,739 million with an average interest rate of 8.26%, whereas interest-bearing liabilities increased by Ps.126,493 million with an average cost of 3.80%. The increase in interest expense over average interest-bearing liabilities of Ps.4,761 million is due to the increase in volume of demand deposits, time deposits and credit balances under sale and repurchase agreements, in addition to our increased debt issuances in 2011 for funding purposes. We also paid higher interest rates on time and demand deposits in 2011 compared to 2010.

Average total interest-bearing liabilities in 2011 were Ps.478,044 million, a 35.98% or Ps.126,493 million increase from Ps. 351,551 million in 2010. Interest expense increased by Ps.4,761 million, or 35.50%, from Ps.13,411 million in 2010 to Ps.18,172 million in 2011. The principal drivers of this increase were (i) an increase of Ps.2,460 million in interest expense over credit balances under sale and repurchase agreements, from Ps.6,923 million in 2010 to Ps.9,383 million in 2011, and (ii) an increase of Ps.1,004 million in interest expense over time deposits, from Ps.4,608 million in 2010 to Ps.5,612 million in 2011.

Provisions for Loan Losses

The following table sets forth the components of our provisions for loan losses:

	For the years ended December 31,				Change 2010/2011		
	2010		2011				
	(Millions of pesos)				(Millions of pesos)		(%)
Provisions for Loan Losses:							
Commercial, financial and industrial	Ps.	(961)	Ps.	(1,370)	Ps.	(409)	42.56%
Mortgage loans		(450)		(439)		11	(2.44)
Installment loans to individuals		(7,014)		(4,747)		2,267	(32.32)
Revolving consumer credit card loans		(5,394)		(2,836)		2,558	(47.42)
Non-revolving consumer loans		(1,620)		(1,911)		(291)	17.96
Total provisions for loan losses	**Ps.**	**(8,425)**	**Ps.**	**(6,556)**	**Ps.**	**1,869**	**(22.18)%**

Provisions for loan losses were Ps.6,556 million for 2011 compared to Ps.8,425 million for 2010, a decrease of Ps.1,869 million, or 22.18%. The decrease in provisions for loan losses was primarily due to a decrease in provisions for loan losses from our revolving consumer credit card loan portfolio due to the improvement in the credit quality of that portfolio, partially offset by the increase in provisions for loan losses for both commercial, financial and industrial loans and non-revolving consumer loans due to the increase in the average volume of those portfolios. The reduction in provisions for loan losses for revolving consumer credit card loans was due to a combination of two factors: the reduced volume of the revolving consumer credit card loan portfolio, which was in turn due to the reduction in new credit card loans and the write-offs of past due loans, and the decrease in new credit card loans becoming delinquent as quality of the portfolio increased reflecting continued stability in the Mexican economy. Notwithstanding the 82.37% growth in our mortgage loan portfolio, provisions for loan losses on our mortgage loan portfolio declined by 2.44%.

Total non-performing loans as a percentage of total loans remained flat at 1.69% for 2011 compared to 1.68% for 2010. Total allowance for loan losses as a percentage of total non-performing loans was 210.52% for 2011 compared to 268.57% for 2010, a decrease of 58.05 percentage points. This decrease in allowance for loan losses as a percentage of total non-performing loans was primarily due to the reduction of delinquent loans.

Charge-offs as a percentage of average total loans was 3.31% for 2011 compared to 4.66% for 2010, a decrease of 1.35 percentage points. This decrease in charge-offs as a percentage of average total loans was primarily due to better recovery of past-due loans.

On October 25, 2010 and October 5, 2011, the CNBV issued rulings that modified the methodologies applicable to the classification of the non-revolving consumer loan portfolio and the housing mortgage loan portfolio, as well as the classification of loans owed by Mexican states and municipalities, in order to change the allowance for loan losses calculation model from an incurred loss model to an expected loss model. These modifications went into effect on March 1, 2011 and September 1, 2011, respectively. The CNBV required recognition in stockholders' equity by March 31, 2011 and September 30, 2011, respectively, under the heading "Retained earnings," of the initial cumulative financial effect derived from the application of the classification methods for the non-revolving consumer loan portfolio and the housing loan portfolio, and for loans owed by Mexican states and municipalities, respectively. Accordingly, we charged against stockholders' equity an amount of Ps.864 million (less the corresponding impact of deferred tax). See note 12 to our audited financial statements included elsewhere in this offering memorandum.

The following table shows the ratio of our computable credit risk and our coverage ratio as of and for the year ended December 31, 2010 and 2011.

	As of and for the year ended December 31,	
	2010	2011
	(Millions of pesos, except percentages)	
Computable credit risk(1)	Ps. 250,020	Ps. 340,807
Non-performing loans	3,818	5,316
Loan charge-offs	9,536	8,982
Allowance for loan losses	10,254	11,191
Ratios		
Non-performing loans to computable credit risk	1.53%	1.56%
Non-performing loans coverage ratio(2)	268.57%	210.52%
Loan charge-off coverage ratio(3)	3.81%	2.64%

(1) Computable credit risk is the sum of the face amounts of total loan portfolio (including non-performing loans), guarantees and documentary credits. When guarantees or documentary credits are contracted, we book them as off-balance sheet accounts. As of the date we make the payment to the beneficiary, we claim the payment from the solicitor (i.e., the debtor in the case of a guarantee or the buyer in the case of a documentary credit). The account becomes non-performing as of the date when the payment was due if we do not receive payment from the solicitor on that date. We maintain the account as a non-performing loan until recovery or, in the case of practical impossibility for recovery (e.g., when the creditor is declared bankrupt or upon the death of a creditor who is a natural person), until our Comprehensive Risk Management Committee decides to charge off the account. Such decision is at the discretion of our Comprehensive Risk Management Committee.

(2) Allowance for loan losses as a percentage of non-performing loans.

(3) Loan charge-offs as percentage of computable credit risk.

The following table shows our non-performing loans by type of loan as of December 31, 2010 and 2011:

	As of December 31,		
	2010	2011	2010/2011
	(Millions of pesos)		(% Change)
Commercial, financial and industrial	Ps. 1,731	Ps. 1,926	11.27%
Government entities loans	0	2	100.00
Mortgage loans	608	2,118	248.36
Installment loans to individuals	1,479	1,270	(14.13)
Total	**Ps. 3,818**	**Ps. 5,316**	**39.24%**

Commercial, Financial and Industrial

Non-performing loans in commercial, financial and industrial loans, which as of December 31, 2011 represented 36.27% of our total non-performing loans, increased Ps.195 million, or 11.27%, from December 31, 2010 to December 31, 2011, primarily due to a slight increase in non-performing loans in the SMEs portfolio due to growth of the portfolio. Our NPL ratio with respect to commercial, financial and industrial loans improved from 1.3% as of December 31, 2010 to 1.2% as of December 31, 2011.

Mortgage Loans

Non-performing loans in mortgage loans, which as of December 31, 2011 represented 39.84% of our total non-performing loans, increased Ps.1,510 million, or 248.36%, from December 31, 2010 to December 31, 2011.

Our NPL ratio with respect to mortgage loans deteriorated from 1.8% as of December 31, 2010 to 3.3% as of December 31, 2011. These increases are related to the acquisition of the GE Capital residential mortgage business in Mexico in April 2011. The mortgage loan portfolio excluding the GE loan portfolio had a NPL ratio of 1.5% as of December 31, 2011 compared with 1.8% as of December 31, 2010.

Installment Loans to Individuals

Non-performing loans in installment loans to individuals, which as of December 31, 2011 represented 23.89% of our total non-performing loans, decreased Ps.209 million, or 14.13%, from December 31, 2010 to December 31, 2011. This decrease was due to the reduction of the revolving consumer credit card loan portfolio, together with the better quality of the loans remaining in the revolving consumer credit card loan portfolio. The NPL ratio in our revolving consumer credit card loan portfolio as of December 31, 2011 was 2.5%, compared to 4.1% as of December 31, 2010. During 2007 and 2008, excessive over-leverage in the consumer credit market in Mexico resulted in poor portfolio performance. This also affected our revolving consumer credit card loan portfolio. As a result, we implemented various measures, such as tightening of credit policies, reinforcement of collections and reduction or cancellation of credit lines. These factors helped to put delinquency rates and credit losses back within acceptable risk levels by the middle of 2010. As of December 2011, our revolving consumer credit card loan portfolio had the best performance in terms of asset quality (defined as total non-performing loans as a percentage of total loans) among the seven largest private banks in Mexico, according to information published by the CNBV. The NPL ratio of installment loans to individuals was 2.5% as of December 31, 2011, compared to 2.7% as of December 31, 2010.

Net Commission and Fee Income

Our net commission and fee income consists mainly of commissions and fees charged to customers for credit and debit cards purchases, sales of insurance, investment fund management fees, fees from collection and payment services and fees from financial advisory services.

Net commission and fee income in 2011 was Ps.9,305 million, a 12.03% or Ps.999 million increase from Ps.8,306 million in 2010.

The following table presents a breakdown, by product, of our commission and fee income and expenses in 2010 and 2011.

	For the year ended December 31,		
	2010	2011	2010/2011
	(Millions of pesos)		(% Change)
Commission and fee income:			
Credit and debit cards	Ps. 3,495	Ps. 3,333	(4.64)%
Account management	591	590	(0.17)
Collection and payment services	1,157	1,256	8.56
Insurance	1,525	2,311	51.54
Investment funds management	1,251	1,252	0.08
Financial advisory services	442	645	45.93
Capital markets and securities activities	321	355	10.59
Checks	409	382	(6.60)
Foreign trade	469	489	4.26
Other commissions and fees	416	690	65.87
Total	**Ps. 10,076**	**Ps. 11,303**	**12.18%**
Commission and fee expense:			
Credit and debit cards	(938)	(1,003)	6.93
Insurance	(100)	(76)	(24.00)
Investment funds management	(30)	(53)	76.67
Capital markets and securities activities	(112)	(117)	4.46
Checks	(44)	(43)	(2.27)
Other commissions and fees	(546)	(706)	29.30
Total	**Ps. (1,770)**	**Ps. (1,998)**	**12.88%**
Net commission and fee income	**Ps. 8,306**	**Ps. 9,305**	**12.03%**

Commission and fee income was Ps.11,303 million in 2011, a 12.18%, or Ps.1,227 million increase from Ps.10,076 million in 2010, mainly due to an increase in commissions and fees earned from the sale of insurance products of Ps.786 million, or 51.54%, an increase in commissions and fees earned from financial advisory services of Ps.203 million, or 45.93%, and an increase in other commissions and fees of Ps.274 million, or 65.87%, which include commitment fees for undrawn credit lines, commission charges over cash custody and transfer services, commissions charged on securities trading, and administrative fees and life and property insurance commissions charged to Santander Hipotecario clients related to the mortgages from the GE Capital mortgage business.

Commission and fee income generated from credit and debit cards decreased Ps.162 million, or 4.64%, from Ps.3,495 million in 2010 to Ps.3,333 million in 2011. The reduction in commissions and fees in 2011 was due to additional origination costs and regulatory limits on fees charged to clients, in addition to the charging of annual fees three months after the issuance of a card rather than at the time of issuance, affecting the timing of when we received the fees. During 2010, new regulations were implemented related to the charging of fees which adversely impacted our fee revenue. The regulatory limits include a requirement that only a specific fee can be charged for a given transaction, a prohibition on charging fees over specified ceilings, a requirement that a fee charged for a specific transaction must not be higher than specified amounts, and certain restrictions on the timing for charging ATM fees. As a result of these regulatory limitations, our ability to generate fees was adversely impacted. In addition, prior to 2011, our internal policy was to charge the annual fee at the time of issuance. In 2011, due to competitive pressures, we began to charge the annual fee three months after issuance.

While the total number of credit and debit cards outstanding at year end increased by 1,264,003, or 14.6%, to 9,926,168 in 2011 compared to 8,662,165 in 2010, the average increase in outstanding balances in 2011 compared to 2010 was essentially flat. The increase in insurance commissions and fees was due to an increase of 19% in insurance policies sold, together with a 77% increase in insurance premiums charged. These increases were mainly due to our strategy to sell insurance products together with certain products such as consumer loans, mortgages, and SME loans, in addition to increased sales through alternative channels such as ATMs and contact centers.

Commission and fee expense in 2011 were Ps.1,998 million, a 12.88% or Ps.228 million increase from Ps.1,770 million in 2010. The increase was primarily due to an increase of Ps.160 million in other commissions and fees due to commissions paid to other financial institutions that participate with us in debt and equity issuances.

Other Operating Income

Other operating income was Ps.1,177 million for the year ended December 31, 2011 compared to Ps.54 million for the year ended December 31, 2010, an increase of Ps.1,123 million. This increase was primarily due to increases in write-offs and bankruptcies, portfolio recovery legal expenses and costs, reserve for derivatives of early maturities and provisions for legal and tax contingencies.

The following table sets forth the components of our other operating income:

	For the year ended December 31, 2010	2011	2010/2011
	(Millions of pesos)		(% Change)
Recovery of loans previously charged-off	Ps. 1,536	Ps. 1,525	(0.72)%
Cancellation of liabilities and reserves	206	176	(14.56)
Profit from the sale of real property	16	13	(18.75)
Recovered taxes	0	85	100.00
Technical advisory services	189	202	6.88
Interest on personnel loans	106	110	3.77
Application of recoverable balance due to restatement	57	0	(100.00)
Recovery of derivatives early maturities	60	32	(46.67)
Write-offs and bankruptcies	(820)	(383)	(53.29)
Portfolio recovery legal expenses and costs	(632)	(452)	(28.48)
Reserve for derivatives early maturities	(246)	0	(100.00)
Provision for legal and tax contingencies	(412)	(242)	(41.26)
Result from sale of permanent investments	(73)	0	(100.00)
IPAB (indemnity) provisions and payments	(3)	(23)	666.67
Foreclosed assets reserve	(132)	(48)	(63.64)
Cancellation of reserves for long-term Special Cetes UDIs	54	0	(100.00)
Acquisition of discounted credit portfolio	0	112	100.00
Profit from sale of foreclosed assets	17	54	217.65
Other	131	16	(87.79)
Total other operating income	**Ps. 54**	**Ps. 1,177**	**2,079.63%**

Administrative and Promotional Expenses

Our administrative and promotional expenses consist of salaries and employee benefits, promotional and advertising expenses and other general expenses. Our personnel expenses consist mainly of salaries, social security contributions, bonuses and our long-term incentive plan for our executives. Our other general expenses mainly consist of: expenses related to technology services, which are mainly services outsourced in the areas of information technology, taxes other than income tax, leasehold of properties and hardware, advertising and communication, surveillance and cash courier services and expenses related to maintenance, conservation and repair, among others.

Administrative and promotional expenses increased by Ps.2,002 million, or 13.02%, from Ps.15,380 million for the year ended December 31, 2010 to Ps.17,382 million for the year ended December 31, 2011, primarily due to increased expenses for personnel, leasehold of properties and technology services.

The following table sets forth the components of our administrative and promotional expenses:

	For the year ended December 31, 2010	2011	2010/2011
	(Millions of pesos)		(% Change)
Salaries and employee benefits	Ps. 6,352	Ps. 7,211	13.52%
Credit card	188	243	29.26
Professional fees	670	654	(2.39)
Leasehold	885	977	10.40
Promotional and advertising expenses	569	827	45.34
Taxes and duties	846	984	16.31
Technology services	1,541	1,688	9.54
Depreciation and amortization	1,397	1,457	4.29
Contributions to bank savings protection system (IPAB)	982	1,228	25.05
Cash protection	526	553	5.13
Other services and expenses	1,424	1,560	9.55
Total administrative and promotional expenses	**Ps.15,380**	**Ps.17,382**	**13.02%**

Our salaries and employee benefits increased Ps.859 million, or 13.52%, from Ps.6,352 million in 2010 to Ps.7,211 million in 2011, primarily as a result of a 1.1% period-over-period average headcount increase, together with an overall increase of 6.6% in salaries, 14.3% in other personnel expenses and 33.9% in bonuses. Other personnel expenses include personnel benefits such as medical expenses, social security and pension plans. The increase in headcount was in our Retail Banking segment in order to support growth in that segment.

The increase in salaries and employee benefits resulted from an increase of Ps.900 million, or 16.6%, in the Retail Banking segment, from Ps.5,417 million in 2010 to Ps.6,317 million in 2011, due to an increase of Ps.367 million, or 45.50%, in bonuses, from Ps.807 million in 2010 to Ps.1,175 million in 2011, together with an increase of Ps.171 million in salaries, from Ps.2,999 million in 2010 to Ps.3,170 million in 2011. These increases were partially offset by a reduction in bonuses in the Global Wholesale Banking segment of 12.7%, which was due to weaker results.

Total administrative and promotional expenses, excluding salaries and employee benefits and depreciation and amortization, increased by Ps.1,083 million, or 14.19%, from Ps.7,631 million in 2010 to Ps.8,714 million in 2011, mainly due to an increase of Ps.258 million, or 45.34%, in promotional and advertising expenses related to the launch and promotion of new mortgage loans, insurance and credit cards as well as other promotions related to our premier and preferred segments. In addition, expenses related to technology services increased by Ps.147 million, or 9.54%, due to investments necessary to update and improve our systems.

Net Gain (Loss) on Financial Assets and Liabilities

Our net gain (loss) on financial assets and liabilities consists mainly of gains and losses on financial instruments. The following table shows a breakdown of our net gain (loss) on financial assets and liabilities as of December 31, 2010 and 2011.

	For the year ended December 31,		
	2010	**2011**	**2010/2011**
	(Millions of pesos)		(% Change)
Valuation result			
Foreign exchange	Ps. 31	Ps. (36)	(216.13)%
Derivatives	5,509	(3,124)	(156.71)
Equity	571	(1,318)	(330.82)
Debt instruments	(924)	53	(105.74)
Subtotal	**Ps. 5,187**	**Ps. (4,425)**	**(185.31)%**
Purchase-sale result			
Foreign exchange	877	1,134	29.30
Derivatives	(5,208)	4,601	(188.34)
Equity	2,415	(531)	(121.99)
Debt instruments	683	55	(91.95)
Subtotal	**Ps. (1,233)**	**Ps. 5,259**	**(526.52)%**
Total	**Ps. 3,954**	**Ps. 834**	**(78.91)%**

The net gain on financial assets and liabilities in 2011 was Ps.834 million, a decrease of Ps.3,120 million or 78.91% from Ps.3,954 million in 2010. This decrease was mainly due to the combined effect of a gain of Ps.5,259 million in the purchase-sale result, partially offset by the loss in the valuation result of Ps.4,425 million, as compared to a gain in 2010 of Ps.5,187 million in the valuation result, partially offset by a loss in the purchase-sale result of Ps.1,233 million.

In 2011, the net derivatives position was a gain of Ps.1,477 million, primarily due to a gain of Ps.4,601 million in the purchase-sale of derivatives, partially offset by a loss of Ps.3,124 million in the valuation result. This gain was mainly comprised of a net gain of Ps.2,764 million in equity derivatives, and losses of Ps.935 million in interest rate derivatives and of Ps.352 million linked to foreign exchange derivatives.

Losses on foreign exchange derivatives were offset by gains in foreign exchange positions of Ps.1,098 million. Gains in equity derivatives of Ps.2,764 million were offset by losses in equity positions of Ps.1,849 million. Negative results of Ps.935 million in debt derivatives were linked to transactions done by our fixed income trading desks, where the net gain was Ps.108 million.

In 2010, the net derivatives position was a gain of Ps.301 million, due to a gain in the valuation result of Ps.5,509 million, partially offset by a loss in the purchase-sale result of Ps.5,208 million This gain is comprised of losses in equity derivatives of Ps.1,775 million, gains on interest rate derivatives of Ps.1,776 million and gains in foreign exchange derivatives of Ps.300 million. The positive net result on foreign exchange derivatives hedged foreign exchange positions that generated Ps.908 million as of December 31, 2010. Gains in equity positions of Ps.2,986 million were offset by net losses on equity derivatives of Ps.1,775 million. The positive results on interest rate derivatives of Ps.1,776 million was linked to fixed-income positions handled in our trading desks, which generated a loss of Ps.241 million.

Gains in 2010 can be explained by more favorable market conditions. This also generated extraordinary income of Ps.869 million due to the sale of ALCO positions.

Current and Deferred Income Tax

Income tax for the year ended December 31, 2011 was Ps.2,450 million, a Ps.199 million, or 8.84%, increase from Ps.2,251 million in 2010. Our effective tax rates for the years ended December 31, 2010 and 2011 were 15.29% and 15.16%, respectively. Our effective tax rate decreased 0.13 basis points in 2011 compared to 2010. Although our income tax expense increased by Ps.199 million as a result of higher operating profit before tax, our effective tax rate decreased principally due to lower non-tax deductible expenses.

Liquidity and Capital Resources

Our control and management functions involve planning our funding requirements, structuring the sources of financing to achieve optimal diversification in terms of maturities, instruments and markets and setting forth contingency plans.

Overall, we have a strong liquidity position with a loan portfolio (net) representing 99.07% of our deposits as of June 30, 2012. We constantly review our liquidity position and the forecasted growth of our business lines relative to our loan/deposit ratio.

Banco Santander Spain and its subsidiaries follow a global model in which each unit is responsible for its own capital and funding. We are autonomous in the management of our liquidity and capital needs, with no structural support from our parent company or any other unit of the Santander Group.

Risk-Weighted Assets and Regulatory Capital

Pursuant to Mexican Capitalization Requirements, we are required to maintain specified levels of net capital on an unconsolidated basis as a percentage of risk-weighted assets, including credit, market and operational risks. See "Supervision and Regulation—Banking Regulation—Capitalization." The minimum Capital Ratio currently required by the Mexican Capitalization Requirements in order not to be required to defer or cancel interest payments or defer principal payments of subordinated debt that qualifies to be computed as part of total net capital is 8.0%. As of June 30, 2012, our Capital Ratio was 14.63%.

The table below presents our risk-weighted assets and Capital Ratios as of December 31, 2010 and 2011 and June 30, 2012, calculated in accordance with Mexican Banking GAAP:

	As of December 31,			As of June 30,	
	2009	2010	2011	2012	2012
				(unaudited)	
	(Thousands of pesos, except percentages)				(Thousands of U.S.$)(1)
Capital:					
Tier 1	Ps. 63,234,821	Ps. 68,703,017	Ps. 71,674,469	Ps. 73,578,658	U.S.$ 5,487,505
Tier 2	993,597	1,088,486	1,469,060	1,528,743	114,014
Total capital	64,228,418	69,791,503	73,143,529	75,107,401	5,601,519
Risk-Weighted Assets:					
Credit risk	194,574,698	235,471,552	267,333,905	307,413,338	22,926,922
Market risk	301,330,611	159,440,784	179,705,594	157,278,386	11,729,840
Operational risk	38,883,619	53,745,194	46,365,635	48,613,342	3,625,589
Total risk-weighted assets	534,788,928	448,657,530	493,405,134	513,305,066	38,282,351
Required Regulatory Capital:					
Credit risk	15,565,976	18,837,724	21,386,712	24,593,067	1,834,154
Market risk	24,106,449	12,755,263	14,376,447	12,582,271	938,387
Operational risk	3,110,690	4,299,616	3,709,251	3,889,067	290,047
Total risk-weighted assets	Ps. 42,783,115	Ps. 35,892,603	Ps. 39,472,410	Ps. 41,064,405	U.S.$ 3,062,588
Capital Ratios (credit, market & operational risk):					
Tier 1 capital to risk-weighted assets	11.82%	15.31%	14.53%	14.33%	14.33%
Tier 2 capital to risk-weighted assets	0.19%	0.24%	0.30%	0.30%	0.30%
Total capital to risk-weighted assets(2)(3)	12.01%	15.56%	14.82%	14.63%	14.63%

(1) Translated at the rate of Ps.13.4084 per U.S.$1.00, the exchange rate for U.S. dollars published by the Mexican Central Bank in the Official Gazette of the Federation on July 2, 2012 as the exchange rate for the payment of obligations denominated in currencies other than pesos and payable within Mexico. See "Exchange Rates."

(2) Our Capital Ratio as of December 31, 2011 decreased by 74 basis points, from 15.56% in 2010 to 14.82% in 2011, mainly due to a 13.5% (Ps.2,549 million) increase in required regulatory capital associated with credit risk and a 12.7% (Ps.1,621 million) increase in required regulatory capital associated with market risk, which were partly offset by an increase of 4.8% (Ps.3,352 million) in total capital and a decrease of 13.7% (Ps.590 million) in required regulatory capital associated with operational risk.

(3) Our Capital Ratio as of June 30, 2012 decreased by 19 basis points, from 14.82% as of December 31, 2011 to 14.63% as of June 30, 2012, mainly due to a 15.0% (Ps.3,206 million) increase in required regulatory capital associated with credit risk and a 4.8% (Ps.180 million) increase in required regulatory capital associated with operational risk, which were partly offset by an increase of 2.7% (Ps.1,964 million) in total capital and a decrease of 12.5% (Ps.1,794 million) in required regulatory capital associated with market risk.

The Mexican government has stated that the country will be an early adopter of the Basel III international rules, which will require full implementation by 2019. Basel III is a capital and liquidity reform package for internationally active banking organizations around the world that includes, among other things, the definition of capital, capital requirements, treatment of counterparty risk, the leverage ratio and the global liquidity standard. In 2011, the CNBV announced that the proposed changes to implement Basel III will take place during 2012, but that its effectiveness is not expected until 2013. However, the exact date for the final regulations of the CNBV in relation to the Basel III capital requirements has not yet been determined. According to our estimates, we believe we and our subsidiaries will be above the 10.5% threshold that will be required under the Basel III international rules. See "Supervision and Regulation—Banking Regulation—Capitalization and Corrective Measures."

Liquidity Management

Liquidity management seeks to ensure that, even under adverse conditions, we have access to funds necessary to cover client needs, maturing liabilities and working capital requirements. Liquidity risk arises in the general funding of our financing, trading and investment activities. It includes the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates, the risk of being unable to liquidate a position in a timely manner at a reasonable price and the risk that we are required to repay liabilities earlier than anticipated.

Our general policy is to maintain adequate liquidity to ensure our ability to honor withdrawals of deposits in amounts and at times consistent with historical data, make repayment of other liabilities at maturity, extend loans and meet our own working capital needs in compliance with the applicable internal and regulatory reserve requirements and liquidity coefficients in all material respects. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities" and "Risk Management—Liquidity Risk."

Additionally, the Basel III framework will implement a liquidity coverage ratio, or "LCR," and a net stable funding ratio, or "NSFR." The LCR will require banks to maintain sufficient high-quality liquid assets to cover the net cash outflows that could be encountered under a stress scenario. The NSFR establishes a minimum amount of stable funding a bank will be required to maintain based on the liquidity of the Bank's assets and activities over a one-year period.

We have three principal sources of short-term peso funding: (i) demand deposits, comprised by interest-bearing and non-interest-bearing demand deposits, (ii) time deposits, which include short-term promissory notes with interest payable at maturity (*certificados de depósito bancario de dinero a plazo*), fixed-term deposits and foreign currency time deposits and (iii) sale and repurchase agreements.

The following table shows the composition of our short-term funding:

	As of December 31,			As of June 30,	
	2009	2010	2011	2011	2012
	(Millions of pesos)				
Demand deposits					
Interest-bearing deposits	Ps. 82,198	Ps. 101,238	Ps. 110,010	Ps. 98,910	Ps. 112,109
Non-interest-bearing deposits	48,676	55,674	68,061	57,025	92,508
Subtotal	**Ps.130,874**	**Ps.156,912**	**Ps.178,071**	**Ps.155,935**	**Ps.204,617**
Time deposits					
Notes with interest payable at maturity	104,386	107,402	115,376	125,581	114,511
Fixed-term deposits	3,494	6,732	17,779	11,306	8,295
Foreign currency time deposits	5,054	5,808	4,417	6,831	3,469
Subtotal	**Ps.112,934**	**Ps.119,942**	**Ps.137,572**	**Ps.143,718**	**Ps.126,275**
Creditors under sale and repurchase agreements	130,509	114,254	122,901	173,163	170,121
Total	**Ps.374,317**	**Ps.391,108**	**Ps.438,544**	**Ps.472,816**	**Ps.501,013**

Demand deposits are our most important funding source and are also less expensive relative to other sources of funding. Our funding strategy focuses on increasing the source of low-cost funding through new banking products and commercial campaigns oriented to grow the volume of demand deposits from our existing customers and expand our customer base. Consistent with our funding strategy, we were able to increase our non-interest-bearing demand deposits by approximately 22.22% in 2011 compared to 2010. We were able to attract higher than usual non-interest-bearing deposits as a result of tailored marketing efforts based on the extensive knowledge of our customers that we have developed using information technology and leveraged using CRM strategies. Increases in non-interest-bearing demand deposits were Ps.2,214 million for corporations, Ps.1,750 million for states and municipalities and Ps.3,985 million for governmental institutions and organizations. In addition, our non-interest-bearing deposits increased by approximately 35.9%, from Ps.68,061 million at December 31, 2011 to Ps.92,508 million at June 30, 2012.

Short-term promissory notes with interest payable at maturity (*certificados de depósito bancario de dinero a plazo*) are generally issued to meet short-term funding needs and are generally issued with maturities ranging from one to 364 days.

Sale and repurchase agreements are another important instrument in Mexico's money market as they provide short-term investments to banking customers, mainly with Mexican government-issued paper and to a lesser extent securities issued by other Mexican banks and corporations. We have used sale and repurchase agreements to achieve cost efficiencies and as an additional source of short-term funding.

The following tables show our short-term borrowings that we sold under sale and repurchase agreements for the purpose of funding our operations. The 7.6% increase in short-term borrowings at year-end from 2010 to 2011 was primarily due to an increase in our holdings of debt securities, principally Mexican government securities, which resulted in a corresponding increase in sale and repurchase agreements. See "Selected Statistical Information—Short-term Borrowings."

Short-Term Borrowings	For the six months ended June 30, 2011 Amount	2011 Average interest rate	2012 Amount	2012 Average interest rate
	(Millions of pesos, except percentages)			
Creditors under sale and repurchase agreements:				
At June 30	Ps. 173,163	4.32%	Ps.170,121	4.09%
Average during period	139,519	4.32%	176,743	4.09%
Maximum month-end balance	173,163	4.36%	207,008	4.14%
Total short-term borrowings at period end	**Ps. 173,163**	**4.32%**	**Ps.170,121**	**4.09%**

Short-Term Borrowings	For the year ended December 31, 2009 Amount	2009 Average interest rate	2010 Amount	2010 Average interest rate	2011 Amount	2011 Average interest rate
	(Millions of pesos, except percentages)					
Creditors under sale and repurchase agreements:						
At December 31	Ps.130,509	4.39%	Ps.114,254	4.41%	Ps.122,901	4.18%
Average during year	117,641	5.28%	119,684	4.41%	142,042	4.27%
Maximum month-end balance	144,302	7.59%	138,419	4.43%	177,102	4.36%
Total short-term borrowings at year end	**Ps.130,509**	4.39%	**Ps.114,254**	4.41%	**Ps.122,901**	4.18%

In the future, we expect to continue using the funding sources described above in accordance with their availability, their cost, and our asset and liability management needs. The short-term nature of these funding sources, however, increases our liquidity risk and could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed. For example, we are aware of the risk that a substantial number of our depositors may withdraw their demand deposits or not roll over their time deposits upon maturity; however, we believe we can respond to a liquidity problem by increasing the interest rates we pay on time deposits, altering our mix of funding sources and by liquidating our short-term assets. We review our pricing policy daily and we believe we are able to reflect our cost of funding in the pricing of loans effectively, reducing the impact on net income.

We also have access to long-term funding through the issuance of unsecured bonds (*certificados bursátiles bancarios*), time deposits and promissory notes with interest payable at maturity (*certificados de depósito bancario de dinero a plazo*) in the local market. As of June 30, 2012, the balance of our long-term funding outstanding in the local market totaled Ps.21,878 million including accrued interest. See "—Long-term funding outstanding."

Our funding costs have not been affected by the recent downgrades of Spain's sovereign debt, Banco Santander Spain's debt and our related downgrades, because we currently do not have outstanding debt securities in the international capital markets. For debt financing, we currently rely entirely on local, peso-denominated issuances, and we are rated mxAAA, Aaa.mx and AAA(mex) by S&P, Moody's and Fitch, respectively, with respect to our local peso-denominated long-term debt, with equivalent ratings for our local peso-denominated short-term debt.

Downgrades of Spain's sovereign debt, Banco Santander Spain's debt and our related downgrades would adversely affect our cost of funding. See "Risk Factors—Risks Associated with Our Business—Credit, market and liquidity risk may have an adverse effect on our credit ratings and our cost of funds. Any downgrading in our credit rating would likely increase our cost of funding, require us to post additional collateral or take other actions under some of our derivative contracts and adversely affect our interest margins and results of operations."

We do not rely in any material respect on funding from our parent company, Banco Santander Spain, and Banco Santander Spain does not rely in any material respect on funding from us. As such, the elimination of funding to us from Banco Santander Spain or any deterioration of Banco Santander Spain's financial condition or increase in its funding costs would not have an impact on us except to the limited extent disclosed under "Risk Factors—Risks Associated with Our Business—Credit, market and liquidity risk may have an adverse effect on our credit ratings and our cost of funds. Any downgrading in our credit rating would likely increase our cost of funding, require us to post additional collateral or take other actions under some of our derivative contracts and adversely affect our interest margins and results of operations."

Our management expects that cash flows from operations and other sources of liquidity will be sufficient to meet our liquidity requirements over the next 12 months, including our expected 2012 capital expenditures. For 2012, we have a capital expenditures budget of Ps.1,664.7 million (U.S.$124.2 million), 62% of which (Ps.1,037.8 million) will be spent on information technology and the rest on furniture, fixtures and equipment (Ps.626.9 million). In 2011, our capital expenditures were Ps.1,505.3 million (U.S.$112.3 million), 63% of which (Ps.945.5 million) was for information technology and the remainder was for furniture, fixtures and equipment (Ps.559.8 million). As of June 30, 2012, we had spent Ps.323.5 million, or 21% of our capital expenditures budget for 2012.

As of June 30, 2012, total interest-bearing liabilities denominated in dollars amounted to Ps.30,761 million, or U.S.$2,294 million, representing 5.6% of our total funding. The sources of funding denominated in U.S. dollars as of December 31, 2009, 2010 and 2011 and June 30, 2011 and 2012 were as follows:

	As of December 31,			As of June 30,	
	2009	2010	2011	2011	2012
	(Millions of pesos)				
Demand deposits	Ps. 19,954	Ps. 15,434	Ps. 16,030	Ps. 16,089	Ps. 17,609
Time deposits	5,054	5,807	4,417	6,831	3,469
Bank and other loans	3,383	8,862	11,249	14,914	9,683
Total	**Ps. 28,391**	**Ps. 30,103**	**Ps. 31,696**	**Ps. 37,834**	**Ps. 30,761**

Foreign Currency Position

Our foreign currency-denominated assets, most of which are U.S. dollar denominated, are funded from a number of sources, including: (i) savings accounts and time deposits from private banking customers and medium and large Mexican companies, primarily in the export sector; (ii) issuance of U.S. dollar-denominated certificates of deposit in the Mexican market; (iii) interbank deposits; (iv) trade and working capital financing facilities from Mexican development banks and from foreign export-import banks; and (v) issuance of euroclearable certificates of deposit for foreign investors. We also obtain funding in foreign currency by swapping funding in Mexican pesos into U.S. dollars or euros through foreign currency derivatives (foreign currency swaps and cross-currency swaps) with certain local and foreign counterparties. Foreign currency funding rates are generally referenced to the London Interbank Offered Rate, or "LIBOR."

Mexican Central Bank regulations require that a bank maintain open positions in foreign currencies no higher than a specified level with respect to its total Tier 1 capital. As of June 30, 2012, our foreign currency-denominated assets, including derivative transactions, totaled U.S.$33,042 million (Ps.443,040 million) and our foreign currency-denominated liabilities, including derivative transactions, totaled U.S.$33,214 million (Ps.445,347 million). As part of our asset and liability management strategy, we monitor closely our exposure to foreign currencies, with a view to minimizing the effect of exchange rate movements on our income.

As of June 30, 2012, we are also in compliance with the limits established for us by the Mexican Central Bank for maturity-adjusted net foreign currency-denominated liabilities, which was U.S.$9,946 million (Ps.133,360 million). As of such date, our maturity-adjusted net foreign currency-denominated liabilities were U.S.$5,694 million (Ps.76,347 million). For a discussion of the components of Tier 1 and Tier 2 Capital, see "Supervision and Regulation."

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

Deposits and Other Borrowings

The following tables set forth our average daily balance of liabilities for each of the periods presented, in each case together with the related average nominal interest rates paid thereon.

	As of June 30,					
	2011			2012		
	Average Balance	% of Total Average Liabilities and Shareholders' Equity	Average Nominal Rate	Average Balance	% of Total Average Liabilities and Shareholders' Equity	Average Nominal Rate
	(Millions of pesos, except percentages)					
Demand deposits	88,845	14.65%	1.45%	99,955	12.85%	2.12%
Time deposits	124,794	20.58%	4.01%	134,273	17.27%	4.17%
Credit instruments issued	13,449	2.22%	5.29%	21,531	2.77%	5.50%
Bank and other loans	27,451	4.53%	2.90%	21,941	2.82%	2.58%
Creditors under sale and repurchase agreements	188,428	31.07%	4.52%	278,972	35.87%	4.42%
Subordinated debentures outstanding	0	0.00%	0.00%	0	0.00%	0.00%
Subtotal interest-bearing liabilities	**442,967**	**73.05%**	**3.69%**	**556,672**	71.58%	3.91%
Non-interest-bearing liabilities	83,729	13.81%		130,902	16.83%	
Shareholders' equity	79,696	13.14%		90,069	11.59%	
Subtotal non-interest-bearing liabilities and shareholders' equity	**163,425**	**26.95%**		**220,971**	28.42%	
Total liabilities and shareholders' equity	**606,392**	**100.00%**		**777,643**	100.00%	

	As of December 31,								
	2009			2010			2011		
	Average Balance	% of Total Average Liabilities and Shareholders' Equity	Average Nominal Rate	Average Balance	% of Total Average Liabilities and Shareholders' Equity	Average Nominal Rate	Average Balance	% of Total Average Liabilities and Shareholders' Equity	Average Nominal Rate
	(Millions of pesos, except percentages)								
Demand deposits	71,199	13.61%	1.11%	63,085	12.14%	1.47%	91,577	13.79%	1.64%
Time deposits	145,905	27.89%	5.28%	113,737	21.88%	4.05%	135,273	20.37%	4.15%
Credit instruments issued	1,731	0.33%	7.22%	4,583	0.88%	5.15%	16,429	2.47%	5.44%
Bank and other loans	23,486	4.49%	5.45%	18,303	3.52%	3.50%	25,544	3.85%	3.06%
Creditors under sale and repurchase agreements	147,757	28.24%	5.93%	149,065	28.68%	4.64%	209,221	31.5%	4.48%
Subordinated debentures outstanding	4,052	0.77%	3.16%	2,778	0.53%	2.70%	0	0.00%	0.00%
Subtotal interest-bearing liabilities	394,130	75.33%	4.76%	351,551	67.63%	3.81%	478,044	71.98%	3.80%
Non-interest-bearing liabilities	56,408	10.78%		90,187	17.35%		101,398	15.27%	
Shareholders' equity	72,686	13.89%		78,082	15.02%		84,656	12.75%	
Subtotal non-interest-bearing liabilities and shareholders' equity	**129,094**	**24.67%**		**168,269**	**32.37%**		**186,054**	**28.02%**	
Total liabilities and shareholders' equity	**523,224**	**100.00%**		**519,820**	**100.00%**		**664,098**	**100.00%**	

Average time deposits as a share of average total shareholders' equity and liabilities decreased from 20.58% as of June 30, 2011 to 17.27% as of June 30, 2012, while the ratio of average demand deposits to average total shareholders' equity and liabilities decreased from 14.65% to 12.85% over the same period.

Average non-interest-bearing liabilities as a share of average total shareholders' equity and liabilities increased from 13.81% as of June 30, 2011 to 16.83% as of June 30, 2012, in line with our funding strategy to continue to utilize all sources of funding taking into account their costs, their availability and our general asset and liability management strategy.

Long-term Funding Outstanding

The following table sets forth the composition, term and rate of our long-term funding outstanding in the local market as of June 30, 2012.

Instrument	Amount(1)	Maturity Date	Rate
	(Millions of pesos)		
Unsecured Bonds(1)................................	5,000	18-Apr-13	TIIE Rate + 12 bps
Unsecured Bonds(1)................................	1,700	9-Mar-21	8.91%
Unsecured Bonds(1)................................	18	16-Apr-13	Guaranteed rate subject to IPC yield
Unsecured Bonds(1)................................	5,000	27-Jan-14	TIIE Rate + 20 bps
Unsecured Bonds(1)................................	730	27-Jan-14	TIIE Rate + 20 bps
Unsecured Bonds(1)................................	2,800	21-Sep-16	TIIE Rate + 50 bps
Unsecured Bonds(1)................................	1,300	21-Sep-16	TIIE Rate + 50 bps
Unsecured Bonds(1)................................	3,700	16-Apr-13	TIIE Rate + 15 bps
Unsecured Bonds(1)................................	4	15-Jul-13	Guaranteed rate subject to IPC yield
Structured Bank Bonds(2).......................	76	23-May-13	IPC, S&P 500, Dow Jones and Euro Stoxx 50
Structured Bank Bonds(2).......................	100	25-Jun-13	IPC, Dow Jones, Euro Stoxx 50 and Nikkei 225
Structured Bank Bonds(2).......................	749	30-Jul-13	IPC, Dow Jones, Euro Stoxx 50 and Nikkei 225
Structured Bank Bonds(2).......................	10	11-Jul-14	TIIE Rate
Structured Bank Bonds(2).......................	92	29-May-14	TIIE Rate
Structured Bank Bonds(2).......................	200	5-May-14	TIIE Rate
Structured Bank Bonds(2).......................	57	17-May-13	TIIE Rate
Structured Bank Bonds(2).......................	18	7-Aug-12	Subject to exchange rate movements
Structured Bank Bonds(2).......................	27	26-Jul-12	5.06%
	21,581		
Unpaid accrued interest...........................	297		
Total..	**21,878**		

(1) Referred to in the local Mexican market as *certificados bursátiles bancarios*.

(2) Referred to in the local Mexican market as *bonos bancarios estructurados*. Structured bank bonds are unsecured.

Off-Balance Sheet Arrangements

In the ordinary course of our business, we are a party to off-balance sheet activities to manage credit, market and operational risk and that are not reflected in our audited financial statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit. We record our off-balance sheet arrangements as memorandum accounts, which are described more fully in note 32 of our audited financial statements included elsewhere in this offering memorandum.

We provide customers with off-balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our granting of any loans, total commitment amounts do not necessarily represent our actual future cash requirements. These loan commitments totaled Ps.213,167 million, Ps.162,528 million and Ps.203,362 million as of December 31, 2010 and 2011 and June 30, 2012, respectively.

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

The following table presents our outstanding contingent loans as of December 31, 2009, 2010 and 2011 and June 30, 2011 and 2012:

	As of December 31,			As of June 30,	
	2009	2010	2011	2011	2012
	(Millions of pesos)				
Proprietary record accounts:					
Contingent assets and liabilities	Ps. 29,052	Ps. 30,638	Ps. 31,331	Ps. 40,779	Ps. 31,331
Credit commitments	146,598	213,167	162,528	256,420	203,362
Assets in trust or mandate:					
Trusts	129,671	130,423	145,755	136,825	106,747
Mandates	1,639	1,479	1,556	1,510	1,548
Assets in custody or under administration	2,353,623	2,660,335	2,891,995	2,792,509	3,016,756
Subtotal	**Ps.2,660,583**	**Ps.3,036,042**	**Ps.3,233,165**	**Ps.3,228,043**	**Ps.3,359,744**
Collateral received	31,248	35,890	42,458	65,005	54,080
Collateral received and sold or pledged as guarantee	8,880	3,207	20,442	31,414	27,540
Investment banking transactions on behalf of third parties (net)	5,708,646	4,288,193	3,779,955	4,355,123	911,572
Uncollected interest earned on past due loan portfolio(1)	691	928	701	1,441	1,092
Other accounts	258,916	278,268	394,788	341,720	421,377
Subtotal	**Ps.6,008,381**	**Ps.4,606,486**	**Ps.4,238,344**	**Ps.4,794,703**	**Ps.1,415,661**
Total	**Ps.8,668,964**	**Ps.7,642,528**	**Ps.7,471,509**	**Ps.8,022,746**	**Ps.4,775,405**

(1) This amount represents uncollected interest earned on past-due loans that is not recognized in the balance sheet or the income statement because loans that are more than 90 days past due cease to accrue interest under Mexican Banking GAAP. Once the debtor pays off the loan including this interest, the interest is recognized as income.

Contractual Obligations

The table below presents our contractual obligations at June 30, 2012.

	As of June 30, 2012				
	Payment due by period				
	Less than 1 year	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years	Total
	(Millions of pesos)				
Demand deposits	Ps. 204,617	Ps. 0	Ps. 0	Ps. 0	**Ps.204,617**
Time deposits	125,825	450	0	0	**126,275**
Credit instruments issued(1)	9,048	6,972	4,115	1,743	**21,878**
Bank and other loans	20,979	3,151	436	238	**24,804**
Creditors under sale and repurchase agreements(2)	170,121	0	0	0	**170,121**
Collateral sold or pledged as guarantee	18,766	0	0	0	**18,766**
Derivative financial instruments	11,099	12,853	15,207	48,801	**87,960**
Creditors from settlement of transactions	52,521	0	0	0	**52,521**
Sundry creditors and other payables	32,255	0	0	0	**32,255**
Total	**Ps. 645,231**	**Ps. 23,426**	**Ps.19,758**	**Ps.50,782**	**Ps.739,197**

(1) These are bank bonds issued in the local market.

(2) These are also known as "repos."

Qualitative and Quantitative Information about Derivative Financial Instruments

Principal Considerations Related to Derivative Financial Instruments Transactions

The management and review of financial derivative instruments transactions that we carry out are components of our comprehensive risk management activities. Risk management is considered a key strategic element within our and our subsidiaries' activities and includes a comprehensive treatment of the different types of risks assumed by us with respect to our transactions involving derivative financial instruments, including market risk, liquidity risk, credit risk, counterparty risk, legal risk, operational risk and technological risk.

Types of Accounting

Based on the objectives of the transaction and the nature of the inherent risk, we may record derivative financial instruments as instruments entered into for hedging purposes or for trading purposes.

Trading Markets

We trade in organized markets, stock exchanges and over-the-counter markets.

Instruments

The main derivative financial instruments that we trade are (i) forwards, (ii) futures, (iii) options, (iv) swaps, and (v) swaptions.

Eligible Counterparties

We carry out transactions with both domestic and foreign counterparties, provided that such counterparties have been approved by our internal admission of risk units. Likewise, such internal admission of risk units determine the specific requirements for each transaction in terms of margins, guarantees (personal or collateral) and available credit lines.

Documentation of Transactions

The derivative financial transactions that we enter into are documented using international form contracts known as ISDA Master Agreements or form contracts accepted by financial institutions operating in Mexico, complemented by guarantee agreements. Transactions involving derivative financial instruments and the documents used to formalize them are specifically regulated and overseen by the Mexican Central Bank and the CNBV.

Reference Variables

The most common reference variables underlying derivative transactions are: (i) exchange rates, (ii) interest rates, (iii) stocks, (iv) stock baskets, and (v) volatility.

Frequency of Valuation

Derivative financial instruments, whether for trading and hedging purposes, are valued on a daily basis.

General Description of Valuation Techniques

Financial derivative instruments are valued at fair value, in accordance with the accounting criteria of the CNBV, specifically, Criterion B-5 "Derivatives and Hedging Transactions."

Derivative Financial Instruments Entered into for Hedging Purposes

With respect to our daily commercial banking activities, we have tried to hedge the evolution and changes that affect the financial margin of the loan portfolio, which is exposed to adverse movements in interest rates. In addition, we hedge the financial margin of certain floating rate financial assets against cash flow variability. Our

Assets and Liabilities Committee, or "ALCO," is responsible for managing the portfolio of derivative financial instruments used to hedge our financial margin.

Financial assets and liabilities that are designated as and comply with the requirements to be designated as hedged items, as well as derivative financial instruments that are part of a hedging relationship, are recognized pursuant to the accounting rules relating to the recognition of gain or loss in the hedging instrument and in the hedged item, pursuant to the provisions in Criterion B-5 "Derivatives and Hedging Transactions" of the accounting criteria of the CNBV.

A hedging transaction may be designated as such when all of the following conditions are fulfilled:

- Formal designations and sufficient documentation of the hedging relationship.
- The hedge must be highly effective in offsetting changes in the fair value or in cash flows attributable to the hedged risk.
- For cash flow hedges, the forecasted transaction to be hedged must be highly likely to occur.
- The measurement of the hedge must be reliable.
- The hedge must be frequently assessed (at least on quarterly basis).

All the derivatives for hedging purposes are recognized as assets or liabilities, depending on the rights and/ or obligations that they entail, within the balance sheet, initially at their fair value (for example, the price agreed upon in the transaction).

The result (debit or credit) that arises from offsetting asset and liability positions is presented separately from the primary hedged position as part of "Derivatives," and accrued interest is presented in the income statement within "Financial Margin."

Derivatives for hedging purposes are valued at market value, and the effect is recognized depending on the type of accounting hedge, as follows:

a. *Fair Value Hedges* – Represents a hedge against exposure to changes in the fair value of recognized assets or liabilities or unrecognized firm commitments, or portions of them, attributable to specific risks that may affect the results of the period. The primary position is assessed at market value for the hedged risk and the hedging derivative instrument, and the net effect is recorded in the income statement within the item "Trading Income."

b. *Cash Flows Hedges* – Represents a hedge against the exposure to variations in cash flows of a forecasted transaction that (i) is attributable to a particular risk associated with a recognized asset or liability, or a highly probable event, that (ii) may affect the results of the period. The hedging derivative instrument is assessed at market value. The portion of the gain or loss of the hedging instrument that is effective for the hedge is recorded within comprehensive income in shareholders' equity, and the ineffective portion is recorded within the income statement as part of "Trading Income."

   The effective hedging component that is recognized in shareholders' equity related to the hedged item is adjusted to be equal to the smaller amount (in absolute terms) between the accrued gain or loss of the hedging instrument from the beginning of the hedge, and the accrued change in the present value of the expected future cash flows of the hedged item from the beginning of the hedge.

   Any remaining gain or loss of the hedging instrument is directly recognized in the income statement for the period.

We suspend hedge accounting when the derivative expires, is sold, is cancelled or exercised, when the financial derivative is not highly effective in offsetting changes in the fair value or cash flows of the hedged item, when it is expected that the forecasted transaction will not occur, or when a decision is made to cancel the hedge designation.

When the accounting of a fair value hedge is suspended, any adjustment to the book value of the hedged item attributable to the hedged risk is amortized in the income statement for the period. Amortization is carried out by using the straight line method during the remaining life of the originally hedged item.

When accounting of a cash flow hedge is suspended, the accrued gain or loss corresponding to the effective portion of the financial derivative that has been recognized in shareholders' equity as part of comprehensive income during the period that the hedge was effective, remains within shareholders' equity until the effects of the forecasted transaction affect the income statement. If the expected transaction is no longer likely to occur, the gain or loss recognized in the comprehensive income statement is immediately registered in the income statement. When the hedge of a forecasted transaction seems to be satisfactory prospectively and retrospectively is not highly effective, the accrued gain or loss corresponding to the effective portion of the derivative, registered in the shareholders' equity as part of the comprehensive income statement during the period the hedge was effective, is proportionally transferred to the income statement, insofar as the effects of the forecasted transaction affect the income statement.

The results from offsetting assets and liabilities, whether debit or credit, are presented separately from the primary hedged position as part of the "Derivatives" item.

It must be demonstrated that the hedge effectively fulfills the objective for which the financial derivative was contracted. This effectiveness requirement assumes that the hedge must comply with a maximum range of deviation with respect to the initial objective of 80% to 125%.

In order to demonstrate the effectiveness of hedges, two tests are carried out:

a. *Prospective Test:* This test demonstrates that, in the future, the hedge will be within the aforementioned range of deviation.

b. *Retrospective Test:* This test reviews if, in the past, from its initial date to the present date, the hedge has been maintained within the permitted range of deviation.

The table below shows the evolution of the quarterly average of the efficiency level of our fair value and cash flow hedges both prospectively and retrospectively:

	Fair Value Hedge		**Cash Flow Hedge**	
	Retrospective	**Prospective**	**Retrospective**	**Prospective**
2Q2012	103.00%	102.00%	104%	103%
1Q2012	101.00%	101.00%	104%	104%
4Q2011	102.00%	106.00%	104%	104%
3Q2011	103.00%	107.00%	104%	105%
2Q2011	102.00%	108.00%	105%	105%
1Q2011	112.00%	107.00%	105%	103%
4Q2010	102.00%	105.00%	105%	103%
3Q2010	103.00%	105.00%	106%	107%
2Q2010	124.00%	106.00%	105%	104%
1Q2010	102.00%	106.00%	104%	103%
4Q2009	98.00%	105.00%	104%	102%
3Q2009	95.00%	104.00%	104%	104%
2Q2009	107.00%	98.00%	103%	104%
1Q2009	99.20%	106.48%	105%	104%

Quantitative Information as of June 30, 2012

Fair Value Hedges

As of June 30, 2012, fair value hedges had a notional amount of Ps.3,226 million. The primary positions that were hedged were the commercial loan portfolio, in accordance with unaudited figures.

As of June 30, 2012, positions in fair value hedges were as follows:

Instrument	Nominal Value		Hedged Instrument
	(Millions)		
IRS	Ps.	2,699	Credit commercial portfolio
IRS	U.S.$	371	Credit commercial portfolio
CCS	U.S.$	157	Credit commercial portfolio

Our fair value hedges extend until 2023. The amount of accrued net depreciation representing the ineffectiveness of fair value hedges amounted to Ps.(12) million. The effect of valuation of the hedged primary position, recorded in the income statement in the item "Trading Income," amounted to Ps.98 million; and the effect of valuation of derivative financial instruments for fair value hedging purposes, recorded in the income statement in the item "Trading Income," amounted to Ps.(98) million.

Cash Flow Hedges

As of June 30, 2012, positions in cash flow hedges were as follows:

Instrument	Nominal Value		Hedged Instrument
	(Millions)		
IRS	Ps.	12,690	Bonos BPAT's, BONDES D
IRS	Ps.	12,135	*Depósito de Regulación Monetaria*
CCS	U.S.$	928	Credit commercial portfolio
CCS	€	169	Credit commercial portfolio
CCS	UDI	825	UDIBONO

As of June 30, 2012, Ps.787 million of the value of hedging swaps that were cancelled in previous years was transferred from shareholders' equity to the income statement. Of this amount, Ps.474 million corresponded to accrual income from valuation of the swaps that hedged BPAT's (Mexican Bank Savings Protection Bonds) and BONDES D (Federal Government Development Bonds), and Ps.313 million corresponded to accrual income from valuation of swaps that hedged the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit).

As of June 30, 2012, we maintained a balance of Ps.560 million within "Results from valuation of cash flow hedging instruments," in shareholders' equity, which corresponds to the remainder of the accrued gain, net of deferred taxes, of the effective portion of the hedging derivative recognized in shareholders' equity as part of comprehensive income during the time the hedges were effective. The aforementioned balance is being amortized in accordance with the original term of the forecasted transaction, in accordance with the amortized cost of the primary position being hedged. The term of such amortization expires in 2022.

Cash flow hedges that we carry out, in some cases, extend until 2014 for securities classified as "available for sale," as well as for the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit), and until 2022 for commercial loans denominated in foreign currency.

Each one of these hedging positions is reported in the balance sheet within "Derivatives." The results of derivative financial instruments are recorded along with the primary position, and both effects are presented within the same item in the income statement.

Our management estimates that cash flows that are hedged as forecasted transactions that will affect the income statement will occur during a period that will last until October 2016.

The effective portion of the cash flow hedges recognized in shareholders' equity as part of comprehensive income is adjusted to the lowest value (in absolute terms) between the accrued gain or loss of the hedging instrument, and the accrued change in the fair value of the cash flows of the primary position. As of June 30, 2012, given that cash flow hedges have been effective, we have not recognized any amount in the income statement with respect to the ineffective portion of the cash flow hedges, in accordance with the accounting criteria of the CNBV.

In the opinion of our management, the aforementioned derivative financial instruments for hedging purposes, both for fair value and cash flow hedges, reasonably hedge the income and financial margin against movements in market variables such as interest rates and exchange rates, for the hedged amounts.

Quantitative Information as of December 31, 2011 and 2010

Fair Value Hedges

As of December 31, 2011, positions in financial derivatives for fair value hedging purposes were as follows:

Instrument	Nominal Value		Hedged Instrument
	(Millions)		
IRS	Ps.	2,832	Credit commercial portfolio

As of December 31, 2010, positions in financial derivatives for fair value hedging purposes were as follows:

Instrument	Nominal Value		Hedged Instrument
	(Millions)		
IRS	Ps.	1,314	Credit commercial portfolio
CCS	U.S.$	27	Credit commercial portfolio

The fair value hedges that we carried out expired or will expire in different periods from 2010 to 2018.

The amount of the net accrued depreciation as of December 31, 2011 and 2010, representing the ineffectiveness of fair value hedges, was Ps.12 million and Ps.(6) million, respectively.

As of December 31, 2011 and 2010, the valuation effect of the period for the primary position hedged, registered in the income statement in "Brokerage Results" amounted to Ps.114 million and Ps.(12) million, respectively.

As of December 31, 2011 and 2010, the effect of valuation of the period for financial derivative instruments for fair value hedging purposes, registered in the income statement in "Brokerage Results" amounted to Ps.(120) million and Ps.9 million, respectively.

Cash Flow Hedges

As of December 31, 2011, positions in derivatives for cash flow hedging purposes were as follows:

Instrument	Nominal Value		Hedged Instrument
	(Millions)		
IRS	Ps.	12,690	Bonos BPAT's, BONDES D
IRS	Ps.	15,845	Deposito de Regulacion Monetaria
CCS	U.S.$	1,241	Credit commercial portfolio
CCS	€	180	Credit commercial portfolio
CCS	UDI	825	UDIBONO

As of December 31, 2010, positions in derivatives for cash flow hedging purposes were as follows:

Instrument	Nominal Value		Hedged Instrument
	(Millions)		
IRS	Ps.	20,963	Bonos BPAT's, BONDES D
IRS	Ps.	15,845	Deposito de Regulacion Monetaria
CCS	U.S.$	290	Credit commercial portfolio

As of December 31, 2011, Ps.646 million corresponding to the valuation of swaps of hedges cancelled in previous years were transferred from shareholders' equity to the income statement. Of this amount, Ps.406 million correspond to accrued income from valuation of swaps that hedged BPAT'S (Mexican Bank Savings Protection

Bonds) and BONDES D (Federal Government Development Bonds) and Ps.240 million to accrued income from valuation of swaps that hedged the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit).

As of December 31, 2011 and 2010, we maintained a balance in shareholders' equity, in "Result from valuation of cash flow hedging instruments" for Ps.1,188 million and Ps.1,619 million, respectively, that correspond to the remainder of the accrued income, net of deferred tax, from the effective portion of the hedge derivative acknowledged in shareholders' equity as a component of comprehensive income during the period the hedges were effective. Such remainder has been amortized according to the original term of the expected transaction, according to the amortized cost of the hedged primary position, and the term of such amortization expires between 2013 and 2015.

In some cases, the cash flow hedges that we carry out do not expire until 2014 for securities classified as "available for sale" and the *Depósito de Regulación Monetaria* (Monetary Regulation Deposit) regulation; and until 2022 for commercial loans in foreign currency.

Based on the above, our management declares that the effectiveness of hedges on primary positions with Interest Rate Swaps (IRS) and Cross Currency Swaps (CCS) is significant.

Each one of these hedging positions is presented in the balance sheet within "Derivatives." The results of financial derivative instruments are recorded along with the primary position, and both effects are presented within the same item in the income statement.

Our management estimates that cash flows that are hedged as expected transactions that will affect the income statement will occur during a period that will last from January 2011 until October 2016.

The effective portion of the cash flow hedges recognized in shareholders' equity as part of comprehensive income is adjusted to the lowest value (in absolute terms) between the accrued profit or loss of the hedging financial derivative instrument and the accrued change in the fair value of the cash flows of the primary position. As of December 31, 2011 and 2010, given that cash flow hedges have been effective, we have not recognized any amount in the income statement with respect to the ineffective portion of the cash flow hedges, pursuant to the provisions of the accounting criteria of the CNBV.

In the opinion of our management, the aforementioned derivative financial instruments for hedging purposes, both for fair value and cash flow hedges, reasonably hedge the profits and financial margin against movements in market variables such as interest rates and exchange rates, for the hedged amounts.

Financial Derivative Instruments Entered into for Trading Purposes

Organized Markets. Valuation is carried out based in the closing price in the corresponding market. Prices are provided by the price vendor, and the price provided is used as value.

Over-the-Counter Market ("OTC"). In the case of derivative financial instruments with different options, in the majority of the cases the Black Scholes model is used for their valuation. Such model assumes that the underlying security follows a lognormal distribution. For special or more sophisticated financial derivative instruments, or when payment depends on the performance of any market variable, MonteCarlo simulations are used for their assessment. In this case, it is assumed that logarithms of the variables involved follow a multivariate normal distribution. In the case of financial derivative instruments with no options, the valuation technique is to obtain the present value of the estimated future cash flows.

In every case, we carry out valuations of our positions and record the results. In some cases, an independent calculation agent is designated, which may be the counterparty or a third party and the value provided by the calculation agent is used as the recorded value.

Sensitivity Analysis

Measures of market risk sensitivity, related to securities and financial derivative instruments, are those that measure the variation (sensitivity) of the market value of the corresponding financial instrument in response to variations in each one of the risk factors associated with such financial instrument.

The sensitivity of the value of a financial instrument to modifications in market conditions is obtained via the complete revaluation of the instrument.

Next, we provide a list of the sensitivities according to each risk factor and the historical consumptions related to the trading book.

Our management strategy is constituted by positions of securities and financial derivative instruments. Derivative financial instruments are contracted mainly to mitigate the market risk of securities; consequently, the sensitivities or exposures listed below include both types of instruments as a whole.

Sensitivity to the "Interest Rate" Risk Factor (Rho)

The table below represents the sensitivity to interest rate that corresponds to the position of the trading book. This sensitivity quantifies the variations in the value of the financial instruments of such portfolio in response to a parallel increment in the curves of interest rate of 1 basis point.

The total exposures derived from this sensitivity measure for our trading book at the closing of each quarter, in millions of pesos (includes securities and derivative financial instruments) are as follows:

	Interest Rate sensitivity to 1 bp	
	Sensitivity Pesos	**Sensitivity Other**
	(Millions of pesos)	
2Q2012	(7.26)	(0.64)
1Q2012	(6.48)	(1.22)
4Q2011	(5.51)	0.08
3Q2011	(5.83)	(3.86)
2Q2011	(3.68)	(1.24)
1Q2011	(0.31)	0.05
4Q2010	(10.63)	(1.30)
3Q2010	(14.38)	(1.50)
2Q2010	(4.06)	(1.36)
1Q2010	(10.45)	(1.40)
4Q2009	(13.45)	(1.37)
3Q2009	(2.29)	(1.29)
2Q2009	(14.32)	(2.66)
1Q2009	(10.61)	(2.45)

Delta Sensitivity to the "Equity" Risk Factor (Delta EQ)

Delta EQ shows the change in portfolio value in relation to changes in the prices of equities.

The Delta EQ, calculated for derivative financial instruments, considered the relative variation of 1% of the underlying equity's prices. For equity securities it considers the relative variation of 1% of the market price.

The following table shows the total exposures derived from this sensitivity measure for our trading book at the end of each quarter, in millions of pesos (includes both: securities and derivative financial instruments):

	Delta EQ			
	4Q	3Q	2Q	1Q
	(Millions of pesos)			
2012			3.44	2.88
2011	0.07	7.18	0.37	0.84
2010	3.73	4.49	1.38	5.55
2009	4.70	3.15	(0.17)	0.90

Sensitivity to the "Foreign Exchange" Risk Factor (Delta FX)

Delta FX shows the change in portfolio value in relation to changes in the prices of foreign exchange assets.

The calculated Delta FX, for derivative financial instruments, includes the relative variation of 1% in the prices of underlying foreign exchange assets. In the case of positions in foreign currencies, it considers the relative variation of 1% of the corresponding foreign exchange rate.

The following table displays the total exposures derived from this sensitivity measure for our trading book at the end of each quarter, in millions of pesos (includes both securities and derivative financial instruments):

	Delta FX			
	4Q	3Q	2Q	1Q
	(Millions of pesos)			
2012			(7.32)	6.77
2011	1.78	2.17	0.20	3.38
2010	0.17	2.61	(3.74)	16.71
2009	(4.54)	3.65	(3.20)	5.14

Sensitivity to the "Volatility" Risk Factor (Vega)

The sensitivity measure derived from changes in volatility of the underlying asset (reference asset). Vega sensitivity measures the rate of change of the value of the derivative financial instrument with respect to changes in its volatility.

The calculated Vega sensitivity considers the absolute variation of 1% in the volatility associated to the underlying asset value.

The table below displays the total exposures derived from this sensitivity measure for our trading book at the end of each quarter, in millions of pesos.

	Vega		
	Vega IR	Vega EQ	Vega FX
	(Millions of pesos)		
2Q2012	(6.63)	1.29	(0.73)
1Q2012	(2.16)	1.55	0.43
4Q2011	(5.51)	(4.38)	1.05
3Q2011	(6.71)	(5.52)	0.79
2Q2011	(3.51)	(4.49)	(4.17)
1Q2011	(8.88)	5.69	1.13
4Q2010	(8.52)	0.13	(1.28)
3Q2010	(2.85)	(4.06)	(3.51)
2Q2010	(3.87)	(4.95)	(4.60)
1Q2010	(5.17)	(0.84)	(6.47)
4Q2009	(6.87)	(4.48)	(4.41)
3Q2009	(3.28)	(0.40)	0.50
2Q2009	(3.41)	(6.70)	(0.15)
1Q2009	(2.13)	(9.46)	(3.75)

Stress Tests

Below we present the different stress test scenarios based on different hypotheticals calculated for our trading book. This information is presented in accordance with Mexican Banking GAAP, which is what our management uses for the purpose of conducting these stress tests.

Probable Scenario

This scenario was defined based on movements derived from a standard deviation, with respect to risk factors that have an influence on the valuation of financial instruments included in our trading book for each period. In summary, the movements applied to each risk factor were as follows:

- Interest rate ("IR"), volatility ("Vol") and exchange rate ("FX") risk factors were increased by 1 standard deviation.
- Equity risk factors ("EQ") were decreased by 1 standard deviation.

The following table displays the possible gains (losses) for our trading book at the end of each quarter in the years presented, in millions of pesos, according to this stress scenario:

	Probable Scenario			
	As of March 31	As of June 30	As of September 30	As of December 31
	(Millions of pesos)			
2012	Ps. (84)	Ps. (92)		
2011	(145)	(122)	Ps. (94)	Ps. (90)
2010	(154)	(22)	(179)	(217)
2009	8	(194)	(142)	(173)

Possible Scenario

Under this scenario, risk factors were modified by 25%. In summary, the movements applied to each risk factor were as follows:

- Risk factors: IR, Vol and FX were multiplied by 1.25 (they were increased in 25%).
- Risk factors EQ were multiplied by 0.75 (they were decreased in 25%).

The following table shows the possible profits (losses) for our trading book at the end of each quarter in the years presented, in millions of pesos, under this stress scenario:

	Possible Scenario			
	As of March 31	As of June 30	As of September 30	As of December 31
	(Millions of pesos)			
2012	Ps. (1,362)	Ps. (811)		
2011	(1,268)	(1,618)	Ps. (1,122)	Ps. (1,112)
2010	(645)	(141)	(2,501)	(1,033)
2009	(2,641)	(2,252)	(382)	(1,340)

Remote Scenario

Under this scenario, risk factors were modified by 50%. In summary, the modifications applied to each risk factor were as follows:

- Risk factors IR, Vol and FX were multiplied by 1.50 (i.e., they were increased by 50%).
- Risk factors EQ were multiplied by 0.5 (i.e., they were decreased by 50%).

The following table shows the possible profits (losses) for Banco Santander Mexico's trading book at the end of each quarter in the years presented, in millions of pesos, pursuant to this stress scenario:

	Remote Scenario			
	As of March 31	**As of June 30**	**As of September 30**	**As of December 31**
	(Millions of pesos)			
2012	Ps. (2,830)	Ps. (1,530)		
2011	(2,855)	(3,441)	Ps. (1,516)	Ps. (2,039)
2010	(140)	782	(3,659)	(933)
2009	(1,806)	(1,638)	(530)	(1,764)

SELECTED STATISTICAL INFORMATION

The following information should be read in conjunction with "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements included elsewhere in this offering memorandum.

Unless otherwise specified, in accordance with Mexican Banking GAAP, our financial statements and the other financial information about us contained in this offering memorandum are presented in consolidated form. Our associated companies that we do not consolidate, which represent less than 0.5% of our net income, are accounted for under the equity method. See note 16 to our audited financial statements included elsewhere in this offering memorandum.

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

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

The loan portfolio information provided in this "Selected Statistical Information" was determined in accordance with the manner in which we have presented the components of our loan portfolio elsewhere in this offering memorandum. Presentation of the financial and statistical information included in this "Selected Statistical Information" may differ from the manner of presentation required by Mexican Banking GAAP for the presentation of our financial statements.

Average Balance Sheet and Interest Rates

Peso-Denominated Average Balances and Interest Income. Average balances for assets and liabilities denominated in pesos have been calculated in the following manner. For interest-earning assets and interest-bearing liabilities, daily average balances are used. For non-interest-earning assets and non-interest-bearing liabilities, daily average balances are also used. Interest income (expense) for the period is the total of the interest income (expense) for the six or twelve months so determined.

Foreign Currency Average Balances and Interest Income. Average balances and interest income (expense) for foreign currency denominated assets and liabilities have been translated into U.S. dollars and then expressed in pesos in the following manner. In the case of interest-earning assets and interest-bearing-liabilities, for each month, a daily average dollar balance and the interest income (expense) for such month was determined. Such balances determined for each month were then translated into pesos at the applicable daily interbank exchange rate as authorized by the CNBV for accounting purposes for such day.

For non-interest-earning assets and non-interest-bearing liabilities, for each month, a daily average dollar balance for such month was determined. Such balances determined for each month were then translated into pesos at the applicable daily interbank exchange rate as authorized by the CNBV for accounting purposes.

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

The following tables show, by currency of denomination, our average balance of assets and liabilities and interest rate on interest-earning assets and interest-bearing liabilities for each of the periods presented.

Average Balance Sheets, Income from Interest-Earning Assets and Interest on Interest-Bearing Liabilities

	For the six months ended June 30,					
	June 2011			June 2012		
	Average balance	Interest	Average Nominal Rate	Average balance	Interest	Average Nominal Rate
	(Millions of pesos, except percentages)					
Funds available						
Pesos	40,909	1,230	6.01%	45,862	1,421	6.20%
Foreign currency(1)	11,171	18	0.32%	18,966	25	0.26%
Total	**52,080**	**1,248**	4.79%	**64,828**	**1,446**	4.46%
Margin accounts						
Pesos	4,157	95	4.57%	1,801	42	4.66%
Foreign currency(1)	301	0	0.00%	352	0	0.00%
Total	**4,458**	**95**	4.26%	**2,153**	**42**	3.90%
Investment in securities						
Pesos	184,472	5,538	6.00%	239,168	6,502	5.44%
Foreign currency(1)	2,874	84	5.85%	2,537	38	3.00%
Total	**187,346**	**5,622**	6.00%	**241,705**	**6,540**	5.41%
Debtors under sale and repurchase agreements						
Pesos	27,615	628	4.55%	56,101	1,275	4.55%
Total	**27,615**	**628**	4.55%	**56,101**	**1,275**	4.55%
Credit card performing loan portfolio						
Pesos	24,295	3,148	25.91%	30,425	3,801	24.99%
Total	**24,295**	**3,148**	25.91%	**30,425**	**3,801**	24.99%
Non-credit card performing loan portfolio						
Pesos	193,433	10,139	10.48%	236,301	13,162	11.14%
Foreign currency(1)	35,613	506	2.84%	47,640	702	2.95%
Total	**229,046**	**10,645**	9.30%	**283,941**	**13,864**	9.77%
Loan origination fees						
Pesos		270			330	
Total		**270**			**330**	
Total interest-earning assets						
Pesos	474,881	21,048	8.86%	609,658	26,533	8.70%
Foreign currency(1)	49,959	608	2.43%	69,495	765	2.20%
Total	**524,840**	**21,656**	8.25%	**679,153**	**27,298**	8.04%
Cash due from banks						
Pesos	10,091			9,551		
Foreign currency(1)	1,463			2,011		
Total	**11,554**			**11,562**		
Allowance for loan losses						
Pesos	(10,554)			(10,396)		
Foreign currency(1)	(285)			(368)		
Total	**(10,839)**			**(10,764)**		
Property, furniture and fixtures (net)						
Pesos	5,386			6,902		
Total	**5,386**			**6,902**		

	For the six months ended June 30,					
	June 2011			June 2012		
	Average balance	Interest	Average Nominal Rate	Average balance	Interest	Average Nominal Rate
	(Millions of pesos, except percentages)					
Equity investments						
Pesos	14,391			1,802		
Foreign currency(1)	936			217		
Total	**15,327**			**2,019**		
Other non-interest-earning assets						
Pesos	59,153			85,961		
Foreign currency(1)	971			2,810		
Total	**60,124**			**88,771**		
Total assets						
Pesos	553,348	21,048	7.61%	703,478	26,533	7.54%
Foreign currency(1)	53,044	608	2.29%	74,165	765	2.06%
Total	**606,392**	**21,656**	**7.14%**	**777,643**	**27,298**	**7.02%**

(1) Represents assets or liabilities denominated in foreign currencies. Values are presented in pesos.

	For the six months ended June 30,					
	2011			2012		
	Average balance	Interest	Average Nominal Rate	Average balance	Interest	Average Nominal Rate
	(Millions of pesos, except percentages)					
Demand deposits						
Pesos	72,807	640	1.76%	83,158	1,058	2.54%
Foreign currency(1)	16,038	3	0.04%	16,797	3	0.04%
Total	**88,845**	**643**	**1.45%**	**99,955**	**1,061**	**2.12%**
Time deposits						
Customer Deposits:						
Pesos	98,613	2,106	4.27%	122,427	2,685	4.39%
Foreign currency(1)	10,451	34	0.65%	7,825	20	0.51%
Money market:						
Pesos	15,730	364	4.63%	4,021	93	4.63%
Total	**124,794**	**2,504**	**4.01%**	**134,273**	**2,798**	**4.17%**
Credit instruments issued						
Pesos	13,256	352	5.31%	21,393	590	5.52%
Foreign currency(1)	193	4	4.15%	138	2	2.90%
Total	**13,449**	**356**	**5.29%**	**21,531**	**592**	**5.50%**
Bank and other loans						
Demand loans:						
Pesos	7,450	170	4.56%	914	22	4.81%
Foreign currency(1)	8,671	19	0.44%	5,005	8	0.32%
Other loans:						
Pesos	6,724	175	5.21%	8,368	200	4.78%
Foreign currency(1)	4,606	34	1.48%	7,654	53	1.38%
Total	**27,451**	**398**	**2.90%**	**21,941**	**283**	**2.58%**

	For the six months ended June 30,					
	2011			2012		
	Average balance	Interest	Average Nominal Rate	Average balance	Interest	Average Nominal Rate
	(Millions of pesos, except percentages)					
Creditors under sale and repurchase agreements and securities loans						
Pesos	188,428	4,261	4.52%	278,972	6,159	4.42%
Total	**188,428**	**4,261**	**4.52%**	**278,972**	**6,159**	**4.42%**
Total interest-bearing liabilities						
Pesos	403,008	8,068	4.00%	519,253	10,807	4.16%
Foreign currency(1)	39,959	94	0.47%	37,419	86	0.46%
Total	**442,967**	**8,162**	**3.69%**	**556,672**	**10,893**	**3.91%**
Non-interest-bearing liabilities						
Pesos	74,314			98,603		
Foreign currency(1)	9,415			32,299		
Total	**83,729**			**130,902**		
Shareholders' equity						
Pesos	79,696			90,069		
Total	**79,696**			**90,069**		
Total liabilities and shareholders' equity						
Pesos	557,018	8,068	2.90%	707,925	10,807	3.05%
Foreign currency(1)	49,374	94	0.38%	69,718	86	0.25%
Total	**606,392**	**8,162**	**2.69%**	**777,643**	**10,893**	**2.80%**

(1) Represents assets or liabilities denominated in foreign currencies. Values are presented in pesos.

	For the year ended December 31,								
	2009			2010			2011		
	Average balance	Interest	Average Nominal Rate	Average balance	Interest	Average Nominal Rate	Average balance	Interest	Average Nominal Rate
	(Millions of pesos, except percentages)								
Funds available									
Pesos	42,286	2,827	6.69%	43,576	2,757	6.33%	42,792	2,601	6.08%
Foreign currency(1)	39,651	320	0.81%	14,752	36	0.24%	12,895	21	0.16%
Total	**81,937**	**3,147**	**3.84%**	**58,328**	**2,793**	**4.79%**	**55,686**	**2,622**	**4.71%**
Margin accounts									
Pesos	4,071	251	6.17%	3,637	180	4.95%	3,846	176	4.58%
Foreign currency(1)	0	0	0.00%	216	0	0.00%	396	0	0.00%
Total	**4,071**	**251**	**6.17%**	**3,853**	**180**	**4.67%**	**4,242**	**176**	**4.15%**
Investment in securities									
Pesos	132,071	11,036	8.36%	152,176	10,244	6.73%	193,906	11,396	5.88%
Foreign currency(1)	6,727	453	6.73%	4,266	285	6.68%	2,938	171	5.82%
Total	**138,798**	**11,489**	**8.28%**	**156,442**	**10,529**	**6.73%**	**196,844**	**11,567**	**5.88%**
Debtors under sale and repurchase agreements									
Pesos	29,372	1,953	6.65%	22,498	1,066	4.74%	38,906	1,789	4.60%
Total	**29,372**	**1,953**	**6.65%**	**22,498**	**1,066**	**4.74%**	**38,906**	**1,789**	**4.60%**

	For the year ended December 31,								
	2009			2010			2011		
	Average balance	Interest	Average Nominal Rate	Average balance	Interest	Average Nominal Rate	Average balance	Interest	Average Nominal Rate
	(Millions of pesos, except percentages)								
Credit card performing loan portfolio									
Pesos	38,458	10,591	27.54%	26,240	7,122	27.14%	25,719	6,590	25.62%
Total	**38,458**	**10,591**	**27.54%**	**26,240**	**7,122**	**27.14%**	**25,719**	**6,590**	**25.62%**
Non-credit card performing loan portfolio									
Pesos	147,915	17,183	11.62%	158,089	16,791	10.62%	204,912	22,464	10.96%
Foreign currency(1)	23,051	719	3.12%	20,172	532	2.64%	41,052	1,085	2.64%
Total	**170,966**	**17,902**	**10.47%**	**178,261**	**17,323**	**9.72%**	**245,964**	**23,549**	**9.57%**
Loan origination fees									
Pesos		601			613			592	
Total		**601**			**613**			**592**	
Total interest-earning assets									
Pesos	394,173	44,442	11.27%	406,216	38,773	9.54%	510,081	45,608	8.94%
Foreign currency(1)	69,429	1,492	2.15%	39,406	853	2.16%	57,281	1,277	2.23%
Total	**463,602**	**45,934**	**9.91%**	**445,622**	**39,626**	**8.89%**	**567,361**	**46,885**	**8.26%**
Cash due from banks									
Pesos	9,067			9,159			9,479		
Foreign currency(1)	1,632			1,302			1,584		
Total	**10,699**			**10,461**			**11,063**		
Allowance for loan losses									
Pesos	(9,358)			(10,541)			(10,782)		
Foreign currency(1)	(231)			(206)			(310)		
Total	**(9,589)**			**(10,747)**			**(11,092)**		
Property, furniture and fixtures (net)									
Pesos	7,393			5,207			5,442		
Total	**7,393**			**5,207**			**5,442**		
Equity investments									
Pesos	16,649			13,330			14,830		
Foreign currency(1)	1,238			399			763		
Total	**17,887**			**13,729**			**15,593**		
Other non-interest-bearing assets									
Pesos	32,491			51,355			70,240		
Foreign currency(1)	741			4,193			5,490		
Total	**33,232**			**55,548**			**75,730**		
Total assets									
Pesos	450,415	44,442	9.87%	474,726	38,773	8.17%	599,290	45,608	7.61%
Foreign currency(1)	72,809	1,492	2.05%	45,094	853	1.89%	64,808	1,277	1.97%
Total	**523,224**	**45,934**	**8.78%**	**519,820**	**39,626**	**7.62%**	**664,097**	**46,885**	**7.06%**

(1) Represents assets or liabilities denominated in foreign currencies. Values are presented in pesos.

	For the year ended December 31,								
	2009			2010			2011		
	Average balance	Interest	Average Nominal Rate	Average balance	Interest	Average Nominal Rate	Average balance	Interest	Average Nominal Rate
	(Millions of pesos, except percentages)								
Demand deposits									
Pesos	52,460	771	1.47%	45,883	922	2.01%	75,515	1,497	1.98%
Foreign currency(1)	18,739	16	0.09%	17,202	7	0.04%	16,062	6	0.04%
Total	**71,199**	**787**	**1.11%**	**63,085**	**929**	**1.47%**	**91,577**	**1,503**	**1.64%**
Time deposits									
Customer Deposits:									
Pesos	97,024	5,135	5.29%	92,363	4,021	4.35%	107,452	4,745	4.42%
Foreign currency(1)	7,413	34	0.46%	9,851	30	0.30%	9,736	26	0.27%
Money market:									
Pesos	41,468	2,528	6.10%	11,523	557	4.83%	18,085	841	4.65%
Total	**145,905**	**7,697**	**5.28%**	**113,737**	**4,608**	**4.05%**	**135,273**	**5,612**	**4.15%**
Credit instruments issued									
Pesos	1,703	124	7.28%	4,495	232	5.16%	16,229	887	5.47%
Foreign currency(1)	28	1	3.57%	88	4	4.55%	200	6	3.00%
Total	**1,731**	**125**	**7.22%**	**4,583**	**236**	**5.15%**	**16,429**	**893**	**5.44%**
Bank and other loans									
Demand loans:									
Pesos	5,980	335	5.60%	6,632	298	4.49%	6,153	280	4.55%
Foreign currency(1)	153	0	0.00%	4,298	11	0.26%	6,196	27	0.44%
Other loans:									
Pesos	14,741	932	6.32%	6,192	287	4.64%	7,245	387	5.34%
Foreign currency(1)	2,612	13	0.50%	1,181	44	3.73%	5,950	87	1.46%
Total	**23,486**	**1,280**	**5.45%**	**18,303**	**640**	**3.50%**	**25,544**	**781**	**3.06%**
Creditors under sale and repurchase agreements and securities loans									
Pesos	147,757	8,755	5.93%	149,065	6,923	4.64%	209,221	9,383	4.48%
Total	**147,757**	**8,755**	**5.93%**	**149,065**	**6,923**	**4.64%**	**209,221**	**9,383**	**4.48%**
Subordinated debentures outstanding									
Pesos									
Foreign currency(1)	4,052	128	3.16%	2,778	75	2.70%			
Total	**4,052**	**128**	**3.16%**	**2,778**	**75**	**2.70%**			
Total interest-bearing liabilities									
Pesos	361,133	18,580	5.14%	316,153	13,240	4.19%	439,900	18,020	4.10%
Foreign currency(1)	32,997	192	0.58%	35,398	171	0.48%	38,144	152	0.40%
Total	**394,130**	**18,772**	**4.76%**	**351,551**	**13,411**	**3.81%**	**478,044**	**18,172**	**3.80%**
Non-interest-bearing liabilities									
Pesos	55,030			84,863			77,149		
Foreign currency(1)	1,378			5,324			24,249		
Total	**56,408**			**90,187**			**101,398**		
Shareholders' equity									
Pesos	72,686			78,082			84,656		
Total	**72,686**			**78,082**			**84,656**		
Total liabilities and shareholders' equity									
Pesos	488,849	18,580	3.80%	479,098	13,240	2.76%	601,705	18,020	2.99%
Foreign currency(1)	34,375	192	0.56%	40,722	171	0.42%	62,393	152	0.24%
Total	**523,224**	**18,772**	**3.59%**	**519,820**	**13,411**	**2.58%**	**664,098**	**18,172**	**2.74%**

(1) Represents assets or liabilities denominated in foreign currencies. Values are presented in pesos.

Changes in Financial Margin—Volume and Rate Analysis

The following tables allocate the changes in our financial margin between changes in average volume and changes in average interest rate for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 and the year ended December 31, 2011 compared to the year ended December 31, 2010. We have calculated volume variances based on movements in average balances over the period and rate variance based on changes in interest rates on average interest-earning assets and average interest-bearing liabilities. We have allocated variances caused by changes in both volume and rate to volume. You should read the following tables and the footnotes thereto in light of our observations noted in "—Average Balance Sheet and Interest Rates."

Change in Financial Margin

	For the six months ended June 30, 2011 and 2012		
INTEREST-EARNING ASSETS	**Volume**	**Interest Rate**	**Net Change**
	(Millions of pesos)		
Funds available			
Pesos	153	38	191
Foreign currency(1)	10	(3)	7
Total	**163**	**35**	**198**
Margin accounts			
Pesos	(55)	2	(53)
Total	**(55)**	**2**	**(53)**
Investment in securities			
Pesos	1,483	(519)	964
Foreign currency(1)	(5)	(41)	(46)
Total	**1,478**	**(560)**	**918**
Debtors under sale and repurchase agreements			
Pesos	648	(1)	647
Total	**648**	**(1)**	**647**
Credit card performing loan portfolio			
Pesos	765	(112)	653
Total	**765**	**(112)**	**653**
Non-credit card performing loan portfolio			
Pesos	2,388	635	3,023
Foreign currency(1)	177	19	196
Total	**2,565**	**654**	**3,219**
Loan origination fees			
Pesos	60	0	60
Total	**60**	**0**	**60**
Total interest-earning assets			
Pesos	5,442	43	5,485
Foreign currency(1)	182	(25)	157
Total	**5,624**	**18**	**5,642**

(1) Represents assets or liabilities denominated in foreign currencies. Values are presented in pesos.

INTEREST-BEARING LIABILITIES	For the six months ended June 30, 2011 and 2012		
	Volume	Interest Rate	Net Change
	(Millions of pesos)		
Demand deposits			
Pesos	133	286	419
Foreign currency(1)	0	(1)	(1)
Total	**133**	**285**	**418**
Time deposits			
Customer Deposits:			
Pesos	522	57	579
Foreign currency(1)	(7)	(7)	(14)
Money market:			
Pesos	(271)	0	(271)
Total	**244**	**50**	**294**
Credit instruments issued			
Pesos	224	14	238
Foreign currency(1)	(1)	(1)	(2)
Total	**223**	**13**	**236**
Creditors under sale and repurchase agreements and securities loans			
Pesos	1,996	(98)	1,898
Total	**1,996**	**(98)**	**1,898**
Bank and other loans			
Demand loans:			
Pesos	(157)	9	(148)
Foreign currency(1)	(6)	(5)	(11)
Other loans:			
Pesos	39	(14)	25
Foreign currency(1)	21	(2)	19
Total	**(103)**	**(12)**	**(115)**
Total interest-bearing liabilities			
Pesos	2,486	254	2,740
Foreign currency(1)	7	(16)	(9)
Total	**2,493**	**238**	**2,731**

(1) Represents assets or liabilities denominated in foreign currencies. Values are presented in pesos.

INTEREST-EARNING ASSETS	For the year ended December 31, 2010 and 2011		
	Volume	Interest Rate	Net Change
	(Millions of pesos)		
Funds available			
Pesos	(48)	(108)	(156)
Foreign currency(1)	(3)	(12)	(15)
Total	**(51)**	**(120)**	**(171)**
Margin accounts			
Pesos	10	(14)	(4)
Total	**10**	**(14)**	**(4)**

INTEREST-EARNING ASSETS	For the year ended December 31, 2010 and 2011		
	Volume	Interest Rate	Net Change
	(Millions of pesos)		
Investment in securities			
Pesos	2,453	(1,301)	1,152
Foreign currency(1)	(77)	(37)	(114)
Total	**2,376**	**(1,338)**	**1,038**
Debtors under sale and repurchase agreements			
Pesos	754	(31)	723
Total	**754**	**(31)**	**723**
Credit card performing loan portfolio			
Pesos	(133)	(399)	(532)
Total	**(133)**	**(399)**	**(532)**
Non-credit card performing loan portfolio			
Pesos	5,133	540	5,673
Foreign currency(1)	552	1	553
Total	**5,685**	**541**	**6,226**
Loan origination fees			
Pesos	(21)	0	(21)
Total	**(21)**	**0**	**(21)**
Total interest-earning assets			
Pesos	8,148	(1,313)	6,835
Foreign currency(1)	472	(48)	424
Total	**8,620**	**(1,361)**	**7,259**

(1) Represents assets or liabilities denominated in foreign currencies. Values are presented in pesos.

INTEREST-BEARING LIABILITIES	December 31, 2010 and 2011		
	Volume	Interest Rate	Net Change
	(Millions of pesos)		
Demand deposits			
Pesos	587	(12)	575
Foreign currency(1)	0	(1)	(1)
Total	**587**	**(13)**	**574**
Time deposits			
Customer Deposits:			
Pesos	666	58	724
Foreign currency(1)	0	(4)	(4)
Money market:			
Pesos	305	(21)	284
Total	**971**	**33**	**1,004**
Credit instruments issued			
Pesos	641	14	655
Foreign currency(1)	3	(1)	2
Total	**644**	**13**	**657**
Creditors under sale and repurchase agreements and securities loans			
Pesos	2,698	(238)	2,460
Total	**2,698**	**(238)**	**2,460**

INTEREST-BEARING LIABILITIES	December 31, 2010 and 2011		
	Volume	Interest Rate	Net Change
	(Millions of pesos)		
Bank and other loans			
Demand loans:			
Pesos	(22)	4	(18)
Foreign currency(1)	8	8	16
Other loans:			
Pesos	56	44	100
Foreign currency(1)	70	(27)	43
Total	**112**	**29**	**141**
Subordinated debentures outstanding			
Foreign currency(1)	0	(75)	(75)
Total	**0**	**(75)**	**(75)**
Total interest-bearing liabilities			
Pesos	4,931	(151)	4,780
Foreign currency(1)	81	(100)	(19)
Total	**5,012**	**(251)**	**4,761**

(1) Represents assets or liabilities denominated in foreign currencies. Values are presented in pesos.

Assets

Earning Assets—Yield Spread

The following tables analyze our average earning assets, interest income and dividends on equity securities and financial margin and shows gross yields, net yields and yield spread for each of the periods indicated. You should read this table and the footnotes thereto in light of our observations noted in "—Average Balance Sheet and Interest Rates."

	For the year ended December 31,			For the six months ended June 30,	
	2009	2010	2011	2011	2012
	(Millions of pesos, except percentages)				
Average earning assets					
Pesos	394,173	406,216	510,081	474,881	609,658
Foreign currency(1)	69,429	39,406	57,281	49,959	69,495
Total	**463,602**	**445,622**	**567,361**	**524,840**	**679,153**
Financial margin					
Pesos	25,862	25,533	27,588	12,980	15,726
Foreign currency(1)	1,300	682	1,125	514	679
Total	**27,162**	**26,215**	**28,713**	**13,494**	**16,405**
Gross yield(2)					
Pesos	11.27%	9.54%	8.94%	8.86%	8.70%
Foreign currency(1)	2.15%	2.16%	2.23%	2.43%	2.20%
Total	**9.91%**	**8.89%**	**8.26%**	**8.25%**	**8.04%**
Net yield(3)					
Pesos	6.56%	6.29%	5.41%	5.47%	5.16%
Foreign currency(1)	1.87%	1.73%	1.96%	2.06%	1.96%
Total	**5.86%**	**5.88%**	**5.06%**	**5.14%**	**4.83%**

	For the year ended December 31,			For the six months ended June 30,	
	2009	2010	2011	2011	2012
	(Millions of pesos, except percentages)				
Yield spread(4)					
Pesos	6.13%	5.35%	4.84%	4.86%	4.54%
Foreign currency(1)	1.57%	1.68%	1.83%	1.96%	1.74%
Total	**5.15%**	**5.08%**	**4.46%**	**4.57%**	**4.13%**

(1) Represents assets or liabilities denominated in foreign currencies. Values are presented in pesos.

(2) Gross yield is the quotient of interest income divided by average interest-earning assets, which are funds available, investment in securities, loan portfolio, debtors under sale and repurchase agreements and other financial assets that yield interest income.

(3) Net yield is the quotient of financial margin divided by average earning assets.

(4) Yield spread is the difference between gross yield on earning assets and the average cost of interest-bearing liabilities.

Return on Average Equity and Assets

The following tables present our selected financial ratios for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2009	2010	2011	2011	2012
ROAA: Return on average total assets	2.14%	2.48%	2.06%	2.13%	2.60%
ROAE: Return on average shareholders' equity	15.38%	16.50%	16.18%	16.18%	22.45%
Dividend pay-out ratio(1)	50.00%	n/a	55.56%	n/a	n/a
Average shareholders' equity as a percentage of average total assets	13.89%	15.02%	12.75%	13.14%	11.58%

(1) Dividends paid per share divided by net income per share.

Interest-Earning Assets

The following table shows the percentage mix of our average interest-earning assets for the years indicated. You should read this table in light of our observations noted in "—Average Balance Sheet and Interest Rates."

	For the year ended December 31,			For the six months ended June 30,	
	2009	2010	2011	2011	2012
Funds available	17.67%	13.09%	9.81%	9.92%	9.55%
Margin accounts	0.88%	0.86%	0.75%	0.85%	0.32%
Investment in securities	29.94%	35.11%	34.70%	35.70%	35.59%
Debtors under sale and repurchase agreements	6.34%	5.05%	6.86%	5.26%	8.26%
Credit card performing loan portfolio	8.30%	5.89%	4.53%	4.63%	4.48%
Non-credit card performing loan portfolio	36.87%	40.00%	43.35%	43.64%	41.80%
Total interest-earning assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Investment in Securities

As of December 31, 2010 and 2011 and June 30, 2012, the book value of our investment in securities was Ps.204.2 billion, Ps.221.9 billion and Ps.262.9 billion, respectively (representing 30.4%, 30.0% and 31.4% of our total assets at such dates). Mexican government securities and instruments issued by the Mexican Central Bank represented Ps.171.1 billion, or 83.8%, of our investment in securities at December 31, 2010, Ps.202.1 billion, or 91.1%, of our investment securities at December 31, 2011 and Ps.244.4 billion, or 93.0%, of our investment in securities at June 30, 2012. As of December 31, 2009, the book value of our investment in securities was Ps.180.1 million (representing 31.1% of our total assets), with Mexican government securities and instruments issued by the

Mexican Central Bank representing Ps.145.8 billion, or 80.9%, of our investment in securities. For a discussion of how we value our investment in securities, see note 6 to our audited financial statements and note 5 to our unaudited condensed consolidated interim financial statements.

	For the year ended December 31,			For the six months ended June 30,	
	2009	2010	2011	2011	2012
	(Millions of pesos)				
Debt instruments issued by the Mexican government (excluding Mexican Central Bank)	85,782	106,116	132,182	143,161	151,683
Debt instruments issued by the Mexican Central Bank	59,976	65,020	69,917	63,330	92,734
Debt instruments issued by private sector	16,842	15,295	9,696	14,004	9,622
Total debt instruments	**162,600**	**186,431**	**211,795**	**220,495**	**254,039**
Total equity securities	17,516	17,775	10,135	15,867	8,855
Total investment in securities	**180,116**	**204,206**	**221,930**	**236,362**	**262,894**

The following table analyzes the expected maturities of our debt investment securities and the weighted average yield at June 30, 2012.

	Maturity as of June 30, 2012								
	Less than 1 year	Average yield	1 to 5 years	Average yield	5 to 10 years	Average yield	More than 10 years	Average yield	Total
	(Millions of pesos, except percentages)								
Debt instruments issued by the Mexican government (excluding Mexican Central Bank)	103,096	5.06%	22,062	5.38%	10,360	5.22%	16,165	6.15%	**151,683**
Debt instruments issued by the Mexican Central Bank	17,210	4.45%	36,434	4.45%	36,877	4.48%	2,213	4.39%	**92,734**
Debt instruments issued by the private sector	760	3.09%	7,820	8.49%	747	7.26%	295	4.51%	**9,622**
Total debt instruments	**121,066**	**4.75%**	**66,316**	5.50%	**47,984**	5.11%	**18,673**	5.77%	**254,039**

Loans and Advances to Credit Institutions

The following tables show our short-term funds deposited with other banks at each of the dates indicated.

	As of December 31,			As of June 30,	
	2009	2010	2011	2011	2012
	(Millions of pesos)				
Time deposits	8,240	1,242	1,226	154	1,365
Call money transactions granted	8,687	19,109	3,401	9,924	8,112
Debtors under sale and repurchase agreements	12,890	10,834	4,602	17,498	5,832
Guarantee deposits – collateral delivered	13,012	8,852	18,264	11,292	19,449
Reciprocal accounts	213	3,509	1,401	2,300	3,698
Total	**43,042**	**43,546**	**28,894**	**41,168**	**38,456**

Loan Portfolio

As of June 30, 2012, December 31, 2011 and 2010, our total loan portfolio equaled Ps.338,905 million, Ps.313,673 million and Ps.227,556 million, respectively, representing 40.5%, 42.4% and 33.8% of our total assets at such dates. Our loan portfolio, net of allowance for loan losses, equaled Ps.327,804 million, Ps.302,482 million and Ps.217,302 million as of June 30, 2012, December 31, 2011 and 2010, respectively, representing 39.1%, 40.9% and 32.3% of our total assets at such dates. We also have loan commitments drawable by third parties, which amounted to Ps.184,115 million, Ps.139,806 million and Ps.208,365 million as of June 30, 2012, December 31, 2011 and 2010, respectively. Loan commitments drawable by third parties include mostly credit card lines and commercial commitments. While credit cards are unconditionally cancelable by the issuer, commercial commitments are generally one-year facilities, subject to an evaluation of the customer's projected cash flows and financial history.

The loans guaranteed by governmental entities are reported in non-performing loans despite the guarantee, and therefore the guarantees have no impact on our NPL ratios.

Types of Loans by Type of Customer

The following tables analyze our total loan portfolio by type of customer, at each of the dates indicated. For each category of loan, we maintain specific risk management policies in line with the standards of the Santander Group, and as managed and monitored by our Board of Directors through the Comprehensive Risk Management Committee. Our credit approval processes for each category of loan are structured primarily around our business segments. See "Risk Management—Credit Risk" for details on our credit approval policies for retail and wholesale lending.

The Bank has a diversified loan portfolio with no concentration exceeding 10% of total loans.

	As of December 31,					As of June 30,	
	2007	2008	2009	2010	2011	2011	2012
	(Millions of pesos)					(Millions of pesos)	
Loans by Type of Customer							
Commercial and industrial	102,863	114,579	109,267	130,637	164,345	150,304	177,645
Financial entities loans	2,744	5,663	3,759	4,719	1,975	4,542	606
Government entities loans	23,236	17,228	19,649	15,841	33,380	29,971	35,554
Mortgage loans	22,552	27,679	29,792	34,744	63,361	60,645	66,348
Installment loans to individuals	67,104	64,513	45,270	41,615	50,612	45,004	58,752
Total	**218,499**	**229,662**	**207,737**	**227,556**	**313,673**	**290,466**	**338,905**

The following table shows the percentage of our non-performing loans by type of customer, for the periods indicated.

	As of December 31,			As of June 30,	
	2009	2010	2011	2011	2012
Commercial and industrial	0.90%	1.33%	1.17%	1.17%	0.74%
Financial entities loans	0.00%	0.00%	0.00%	0.00%	0.00%
Government entities loans	0.00%	0.00%	0.01%	0.00%	0.00%
Mortgage loans	2.08%	1.75%	3.34%	6.08%	2.91%
Installment loans to individuals	4.33%	3.55%	2.51%	2.94%	2.91%

Maturity

The following tables set forth an analysis by maturity of our loan portfolio by type of customer as of June 30, 2012.

	As of June 30, 2012							
	Less than 1 year		1 to 5 Years		Over 5 years		Total	
	Balance	% of total	Balance	% of total	Balance	% of total	Balance	% of total
	(Millions of pesos, except percentages)							
Commercial, financial and industrial	85,899	69.67%	75,475	54.28%	16,877	22.04%	178,251	52.60%
Government entities loans	12,510	10.15%	14,221	10.23%	8,823	11.52%	35,554	10.49%
Mortgage loans	7,324	5.94%	19,307	13.89%	39,717	51.87%	66,348	19.58%
Installment loans to individuals	17,563	14.24%	30,034	21.60%	11,155	14.57%	58,752	17.33%
Revolving consumer credit card loans	6,078	4.93%	15,777	11.35%	11,146	14.56%	33,001	9.74%
Non-revolving consumer loans	11,485	9.31%	14,257	10.25%	9	0.01%	25,751	7.59%
Total loan portfolio	**123,296**	**100.00%**	**139,037**	**100.00%**	**76,572**	**100.00%**	**338,905**	**100.00%**
Allowance for loan losses	(11,101)		0		0		(11,101)	
Loan portfolio (net)	**112,195**		**139,037**		**76,572**		**327,804**	

The following tables set forth an analysis by maturity of our loan portfolio by type of loan as of December 31, 2011.

	As of December 31, 2011							
	Less than 1 year		1 to 5 Years		Over 5 years		Total	
	Balance	% of total	Balance	% of total	Balance	% of total	Balance	% of total
	(Millions of pesos, except percentages)							
Commercial, financial and industrial	86,154	72.76%	66,851	53.56%	13,315	18.90%	166,320	53.02%
Government entities loans	9,896	8.36%	14,601	11.70%	8,883	12.61%	33,380	10.64%
Mortgage loans	7,528	6.36%	18,162	14.55%	37,671	53.48%	63,361	20.20%
Installment loans to individuals	14,832	12.52%	25,208	20.19%	10,572	15.01%	50,612	16.14%
Revolving consumer credit card loans	4,754	4.01%	13,328	10.67%	10,554	14.97%	28,636	9.13%
Non-revolving consumer loans	10,078	8.51%	11,880	9.52%	18	0.04%	21,976	7.01%
Total loan portfolio	**118,410**	**100.00%**	**124,822**	**100.00%**	**70,441**	**100.00%**	**313,673**	**100.00%**
Allowance for loan losses	(11,191)		0		0		(11,191)	
Loan portfolio (net)	**107,219**		**124,822**		**70,441**		**302,482**	

Fixed and Variable Rate Loans

The following table sets forth a breakdown of our fixed and floating rate loans as of the dates indicated.

	As of December 31,		As of June 30,	
	2010	2011	2011	2012
	(Millions of pesos)			
Interest rate formula				
Fixed interest rate	75,972	106,388	112,973	125,482
Floating rate	151,584	207,285	177,493	213,423
Total	**227,556**	**313,673**	**290,466**	**338,905**

Non-Accrual of Interest

The following table shows (i) the amount of interest income that would have been recorded on our nonaccrual and restructured loans if such loans had been current in accordance with their original terms and had been outstanding throughout the reported periods or since origination if outstanding for less than the entire period and (ii) the amount of interest income that was recorded for such loans in the periods presented. We do not have any accruing loans which are contractually past due 90 days or more as to principal or interest payments.

	For the six months ended June 30,	
	2011	2012
	(Millions of pesos)	
Non-accrued interest on the basis of contractual terms owed:		
Non-accrual loans(1)	74	91
Restructured loans(1)	153	185
Interest received:		
Non-accrual loans(1)	64	35
Restructured loans(1)	169	227

(1) These amounts do not include non-accrued interest on the basis of contractual terms owed and interest received from revolving consumer credit card loans due to the revolving nature of these types of loans.

	For the year ended December 31,				
	2007	2008	2009	2010	2011
	(Millions of pesos)				
Non-accrued interest on the basis of contractual terms owed:					
Non-accrual loans(1)	38	61	105	92	171
Restructured loans(1)	171	230	251	324	299
Interest received:					
Non-accrual loans(1)	7	12	30	45	108
Restructured loans(1)	237	275	318	369	322

(1) These amounts do not include non-accrued interest on the basis of contractual terms owed and interest received from revolving consumer credit card loans due to the revolving nature of these types of loans.

Movements in Allowance for Loan Losses

The following tables analyze movements in our allowance for loan losses for each of the periods indicated below. For further discussion of movements in the allowance for loan losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010—Allowance for Loan Losses."

	For the year ended December 31,					For the six months ended June 30,	
	2007	2008	2009	2010	2011	2011	2012
	(Millions of pesos)						
Movements in Allowance for Loan Losses							
Allowance for loan losses at beginning of year	4,255	5,735	9,926	11,368	10,254	10,254	11,191
Allowance for loan losses of Santander Hipotecario based on its fair value valuation(1)	0	0	0	0	2,514	2,167	0
Provisions for loan losses	7,662	15,832	15,320	8,425	6,556	3,435	3,962
Provisions for loan losses recorded against shareholders' equity	0	0	5,952	0	864	617	0
Allowance for loan losses (loan portfolio acquisition)	0	0	102	18	0	0	0
Recoveries credited to other operating income	0	0	0	0	0	0	(378)
Recoveries credited in results from retained earnings	0	0	(57)	(62)	(76)	(35)	(32)
Charge-offs against allowance for loan losses	(5,947)	(11,677)	(19,863)	(9,536)	(8,982)	(3,538)	(3,627)
Exchange result	0	0	38	41	0	(23)	(14)
Others	(235)	36	(50)	0	61	15	(1)
Allowance for loan losses at end of period	5,735	9,926	11,368	10,254	11,191	12,892	11,101

(1) Corresponds to the adjustment to the allowance for loan losses required in connection with the purchase of the GE Capital mortgage business, a regulated entity.

The tables below show a breakdown of recoveries, provisions for loan losses and charge-offs against allowance for loan losses by type of customer for the periods indicated.

	For the year ended December 31,					For the six months ended June 30,	
	2007	2008	2009	2010	2011	2011	2012
	(Millions of pesos)						
Recoveries of Loans Previously Charged Off — by type of customer							
Commercial, financial and industrial	(159)	(194)	(312)	(274)	(437)	(186)	(275)
Mortgage loans	(189)	(211)	(186)	(350)	(198)	(94)	(197)
Installment loans to individuals	(467)	(389)	(780)	(912)	(890)	(446)	(426)
Revolving consumer credit card loans	(389)	(319)	(648)	(789)	(723)	(361)	(313)
Non-revolving consumer loans	(78)	(70)	(132)	(123)	(167)	(85)	(113)
Total recoveries of loans previously charged off	**(815)**	**(794)**	**(1,278)**	**(1,536)**	**(1,525)**	**(726)**	**(898)**

	For the year ended December 31,					For the six months ended June 30,	
	2007	2008	2009	2010	2011	2011	2012
	(Millions of pesos)						
Provisions for Loan Losses							
Commercial, financial and industrial	(714)	(1,863)	(1,575)	(961)	(1,370)	(674)	(878)
Mortgage loans	(176)	(865)	(762)	(450)	(439)	(211)	(229)
Installment loans to individuals	(6,772)	(13,104)	(12,983)	(7,014)	(4,747)	(2,550)	(2,855)
Revolving consumer credit card loans	(5,758)	(12,298)	(10,525)	(5,394)	(2,836)	(1,774)	(1,670)
Non-revolving consumer loans	(1,014)	(806)	(2,458)	(1,620)	(1,911)	(776)	(1,185)
Total provisions for loan losses	**(7,662)**	**(15,832)**	**(15,320)**	**(8,425)**	**(6,556)**	**(3,435)**	**(3,962)**

	For the year ended December 31,					For the six months ended June 30,	
	2007	2008	2009	2010	2011	2011	2012
	(Millions of pesos)						
Charge-offs Against Allowance for Loan Losses							
Commercial, financial and industrial	366	690	1,120	984	1,091	529	728
Mortgage loans	154	181	356	448	2,471	224	434
Installment loans to individuals	5,427	10,806	18,387	8,104	5,420	2,785	2,465
Revolving consumer credit card loans	4,642	9,697	16,201	6,215	3,857	2,065	1,581
Non-revolving consumer loans	785	1,109	2,186	1,889	1,563	720	884
Total charge-offs against allowance for loan losses	**5,947**	**11,677**	**19,863**	**9,536**	**8,982**	**3,538**	**3,627**

The tables below show a breakdown of allowance for loan losses by type of customer and the percentage of loans in each category as a share of total loans at the date indicated.

	For the six months ended June 30,			
	2011	% of total loans	2012	% of total loans
	(Millions of pesos, except percentages)			
Allowance for loan losses				
Commercial, financial and industrial	2,875	22.30%	2,904	26.16%
Mortgage loans	2,569	19.93%	788	7.10%
Installment loans to individuals	7,448	57.77%	7,409	66.74%
Revolving consumer credit card loans	5,972	46.32%	5,327	47.99%
Non-revolving consumer loans	1,476	11.45%	2,082	18.75%
Allowance for loan losses	**12,892**	**100.00%**	**11,101**	**100.00%**

	For the year ended December 31,									
	2007	% of total loans	2008	% of total loans	2009	% of total loans	2010	% of total loans	2011	% of total loans
	(Millions of pesos, except percentages)									
Allowance for loan losses										
Commercial, financial and industrial	1,688	29.43%	2,436	24.54%	2,838	24.96%	2,583	25.19%	3,170	28.33%
Mortgage loans	401	6.99%	495	4.99%	607	5.34%	607	5.92%	1,003	8.96%
Installment loans to individuals	3,646	63.57%	6,995	70.47%	7,923	69.70%	7,064	68.89%	7,018	62.71%
Revolving consumer credit card loans	3,040	53.01%	6,200	62.46%	7,095	62.41%	6,267	61.12%	5,251	46.92%
Non-revolving consumer loans	606	10.57%	795	8.01%	828	7.29%	797	7.77%	1,767	15.79%
Allowance for loan losses	**5,735**	**100.00%**	**9,926**	**100.00%**	**11,368**	**100.00%**	**10,254**	**100.00%**	**11,191**	**100.00%**

Non-performing loans

The following tables show our non-performing loans.

	For the year ended December 31,					For the six months ended June 30,	
	2007	2008	2009	2010	2011	2011	2012
	(Millions of pesos, except percentages)						
Non-performing loans							
Non-performing loans	3,957	7,208	3,565	3,818	5,316	6,769	4,953
Non-performing loans as a percentage of total loans	1.81%	3.14%	1.72%	1.68%	1.69%	2.33%	1.46%
Loan charge-offs as a percentage of average total loans	2.86%	4.92%	9.48%	4.66%	3.31%	2.79%	2.31%

Evolution of non-performing loans

The following tables show the movement in our non-performing loans.

	For the year ended December 31,					For the six months ended June 30,	
	2007	2008	2009	2010	2011	2011	2012
	(Millions of pesos)						
Evolution of non-performing loans							
Opening balance	2,344	3,957	7,208	3,565	3,818	3,818	5,316
Net additions	7,560	14,928	16,220	9,789	10,480	6,489	3,264
Charge-offs	(5,947)	(11,677)	(19,863)	(9,536)	(8,982)	(3,538)	(3,627)
Closing balance	**3,957**	**7,208**	**3,565**	**3,818**	**5,316**	**6,769**	**4,953**

Non-performing Loans Ratios

The following tables show the ratio of our non-performing loans to computable credit risk and our coverage ratio at the dates indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2009	2010	2011	2011	2012
	(Millions of pesos, except percentages)				
Non-performing loans and ratios					
Computable credit risk(1)	227,099	250,020	340,807	310,512	363,529
Non-performing loans	3,565	3,818	5,316	6,769	4,953
Commercial, financial and industrial	986	1,731	1,926	1,758	1,313
Government entities loans	0	0	2	0	0
Mortgage loans	620	608	2,118	3,690	1,931
Installment loans to individuals	1,959	1,479	1,270	1,321	1,709
Allowance for loan losses	11,368	10,254	11,191	12,892	11,101
Ratios					
Non-performing loans to computable credit risk(1)	1.57%	1.53%	1.56%	2.18%	1.36%
Coverage ratio(2)	318.88%	268.57%	210.52%	190.46%	224.13%

(1) Computable credit risk is the sum of the face amounts of total loan portfolio (including non-performing loans), guarantees and documentary credits. When guarantees or documentary credits are contracted, we book them as off-balance sheet accounts. As of the date we make the payment to the beneficiary, we claim the payment from the solicitor (i.e., the debtor in the case of a guarantee or the buyer in the case of a documentary credit). The account becomes non-performing as of the date when the payment was due if we do not receive payment from the solicitor on that date. We maintain the account as a non-performing loan until recovery or, in the case of practical impossibility for recovery (e.g., when the creditor is declared bankrupt or upon the death of a creditor who is a natural person), until our Comprehensive Risk Management Committee decides to charge off the account. Such decision is at the discretion of our Comprehensive Risk Management Committee.

(2) Allowance for loan losses as a percentage of non-performing loans.

Liabilities

Deposits

The principal components of our deposits are customer demand and time deposits. Our retail customers are the principal source of our demand and time deposits.

	As of December 31,					As of June 30,	
	2007	2008	2009	2010	2011	2011	2012
	(Millions of pesos)						
Demand deposits	**113,616**	**130,313**	**130,874**	**156,912**	**178,071**	**155,935**	**204,617**
Time deposits:							
Customer deposits	108,081	120,832	105,995	106,096	121,163	110,973	117,189
Money market	25,741	51,578	6,939	13,846	16,409	32,745	9,086
Subtotal	**133,822**	**172,410**	**112,934**	**119,942**	**137,572**	**143,718**	**126,275**
Total	**247,438**	**302,723**	**243,808**	**276,854**	**315,643**	**299,653**	**330,892**

Short-Term Borrowings

The following tables show our short-term borrowings, which includes securities that we sold under sale and repurchase agreements for the purpose of funding our operations.

	For the six months ended June 30,			
	2011		2012	
	Amount	Average interest rate	Amount	Average interest rate
	(Millions of pesos, except percentages)			
Short-Term Borrowings				
Creditors under sale and repurchase agreements:				
At June 30	173,163	4.32%	170,121	4.09%
Average during period	139,519	4.32%	176,743	4.09%
Maximum month-end balance	173,163	4.36%	207,008	4.14%
Total short-term borrowings at period end	**173,163**	**4.32%**	**170,121**	**4.09%**

	For the year ended December 31,					
	2009		2010		2011	
	Amount	Average interest rate	Amount	Average interest rate	Amount	Average interest rate
	(Millions of pesos, except percentages)					
Short-Term Borrowings						
Creditors under sale and repurchase agreements:						
At December 31	130,509	4.39%	114,254	4.41%	122,901	4.18%
Average during year	117,641	5.28%	119,684	4.41%	142,042	4.27%
Maximum month-end balance	144,302	7.59%	138,419	4.43%	177,102	4.36%
Total short-term borrowings at year end	**130,509**	**4.39%**	**114,254**	**4.41%**	**122,901**	**4.18%**

OUR BUSINESS

Overview

We are a corporation (*sociedad anónima*) authorized to operate as a multiple-purpose banking institution (*institución de banca múltiple*) under Mexican Banking Law (*Ley de Instituciones de Crédito*). We are the second largest multi-purpose bank in Mexico based on net income, the third largest multi-purpose bank in Mexico based on total assets and the fourth largest multi-purpose bank in Mexico based on loans and deposits as of June 30, 2012, according to information published by the CNBV. We provide a wide range of financial and related services, primarily in Mexico, including peso- and foreign currency-denominated loans to finance a variety of commercial transactions, trade, foreign currency forward contracts and credit lines and a variety of retail banking services, including mortgage financing and credit cards. We also seek to offer our customers a wide range of products while providing high levels of service. In addition to our traditional banking operations, we offer a variety of ancillary financial services including financial leasing, financial advisory services, insurance brokerage and investment management. For the six months ended June 30, 2012, we had net income of Ps.10.1 billion (U.S.$0.8 billion), and as of June 30, 2012, we had total assets of Ps.837.3 billion (U.S.$62.4 billion), total loans net of allowance for loan losses of Ps.327.8 billion (U.S.$24.4 billion), total deposits of Ps.330.9 billion (U.S.$24.7 billion) and shareholders' equity of Ps.96.6 billion (U.S.$7.2 billion). As of June 30, 2012, we employed 12,224 people and had 1,097 branches located throughout Mexico. Our headquarters are located in Mexico City, Distrito Federal, and we operate in every state in Mexico.

We offer a differentiated financial services platform in Mexico focused on the client segments that we believe are most profitable, such as high- and mid-income individuals and small and medium-sized enterprises, or "SMEs," while also providing integrated financial services to low-income individuals, as well as to medium and large companies in Mexico. We began to implement our client segmentation strategy in 2008 through the development of our information technology systems, product offerings, distribution channels and internal practices.

The following chart sets forth our Retail Banking and Global Wholesale Banking operating segments and their main focus.

Retail Banking	Global Wholesale Banking
• *Individuals* • *Private banking*, for individuals with net wealth in excess of Ps.3 million • *SMEs*, with annual gross revenues of less than Ps.100 million • *Middle-market corporations*, with annual gross revenues between Ps.100 million and Ps.1,050 million • *Government institutions*, comprised of Mexican federal government agencies, state agencies and municipalities, as well as Mexican universities	• *Global transaction banking*, which includes cash management, global custody and security services, trade finance and funding alternatives for institutions with international operations • *Credit markets*, which includes origination units, distribution of structured credit and debt products, debt capital markets, project finance and asset and capital structuring • *Corporate finance*, which includes mergers and acquisitions as well as equity capital markets • *Equity custodial and related services*, which includes equity derivatives, exchange-traded derivatives, cash equities and equity research • *Treasury trading activities*, which offers our customers derivative products, foreign exchange transactions (including for individuals) and other financial products and structures • *Proprietary trading*, which is responsible for the management of our proprietary investment portfolio • *Global wholesale banking products and solutions for retail customers*, which offers retail segment clients tailor-made wholesale banking products and solutions in order to meet specific needs

In addition, we have a Corporate Activities operating segment comprised of all other operational and administrative activities that are not assigned to a specific segment or product listed above. These activities include the centralized management of our financial investments, the financial management of our structural interest rate risk and foreign exchange position and the management of our liquidity and equity through securities offerings and the management of assets and liabilities.

The following table sets forth the breakdown of our financial margin and income from continuing operations before income taxes by operating segment.

	Financial margin				Income from continuing operations before income taxes			
	For the year ended December 31,		For the six months ended June 30,		For the year ended December 31,		For the six months ended June 30,	
	2010	2011	2011	2012	2010	2011	2011	2012
	(Millions of pesos)							
Retail Banking	Ps. 18,750	Ps. 21,208	Ps. 9,916	Ps. 12,390	Ps. 5,673	Ps. 10,028	Ps. 4,928	Ps. 6,624
Global Wholesale Banking	2,363	3,656	1,728	1,966	3,501	2,694	1,425	2,161
Corporate Activities	5,102	3,849	1,850	2,049	5,577	3,438	1,869	3,826
Total	**Ps. 26,215**	**Ps. 28,713**	**Ps. 13,494**	**Ps. 16,405**	**Ps. 14,751**	**Ps. 16,160**	**Ps. 8,222**	**Ps. 12,611**

The following table shows certain of our financial and operational data.

	As of and for the year ended December 31,		As of and for the six months ended June 30,
	2010	2011	2012
	(Millions of pesos, except percentages, branch and customer data)		
Branches	1,073	1,097	1,097
Customers	9,073,942	9,301,222	9,583,468
Total assets	Ps. 672,482	Ps. 739,063	Ps. 837,290
Total loans	227,556	313,673	338,905
Deposits(1)	276,854	315,643	330,892
Shareholders' equity	79,268	91,710	96,584
Non-performing loans as a percentage of total loans(2)	1.68%	1.69%	1.46%
Efficiency(3)	39.92	43.42	34.34
Return on average shareholders' equity (ROAE)(4)	16.50	16.18	22.45

(1) Includes demand deposits and time deposits.

(2) Non-performing loans include (i) all credits past due by more than (x) 30 days, in the case of single-payment loans, (y) 60 days, in the case of revolving loans (including consumer loans and credit cards), and (z) 90 days, in the case of periodic-payment loans (including non-revolving consumer loans, mortgages and commercial loans) and (ii) all loans to debtors that are declared insolvent under the Mexican Bankruptcy Act (*Ley de Concursos Mercantiles*).

(3) Efficiency ratios are equal to administrative and promotional expenses, which includes depreciation and amortization, divided by total income.

(4) Calculated based upon the average daily balance of shareholders' equity.

Banco Santander Spain controls us through its controlling equity interest in Grupo Financiero Santander Mexico, of which we are the principal subsidiary. The equity interest Banco Santander Spain holds in our holding company gives Banco Santander Spain control over 99.86% of our shares. We believe that our relationship with Banco Santander Spain and the Santander Group as a whole offers us significant competitive advantages over our peer Mexican banks. As of June 30, 2012, the Santander Group had total assets of €1,292,677 million (U.S.$1,626,191 million), shareholders' equity of €81,821 million (U.S.$102,931 million) and a market capitalization of €49,261 million (U.S.$61,970 million). It also generated an attributable profit of €1,704 million (U.S.$2,144 million) in the six months ended June 30, 2012. Grupo Financiero Santander Mexico represented approximately 12% of the Santander Group's attributable profit in the six months ended June 30, 2012, making it the third largest contributor of attributable profits to the Santander Group relative to other banks in the Santander

Group. Grupo Financiero Santander Mexico also represented approximately 4% of the Santander Group's assets in the six months ended June 30, 2012, according to the interim report of the Santander Group for the first half of 2012.

In Latin America, the Santander Group was one of the overall largest banking groups in terms of assets as of December 31, 2011, based on publicly available annual reports. The Santander Group had 5,991 branches, 90,622 employees and an attributable profit of €2,240 million (U.S.$2,818 million) for the six months ended June 30, 2012, according to the interim report of the Santander Group for the first half of 2012.

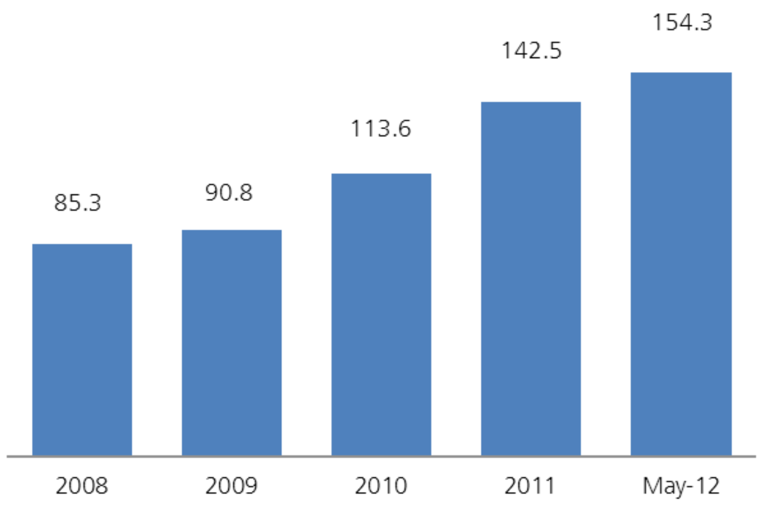
Market Opportunity

We believe that the current sustained growth of the Mexican economy, the young age of the Mexican population, the stable and well-regulated Mexican financial system and the low penetration rates of financial services in Mexico offer a significant opportunity for us to continue growing.

Stable economy with high potential

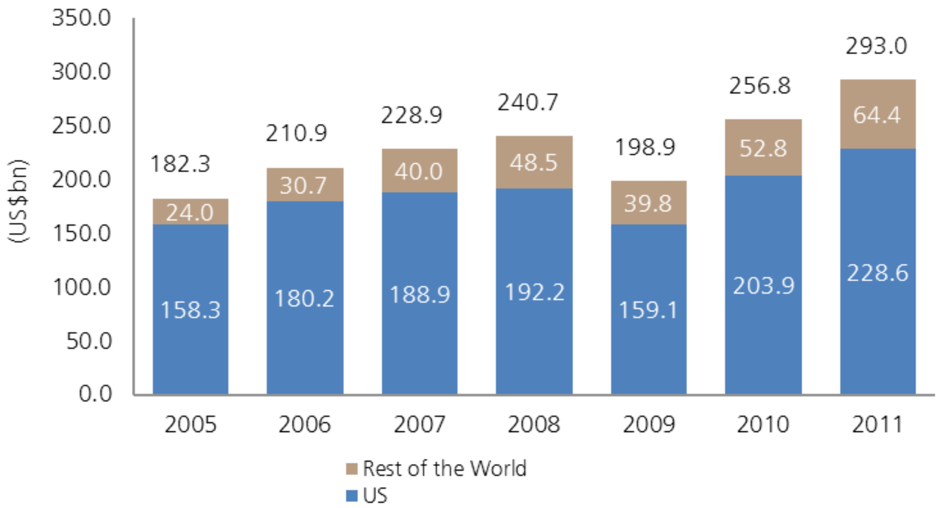
Mexico has the second largest population in Latin America, according to the United Nations Development Program, and it is expected to grow by 9% from 2011 to 2025, according to estimates from CONAPO. Mexico's economy, the second largest in Latin America in terms of GDP in 2011, according to the International Monetary Fund's World Economic Outlook Database, posted GDP growth rates of 5.5% and 3.9% in 2010 and 2011, respectively, according to figures from INEGI, slightly above the 5.2% and 3.8% world output growth in 2010 and 2011, respectively, but significantly exceeding the 3.2% and 1.6% output growth registered by advanced economies in 2010 and 2011, respectively, according to estimates by the International Monetary Fund. Mexico has been rated investment grade by Moody's, S&P and Fitch since 2002, and as of 2011 it had a public debt-to-GDP ratio of 44% according to the International Monetary Fund's World Economic Outlook Database.

Mexico's international reserves have steadily increased over the last few years, reflecting a conservative monetary policy. The cumulative annual growth rate of Mexico's international reserves from 2004 to 2011 was 12.8%. The following table shows the increase in Mexico's international reserves for the periods indicated:



Source: Mexican Central Bank.

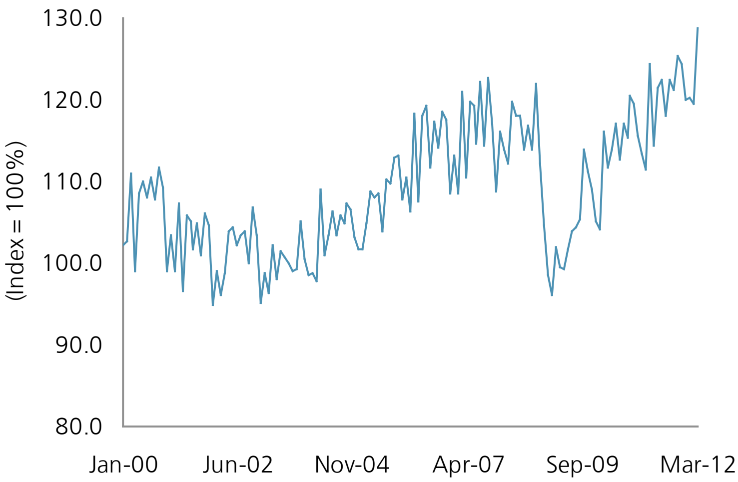
Mexico's economic performance has greater correlation relative to the United States than other countries, which we believe makes it relatively more resistant to the European sovereign debt crisis. The following table shows Mexican exports to the United States and the rest of the world for the periods indicated:



Note: Excluding petroleum exports.

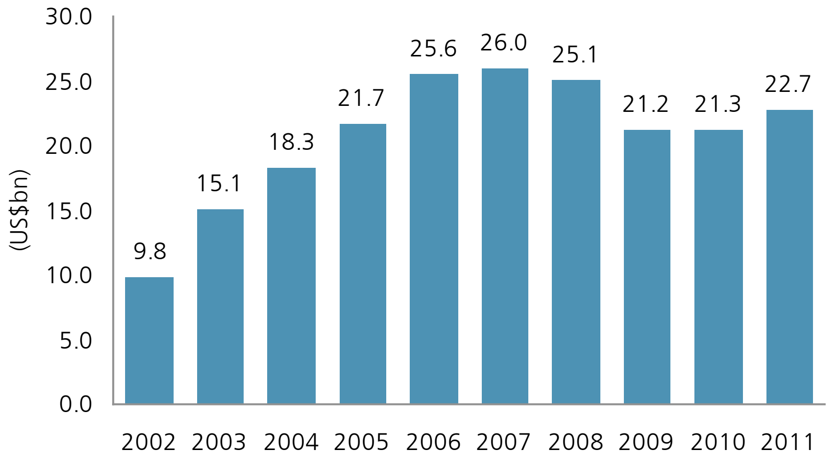
Source: Mexican Central Bank.

Furthermore, while the Mexican manufacturing industry experienced a sharp decrease in 2009 due to the global financial crisis, it has significantly recovered since 2010. The following table shows the performance of the Mexican manufacturing industry in terms of the industry's monthly index for the periods indicated:



Source: INEGI.

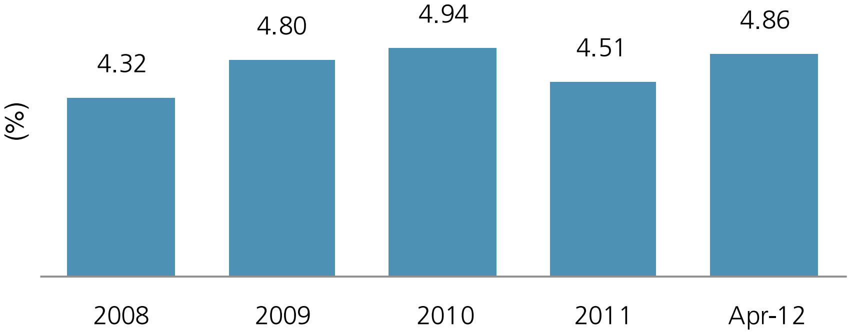
Remittances had a compound annual growth rate of 9.8% between 2002 and 2011, and as a result have become one of the most significant sources of inflows into Mexico. After a decrease in 2008 and 2009 as a result of the global financial crisis, remittances have increased as shown in the chart below:



Source: Mexican Central Bank.

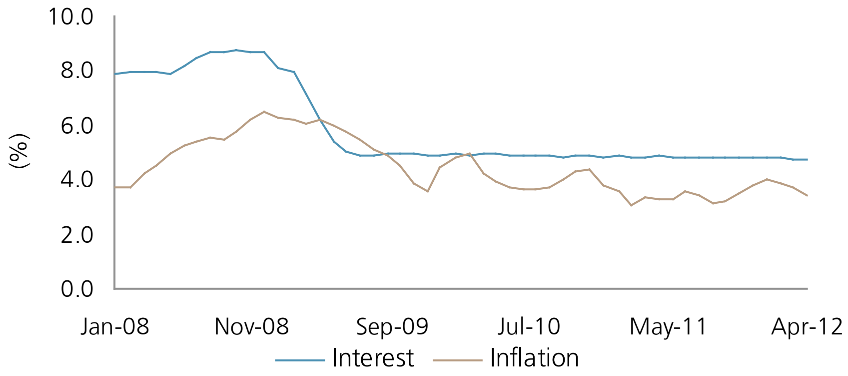
We believe a combination of macroeconomic factors, such as inflation levels and stable interest rates, which, according to the Mexican Central Bank, have both been below 5% since 2010, have contributed to job creation and sustained consumer confidence. As a result, the Mexican economy has maintained higher domestic demand than it had during prior global economic crises, which in turn has helped to overcome weak external demand. Since 2010, 1.8 million new jobs have been created, according to the Mexico's Social Security Institute (*Instituto Mexicano del Seguro Social*). At the same time, even though consumer confidence is still lagging behind pre-crisis levels, in January 2012 it was 24% higher than its low in 2009, according to INEGI and Mexican Central Bank statistics. Despite the current uncertainty surrounding the global economy, Mexico posted a 5.5% GDP growth in 2010 and a 3.9% GDP growth in 2011, according to official figures from INEGI.

The current unemployment rate in Mexico is below 5%. The following chart shows the unemployment rate in Mexico for the periods indicated.



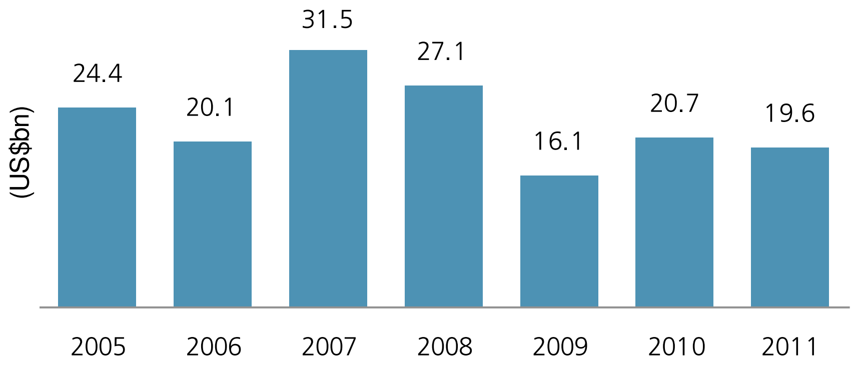
Source: INEGI.

The growth of the Mexican economy has been supported by a controlled inflation rate which has averaged less than 4% over the past three years, which is within the target range established by the Mexican Central Bank of 3% with a variation of 1% higher or lower. The following chart shows inflation and interest rates in Mexico for the periods indicated.



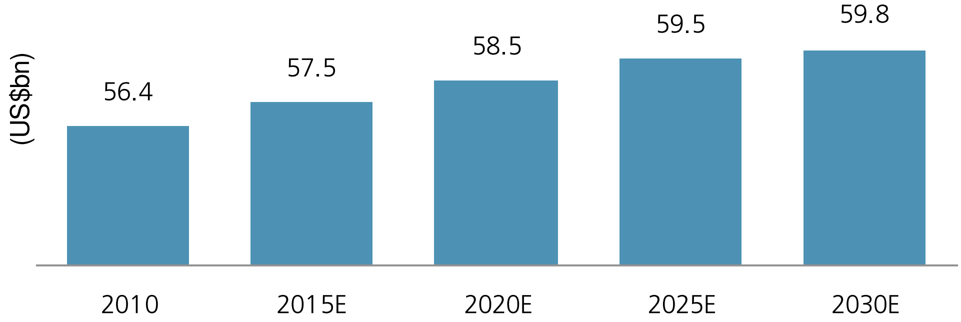
Source: INEGI and Bloomberg.

The growth in the Mexican economy is also supported by foreign direct investments. Although foreign direct investments have not reached their pre-financial crisis levels, they have grown since 2009. The following chart shows the amount of foreign direct investment in Mexico for the periods indicated.



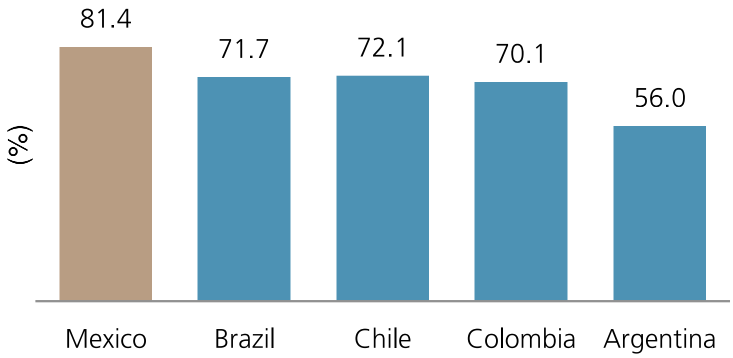
Source: The Mexican Central Bank.

Mexico's population is the second largest in Latin America after Brazil in terms of GDP in 2011, according to the International Monetary Fund's World Economic Outlook Database. The following chart shows the expected labor force participation rate for the years indicated.



Sources: INEGI and CONAPO.

The Mexican banking system is highly concentrated with high barriers to entry and weaker competition among market participants; there are no state owned banks in Mexico. The following chart shows the market share of the six largest banks in each of the following countries for 2011.



Sources: CNBV, Banco Central do Brasil, Superintendencia de Banco e Instituciones Financieras Chile, Asociación de Bancos de Argentina and Superintendencia Financiera de Colombia.

Expansion of the middle class

Mexico experienced an expansion of its middle class from 2000 to 2008, according to a survey by the Mexican Association of Marketing and Public Opinion Agencies (*Asociación Mexicana de Agencias de Investigación de Mercado y Opinión Pública*, or "AMAI"). Also, according to the GEA, from 1992 to 2006 the share of the population that has monthly income greater than five times the minimum salary tripled, which in turn increased the number of potential clients of financial institutions in Mexico. In addition, according to CONAPO, the dependency ratio of the Mexican population is expected to reach its lowest levels in the period from 2012 to 2028, which in turn would increase the number of working individuals that require financial services.

The HDI, monitored by the United Nations, which measures a variety of factors including life expectancy and access to education, has increased in Mexico over the past decade. Mexico has maintained a higher than average HDI and a higher absolute growth when compared to other countries in Latin America and globally.

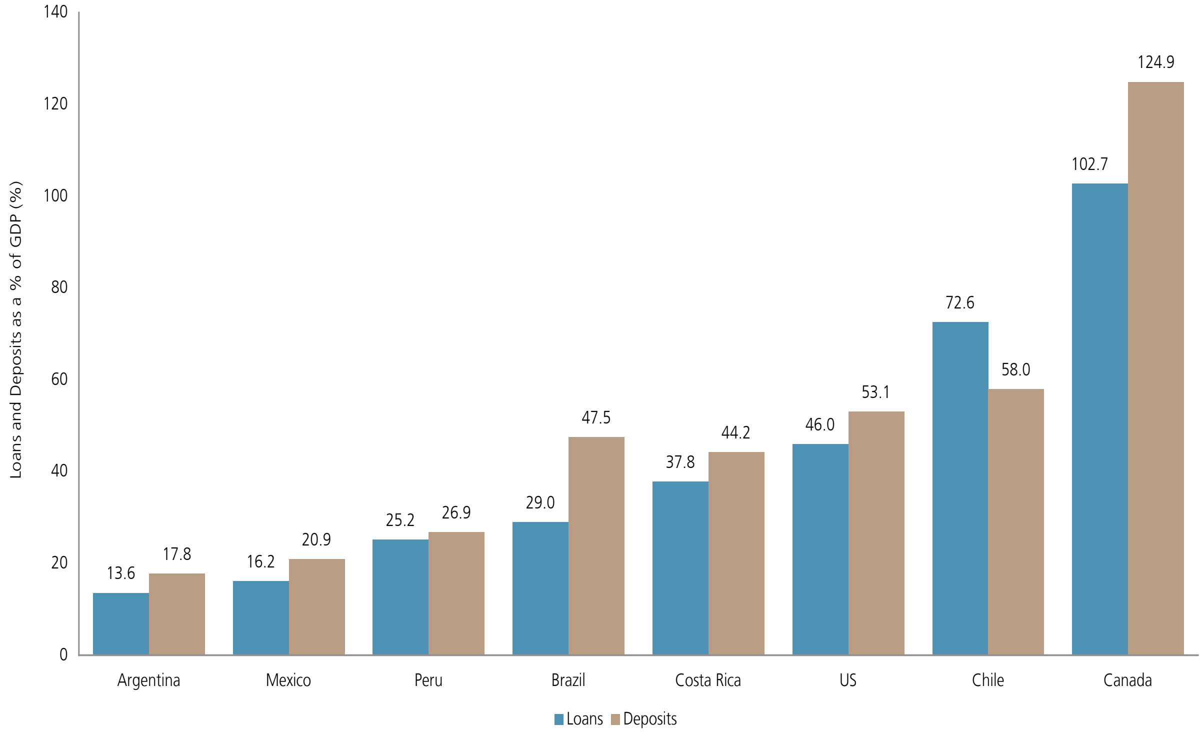
	2000	2005	2006	2007	2008	2009	2010	2011	**Delta '00-'11**
HDI Mexico	0.718	0.741	0.748	0.755	0.761	0.762	0.767	0.770	**0.052**
HDI LatAm	0.680	0.703	0.708	0.715	0.720	0.722	0.728	0.731	**0.051**
HDI World	0.634	0.660	0.664	0.670	0.674	0.676	0.679	0.682	**0.048**

Source: United Nations Development Program.

Low credit penetration

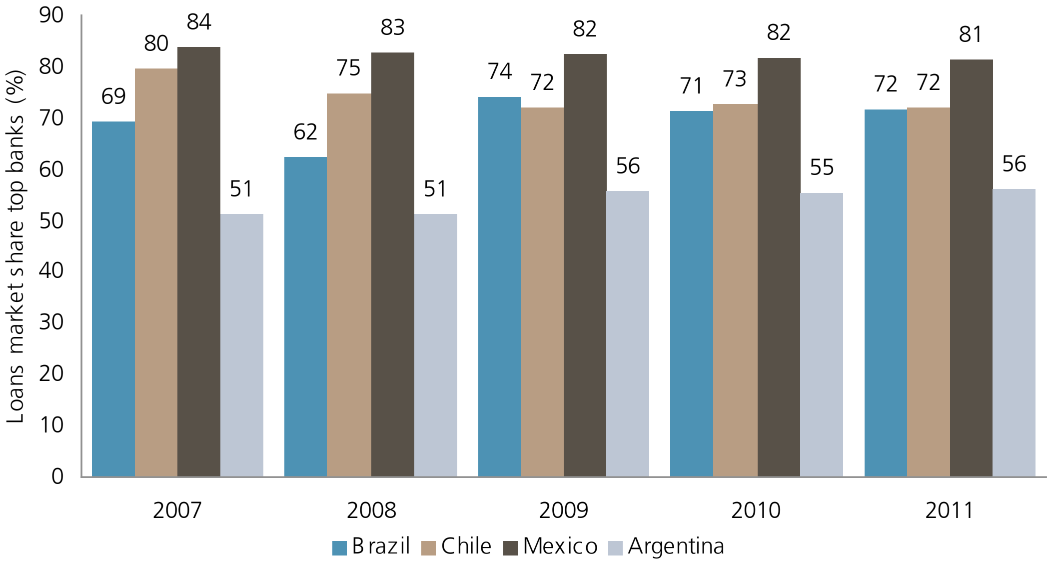
Although financial groups play an increasingly important role in the Mexican economy, the country remains underbanked in comparison with more mature markets and even other countries in Latin America as demonstrated by relatively low ratios of total loans and total deposits as a percentage of nominal GDP. According to the International Monetary Fund's Financial Access Survey, Mexico had a ratio of total outstanding loans from commercial banks to GDP of 16.2% as of December 31, 2010, compared to 29.0% in Brazil, 72.6% in Chile, 37.8% in Costa Rica, 13.6% in Argentina and 25.2% in Peru. Mexico also had a ratio of total outstanding deposits with commercial banks to GDP of 20.9%, as of December 31, 2010, compared to 47.5% in Brazil, 44.2% in Costa Rica, 17.8% in Argentina and 26.9% in Peru. The outstanding loans from commercial banks to GDP ratios and outstanding deposits with commercial banks to GDP ratios of the United States and Canada were 46.0% and 53.1%, and 102.7% and 124.9%, respectively, as of December 31, 2010. Finally, the level of banking penetration in Mexico (as measured by the loans to GDP ratio) currently remains below the peak banking penetration levels reached before the 1994 crisis. As the level of market penetration of the banking sector in Mexico rises to the level of other countries in Latin America, we believe the banking sector has the potential to grow at a faster rate than the overall economy.

The following table shows total outstanding loans from commercial banks and total outstanding deposits with commercial banks as a percentage of GDP for selected countries as of December 31, 2010.



Source: International Monetary Fund—Financial Access Survey 2010.

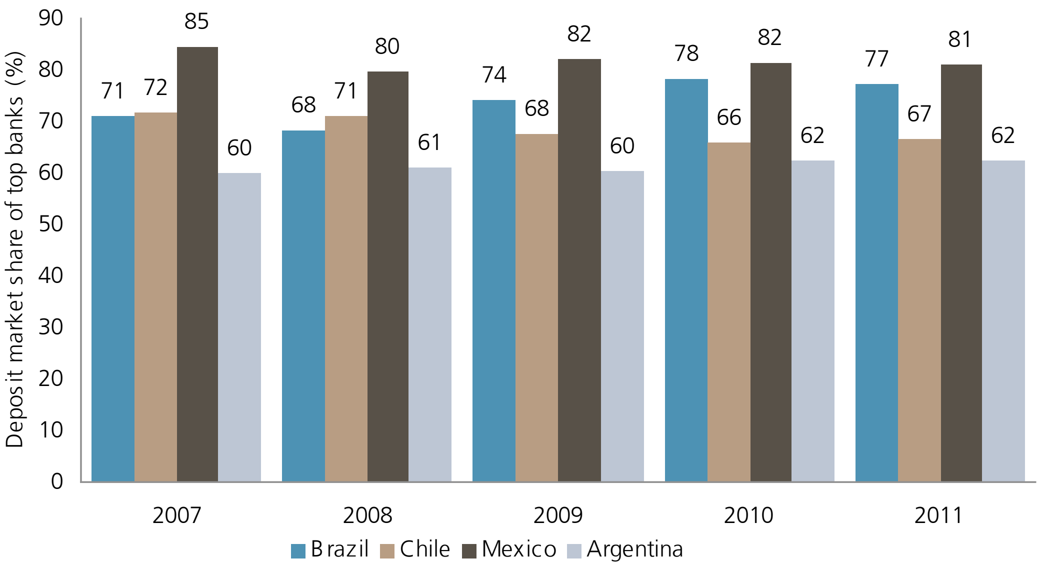
The following table shows total loan concentration in the following Latin American banking systems for the periods indicated.



Sources: Banco Central do Brasil, Supertendencia de Banco e Instituciones Financieras Chile, CNBV and Asociación de Bancos de Argentina.

In 2011, the market share of the top six banks in Mexico accounted for 81% of deposits. This compared to 77% in Brazil, 67% in Chile and 62% in Argentina, levels of concentration that have remained consistent for the last four years.

The following table shows total deposit concentration in the following Latin American banking systems for the periods indicated.



Sources: Banco Central do Brasil, Supertendencia de Banco e Instituciones Financieras Chile, CNBV and Asociación de Bancos de Argentina.

Stable and well-regulated financial system

The Mexican financial sector is regulated by several government agencies such as the Mexican Central Bank, the SHCP, the CNBV and the IPAB, among others. Banking regulation in Mexico has undergone extensive reform and has improved over the past decade. Amongst the most important developments in creating a stable regulatory framework were the creation of a limited deposit-insurance fund, the introduction of new capital-adequacy and provisioning requirements, improved accounting standards, the implementation of stricter lending practice requirements and regulations to improve assessments of reserves needed to cover losses. In addition, bankruptcy legislation was reformed substantially in 2000 to create a clearer framework of protections for creditors and to expedite procedural terms, which we believe in turn fostered greater stability in the financial sector.

We believe the Mexican banking system is among the most well-regulated financial systems in the world, based on the Financial System Stability Assessment published by the International Monetary Fund in December 2011, which covers the top 25 financial systems worldwide, including Mexico. According to the Financial System Stability Assessment, the Mexican banking system is profitable, liquid and well capitalized, and stress tests suggest that it is able to withstand severe shocks. The Mexican government has stated that the country will be an early adopter of the Basel III international rules which will require full implementation by 2019. Basel III is a capital and liquidity reform package for internationally active banking organizations around the world that includes, among other things, the definition of capital, capital requirements, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. According to the CNBV, as of June 2012, the banking system in Mexico had a 16.0% total capital ratio, above the 10.5% threshold that will be required by the Basel III international rules.

Our Competitive Strengths

Leading market position

We rank second in terms of net income, third in terms of total assets and fourth in terms of deposits and total loans among private banks in Mexico, with market shares of 23.2%, 14.0%, 12.5% and 13.0%, respectively, as of June 30, 2012, according to information published by the CNBV. Among the seven largest private-sector banks in Mexico, we believe we hold leading market positions in most of our key product lines, such as mortgages and commercial loans (including loans to SMEs and middle-market corporations).

The following table shows our rankings and market share among the seven largest private banks in terms of total assets in Mexico as of June 30, 2012, according to the CNBV. For a more detailed description of our performance relative to the Mexican banking industry, see "Business—Competition."

	Mexican Banking GAAP	
	As of June 30, 2012	
Rankings and Market Share	Rank of Banco Santander Mexico among Banks(1)	Market Share of Banco Santander Mexico among Banks(1)(2)
Total loans	4	13.0%
Deposits	4	12.5%
Total assets	3	14.0%
Asset quality(3)	1	—
Shareholders' equity	3	15.5%
Net income	2	23.2%
Efficiency(4)	2	—
ROAE(5)	1	—

Source: CNBV.

(1) Among the seven largest private banks in Mexico in terms of total assets: Banco Santander Mexico, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer; Banco Nacional de México, S.A., Integrante del Grupo Financiero Banamex; Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte; HSBC

México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC; Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa; and Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank.

(2) We calculate market share based on information published by the CNBV.

(3) Defined as total non-performing loans as a percentage of total loans.

(4) We calculate the efficiency ratio as administrative and promotional expenses, which includes depreciation and amortization, divided by total income, using information published by the CNBV.

(5) We calculate ROAE based on annualized net income for June 30, 2012, and we have used an average of shareholders' equity as of December 31, 2011 and June 30, 2012.

We believe that our scale and market leadership provide us with exceptional competitive opportunities, including the ability to gather market intelligence to support decision-making in determining business opportunities and in meeting our customers' needs.

Focus on well-defined profitable client segments resulting in superior track record

We believe our increasing market share in our key client segments (high- and mid-income individuals and SMEs) will continue to contribute to our profitability. We have posted ROAE levels of 16.3% and 16.0% in 2010 and 2011, respectively, making us the second most profitable bank among the seven largest private-sector banks in Mexico under that metric in 2011, according to the CNBV. We developed our client segmentation strategy in 2008 with clearly defined client segments: high- and mid-income individuals, and SMEs. Since then, we have focused our efforts on further refining our client segmentation, developing our product offerings, developing our information technology systems and our internal practices, as well as enhancing our distribution channels in order to better service our key client segments.

We believe our targeted efforts have helped us organically increase our market share in key business lines such as retail services to middle-market corporations and SMEs. From December 31, 2009 to December 31, 2011, our commercial loans market share (which includes loans to middle-market corporations, institutions, corporate clients and SMEs) increased 2.7 percentage points from 11.68% to 14.38%, according to CNBV data. In addition, the acquisition of the Mexican residential mortgage business of General Electric Capital Corporation, or the "GE Capital mortgage business," in April 2011 made us the second-largest provider of residential mortgages in Mexico in terms of residential mortgages outstanding in 2011, according to the CNBV. See "Business—Our Core Products—Mortgages."

Efficient and business-oriented operational platform

Our operational platform efficiently combines our modern business-oriented IT systems with our multichannel distribution strategy, resulting in innovative ways to serve our clients. Our multichannel distribution strategy consists of using both traditional and alternative distribution channels such as branches, internet banking, mobile banking and contact centers tailored to each of our client segments and designed to reach a broad spectrum of customers in a cost-efficient manner. We have well-developed CRM tools that allow us to monitor our clients' behavior and provide them with targeted product offerings through diverse channels. As a consequence, we are able to efficiently leverage alternative distribution channels, such as ATMs, internet banking and our contact centers, that are complementary to our traditional proprietary branch network, which enables us to deliver better service to our clients and increases our sales ratios. As of June 30, 2012, we had approximately 1.75 million customers with pre-authorized credit offers. We believe our efficient operations allow us to realize synergies and more profitable growth. As of June 30, 2012, we were the second most efficient bank among the seven largest private banks in Mexico, according to information published by the CNBV. We calculate the efficiency ratio as administrative and promotional expenses (which includes depreciation and amortization) divided by total income, using information published by the CNBV. We believe this is a result of many factors, including our focus on cost-control and best practices that we can leverage from Banco Santander Spain, among others. We believe our efficiency ratio provides us with operating flexibility and enables us to be competitive in pricing when compared to our peers.

Synergies from our affiliation with the Santander Group

We believe that being an affiliate of the Santander Group offers us significant competitive advantages. The Santander Group is one of the largest banking groups in Latin America in terms of assets, the largest financial group in Spain and a significant financial system participant in various European countries, including the United Kingdom, through its Santander UK subsidiary, and Portugal, among others. Through Santander Consumer, Santander Group also operates a leading consumer finance franchise in the United States as well as in Germany, Italy, Spain and several other European countries. Our relationship with the Santander Group allows us, among other things, to:

- benefit from the Santander Group's operational expertise in areas such as internal control and risk management, with practices that have been developed in response to a wide range of market conditions around the world and that we believe will enhance our ability to grow our business within desired risk limits;
- strengthen our internal auditing function and, as a result of the addition of an internal auditing department that reports concurrently and directly to our Audit Committee and the audit committee of Banco Santander Spain, making it more independent from management;
- enhance our ability to manage credit and market risks through the adoption of policies and know-how developed by Banco Santander Spain;
- leverage the Santander Group's latest-generation, customer-centered, global information technology platform, which reduces our technology development costs, provides operational synergies with the Santander Group, enhances our ability to support our customers and enables us to deliver products and services targeted to the needs of our customers;
- utilize the Santander Group's management training and development, which is composed of a combination of in-house training and development with access to managerial expertise and best practices in other Santander Group units outside Mexico. Banco Santander Spain also participates in monitoring key supervisory areas, including risk, auditing, accounting and financial control;
- access the Santander Group's multinational client base and benefit from the Santander Group's global presence, particularly in Latin America;
- support our large Mexican corporate customers in the internationalization of their businesses, through trade financing, international capital markets access, structured finance and syndicated loans, as well as transactional banking services;
- benefit from selectively borrowing from Santander Group's product offerings in other countries as well as from their know-how in systems management;
- replicate or adapt in Mexico the Santander Group's successful product offerings and best practices from other countries; and
- benefit from the Santander Group's overall market presence and market campaigns such as the Formula 1 sponsorship.

Although we benefit from our affiliation with the Santander Group, our executive officers are responsible for the management of our business independent from Banco Santander Spain.

Proven risk management practices

The incorporation of the Santander Group's worldwide risk management platform into various levels of our organization, as well as the application of rigorous credit assessment and approval processes, has been an integral part of our efforts to control the level of non-performing loans while growing our loan portfolio and we believe it will continue to do so. Our asset quality (defined as total non-performing loans as a percentage of total loans) ranked first among the seven largest private-sector banks in Mexico as of June 30, 2012, according to information published by the CNBV. As of June 30, 2012, we had a non-performing loans ratio of 1.5% and a coverage ratio (defined as allowance for loan losses divided by total non-performing loans) of 224.1%, compared to industry averages of 2.5% and 186.6%, respectively, according to information published by the CNBV, which we believe indicate our prudent levels of asset growth. We believe that our conservative risk approach, which contemplates the strict management of credit risk together with prudent management of foreign exchange risk, interest rate risk and term risk, has allowed us to maintain strong asset quality as well as profitability while growing our loan portfolio.

Strong and sustainable funding and capitalization profile

Our principal source of funding is customer deposits, which represented Ps.321.8 billion, or 43.4%, of our total liabilities as of June 30, 2012. As of June 30, 2012, customer deposits represented 97.3% of our total deposits. Since we are primarily a transactional bank, customer deposits, a comparatively less expensive source of funding, constitute the main source of liquidity in our financing structure. This has allowed us to manage our reliance on and exposure to riskier sources of funding and manage our liquidity requirements. We believe we have attractive capitalization levels based on our Tier 1 capital ratio, which has been at or near the median of the seven largest banks in Mexico over the past 5 years. As of June 30, 2012, our total capitalization ratio was 14.6% and our Tier 1 capital ratio was 14.3%.

Experienced management team and skilled workforce

We benefit from a highly experienced management team. Our senior management has an average of 20 years of experience in the financial industry and 15 years in the Santander Group. Our management team has guided us through economic cycles and, by anticipating recent macroeconomic developments, has increased our net income by approximately 80% since 2005, more than two times the 38% increase in the Mexican banking system as a whole over the same period, according to data from the CNBV. Our management has concentrated its efforts on establishing a successful working environment and employee culture, and has invested in rigorous personnel selection processes, training programs and 360-degree thorough evaluation processes to maintain a strong talent base and foster retention. We have promoted the development and strengthening of abilities and skills in managing people and teams. The experience and commitment of our senior management team has been a critical component in the growth of our franchise, as well as in the continuing enhancement of our operations and financial performance.

Our Strategy

As demonstrated by our strong profitability and growth in key business lines, we believe our strategy of focusing on retail banking for Mexico's emerging middle class and SMEs has been a success. We intend to continue leveraging our competitive advantages to expand our business in the most dynamic and profitable segments of the Mexican economy (which we consider to be individuals and SMEs based on our historical growth and profitability in these segments), focusing on deposit growth and enhancing our leading banking franchise in Mexico while focusing on sustained growth and profitability.

We intend to achieve these objectives through the following strategies:

Leverage our leading market position to benefit from the significant growth potential of the Mexican banking sector

We seek to continue increasing our market penetration, focusing on our well-defined client segments and targeted products (such as mortgages, consumer lending and SME lending). At the same time we intend to continue developing our profitable and client-centered wholesale bank. To achieve these objectives, we will continue to leverage our strong brand name, distribution network and products, as well as capture the benefits of growth in the banking sector as the Mexican economy grows and the level of penetration of financial services in Mexico approaches those of other countries in Latin America. Furthermore, we will continue to focus our marketing efforts to grow our customer base and promote loyalty within our customer base, as well as the cross-selling of products and services to increase the number of products used by each of our clients. We intend to achieve this objective by cross-selling credit products, such as mortgages, credit cards and payroll loans, and insurance products, such as life, automobile, home, health, accident, fraud and unemployment insurance, to our payroll clients. As of June 30, 2012, we had Ps.14,682 million (U.S.$1,095 million) in payroll loans. We intend to improve our competitiveness by further strengthening our brand awareness, particularly through the marketing of our products and the use of our multichannel distribution platform, and by continuing to focus on the development of innovative products that we believe satisfy the needs of each of our different client segments.

Continue to expand and develop our customer base in our focused client segments and enhance customer loyalty

We intend to continue to use our extensive distribution network to proactively pursue and strengthen our relationships with high- and mid-income customers through the offering of key products and business solutions for SMEs and middle-market corporations. An important part of our strategy is the segmentation of our customer base. We classify our individual customers in three main categories: premier, preferred and classic customers. We believe that our clear customer classification allows us to offer our customers a portfolio of targeted products that fit their specific needs. Another important part of our strategy is the use of multiple channels, including third-party branches, ATMs, our contact centers, internet banking and mobile banking, among others. We believe that these alternative channels are an important way to reach a broader spectrum of customers, thereby allowing us to better reach and expand our customer base. We also believe our high quality customer service capabilities allow us to differentiate ourselves in the highly competitive Mexican banking environment. By combining our highly productive branch network with our alternative channels, such as ATMs, our contact centers, internet banking and mobile banking, we believe that we are able to consistently satisfy our customers' expectations and that we will be able to achieve top-quality service levels.

Expand product offerings and distribution channels, particularly in the Retail Banking segment

We intend to further increase our business and operations throughout Mexico, expanding our retail banking services to existing and prospective retail customers. Through the implementation of CRM strategies and market intelligence, we plan to offer new products and services to existing customers according to client segmentation and the development of value-added offers. Our CRM mission is to place our clients at the center of our commercial strategy. By improving our information technology and our processes, we believe we will be able to produce business intelligence by acquiring detailed information about the current and future needs and behaviors of our customers. This business intelligence will allow further customer segmentation according to life cycle and income levels and will also enable us to improve the ways we serve our customers through our various distribution channels.

We will also continue to invest in creating and maintaining strong business support and commercial processes. For example, we have developed a fully integrated branch network, which manages customer product offerings through an internally designed CRM tool that enables branch executives to proactively approach our customer base with specific and tailored product offerings. As a result of our new consumer credit issuance process, a customer can leave one of our branches with a new credit card in less than fifteen minutes. Finally, our contact centers enhance our ability to provide segmented customer service. We intend to add 200 new branches to our branch network during the next three years and to hire an additional 2,000 employees to staff these branches. We expect that this expansion will cost approximately Ps.1.75 billion and will be funded using our working capital.

We seek to increase our market share in retail banking by offering innovative banking products and intend to focus on product areas such as mortgages, credit cards, personal loans and SME loans where we believe there is an opportunity to increase our market share. For our non-retail clients, we will continue to offer through our Global Wholesale Banking segment an array of comprehensive products and services relating to finance, guarantees, mergers and acquisitions, equity and fixed income, structured finance, international trade finance, cash management services, collection services and e-banking, including structured loans, syndicated loans, acquisition financing and financing of investment plans, among others. We intend to improve the ways we serve our clients by expanding the multichannel distribution strategy related to each of our client segments, and we will continue to maximize the synergies and leverage the cross-selling opportunities between our corporate and retail businesses. In addition, we have established a division that is focused on enhancing the quality of our products and processes.

Capitalize on our risk management practices and cost-efficient culture to promote profitable and sustainable growth

As we pursue our growth and profitability objectives, we will continue to comply with our risk policies aimed at generating an appropriate return for the risk incurred. We intend to continue to carefully monitor the credit quality of our asset portfolio, particularly any assets in high growth segments such as individuals and SMEs, while diversifying our balance sheet. We plan to maintain a balanced growth profile with a strong emphasis on liquidity, a stable, low-cost funding base and strong capital ratios.

We plan to make effective use of technology through alternative channels, such as mobile banking, internet banking and our telephone contact centers, in order to control the expenses associated with the continued expansion of our multichannel distribution strategy. As of June 30, 2012, we were the second most efficient bank among the seven largest private banks in terms of assets in the Mexican banking system, according to data from the CNBV. We calculate the efficiency ratio as administrative expenses divided by total income, using information published by the CNBV. We will continue to monitor our administrative and promotional expenses in order to maintain a low efficiency ratio.

Our Corporate Structure

Banco Santander Spain controls us through its controlling equity interest in Grupo Financiero Santander Mexico, of which we are the principal subsidiary. The equity interest Banco Santander Spain holds in our holding company gives Banco Santander Spain control over 99.86% of our shares.

As of June 30, 2012, our subsidiaries collectively accounted for 9.50% of our total consolidated assets. All of our subsidiaries are incorporated in Mexico. The following table sets forth the percentage of each subsidiary owned by us as of the dates indicated.

	As of December 31, 2011	As of June 30, 2012
	(%)	
Santander Consumo	99.99%	99.99%
Almacenadora Somex(1)	97.24	–
Santander Hipotecario(2)	87.87	87.87
Banco Santander, S.A., Fideicomiso 100740	100.00	100.00
Fideicomiso GFSSLPT Banco Santander, S.A.	94.18	93.83
Santander Holding Vivienda, S.A. de C.V.	99.99	99.99
Santander Servicios Corporativos, S.A. de C.V.	99.99	99.99
Santander Servicios Especializados, S.A. de C.V.	99.99	99.99

(1) Liquidated on July 3, 2012.

(2) We directly and indirectly own a total of 87.87% of the equity of Santander Hipotecario through our ownership of the equity of Santander Holding Vivienda, S.A. de C.V., which owns 12.13% of the equity of Santander Hipotecario.

History

We were incorporated on November 16, 1932, under the name Banco Mexicano. In 1955, Sociedad Mexicana de Crédito Industrial (subsequently Banco Somex), which was incorporated in 1941, purchased a controlling portion of the shares of Banco Mexicano. In 1958, Banco Mexicano merged with Banco Español, with Banco Mexicano as the surviving entity.

In 1970, Banco de Londres y México merged with Compañía General de Aceptaciones (formerly a shareholder of Banco de Londres), with Banco de Londres y México under its new name, Banca Serfin, as the surviving entity. In 1992, Grupo Financiero Serfin was incorporated following the acquisition of Banca Serfin by Operadora de Bolsa.

In 1979, Banco Mexicano changed its corporate name to Banco Mexicano Somex, S.A., operating as a multiple-purpose banking institution.

In 1982, Mexican commercial banks were nationalized by the Mexican government.

In 1990, the Mexican Constitution was amended to permit the total reprivatization of Mexican commercial banks, and the Mexican government enacted the Mexican Banking Law, which led to the reprivatization of such banks starting in 1991. As part of this banking privatization process, in 1992, Grupo InverMéxico acquired Banco Mexicano Somex, which then took the corporate name of Banco Mexicano, S.A., Institución de Banca Múltiple, Grupo Financiero InverMéxico.

In April 1997, Banco Santander Central Hispano (subsequently Banco Santander Spain) acquired Grupo InverMéxico, which became Grupo Financiero Santander Mexicano. Banco Mexicano later became Banco Santander Mexicano. In May 2000, Banco Santander Spain acquired Grupo Financiero Serfin, which was merged into Grupo Financiero Santander Mexicano and changed its corporate name to Grupo Financiero Santander Serfin. In 2001, Banco Santander Mexicano adopted the corporate name of Banco Santander Mexicano, S.A., Institución de Banca Múltiple, Grupo Financiero Santander Serfin.

Banco Santander Mexicano and Banca Serfin initially operated independently. In 2004, Banca Serfin was merged into Banco Santander Mexicano, with the surviving entity being Banco Santander Serfin, S.A., Institución de Banca Múltiple, Grupo Financiero Santander Serfin. Subsequently, in 2006, the bank was renamed Banco Santander, S.A., Institución de Banca Múltiple, Grupo Financiero Santander.

On February 21, 2008, the corporate name of the Bank was changed to Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander.

On December 23, 2010, we entered into a stock and assets purchase agreement to acquire the residential mortgage business of GE Capital in Mexico, or the GE Capital mortgage business. The purchase price for the acquisition was Ps.2,042 million (U.S.$152 million) and, in addition, we repaid at closing to GE Capital the Ps.21,009 million (U.S.$1,567 million) intercompany debt at that date relating to the GE Capital mortgage business, which GE Capital historically had financed through intercompany debt. The total volume of assets at the time of closing was Ps.23,904 million (U.S.$1,783 million), including a total loan portfolio of Ps.21,926 million (U.S.$1,635 million), while the total volume of liabilities was Ps.21,494 million (U.S.$1,603 million). The transaction closed on April 29, 2011. The acquisition made us the second-largest provider of residential mortgages in Mexico in terms of residential mortgages outstanding in 2011, according to the CNBV.

Our holding company obtained shareholder approval on August 13, 2012 to change its name from Grupo Financiero Santander, S.A.B. de C.V. to Grupo Financiero Santander México, S.A.B. de C.V., and such name change was subsequently authorized by the SHCP. We obtained shareholder approval on September 12, 2012 to change our name to Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, and such name change was subsequently authorized by the CNBV.

Retail Banking

General

Our Retail Banking segment's activities include products and services for individuals, private banking clients, SMEs, middle-market corporations and government institutions. As of June 30, 2012, our Retail Banking segment accounted for approximately 72.3% of our total loan portfolio based on the aggregate principal amount of loans in this segment, approximately 83.4% of our total demand and time deposits, 75.5% of our financial margin, 89.0% of our fee income (net) and 52.5% of our income from continuing operations before income taxes. Our Retail Banking operations served approximately 9.6 million customers as of June 30, 2012, an increase of approximately 227,000 customers since December 31, 2011.

We measure the growth of our commercial activity in part by examining our productivity, measured as the number of products sold per executive per month. For example, with respect to products and services for individuals during the six months ended June 30, 2012, the productivity of the Retail Banking segment increased at an average annualized rate of 46.2% due to the origination of more than 528,000 credit cards, 310,000 consumer loans and 7,800 mortgage loans.

Individuals

We classify individual customers as high income, or “premier,” if they have a monthly income in excess of Ps.35,000 (U.S.$2,610); mid-income, or “preferred,” if they have a monthly income between Ps.7,500 (U.S.$559) and Ps.35,000 (U.S.$2,610); and low-income, or “classic,” if they have a monthly income below Ps.7,500 (U.S.$559). We believe that our clear customer classification allows us to offer our customers a portfolio of targeted products that fit their specific needs. Our focus is on premier and preferred customers, an area in which we have experienced growth as a result of our efforts to provide innovative products and services. We began to classify eligible customers as premier or preferred in April 2010 and soon thereafter began to sell packaged products and services known as *Membresía Premier* (Premier Membership) and *Círculo Preferente* (Preferred Circle) accounts to our premier and preferred customers, respectively. From December 31, 2010 to December 31, 2011, *Membresía Premier* and *Círculo Preferente* accounts increased 12% and 17%, respectively. As of June 30, 2012, individuals accounted for 36.9% of our total loans outstanding and 37.4% of our deposits. Within the Retail Banking segment, individuals (including individuals served by our private banking business described below under “—Private Banking”) accounted for 69.7% of our fee income (net) and 55.4% of our income from continuing operations before income taxes in the six months ended June 30, 2012.

New individual customers are classified according to their socioeconomic status as classic, preferred or premier customers or as private banking customers (as described below in “—Retail Banking—Private Banking”). Individual customers are then further classified into sub-segments according to their age, and each customer sub-segment is offered products tailored to their socioeconomic status and age. Through this strategy, we aim to build customer loyalty by developing products that meet our customers’ financial needs throughout their entire financial life cycle.

We follow different service models for each customer class:

- *Premier customers*: We provide customized financial and investment services to our premier customers. These customers are assigned a representative who is familiar with the customer’s individual needs and who can recommend and provide access to specialized investment products and personalized financial services. The premier banking unit is the Retail Banking segment’s initiative to provide our customers with solutions tailored to their financial planning needs. Through Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander, or “Casa de Bolsa Santander,” our brokerage affiliate, we offer securities trading services to our premier customers. Our premier banking unit has 35 exclusive offices called “Santander Select,” which provide seamless service in a comfortable and private environment to our premier customers. In addition, 968 of our representatives attend to 417,320 customers in our 1,097 branches throughout Mexico.

- *Preferred customers*: We use a multichannel service model, supported by our account managers as well as our contact center operators to assist our 1,906,021 preferred customers as of June 30, 2012. We provide differentiated services with preferential benefits such as insurance, additional credit cards, consumer loans and automatic payments to customers we view as upwardly mobile. In this context, we view as upwardly mobile our preferred customers with a current account (demand deposit) monthly average balance between Ps.7,500 (U.S.$559) and Ps.35,000 (U.S.$2,610) and who pay a monthly fee of Ps.110 (U.S.$8) for the preferred membership.

- *Classic customers*: Our emphasis is on serving classic customers through alternative channels. In our branches, these customers are served under a standardized model through pools of account executives, with a sales-oriented approach. We offer differentiated services such as preferred bundled offers and payroll benefits to customers we view as upwardly mobile. As of June 30, 2012, this segment had 6,955,088 customers.

Private Banking

We classify our individual customers with net wealth in excess of Ps.3.0 million (U.S.$223,740) as private banking customers. We provide customized financial and investment services to these high net worth individuals. These customers are assigned a specialized banker who is familiar with the customer's individual needs and who can recommend and provide access to specialized products and services. Our private banking model is based on full-service representation of our customers by means of specialized bankers, who attend to a limited number of customers and help customers monitor their portfolios and adapt to changing economic conditions. We offer a wide range of financial products to our private banking customers and offer our customers the opportunity to invest with funds managed and administered by other financial institutions and independent asset managers.

In order to provide a differentiated business model, we have two divisions in private banking, depending on a customer's total balance maintained at the Bank:

- Private banking customers, with net wealth in excess of Ps.3.0 million (U.S.$223,740); and
- Private wealth customers, with net wealth in excess of Ps.300.0 million (U.S.$22.4 million). We offer our private wealth customers the same products and services that we offer to our private banking customers, but tailor these products and services to their specific needs.

Our private banking unit has been recognized as the second-best provider of private banking services in Mexico according to the recent Euromoney Private Banking Survey 2012. It has one of the largest numbers of mutual funds and products ranging from fixed income to equity to capital protection funds compared to other local competitors. The private banking unit has been implementing a commercial and business model according to best practices and has developed a new strategy to offer loans and transactional banking products specifically designed for our Private Banking and Private Wealth customers.

As of June 30, 2012, our private banking unit had 28 offices and 135 specialized bankers located throughout Mexico who attended to 21,069 customers. As of June 30, 2012, our private banking unit managed approximately Ps.144.2 billion (U.S.$10.7 billion) in assets and had approximately 25,178 private banking accounts.

SMEs

As of June 30, 2012, our SME line of business represented 8.3% of our total loans outstanding and 7.4% of our deposits. Within the Retail Banking segment, SMEs accounted for 11.8% of our fee income (net) and 15.1% of our income from continuing operations before income taxes in the six months ended June 30, 2012. We offer our customers in this business line a range of products, including revolving lines of credit, commercial loans, leasing, factoring, foreign trade loans and guarantees, credit cards, mortgage loans, current accounts, savings products, mutual funds and insurance brokerage.

Our Retail Banking segment provides banking services and originates loans for SMEs. The maximum level of credit extended to such companies is generally limited to approximately Ps.6,000,000 (U.S.$447,481). In 2010, we developed revolving lines of credit for our SME customers that do not require collateral. We refer to these credit lines as *Crédito Ágil* (Flexible Credit). These lines of credit are limited to Ps.4,000,000 (U.S.$298,320) and are primarily used by our SME customers to finance their working capital needs. *Crédito Ágil* can also be used as a special purpose credit card, which allows a large number of our SME customers to access term financing for the first time. Approximately 60% of SMEs loan portfolio is guaranteed by Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarollo, or "NAFIN," a Mexican government bank that provides support for SMEs.

Our SME business represented Ps.28,081 million of our loan portfolio as of June 30, 2012, an increase of 44.9% from December 31, 2011. This increase reflects the positive results obtained from the improvement in client services in 2011. For example, we offered a broader range of products and improved our credit processes, which resulted in faster and better customer service. We also created a specialized network of SME executives dedicated exclusively to attending SME customers. The specialized SME network included 497 dedicated SME specialists as well as eight dedicated specialized offices (*Centros Pyme*, or "SME Centers") as of June 30, 2012.

Middle-Market Corporations

This business line is comprised of companies with annual revenues between Ps.100 million (U.S.$7.5 million) and Ps.1,050 million (U.S.$78.3 million). We offer middle-market corporations a wide range of products, including commercial loans, credit lines, leasing, factoring, foreign trade loans and guarantees, current accounts, savings products, mutual funds, payroll administration (a potential source for new individual customers), cash management, treasury services, financial advisory services, credit cards and insurance brokerage. We also offer our middle-market corporations customers with higher income the same products that we offer to our wholesale banking customers. As of June 30, 2012, we had 34,427 middle-market corporations customers. We have 25 dedicated offices located throughout Mexico to attend to middle-market corporations customers as of June 30, 2012.

Our middle-market corporations portfolio represented Ps.76,192 million (U.S.$5,682 million) of our loan portfolio as of June 30, 2012, an increase of 3.9 from December 31, 2011. The quality of this portfolio has not been affected by its growth; the delinquency ratio has decreased from 2.4% as of December 31, 2011 to 1.1% as of June 30, 2012. As of June 30, 2012, our middle-market corporations customers represented 22.5% of our total loans outstanding and 20.2% of our deposits. Within the Retail Banking segment, middle-market corporations accounted for 13.7% of our fee income (net) and 22.6% of our income from continuing operations before income taxes in the six months ended June 30, 2012.

The middle-market business is an important source of deposits and most of its revenues come from credit products. This business has consistently increased its array of products designed to meet our customers' needs in terms of cash management and collection solutions. Due to the low penetration in this market by Mexican banks, we believe we have an opportunity to increase the provision of loans and cash management and collections solutions to middle-market corporations.

In addition, Banco Santander Mexico has significantly increased cross-selling within this business unit. We have established a model to serve customers that actively use at least three products, including investment, credit, payroll administration and cash management, among others. We refer to these clients as *Vinculados Transaccionales* (Transactionally Linked). Our sales team has focused on increasing the volume of transactions of our middle-market corporations customers and, as a result, we had more than 4,300 *Vinculados Transaccionales* customers as of June 30, 2012, an increase of 16.5% from June 30, 2011.

Government Institutions

This business unit caters to Mexican federal government agencies, state agencies and municipalities as well as Mexican universities. Institutional customers are a potential source for new individual payroll customers. As of June 30, 2012, these customers represented 4.6% of our total loan portfolio and 28.3% of our deposits. Within the Retail Banking segment, institutions accounted for 4.3% of our fee income (net) and 6.2% of our income from continuing operations before income taxes in the six months ended June 30, 2012. We had 6,267 institutional customers as of June 30, 2012.

We have 12 specialized representative areas in Mexico that offer tailor-made products to meet our institutional customers' needs. Among the products we offer to our governmental clients are current accounts, loans, payroll processing, cash management, collection services and payment processing services. Serving these institutions allows us to cross-sell current accounts, credit card services, loan products, insurance products and collection services to their employees.

Global Wholesale Banking

General

The customers in our Global Wholesale Banking segment generally consist of large Mexican companies with annual revenues greater than U.S.$100 million, customers that require sophisticated services such as investment banking services and certain Mexican and non-Mexican multinational companies that are served globally by the Santander Group. Our Global Wholesale Banking segment provides comprehensive products and services relating to finance, guarantees, mergers and acquisitions, equity and fixed income, structured finance, international trade finance, cash management services, collection services and e-banking, including structured loans, syndicated loans, acquisition financing and financing of investment plans, among others, through two branch offices located in Mexico City and Monterrey.

As of June 30, 2012, the Global Wholesale Banking segment served 384 customers and accounted for 27.7% of our total loan portfolio, 14.2% of our total demand and time deposits, 12.2% of our fee income (net) and 17.1% of our income from continuing operations before income taxes.

The Global Wholesale Banking segment provides financial advice and helps our customers find private equity or venture capital investment opportunities, participate in equity and debt offerings in Mexico and obtain project financing. The Global Wholesale Banking segment uses its range of products, knowledge of the local market and efficient execution in order to customize the financial solutions it offers to our customers.

The main products and services that our Global Wholesale Banking segment provides are:

- Global transaction banking, which includes cash management, global custody and security services, trade finance and funding alternatives for institutions with international operations;
- Credit markets, which includes origination units, distribution of structured credit and debt products, debt capital markets, project finance and asset and capital structuring;
- Corporate finance, which includes mergers and acquisitions as well as equity capital markets;
- Equity custodial and related services, which includes equity derivatives, exchange-traded derivatives, cash equities and equity research;
- Treasury trading activities, which offers our customers derivative products, foreign exchange transactions (including for individuals) and other financial products and structures;
- Proprietary trading, which is responsible for the management of our proprietary investment portfolio; and
- Global wholesale banking products and solutions for retail customers, which offers retail segment clients tailor-made wholesale banking products and solutions in order to meet specific needs.

Global Transaction Banking

Our Global Wholesale Banking segment includes our global transaction banking products focused on our customers' needs for local and global commercial banking solutions, particularly in the areas of trade finance transactions, cash management, commercial financing, basic financing and global custody and security services activities. In 2012, the magazine Trade Finance named Banco Santander Mexico the best bank in the "best trade bank in Mexico" category.

Credit Markets

Our credit markets operations of our Global Wholesale Banking segment are responsible for the areas of project finance, debt capital markets, syndicated loans and acquisition finance, and asset and capital structuring:

- *Project Finance*. The market for project finance in Mexico showed strong growth in 2011. We have participated in innovative transactions in the highway, infrastructure and energy sectors, and we believe we are well positioned in 2012 to participate in the advisory, structuring and financing of infrastructure projects. In 2010, we were the leading bank in the energy sector acting as advisor, structuring and syndication agent for the Nuevo Pemex Cogeneration facility, Petróleos Mexicanos' first large-scale power co-generation project, and as structuring bank for the Oaxaca I windfarm, the first renewable independent power production project of the Federal Electricity Commission (*Comisión Federal de Electricidad*, or "CFE"). In the infrastructure sector, we acted as bookrunner for the Atotonilco Water Treatment Plant transaction relating to the largest single wastewater treatment plant in Latin America. We also acted as structuring bank for the Cultural Heritage Center in the State of Mexico, which was the first public-private partnership project at the state level in that entity.

- *Debt Capital Markets*. We actively participate in both the local Mexican and international debt capital markets for Mexican issuers. We acted as lead manager in the offerings by Televisa, Peñoles and América Móvil, among others. In 2011, we were ranked third in terms of volume in the local market according to Bloomberg, and we were involved in some of the largest debt offerings of Mexican issuers, such as Petróleos Mexicanos (Ps.17,000 million and 653 million UDIs), Empresas ICA S.A.B. de C.V. (Ps.5,323 million and 387 UDIs) and Coca-Cola Femsa, S.A.B. de C.V. (Ps.5,000 million). In the international debt capital markets, we were involved in some of the largest offerings of Mexican issuers, such as Petróleos Mexicanos (U.S.$1,000 million) and Cemex S.A.B. de C.V. (U.S.$1,000 million).

- *Syndicated Loans and Acquisition Finance*. In 2010, we ranked eighth in syndicated lending in Mexico among global banks and fourth among Mexican banks, and tied for fifth in deal count according to LoanConnector and our own calculations. In 2011, we ranked fifth in syndicated lending in Mexico among global banks and fourth among Mexican banks, and third in deal count. We acted as a joint bookrunner in transactions for CFE, Cablecom, Megacable and Grupo Bimbo, among others.

- *Asset and Capital Structuring*. This area is responsible for the development of financing products that optimize capital investments. Our principal asset and capital structuring activities involve seed funding and carbon finance.

Corporate Finance

Our corporate finance sub-division of our Global Wholesale Banking segment participates in the following activities.

Mergers and Acquisitions

This area provides investment banking services to public and privately held businesses, mainly to our existing clients, as well as in cross-border transactions in which a Mexican party participates. We offer a wide range of investment banking services relating to mergers and acquisitions, including sell-side advisory, buy-side advisory, management buyouts, restructurings and capital raising services. As part of our universal banking model, we are able to offer financing to the parties we advise.

In 2011, we acted as exclusive financial advisor in several transactions with our clients, including Eolia and GE Money. In 2011, we closed two reported M&A transactions (public) and five total transactions (private and public). In 2010, we acted as exclusive financial advisor in several transactions with our clients, including Serpaprosa. In 2010, we closed three reported M&A transactions (public) and six total transactions (private and public).

Equity Capital Markets

We are one of the leading banks in the Mexican equity capital markets, ranked first and second in terms of volume in 2009 and 2010, respectively, according to Bloomberg and our own calculations. In 2009, we acted as the sole structuring agent and joint bookrunner of the first peso-denominated convertible bond issuance by Cemex. During the same year, we also acted as bookrunner in the follow-on equity offerings of ICA and Cemex, for a total transaction value of over U.S.$2.4 billion. In 2010, we acted as global coordinator in the initial public offerings of OHL México and Grupo Sports World, and acted as joint bookrunners in the follow-on offering of Sare, all of whose securities were listed on the BMV, with a total transaction value of over U.S.$1.0 billion. In 2011, we acted as Sole Global Coordinator of the first international IPO of a FIBRA (*Fideicomiso de Infraestructura de Bienes Raíces*, or "Real Estate Investment Trust"), which was placed in Mexico and in the international markets for an amount of more than Ps.3,600 million (U.S.$268 million). This operation represented the introduction of a new asset class in the Mexican market, enabling institutional investors and individuals to participate in Mexican real estate investments through listed equities. In 2011, we were also ranked first in equity offerings in Mexico and second in Latin America according to Bloomberg and Dealogic, respectively. In addition, in 2011, Euromoney named Banco Santander Mexico the best equity house in Mexico.

We also provide an array of services such as over-the-counter equity derivatives, exchange-traded derivatives, global custody and securities services, cash equities and equity research.

Equity Custodial and Related Services

Our Global Wholesale Banking segment includes our equities business, which offers institutional and corporate clients equity services ranging from global custody and brokerage on domestic and international exchanges to the tailoring of sophisticated equity derivative products, including market research services. The execution of brokerage services is carried out by our affiliate Casa de Bolsa Santander, Grupo Financiero Santander Mexico's brokerage subsidiary. In 2011, Banco Santander Mexico was rated "Domestic Commended," "Cross Border Commended" and "Leading Clients Commended" in the Agents Banks in Emerging Markets Survey 2011 conducted by *Global Custodian* magazine. In the same survey in 2010, we were named as "Top Rated" by domestic clients with respect to custody services.

Through exchange-traded derivatives, we offer our institutional clients both domestic and international listed derivative products. We are a top player in terms of third-party open interest in the Mexican Derivatives Exchange (*Mercado Mexicano de Derivados, S.A. de C.V.*, or "MexDer"), as measured by the number of contracts at December 31, 2011, and were the first Mexican bank to allow our clients to trade on the Chicago Mercantile Exchange.

We offer brokerage services in equity exchanges, either through our direct participation in domestic markets or through another broker in the international markets. We offer primary market services in collaboration with the corporate finance area, such as securities distribution in initial public offerings.

We also offer our institutional and corporate clients tailored derivative products, known as equity derivatives, in order to manage and hedge their financial risks and optimize the performance of their portfolios. These equity derivatives are traded in the over-the-counter market.

Treasury Trading Activities

Our Global Wholesale Banking segment includes our treasury trading activities business, which offers a variety of treasury products to customers, including institutional investors, corporate clients and individuals. We provide sophisticated and innovative derivative products to help our customers manage market risk exposure to foreign exchange rates and interest rates. We believe we have an effective client coverage model based on dedicated sales teams for each client segment that allows us to maintain specialists committed to providing for the specific needs of our individual clients. In addition, we have structuring and product development teams that work to maintain a cutting edge portfolio of innovative client solutions. The global network of Banco Santander Spain, with its strong presence in Europe and Latin America, gives us the ability to offer a wide range of international products as an integrated service for our local customers. Furthermore, we offer treasury products as a standardized solution, providing hedge and yield enhancement, to middle and retail market companies. We have implemented extensive suitability processes designed to ensure customers understand and accept the risks involved in the derivatives market.

Proprietary Trading

The proprietary trading area of our Global Wholesale Banking segment is responsible for the management of the Bank's proprietary portfolio of investment. In the management of the Bank's books, we seek to maintain recurrent results for each single individual book with the main objective of preserving capital. The decision-making process is based on fundamental aspects of each market, supported by technical views. The strict observance of these principles has allowed this activity to present sustainable results for the organization.

The proprietary trading desks must comply with risk control policies established by our senior management and also with those applied worldwide by Banco Santander Spain. All positions and processes are strictly monitored and controlled by specialized market and operational risk teams and finance and compliance departments. Proper risks management for each financial market area and sustainable initiatives, such as social, environmental and corporate governance criteria are also part of our proprietary trading activity.

Global Wholesale Banking Products and Solutions for Retail Customers

We have specialized teams dedicated to bringing retail segment clients tailor-made wholesale banking products and solutions in order to cover specific needs.

Our retail markets team designs and provides adapted derivative products for retail clients, distributing them through our branch network. They also provide tailor-made derivative products for those retail clients with specific complex requirements.

Our retail investment banking team is involved in structuring a variety of transactions, such as project and acquisition finance, debt and equity issuances, mergers and acquisitions, and asset and capital structuring, bringing our retail clients tailor-made solutions that address their specific one-time needs.

Our Core Products

Deposit-Taking and Sale and Repurchase Agreements Transactions

We offer our Retail Banking customers a variety of deposit products, such as:

- current accounts (also referred to as demand deposits), which do not bear interest;
- traditional savings accounts, which bear interest; and
- time deposits, which are represented by certificates of deposits, which normally have a maturity of less than 36 months and earn interest at a fixed or floating rate.

In addition, we accept deposits from financial institutions as part of our treasury operations, which are represented by certificates of interbank deposit, or "CDIs," and which earn the interbank deposit rate. Besides representing a significant source of stable funding for us, we regard each account holder as a potential customer for the full range of products and services we offer.

We also enter into repurchase transactions. Repurchase agreements are Mexican-law governed sale and repurchase agreements (*reportos*), also known as repos, pursuant to which a party agrees to a temporary purchase or sale of securities in exchange for (i) a specified premium to be paid or received and (ii) the obligation to resell or repurchase the underlying security. Under a circular issued by the Mexican Central Bank, Mexican banks may enter into repurchase transactions with Mexican and foreign counterparties. Repurchase transactions may be entered into in respect of bank securities, Mexican government securities, debt securities registered with the CNBV and certain foreign securities. Repurchase transactions must be entered into under master agreements, such as the master agreements of the International Securities Market Association and the Public Securities Association. Collateral may be provided in connection with repurchase transactions.

Sale and repurchase agreements totaled Ps.170,121 million at June 30, 2012, a 38.4% increase compared to the amount at December 31, 2011. We expect to continue using this funding source in the future due to its broad availability and low cost.

The table below presents a breakdown of our deposits by product type and our sale and repurchase agreements at the dates indicated.

	At December 31,		At June 30,
	2010	2011	2012
	(Millions of pesos)		
Demand deposits:			
Interest-bearing deposits	Ps. 101,238	Ps. 110,010	Ps. 112,109
Non-interest-bearing deposits	55,674	68,061	92,508
Subtotal	**Ps. 156,912**	**Ps. 178,071**	**Ps. 204,617**
Time deposits:			
Notes with interest payable at maturity	Ps. 107,402	Ps. 115,376	Ps. 114,511
Fixed-term deposits	6,732	17,779	8,295
Foreign currency time deposits	5,808	4,417	3,469
Subtotal	**Ps. 119,942**	**Ps. 137,572**	**Ps. 126,275**
Creditors under sale and repurchase agreements	Ps. 114,254	Ps. 122,901	Ps. 170,121
Total	**Ps. 391,108**	**Ps. 438,544**	**Ps. 501,013**

Lending

The following table shows a breakdown of our loan portfolio by customer category at the dates indicated.

	At December 31,		At June 30,		Change, June 30, 2012 vs. December 31, 2011	
	2010	2011	2011	2012	(Millions of pesos)	(%)
	(Millions of pesos)		(Millions of pesos)			
Retail:						
Individuals	Ps. 76,359	Ps. 113,973	Ps. 105,649	Ps. 125,100	Ps. 11,127	9.8%
SMEs(1)	14,513	19,382	17,337	28,081	8,699	44.9%
Middle-market corporations	66,166	73,321	71,143	76,192	2,871	3.9%
Government entities loans	10,281	15,654	13,715	15,500	(154)	(1.0%)
Subtotal	**167,319**	**222,330**	**207,844**	**244,873**	**22,543**	**10.1%**
Global corporate clients	60,237	91,343	82,622	94,032	2,689	2.9%
Total	**Ps. 227,556**	**Ps. 313,673**	**Ps. 290,466**	**Ps. 338,905**	**Ps. 25,232**	**8.0%**

(1) Includes private banking.

Retail Lending

General

We offer retail lending products to customers through our extensive branch network and on-site service units. See "—Distribution Network." We divide our customers into separate categories based principally on their monthly income (for individuals) and annual gross revenues (for businesses). We tailor our products and services to the needs of each customer classification. Our loans and mortgages are generally originated and serviced internally. We believe our underwriting system has the capability to process large application volumes (greater than the expected volume for the upcoming years), maintaining the tight controls and information requirements to improve the decision models.

We make credit available to our customers through the various loan products listed in the table below. The table sets forth the composition of our individual and SME customer loan portfolio at the dates indicated.

	As of December 31,		As of June 30,		Change, June 30, 2012 vs. December 31, 2011	
	2010	2011	2011	2012	(Millions of pesos)	(%)
	(Millions of pesos)		(Millions of pesos)			
Mortgage loans	Ps. 34,774	Ps. 63,361	Ps. 60,645	Ps. 66,348	Ps. 2,987	4.7%
Revolving consumer credit card loans	25,097	28,637	25,574	33,001	4,364	15.2%
SMEs(1)	14,513	19,382	17,337	28,081	8,699	44.9%
Payroll loans	10,108	13,233	11,449	14,682	1,449	10.9%
Personal loans	6,009	8,477	7,666	10,842	2,365	27.9%
Other	401	265	315	227	(38)	(14.3%)
Total	**Ps. 90,872**	**Ps. 133,355**	**Ps. 122,986**	**Ps. 153,181**	**Ps. 19,826**	**14.9%**

(1) Includes private banking.

The GE residential mortgage portfolio amounted to Ps.21,756 million, Ps.19,025 million and Ps.18,041 million as of June 30, 2011, December 31, 2011 and June 30, 2012, respectively.

The following table shows the annual interest rate applicable to the main categories of retail lending products at June 30, 2012.

	Annual interest rate
	(%)
Revolving consumer credit card loans	26.09%
Personal loans (includes payroll loans, personal loans and others)	28.07
Mortgage loans	11.03

Payroll Loans

Payroll loans are a typical consumer lending product with a differentiated method of payment. We grant loans (after conducting a risk assessment) to clients that receive their salaries through a current account at the Bank. The loan payments are made through automatic charges to the current account and are scheduled according to the payroll frequency of each employee (weekly, biweekly, monthly).

Our customers include employees from the public and private sectors. At June 30, 2012, payroll loans amounted to Ps.14,682 million (U.S.$1,095 million), representing approximately 9.58% of our total retail lending portfolio. We held approximately 14.01% of the market share in Mexico in payroll loans at December 31, 2011, according to the CNBV.

Personal Loans

Personal loans are loans granted to individuals with maturities of up to 48 months, and the monthly installments to be paid by the customer may not exceed 30% of such customer's net monthly salary. Personal loans are not secured by collateral. At June 30, 2012, personal loans amounted to Ps.10,842 million (U.S.$809 million), representing approximately 7.08% of our total retail lending portfolio.

Our personal loan portfolio included 1,004,041 clients as of June 30, 2012, a 13.6% increase since December 31, 2011. As a result of this growth, 17.9% of our clients received a personal loan in the six months ended June 30, 2012, compared to 14.0% in the corresponding period in 2011.

Revolving Consumer Credit Card Loans

We are the third-largest issuer of credit card loans in the Mexican market according to the CNBV, and we had issued 3.0 million credit cards across 2.4 million accounts as of December 31, 2011. As of December 31, 2011, we held a 12% market share, with U.S.$2,461 million in receivables and a delinquency rate of 2.53%, the second lowest in the Mexican market, according to the CNBV. As of June 30, 2012, our total credit card loans outstanding amounted to Ps.33,001 million (U.S.$2,461 million), representing approximately 21.5% of our total retail lending portfolio.

We issue 19 different MasterCard and Visa credit cards designed for our different business segments. We mainly issue to our existing customers, such as deposit account holders and non-deposit account holders. Our income from credit cards includes interchange merchant fees, interest on credit card balances, annual cardholder fees and fees charged for cash advances. We market our credit cards through our branch network and offer preselected credit cards to our customer base across all socioeconomic customer segments. Our growth strategy is based on gaining market share while growing profits, by focusing on product innovation and aggressive customer acquisition efforts through commercial campaigns and managing risk according to different segments and channels. Since 2001, we have launched credit card products designed to serve customer preferences and financial needs and aimed at encouraging demand for our products. The main customer preferences and needs that have been addressed are low rates, no commissions, total protection and miles/rewards programs. This strategy has allowed us to increase our billing per active account by approximately 26.3% from 2010 to 2011.

During 2007 and 2008, excessive over-leverage in the consumer credit market in Mexico resulted in poor portfolio performance. This also affected our credit card portfolio. As a result, we implemented contingency measures, such as tightening of credit policies, reinforcement of collections and reduction or cancellation of credit lines. These factors helped to put delinquency rates and credit losses back within acceptable risk levels by the middle of 2010. As of December 2011, our credit card portfolio has the best performance in terms of asset quality (defined as total non-performing loans as a percentage of total loans) among the seven largest private banks in Mexico, according to the CNBV.

The following table shows the non-performing loans in our credit card portfolio as a percentage of the total loans in our credit card portfolio for the periods indicated.

	For the years ended December 31,					For the six months ended June 30,
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Total revolving consumer credit card non-performing loans as a percentage of total credit card loans	5.77%	10.74%	4.64%	4.14%	2.53%	2.87%

A special risk management unit for the credit card business continuously monitors portfolio performance. New application scores, behavior scores and capacity score models were implemented to manage new growth strategies. In addition, the credit card portfolio is segmented for risk according to behavior models. Depending on risk stratification, different offers are designed in order to increase, maintain or reduce exposure and profitability.

Our credit card business follows the Santander Group's corporate model, which provides the following benefits:

- Standardization throughout the Santander Group's markets through standardized management of certain "business levers": acquisition, activation, billing, receivables, retention, loyalty and products.
- Knowledge transfer across geographies and business levers. Campaign definitions, design and results are shared by the Santander Group's card units globally by means of an electronic campaign library.
- State-of-the-art decision-making process based on commercial and business facts and information, supported by strong analytic capabilities and robust infrastructure that enable us to design and execute focused, aggressive strategies and tactics, directed by a group of experts who collectively identify portfolio-relevant trends, patterns and opportunities in order to grow the business.
- Campaign management. All marketing initiatives and campaigns are run through a proven statistical model that allows the managers of the business levers to measure and analyze each campaign.

- New product development is subject to a very strict methodology that provides deep opportunity analysis and filtering.

The Santander Group has invested in creating robust business support and commercial processes. A fully integrated branch network manages customer product offerings through CRM tools, which enables branch executives to proactively approach the customer base with tailored product offerings. Due to our new issuing process, customers can leave the branch with their credit card in less than fifteen minutes. Our contact centers provide segmented customer service and retention activities, utilizing analytical tools as well as predictive retention models.

In addition to issuing credit and debit cards, we also manage ATMs and point-of-sale terminals. The point-of-sale terminals business is a joint venture with Elavon, which is a subsidiary of U.S. Bancorp, a company that provides end-to-end payment processing services to more than one million merchants in the United States, Europe, Canada and Puerto Rico. The main contributions of Elavon are its know-how, its portfolio of products and services, its multinational customers with operations in Mexico and its access to the investments that this business requires. Our alliance with Elavon has resulted in what we believe is a more diligent management of our credit card business, focusing on providing new payment solutions and innovative business services for merchants.

Mortgage Loans

We offer loans to our customers for the purchase of real estate secured by mortgages with a maturity of up to 20 years. We have a leading position in this business among non-government-owned banks and, at December 31, 2011, held a 15.4% market share in Mexico in terms of amounts of loans outstanding, according to the CNBV. As of June 30, 2012, we had a total mortgage portfolio of Ps.66,348 million (U.S.$4,948 million), representing approximately 43.3% of our total retail lending portfolio.

On December 23, 2010, we entered into a stock and assets purchase agreement to acquire the U.S.$2 billion GE Capital mortgage business. The transaction closed on April 29, 2011. The purchase price was Ps.2,042 million (U.S.$152 million), which was determined at closing based on the aggregate shareholders' equity of the entities that we acquired, plus the net value of the assets that we purchased directly, minus a negotiated discount. In addition, we repaid at closing to GE Capital the Ps.21,009 million (U.S.$1,567 million) intercompany debt at that date relating to the GE Capital mortgage business, which GE Capital historically had financed through intercompany debt. The total volume of assets at the time of closing was Ps.23,904 million (U.S.$1,783 million), including a total loan portfolio of Ps.21,926 million (U.S.$1,635 million), while the total volume of liabilities was Ps.21,494 million (U.S.$1,603 million).

As a result of our acquisition of the GE Capital residential mortgage business, we had the second-largest mortgage portfolio in the private banking sector in Mexico in 2011, according to the CNBV. The mortgage portfolio of the GE Capital mortgage business represented approximately 31% of the portfolio of Santander Hipotecario as of December 31, 2011. We did not purchase any loans to developers as part of the acquisition or otherwise.

The business we acquired primarily consists of offering mortgage, liquidity and home improvement loans to individuals for personal use secured by first priority mortgages on, security trusts holding, or other similar arrangements covering, residential real property located in Mexico. The former business model of the GE Capital mortgage business was to originate and underwrite mortgages entirely through third-party brokers and to manage the business through this distribution channel. Now that the GE Capital mortgage business has been integrated with our existing mortgage business, we have established two different sales channels: brokers and our branch network. Both are operated and managed by our mortgage business unit. We do not have exclusivity arrangements with these brokers. We have taken measures to increase the level at which the business originates mortgages, primarily by leveraging the Santander relationship with these brokers and adding Santander mortgage products to the offerings of the business acquired. Currently, the business is operated using Santander software.

On average, the loan-to-value ratio of our mortgage loans is 59.2% as of June 30, 2012. We do not make any loans for more than 85% (or up to 90%, in the case of loans with support from the Mexican Institute of the National Housing Fund for Workers (*Instituto Nacional para el Fomento de la Vivienda de los Trabajadores*, or "*Infonavit*") of the value of the property to be purchased. Borrowers must meet certain minimum monthly income levels as evidenced by recent payroll information and tax returns, and payments may not exceed 35% of borrowers' monthly income. Borrowers must provide satisfactory documentary evidence to confirm their employment or other types of revenue and to otherwise evaluate their ability to pay.

According to the Federal Mortgage Agency (*Sociedad Hipotecaria Federal*, or "SHF"), there was a deficit of approximately 9.0 million homes in Mexico in 2011. This deficit is expected to increase to an estimated 14.2 million homes in 2020, according to the SHF, based on the expected demographic growth of 600,000 families per year in Mexico, according to the SHF. We expect that this systemic housing deficit in Mexico will continue to drive demand for our residential mortgages and related products in the near term.

Insurance Brokerage

On February 22, 2011, Banco Santander Spain publicly announced that it had reached an agreement with Zurich Financial Services Group to establish a strategic alliance for bancassurance in Mexico, Brazil, Chile, Argentina and Uruguay. On July 15, 2011, we announced that we had signed the definitive agreements with Zurich Financial Services Group regarding this long-term alliance. On November 4, 2011, Grupo Financiero Santander Mexico announced that it had completed the final documentation and obtained the authorizations necessary to close the sale of its insurance company subsidiary Seguros Santander to ZS Insurance America, S.L., which was created as a consequence of the strategic alliance between Banco Santander Spain and Zurich Financial Services Group, for a price of Ps.7,441 million. The joint venture is 51% controlled by Zurich Financial Services Group and 49% by Banco Santander Spain. We do not hold shares in the joint venture. In connection with the sale and joint venture, Seguros Santander, as a subsidiary of ZS Insurance America, S.L., entered into an exclusive distribution agreement with us with respect to all types of insurance other than auto insurance. As a result, we will continue to sell insurance policies on behalf of this joint venture and to receive commissions from those sales.

Prior to its sale to ZS Insurance America, S.L., Seguros Santander offered life, automobile, fraud and home insurance. Its products were offered through our branch network. We did not distribute third-party providers' insurance products prior to the sale of Seguros Santander to ZS Insurance America, S.L.

We distribute insurance products from ZS Insurance America, S.L. as well as third-party providers. We sell products issued by the Zurich joint venture, which, together with sales of products of its predecessor, Seguros Santander, represented almost 21.4% of the commissions we earned in the six months ended June 30, 2012.

Total outstanding insurance premiums distributed by us increased 40.5%, to Ps.3,765 million, in the six months ended June 30, 2012 as compared to the corresponding period in 2011, and total insurance commissions collected by us increased 30.5% in the six months ended June 30, 2012 as compared to the corresponding period in 2011. In the six months ended June 30, 2012, commissions related to lending activities increased 80.7%, and commissions related to open-market policies, such as life insurance policies, increased 15.2%, in each case as compared to the corresponding period in 2011.

The products we distribute as part of our insurance brokerage services include life, automobile, home, health, accident, fraud, unemployment and life-savings insurance. We focus on simple standardized banking product-related insurance mainly intended for the retail business. We cross-sell these insurance products, for example credit life insurance, with our banking products. The products are sold through our distribution network and we receive a service fee from the insurance providers based on the insurance sales.

All risks are assumed by, and all premiums are payable to, the relevant third-party insurance providers.

In 2011, we launched our Autocompara program, which allows potential clients to compare automobile insurance quotes from the seven largest insurance companies in Mexico. Clients may access this program at our branches, on the Internet or by telephone. This new program has been accompanied by a national publicity campaign, which has allowed us to position ourselves among the top companies in the automobile insurance sector. As of June 30, 2012, automobile insurance products generated commissions of Ps.240.7 million (U.S.$18 million) based on a portfolio of approximately 349,000 outstanding automobile insurance policies.

Corporate Lending

We offer a wide range of credit products to our corporate customers, including general corporate and working capital financing and foreign trade financing complemented by deposit-taking and cash management services. As of June 30, 2012, we had approximately 239,090 SME customers, 34,547 middle-market corporations customers and 6,267 government institutional customers. Our middle-market corporations customers include companies across all industry sectors. Our SME and middle-market corporations client coverage is through our officers who are appointed according to the customer's geographic location in the case of middle-market clients, and according to the location of our corporate headquarters in Monterrey and Mexico City in the case of our large domestic companies customers.

Distribution Network

General

We refer to our strategy of using multiple distribution channels, such as branches, internet banking, mobile banking and contact centers, tailored to each of our client segments and designed to reach a broad spectrum of customers in a cost-efficient manner as our multichannel distribution strategy. Our distribution network provides integrated financial services and products to our customers through a variety of channels, including our traditional proprietary branch network and on-site service units and complementary distribution channels such as ATMs, our contact centers and other direct sales distribution channels like internet banking, which we refer to as alternative distribution channels. The principal aims of the complete multichannel distribution strategy are to benefit from the synergy of the various channels and to direct customers to the most effective channel for the purposes of their transactions.

As of June 30, 2012, our distribution channels included:

- Branch network: We have 1,097 branches throughout Mexico.
- ATMs: We have 4,779 ATMs with coverage throughout Mexico.
- Contact centers: We have 2,018 contact center positions with approximately 4,015 employees. We receive more than 3.3 million calls per month and generate 4.5 million transactions.
- Internet banking: We had, on average, more than 33 million banking transactions per month in the six months ended June 30, 2012, with more than 447,000 active customers.
- Mobile banking: Our newly launched channel, which enables customers to complete transactions from their cell phones and tablets.
- Specialized sales force: We have 204 agents in our Asesores Super Nomina network. See "—Other Distribution Channels—Specialized Sales Force."
- Third-party branches (*corresponsalía*): We have 1,578 complementary branches provided by our agent, Telecomm. See "—Other Distribution Channels—Third-Party Branches."
- Third-party mortgage brokers: In the six months ended June 30, 2012, approximately 34% of our mortgages were originated through third-party mortgage brokers.

Branch Network

Our branch network offers all of our products and services to our customers. The table below shows the number of our branches across Mexico's regions at the dates indicated.

	At December 31,		At June 30,	Change, June 30, 2012 vs. December 31, 2011	
	2010	2011	2012	#	%
Central	122	122	122	0	0%
Metro North	143	148	148	0	0
Metro South	133	139	139	0	0
Northeast	132	137	137	0	0
Northwest	106	108	108	0	0
North	95	96	96	0	0
West	109	110	110	0	0
South	98	99	99	0	0
Southeast	135	138	138	0	0
Total	**1,073**	**1,097**	**1,097**	**0**	**0%**

Alternative Distribution Channels

General

We also distribute our products and services through alternative distribution channels, which have experienced consistent growth in terms of sales, services, provision of product information and customer preference. These alternative distribution channels consist of ATMs, our contact centers, internet banking, mobile banking, Asesores Super Nomina and third-party branches.

Because of their low cost and large attendance capacity, these channels are becoming one of the most efficient ways to interact with our customers at any time. We believe that alternative distribution channels are an important way to reach certain customers, in particular those in the low income segment where we are able to have a more effective relationship with a broader customer base.

ATMs

We operate an extensive network of 4,779 ATMs throughout Mexico, including those located in our branches and on-site service units. Our customers may use these ATMs to access their accounts and conduct banking transactions.

The following table shows the number of our ATM machines across Mexico's regions at the dates indicated.

	At December 31,		At June 30,	Change, June 30, 2012 vs. December 31, 2011	
	2010	2011	2012	#	%
Central	449	477	485	8	1.7%
Metro North	585	596	603	7	1.2
Metro South	484	489	494	5	1.0
Northeast	558	590	587	(3)	(0.5)
Northwest	451	467	467	0	0.0
North	359	373	395	22	5.9
West	382	417	426	9	2.2
South	482	528	558	30	5.7
Southeast	690	752	764	12	1.6
Total	**4,440**	**4,689**	**4,779**	**90**	**1.9%**

Contact Centers

Our contact centers in Queretaro and Crisol, Mexico can be used by customers to make inquiries, execute payment transactions or apply for products and services, such as personal loans. A portion of our contact center personnel is dedicated to contacting current account holders to offer them additional products and services, in particular insurance, credit cards and consumer loans. Those products are offered to preauthorized customers who are selected by our Risk and Commercial Intelligence departments in our central offices. Our contact centers also have a retention unit that handles customer requests for the cancellation of products or services.

Our contact centers serve three basic functions:

- Customer service: we receive more than 2.7 million calls per month from our customers.

- Sales: through our contact centers, we grant approximately 33% of the consumer loans and around 32% of the credit cards that we issue.

- Collecting receivables: with more than 1.0 million outbound and inbound calls, we collect more than Ps.157.9 million (U.S.$11.8 million) of receivables per month.

Internet Banking

We view the internet banking channel as the most efficient and convenient way to access bank services and as a key instrument for offering additional products. Our strategy includes three main components that seek to ensure the success of our internet banking channel:

- Customer acquisition: this includes a complete strategy regarding how to easily enroll new customers and make product alliances to promote internet banking as "easy, fast and secure." We seek to provide great service to our internet banking customers through an intuitive operating platform that we are developing throughout the site.

- Customer transactions: we are constantly improving the ways our customers access information, creating synergies within all our channels in order to promote the use of internet banking and optimize transaction costs.

- Selling products and services: we offer products according to a customer's profile and design easy and efficient product acquisition processes.

As of June 30, 2012, we had approximately 447,000 active portal clients. We had, on average, more than 33 million internet banking transactions, either monetary or non-monetary, per month in the six months ended June 30, 2012. The following table presents summarized operating statistics for our internet banking channel.

	Monthly Average		Change, six months ended June 30, 2012 vs. six months ended June 30, 2011	
	Six months ended June 30,		#	%
	2011	2012		
Monetary transactions	8,960,886	9,785,559	824,673	9.2%
Non-monetary transactions	19,885,263	23,587,153	3,701,890	18.6
Total transactions	**28,846,149**	**33,372,712**	**4,526,563**	**15.7%**

Mobile Banking

In March 2012, we launched our new mobile banking (*Banca Móvil*) channel, which enables customers to effect transactions on mobile phones. The application comes with a "geo-reference" function, which allows our customers to locate the nearest Santander branch or ATM. The application is compatible with most of the cell phones available in the Mexican market, including smart phones. There is also a customized version for tablets.

Mobile banking lowers the cost of bringing services to our customers and its convenience to customers increases transactions. By the end of 2012, we expect to offer additional products and services through this channel.

Specialized Sales Force

Our Asesores Super Nomina network is a specialized sales force responsible for selling products and services, mainly consumer loans, credit cards, insurance and planned saving products upon the delivery of the payroll kits to the employees of the companies that have payroll services with the Bank. Payroll kits are welcome kits that describe all of the benefits of the payroll deposit service to the client. These kits also contain a debit card along with applications for certain products, such as consumer loans, credit cards and insurance.

The main goals of the Asesores Super Nomina program are to identify opportunities for cross-selling different products and to gain the customer's loyalty at the outset. When the payroll kits are delivered, the Asesores Super Nomina also explain the different benefits of being a customer of the Bank and assist with the activation process of debit cards and other products.

As of June 30, 2012, 204 agents belonged to our Asesores Super Nomina network. These agents are located throughout Mexico, primarily at our branches but also at some of our corporate offices.

The following table presents the volume of transactions offered through this distribution channel:

	Six months ended June 30,		Six months ended June 30, 2011/ Six months ended June 30, 2012
	2011	**2012**	
	(monthly average)	**(monthly average)**	**(percentage change)**
Total payroll kit deliveries	66,439	70,365	5.9%
Consumer loan applications	39,963	47,914	19.9
Credit card applications	27,652	46,824	69.3
Insurance applications	27,487	31,263	13.7
Planned savings applications	19,401	36,064	85.9

Third-Party Branches

We provide banking services to our customers through 1,578 complementary branches provided by our agent, Telecomm. At these third-party branches, we process more than 100,000 transactions per month, offering basic banking services, such as debit and credit deposits, withdrawals and balance inquiries. These branches strengthen our national coverage and fortify our payroll service to companies with local coverage.

We are evaluating other joint strategies with third parties that might be interested in offering our services, which would increase the number of customers visiting their facilities and their revenues from commission received per transaction. If these strategies materialize, we expect we will be able to have more than 10,000 additional third-party branches in 2012.

Third-Party Mortgage Brokers

The acquisition of the GE Capital residential mortgage business reinforced our strategy of originating mortgages through third-party mortgage brokers, and approximately 30% of our mortgages were originated through this channel in 2011. Since substantially all of the mortgages originated by the GE Capital mortgage business are originated by third-party mortgage brokers, the percentage of mortgages originated through third-party mortgage brokers will be significantly greater in 2012 as compared to 2011. Approximately 34% of our mortgages were originated through third-party mortgage brokers in the six months ended June 30, 2012. We have a direct relationship with the three largest mortgage brokers in Mexico and an indirect relationship with approximately 47 smaller brokers, which sometimes originate mortgages on behalf of the larger brokers. Although we do not have exclusivity arrangements with these third-party mortgage brokers, we estimate that 45% of their operations are for our benefit.

Funding

Our principal source of funding is deposits, which represented Ps.330,892 million (U.S.$24,678 million), or 44.7%, of our total liabilities as of June 30, 2012. Customer deposits typically represent a large portion of our funding base because of our ability to attract deposits from customers through our extensive retail, wholesale and corporate network. Since we are primarily a commercial bank, customer deposits constitute the main source of liquidity in our financing structure. These deposits currently cover most of our liquidity requirements. Our control and management functions involve planning our funding requirements, structuring the sources of financing to achieve optimal diversification in terms of maturities, instruments and markets and setting forth contingency plans. In order to increase liquidity in the Mexican market, we use deposits in the local market as an instrument of liquidity and do not rely significantly on international funding. Additionally, legal reserve requirements consume a significant amount of funding in Mexico. For a further discussion of our funding, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

The following table sets forth Banco Santander Mexico's funding and market share with respect to funding for the periods indicated.

	As of December 31,										As of June 30,	
	2007		2008		2009		2010		2011		2012	
	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))
BBVA Bancomer	Ps. 502,899	24.9%	Ps. 594,967	24.7%	Ps. 602,841	24.4%	Ps. 678,856	24.7%	Ps. 666,673	22.5%	Ps. 684,603	22.5%
Banamex	367,177	18.2	387,127	16.1	506,370	20.5	550,552	20.0	574,710	19.4	540,061	17.7
Banorte(1)	201,913	10.0	265,566	11.0	263,529	10.7	283,679	10.3	371,393	12.5	392,698	12.9
Santander	252,179	12.5	325,689	13.5	254,859	10.3	301,954	11.0	357,430	12.1	378,426	12.4
HSBC	275,048	13.6	276,905	11.5	263,593	10.7	275,547	10.0	330,668	11.2	321,242	10.5
Inbursa	72,743	3.6	149,236	6.2	132,135	5.4	149,221	5.4	147,878	5.0	149,088	4.9
Scotiabank	107,077	5.3	121,678	5.1	119,118	4.8	131,183	4.8	129,444	4.4	141,199	4.6
Santander + Top 6	**Ps. 1,779,035**	**88.1%**	**Ps. 2,121,169**	**88.2%**	**Ps. 2,142,445**	**86.9%**	**Ps. 2,370,993**	**86.3%**	**Ps. 2,578,195**	**87.0%**	**Ps. 2,607,318**	**85.5%**
Total System	**Ps. 2,020,301**	**100.0%**	**Ps. 2,404,798**	**100.0%**	**Ps. 2,465,788**	**100.0%**	**Ps 2,746,820**	**100.0%**	**Ps. 2,964,687**	**100.0%**	**Ps. 3,049,174**	**100.0%**

Source: Funding and market share data are calculated by us, using information published by the CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

The following table sets forth Banco Santander Mexico's total demand deposits and market share with respect to demand deposits for the periods indicated.

	As of December 31,										As of June 30,	
	2007		2008		2009		2010		2011		2012	
	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)
BBVA Bancomer	Ps. 289,082	27.6%	Ps. 324,668	28.0%	Ps. 355,940	28.4%	Ps. 403,441	27.7%	Ps. 438,267	26.5%	Ps. 468,478	27.8%
Banamex	224,351	21.4	242,978	21.0	280,706	22.4	352,223	24.2	411,261	24.9	367,570	21.8
Santander	113,616	10.8	130,313	11.3	130,874	10.4	156,912	10.8	178,490	10.8	204,641	12.1
Banorte(2)	103,410	9.9	119,915	10.4	128,710	10.3	140,713	9.7	180,303	10.9	180,769	10.7
HSBC	143,008	13.6	140,725	12.2	127,972	10.2	150,358	10.3	172,808	10.5	171,996	10.2
Scotiabank	50,500	4.8	57,857	5.0	61,472	4.9	62,537	4.3	70,268	4.3	69,872	4.1
Inbursa	34,487	3.3	43,501	3.8	48,273	3.9	51,738	3.6	53,052	3.2	56,711	3.4
Santander + Top 6(3)	**Ps 958,454**	**91.4%**	**Ps 1,059,958**	**91.5%**	**Ps 1,133,947**	**90.5%**	**Ps 1,317,923**	**90.6%**	**Ps 1,504,449**	**91.0%**	**Ps 1,520,035**	**90.2%**
Total System	**Ps. 1,048,072**	**100.0%**	**Ps 1,157,917**	**100.0%**	**Ps 1,252,614**	**100.0%**	**Ps 1,454,463**	**100.0%**	**Ps 1,652,742**	**100.0%**	**Ps 1,685,331**	**100.0%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Market share data are calculated by us, using information published by the CNBV.

(2) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(3) Total demand deposits and market share data for "Santander + Top 6" are calculated by us, using information published by the CNBV.

The following table sets forth Banco Santander Mexico's total fixed-term deposits and market share with respect to fixed-term deposits for the periods indicated.

	As of December 31,										As of June 30,	
	2007		2008		2009		2010		2011		2012	
	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))
BBVA Bancomer..........	Ps. 188,550	22.3%	Ps. 231,479	21.6%	Ps. 232,891	22.3%	Ps. 214,990	20.2%	Ps. 208,102	19.1%	Ps. 200,633	17.8%
Banorte(1)...........	85,272	10.1	122,174	11.4	124,288	11.9	129,503	12.2	166,938	15.3	192,135	17.1
Santander............	133,823	15.8	173,721	16.2	114,239	10.9	126,179	11.9	159,387	14.6	148,982	13.2
Banamex.............	120,040	14.2	135,019	12.6	195,490	18.7	171,354	16.1	119,883	11.0	132,801	11.8
HSBC..................	124,432	14.7	125,529	11.7	110,765	10.6	103,258	9.7	125,323	11.5	124,214	11.0
Inbursa.................	36,247	4.3	103,852	9.7	76,365	7.3	89,872	8.5	89,049	8.2	83,356	7.4
Scotiabank..........	51,985	6.1	57,666	5.4	53,643	5.1	64,042	6.0	53,571	4.9	65,976	5.9
Santander + Top 6.................	**Ps 740,349**	**87.5%**	**Ps 949,439**	**88.7%**	**Ps 907,682**	**86.9%**	**Ps 899,198**	**84.7%**	**Ps 922,252**	**84.6%**	**Ps 948,097**	**84.1%**
Total System..............	**Ps 846,514**	**100.0%**	**Ps 1,070,462**	**100.0%**	**Ps 1,044,048**	**100.0%**	**Ps 1,061,776**	**100.0%**	**Ps 1,089,816**	**100.0%**	**Ps 1,126,749**	**100.0%**

Source: Total fixed-term deposits and market share data are calculated by us, using information published by the CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

The following table sets forth Banco Santander Mexico's total interbank lending and market share with respect to interbank lending for the periods indicated.

	As of December 31,										As of June 30,	
	2007		2008		2009		2010		2011		2012	
	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)
Banamex............	Ps. 22,785	18.1%	Ps. 9,130	3.3%	Ps. 30,173	17.8%	Ps. 26,975	11.7%	Ps. 43,566	19.6%	Ps. 39,691	16.7%
HSBC.................	7,608	6.1	10,651	3.8	24,856	14.7	21,931	9.5	32,537	14.6	25,033	10.6
Santander...........	4,740	3.8	21,655	7.8	9,745	5.8	18,863	8.2	19,553	8.8	24,804	10.5
Banorte(2)..........	13,230	10.5	23,477	8.4	10,531	6.2	13,463	5.8	24,152	10.9	19,794	8.3
BBVA Bancomer.........	25,266	20.1	38,820	13.9	14,010	8.3	60,425	26.2	20,304	9.1	15,492	6.5
Inbursa................	2,010	1.6	1,884	0.7	7,497	4.4	7,610	3.3	5,776	2.6	9,021	3.8
Scotiabank	4,593	3.7	6,155	2.2	4,002	2.4	4,604	2.0	5,605	2.5	5,352	2.3
Santander + Top 6(3).......	**Ps 80,232**	**63.8%**	**Ps 111,772**	**40.0%**	**Ps 100,814**	**59.6%**	**Ps 153,872**	**66.7%**	**Ps 151,494**	**68.2%**	**Ps 139,187**	**58.7%**
Total System.............	**Ps 125,715**	**100.0%**	**Ps 279,409**	**100.0%**	**Ps 169,126**	**100.0%**	**Ps 230,581**	**100.0%**	**Ps 222,129**	**100.0%**	**Ps 237,093**	**100.0%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Market share data are calculated by us, using information published by the CNBV.

(2) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(3) Total interbank lending and market share data for "Santander + Top 6" are calculated by us, using information published by the CNBV.

Marketing

After operating for more than 15 years in Mexico, the Santander brand has become a marketing leader in the Mexican financial services market. We are fifth among other banks in advertising spending, according to June 2012 data from IbopeAGB México, an independent agency that tracks TV advertising and ratings. We also are third in terms of unaided brand awareness and third in "top-of-mind" rankings according to a report prepared for our parent company, Banco Santander Spain, by Ipsos, a global market research company, in April-May 2012.

Our marketing plan is derived from our overall business plan, which focuses on service to our premier, preferred and SME clients and our university customers, as well as the provision of mortgages. Of particular note are our university customers, which, in addition to being the backbone of our social responsibility policy, have found in us a bank that understands their needs. University attending customers are generally classified as classic due to their low income status as students.

We also provide strong support to SMEs, which are the largest generators of employment in Mexico. Today we are one of the fastest growing banks in the SME market. Also crucial is the premier segment, as evidenced by the development of the "Santander Select" concept with exclusive branches to attend to these customers. In 2012, we expect to have 70 Santander Select offices.

Our clear and focused strategy based on quality has earned us the ranking of tied for second-best bank in terms of customer service, according to the Corporate Survey on Customer Satisfaction prepared for our parent company, Banco Santander Spain, by Ipsos dated April-May 2012. We are working hard to improve the overall experience of our customers in order to become the leading bank in customer satisfaction.

One of our most widely known attributes is innovation, which is evident in the development of successful products that were well received in the markets when they were introduced. For example, Light credit cards offering a low interest rate, Black credit cards offering insurance and fraud protection, funds and mortgages, among others, are innovative products that have added value to our brand.

In Mexico, one part of our marketing efforts is dedicated to social responsibility. Four times per year, our ATMs are able to receive voluntary donations from customers. In this way, we have supported the valuable work of UNICEF in Mexico so that all children may attend school and receive a quality education. This program has raised more than Ps.119 million in the past ten years. We have also supported works for the benefit of the environment performed by Reforestamos México, as well as the construction of homes through La Fundación Vivienda (Fideicomiso Provivah), with over 2,000 homes built in the past four years. In addition, the collective unions, together with other organizations, promotes the Association of Banks of Mexico's "Bécalos" program, which has provided scholarships to 135,000 students. We have been a leader in the Bécalos program for the last two years, providing the largest share of financial resources to students.

In 2012, our mass media campaigns have and will continue to focus on high growth markets and on key products to achieve our Retail Banking segment objectives: auto insurance, credit cards, consumer credit and collections. Other campaigns that combine advertising and customer events have and will continue to focus on universities, certain customer segments (SME, premier, preferred and select), private banking and mortgages.

We also intend to take advantage of regional and global corporate sponsorship opportunities, such as Copa Santander Libertadores and Ferrari, respectively, and we will continue to build on ongoing local sponsorships, such as Cirque du Soleil in Mexico City, and be the official credit card of the Arena Monterrey, one of the venues with the most ticket sales in the world.

Information Technology

Our main data center is located in Mexico and our disaster recovery site is located in Spain. We continuously invest in new technology and the maintenance of our existing equipment and infrastructure in order to improve our value proposition to our customers, increase our efficiency and support business growth. We believe that proper management of technology is key to the proper management of our business. Our modern technology platform is interconnected with the platform of the Santander Group, which enables us to provide seamless coverage to our customers.

We have implemented an information technology, or "IT," governance model focused on helping us achieve our business objectives. Through our IT governance model, we identify those IT investments aligned with our strategy and business plan, and we use ISBAN, the Santander Group's banking technology subsidiary, to execute IT projects and manage suppliers. This model enables us to leverage our global scale and capture the benefits of outsourcing, including consolidation, shared capability, scale, exchange of best practices and simplified governance, without the risk of losing control of core activities.

Our IT architecture is the central pillar of our banking operations. Our focus is to serve our customers on a global scale, under an architecture that is uniquely customer-centered, provides business support and increases the efficiency of our processes, all within a framework of security and regulatory compliance.

Our operational platform efficiently combines our modern business-oriented IT systems with our multichannel distribution strategy, resulting in innovative ways to serve our clients. We have well-developed CRM tools that allow us to monitor our clients' behavior and provide them with targeted product offerings through diverse channels. As a result, we are able to efficiently leverage alternative distribution channels, such as ATMs, internet banking and our contact centers, that are complementary to our traditional proprietary branch network, which enables us to provide better service to our clients and to increase our sales ratios.

Competition

General

We face strong domestic competition in all aspects of our business from other Mexican financial groups, commercial banks, insurance companies and securities brokerage houses, as well as from non-Mexican banks and international financial institutions. Banco Santander Mexico competes for both commercial and retail customers with other large Mexican banks, including subsidiaries of foreign banks, which, like Banco Santander Mexico, are a part of financial groups. In some parts of Mexico, Banco Santander Mexico also competes with regional banks. Banco Santander Mexico also competes with certain non-Mexican banks (principally those based in the United States and Spain) for the business of the largest Mexican industrial groups and government entities, as well as high net worth individuals.

Banco Santander Mexico's principal competitors are BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer; Banco Nacional de México, S.A., Integrante del Grupo Financiero Banamex, which is part of Citigroup; Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC; Banco Inbursa, S.A., Institución de Banca Multiple, Grupo Financiero Inbursa; and Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat. Some of the banks with which Banco Santander Mexico competes are significantly larger and have more financial resources than Santander Mexico, including a larger asset size and capital base.

The following table shows our rankings and market share among the seven largest private banks in terms of total assets in Mexico as of June 30, 2012, according to the CNBV.

	As of June 30, 2012	
Rankings and Market Share	**Rank of Banco Santander Mexico among Banks(1)**	**Market Share of Banco Santander Mexico among Banks(1)(2)**
Total loans	4	13.0%
Deposits	4	12.5%
Total assets	3	14.0%
Asset quality(3)	1	—
Shareholders' equity	3	15.5%
Net income	2	23.2%
Efficiency(4)	2	—
ROAE(5)	1	—

Source: CNBV.

(1) Among the seven largest private banks in Mexico in terms of total assets: Banco Santander Mexico, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer; Banco Nacional de México, S.A., Integrante del Grupo Financiero Banamex; Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC; Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa; and Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank.

(2) We calculate market share based on information published by the CNBV.

(3) Defined as total non-performing loans as a percentage of total loans.

(4) We calculate the efficiency ratio as administrative and promotional expenses, which includes depreciation and amortization, divided by total income, using information published by the CNBV.

(5) We calculate ROAE based on annualized net income for June 30, 2012, and we have used an average of shareholders' equity as of December 31, 2011 and June 30, 2012.

Our prestige and leadership has been recognized in the Mexican financial system, as well as in the broader Mexican business community. Also in 2011, América Economía ranked Banco Santander Mexico as the sixth overall best bank in Latin America and the first in Mexico, and Global Finance recognized Santander as the safest bank in Mexico, in each case based on criteria defined in the respective publications. In 2010 and 2012, Euromoney named Banco Santander Mexico the overall best bank in Mexico, and in 2012, Euromoney also recognized our private banking unit as the best in the "super affluent" category, defined as clients worth between U.S.$500,000 and U.S.$1.0 million.

The banking sector in Mexico can be classified into two groups: the mature, established "large banks" and the recently created "new banks." As of December 31, 2011, the four largest banks, BBVA Bancomer, Banamex, Banorte and Banco Santander Mexico, held in the aggregate 68.4% of the total deposits in Mexico, followed by a total of 19.9% held in the aggregate by HSBC, Scotiabank and Inbursa, all of which are established large banks. The remaining 11.7% was distributed among 35 other banks.

We also compete with credit unions in Mexico. Credit unions are financial institutions that are formed for the purpose of providing access to funding and favorable conditions for savings and receipt of loans and financial services. Credit unions do not provide services to the public in general, since they are only authorized to carry out transactions with their members. The operation of a credit union is carried out by its own members. In order to be a member of a credit union, one must comply with the eligibility requirements established for that organization and acquire a certain number of shares of the credit union.

The deposits of members with a credit union are not subject to any form of deposit insurance. There are credit unions for many different economic groups, ranging from fishermen to industrialists, but there are also "mixed" credit unions that accept members who perform different economic activities and "social sector" credit unions that serve economic sectors that are unable to access traditional financial institutions due to social, economic and geographic conditions.

Commercial banks in Mexico also compete in the retail market with non-banking institutions known as *Sofoles* and *Sofomes*, which focus primarily on offering consumer, commercial and mortgage loans to middle- and low-income individuals. Until recently, the commercial credit market for middle- and low- income individual customers has been serviced almost exclusively by non-banking institutions. Currently, more than 50 non-banking institutions are licensed to operate in Mexico. Mexican non-banking institutions may engage in certain specific lending activities, but are prohibited from engaging in many banking operations, including receiving deposits, foreign trade financing, offering current accounts and engaging in foreign currency operations. Traditional banks have begun to extend their credit services to the markets previously dominated by *Sofoles* and *Sofomes*.

At the beginning of 2008, the Mexican Banking Law (*Ley de Instituciones de Crédito*) was modified to, among other things, grant authority to the CNBV (with the assistance of other regulators, but having primary responsibility) to authorize the creation of banks solely to engage in certain activities (which is intended to incentivize competition, reduce required capital considering their risk exposure and improve the attention to certain industries and regions) as compared to so-called "universal" banks, such as Banco Santander Mexico. As a result of the reduced capital requirements and potential reduced operational costs that are likely to apply to this type of bank, there could be increased competition as a result of the creation of more banks to target specific market niches. To the best of our knowledge, as of December 31, 2011, the CNBV has not granted any authorization for the creation of this kind of limited operation bank.

In addition, commercial banks will probably face increasing competition from *Sofoles* and *Sofomes* as a result of reforms to several financial laws, which have been enacted with the main purpose of deregulating lending activities in Mexico, including financial leasing and factoring activities. See "The Mexican Financial System—Deregulation of Lending Entities and Activities."

Commercial banks also face increasing competition from securities firms and other financial intermediaries that can provide larger companies with access to domestic and international capital markets as an alternative to bank loans.

Market Position of Banco Santander Mexico

Net income

The following table sets forth net income and market share in terms of net income for the seven largest commercial banks in Mexico for the time periods indicated.

	As of December 31,				As of June 30,	
	2010		2011		2012	
	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)
BBVA Bancomer	Ps. 22,541	30.4%	Ps. 23,455	32.6%	Ps. 11,623	26.7%
Santander	12,884	17.4	13,700	19.1	10,111	23.2
Banamex	17,495	23.6	9,587	13.3	6,740	15.5
Banorte(2)	6,035	8.1	7,135	9.9	4,755	10.9
Scotiabank	2,619	3.5	2,862	4.0	2,201	5.1
HSBC	419	0.6	922	1.3	1,369	3.1
Inbursa	4,308	5.8	3,824	5.3	1,309	3.0
Others(3)	7,953	10.7	10,371	14.4	5,424	12.5
Mexican financial system	**Ps. 74,254**	**100.0%**	**Ps. 71,855**	**100.0%(4)**	**Ps. 43,532**	**100.0%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Market share data is calculated by us, using information published by the CNBV.

(2) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(3) Net income and market share data for "Others" are calculated by us, using information published by the CNBV.

(4) Figures do not add due to rounding.

Shareholders' equity

The following table sets forth shareholders' equity and market share in terms of shareholders' equity (as a percentage of the total shareholders' equity of 42 private banks in Mexico) for the seven private-sector banks with the largest market shares for the time periods indicated.

	As of December 31,				As of June 30,	
	2010		2011		2012	
	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)
Banamex	Ps. 132,686	23.7%	Ps. 126,959	21.2%	Ps. 129,877	20.9%
BBVA Bancomer	109,412	19.5	116,377	19.4	115,970	18.7
Santander	79,268	14.2	91,710	15.3	96,538	15.5
Banorte(2)	45,188	8.1	55,558	9.3	59,607	9.6
Inbursa	47,832	8.5	51,183	8.5	51,317	8.3
HSBC	38,220	6.8	40,031	6.7	40,285	6.5
Scotiabank	27,563	4.9	27,278	4.5	28,335	4.6
Total for seven banks(3)	**Ps. 480,169**	**85.7%**	**Ps. 509,096**	**84.9%**	**Ps. 521,930**	**84.0%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Market share data are calculated by us, using information published by the CNBV.

(2) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(3) Total shareholders' equity and market share data for the seven banks are calculated by us, using information published by the CNBV.

Return on average equity and equity to total assets ratio

The following table sets forth the return on average equity and equity to total assets ratio for the seven largest commercial banks in Mexico for the time periods indicated.

	As of December 31,				As of June 30,	
	2010		2011		2012	
	Return on average equity (%)	Equity to total assets ratio (%)	Return on average equity (%)	Equity to total assets ratio (%)	Return on average equity (%)(1)	Equity to total assets ratio (%)
Santander	16.3%	11.6%	16.0%	12.0%	21.5%	11.5%
BBVA Bancomer	21.5	9.4	20.9	9.2	20.0	9.3
Banorte(2)	14.5	8.1	14.9	7.6	16.5	8.6
Scotiabank	9.9	13.7	10.3	13.8	15.8	14.1
Banamex	12.3	11.9	7.5	11.3	10.5	11.6
HSBC	1.0	8.9	2.4	7.6	6.8	8.2
Inbursa	10.6	19.2	7.9	19.6	5.1	22.3
Mexican financial system	**13.5%**	**10.4%**	**12.5%**	**10.0%**	**14.8%**	**10.4%**

Source: Return on average equity and equity to total assets ratio data are calculated by us, using information published by the CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Net income for June 30, 2012 has been annualized, and we have used an average of shareholders' equity as of December 31, 2011 and June 30, 2012.

(2) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

Core capital ratio

The following table sets forth our and our peers' core capital ratios for the periods presented. Core capital ratio is defined as Tier 1 Capital (shareholders' equity) divided by risk-weighted assets.

	As of December 31,					As of June 30,
	2007	2008	2009	2010	2011	2012
			(%)			
Santander	14.2%	11.3%	11.8%	15.3%	14.5%	14.3%
Banorte(1)	10.2	9.4	12.0	12.1	10.8	11.6
Banamex	17.0	17.4	18.4	19.4	15.0	16.8
Scotiabank	16.9	15.3	16.4	17.5	15.5	16.6
Inbursa	19.4	21.9	22.1	22.2	18.9	18.7
HSBC	12.8	10.2	13.9	11.2	11.9	10.5
BBVA Bancomer	12.2	10.6	11.9	12.1	11.3	11.6
Median of seven banks	**14.2%**	**11.3%**	**13.9%**	**15.3%**	**14.5%**	**14.3%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

Efficiency

As of December 31, 2011, we were the second most efficient bank among the seven largest commercial banks in Mexico, according to each bank's efficiency ratio. We calculate the efficiency ratio as administrative and promotional expenses, which includes depreciation and amortization, divided by total income, using information published by the CNBV. The following table sets forth our and our peers' efficiency ratios for the time periods indicated.

	As of December 31,		As of June 30,
	2010	2011	2012
		(%)	
Inbursa	24.3%	32.4%	29.6%
Santander	38.3	43.4	34.0
BBVA Bancomer	42.5	43.6	45.7
Banorte(1)	52.8	58.6	52.4
Banamex	49.9	55.7	54.4
Scotiabank	70.2	63.5	63.6
HSBC	79.0	76.5	70.3
Mexican financial system	**53.0%**	**56.0%**	**54.5%**

Source: Efficiency ratios are calculated by us, using information published by the CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

Total loans

The following table sets forth total loans and market share (as a percentage of the total loans of 42 private banks in Mexico) for the seven private-sector banks with the largest market shares for the time periods indicated.

	As of December 31,										As of June 30,	
	2007		2008		2009		2010		2011		2012	
	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)	(Millions of pesos)	(Market share (%))(1)
BBVA Bancomer	Ps. 463,555	27.3%	Ps. 520,339	27.5%	Ps. 520,193	26.4%	Ps. 573,991	27.0%	Ps. 624,742	25.4%	Ps. 644,052	24.9%
Banamex	274,144	16.1	276,272	14.6	350,684	17.8	332,719	15.6	394,523	16.0	415,575	16.1
Banorte(2)	179,822	10.6	222,849	11.8	222,464	11.3	249,495	11.7	338,528	13.7	364,732	14.1
Santander	218,588	12.9	229,675	12.1	205,910	10.5	227,556	10.7	313,672	12.7	338,905	13.0
Inbursa	84,916	5.0	143,560	7.6	161,552	8.2	178,665	8.4	177,705	7.2	169,698	6.6
Scotiabank	91,744	5.4	99,239	5.2	99,257	5.1	106,023	5.0	114,525	4.7	112,779	4.4
HSBC	200,075	11.8	172,938	9.1	160,027	8.1	171,779	8.1	188,046	7.6	195,462	7.6
Total for seven banks(3)	**Ps.1,512,845**	**89.1%**	**Ps. 1,664,872**	**88.1%**	**Ps.1,720,087**	**87.4%**	**Ps.1,840,228**	**86.5%**	**Ps.2,151,741**	**87.4%**	**Ps.2,241,203**	**86.8%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Market share data are calculated by us, using information published by the CNBV.

(2) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(3) Total loans and market share data for the seven banks are calculated by us, using information published by the CNBV.

The following table sets forth our total mortgage loans and market share based on total mortgage loans for the time periods indicated.

	As of December 31,										As of June 30,	
	2007		2008		2009		2010		2011		2012	
	(Millions of pesos)(1)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)
BBVA Bancomer	Ps. 121,344	44.3%	Ps. 131,250	42.8%	Ps. 135,521	40.7%	Ps. 144,998	40.0%	Ps. 146,809	35.6%	Ps. 152,035	35.2%
Banorte(3)	36,366	13.3	44,455	14.5	48,151	14.4	54,694	15.1	62,752	15.2	66,408	15.4
Santander	22,552	8.2	27,679	9.0	29,792	8.9	34,743	9.6	63,361	15.4	66,348	15.4
Banamex	30,096	11.0	32,755	10.7	41,681	12.5	49,906	13.8	58,144	14.1	63,161	14.6
Scotiabank	31,942	11.7	34,988	11.4	40,568	12.2	43,055	11.9	45,298	11.0	46,886	10.9
HSBC	19,800	7.2	20,598	6.7	22,029	6.6	19,659	5.4	19,879	4.8	19,284	4.5
Inbursa	931	0.3	1,072	0.3	1,228	0.4	1,299	0.4	1,304	0.3	1,296	0.3
Santander + Top 6(4)	**Ps. 263,031**	**96.0%**	**Ps. 292,798**	**95.5%**	**Ps. 318,971**	**95.7%**	**Ps. 348,354**	**96.2%**	**Ps. 397,547**	**96.4%**	**Ps. 415,418**	**96.3%**
Total System	**Ps. 273,951**	**100.0%**	**Ps. 306,699**	**100.0%**	**Ps. 333,257**	**100.0%**	**Ps. 362,261**	**100.0%**	**Ps. 412,206**	**100.0%**	**Ps. 431,452**	**100.0%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Mortgage loans for 2007 are calculated by us, using information published by the CNBV.

(2) Market share data are calculated by us, using information published by the CNBV.

(3) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(4) Total mortgage loans and market share data for "Santander + Top 6" are calculated by us, using information published by the CNBV.

The following table sets forth our total consumer loans and market share based on total consumer loans for the time periods indicated.

	As of December 31,										As of June 30,	
	2007		2008		2009		2010		2011		2012	
	(Millions of pesos)(1)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)
BBVA Bancomer	Ps. 137,835	29.3%	Ps. 140,464	30.0%	Ps. 112,420	29.0%	Ps. 123,749	30.9%	Ps. 152,215	30.7%	Ps. 161,651	30.1%
Banamex	106,020	22.5	100,374	21.4	91,559	23.6	95,401	23.8	126,325	25.5	136,881	25.5
Santander	67,104	14.3	64,512	13.8	45,269	11.7	41,615	10.4	50,612	10.2	58,752	10.9
Banorte(3)	28,154	6.0	31.614	6.7	27,467	7.1	28,913	7.2	38,239	7.7	42,136	7.8
HSBC	52,062	11.1	49,689	10.6	33,874	8.7	28,238	7.1	30,536	6.2	33,011	6.1
Scotiabank	20,446	4.3	21,009	4.5	18,550	4.8	16,598	4.1	16,679	3.4	17,251	3.2
Inbursa	7,524	1.6	7,943	1.7	6,529	1.7	10,051	2.5	10,255	2.1	6,818	1.3
Santander + Top 6(4)	**Ps. 419,146**	**89.0%**	**Ps. 415,604**	**88.6%**	**Ps. 335,668**	**86.6%**	**Ps. 344,565**	**86.0%**	**Ps. 424,862**	**85.6%**	**Ps. 456,500**	**84.9%**
Total System	**Ps. 470,861**	**100.0%**	**Ps. 468,846**	**100.0%**	**Ps. 387,408**	**100.0%**	**Ps. 400,487**	**100.0%**	**Ps. 496,144**	**100.0%**	**Ps. 537,545**	**100.0%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Consumer loans for 2007 are calculated by us, using information published by the CNBV.

(2) Market share data are calculated by us, using information published by the CNBV.

(3) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(4) Total consumer loans and market share data for "Santander + Top 6" are calculated by us, using information published by the CNBV.

The following table sets forth our total commercial loans and market share based on total commercial loans for the time periods indicated.

	As of December 31,										As of June 30,	
	2007		2008		2009		2010		2011		2012	
	(Millions of pesos)(1)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)
BBVA Bancomer	Ps. 148,541	21.3%	Ps. 189,910	21.7%	Ps. 211,340	22.6%	Ps. 216,024	22.0%	Ps. 226,348	19.8%	Ps. 228,741	19.5%
Santander	102,969	14.8	114,594	13.1	109,267	11.7	130,637	13.3	164,345	14.4	177,646	15.2
Banorte(3)	81,201	11.7	105,472	12.1	99,496	10.6	110,629	11.3	154,351	13.5	162,470	13.9
Banamex	110,636	15.9	113,019	12.9	144,526	15.5	133,104	13.5	154,966	13.6	157,771	13.5
Inbursa	62,834	9.0	121,399	13.9	134,705	14.4	131,380	13.4	142,986	12.5	128,627	11.0
HSBC	75,723	10.9	77,616	8.9	77,836	8.3	83,106	8.5	103,446	9.1	109,440	9.3
Scotiabank	25,013	3.6	34,452	3.9	31,395	3.4	35,130	3.6	42,187	3.7	40,972	3.5
Santander + Top 6(4)	**Ps. 606,917**	**87.1%**	**Ps. 756,461**	**86.5%**	**Ps. 808,566**	**86.5%**	**Ps. 840,011**	**85.4%**	**Ps. 988,629**	**86.5%**	**Ps.1,005,667**	**85.8%**
Total System	**Ps. 696,529**	**100.0%**	**Ps. 874,211**	**100.0%**	**Ps. 935,146**	**100.0%**	**Ps. 983,114**	**100.0%**	**Ps.1,142,790**	**100.0%**	**Ps.1,171,735**	**100.0%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Commercial loans for 2007 are calculated by us, using information published by the CNBV.

(2) Market share data are calculated by us, using information published by the CNBV

(3) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(4) Total commercial loans and market share data for "Santander + Top 6" are calculated by us, using information published by the CNBV.

The following table sets forth our total government and financial entities loans and market share based on total government and financial entities loans for the time periods indicated.

	As of December 31,										As of June 30,	
	2007		2008		2009		2010		2011		2012	
	(Millions of pesos)(1)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)	(Millions of pesos)	(Market share (%))(2)
BBVA Bancomer...	Ps. 55,834	21.8%	Ps. 58,714	24.4%	Ps. 60,194	19.3%	Ps. 89,221	23.4%	Ps. 99,370	24.2%	Ps. 101,624	23.0%
Banorte(3).....	34,101	13.3	41,307	17.2	47,905	15.3	55,258	14.5	83,186	20.2	93,717	21.2
Banamex.......	27,391	10.7	30,124	12.5	72,685	23.2	54,309	14.2	55,087	13.4	57,762	13.1
Santander......	25,963	10.1	22,890	9.5	21,725	6.9	20,560	5.4	35,355	8.6	36,160	8.2
HSBC	52,491	20.5	25,035	10.4	26,215	8.4	40,776	10.7	34,184	8.3	33,727	7.6
Inbursa..........	13,628	5.3	13,147	5.5	19,437	6.2	35,934	9.4	23,159	5.6	32,958	7.4
Scotiabank	14,343	5.6	8,790	3.7	9,543	3.1	11,240	2.9	10,362	2.5	7,670	1.7
Santander + Top 6(4).....	**Ps. 223,751**	**87.3%**	**Ps. 200,009**	**83.1%**	**Ps. 257,704**	**82.4%**	**Ps. 307,297**	**80.6%**	**Ps. 340,703**	**82.8%**	**Ps. 363,618**	**82.2%**
Total System	**Ps. 256,285**	**100.0%**	**Ps. 240,650**	**100.0%**	**Ps. 312,649**	**100.0%**	**Ps. 381,400**	**100.0%**	**Ps. 411,242**	**100.0%**	**Ps. 442,478**	**100.0%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Government and financial entities loans for 2007 are calculated by us, using information published by the CNBV.

(2) Market share data are calculated by us, using information published by the CNBV.

(3) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(4) Total government and financial entities loans and market share data for "Santander + Top 6" are calculated by us, using information published by the CNBV.

Deposits

The following table sets forth deposits and market share in terms of deposits (as a percentage of the total deposits of 42 private banks in Mexico) for the seven private-sector banks with the largest market shares for the time periods indicated.

	As of December 31,				As of June 30,	
	2010		2011		2012	
	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))	(Millions of pesos)	(Market share (%))
BBVA Bancomer..	Ps. 572,716	23.7%	Ps. 591,887	22.7%	Ps. 613,794	23.2%
Banamex	486,643	20.2	511,927	19.6	483,490	18.2
Banorte(1)	289,000	12.0	365,489	14.0	368,802	13.9
Santander	276,854	11.5	315,642	12.1	331,745	12.5
HSBC..	249,370	10.3	293,877	11.3	291,973	11.0
Scotiabank..	119,633	5.0	116,853	4.5	129,631	4.9
Inbursa	125,940	5.2	107,545	4.1	97,388	3.7
Total for seven banks	**Ps. 2,120,156**	**87.8%**	**Ps. 2,303,220**	**88.3%**	**Ps. 2,316,823**	**87.4%**

Source: Deposits and market share data are calculated by us, using information published by the CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

Asset quality

The following table sets forth the asset quality, defined as total non-performing loans as a percentage of total loans by the CNBV, for the seven largest commercial banks in Mexico for the time periods indicated.

	As of December 31,		As of June 30,
	2010	2011	2012
	(Asset quality (%))	(Asset quality (%))	(Asset quality (%))
Santander	1.7%	1.7%	1.5%
Banamex	1.4	1.5	1.6
Banorte(1)	2.3	1.8	1.7
HSBC	3.1	2.7	2.1
Scotiabank	3.6	2.7	2.6
BBVA Bancomer	2.5	3.1	3.4
Inbursa	2.0	3.2	3.6
Mexican financial system	**2.3%**	**2.5%**	**2.5%**

Source: CNBV. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

Employees, Branches and ATMs

The following table sets forth our total employees and market share based on number of employees for the time periods indicated.

	As of December 31,				As of June 30,	
	2010		2011		2012	
	(Employees)	(Market share (%))(1)	(Employees)	(Market share (%))(1)	(Employees)	(Market share (%))(1)
BBVA Bancomer	27,115	16.5%	28,060	14.2%	28,425	13.8%
Banamex	30,264	18.4	31,813	16.1	31,864	15.4
Banorte(2)	15,494	9.4	18,431	9.3	21,334	10.3
Santander	13,308	8.1	16,275	8.2	16,269	7.9
HSBC	19,525	11.8	18,255	9.2	18,921	9.2
Scotiabank	9,389	5.7	10,025	5.1	9,200	4.5
Inbursa	1,937	1.2	1,915	1.0	1,961	1.0
Santander + Top 6(3)	**117,032**	**71.0%**	**124,774**	**63.0%**	**127,974**	**62.0%**
Total System	**164,823**	**100.0%**	**198,105**	**100.0%**	**206,300**	**100.0%**

Source: CNBV, R1 Information on employees. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Market share data are calculated by us, using information published by the CNBV.

(2) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(3) Total bank branches and market share data for "Santander + Top 6" are calculated by us, using information published by the CNBV.

The following table sets forth our total bank branches and market share based on number of bank branches for the time periods indicated.

	As of December 31,										As of June 30,	
	2007		2008		2009		2010		2011		2012	
	(Branches)	(Market share (%))(1)	(Branches)	(Market share (%))(1)	(Branches)	(Market share (%))(1)	(Branches)	(Market share (%))(1)	(Branches)	(Market share (%))(1)	(Branches)	(Market share (%))(1)
BBVA Bancomer	1,860	19.7%	1,860	17.3%	1,795	16.7%	1,796	15.9%	1,810	15.4%	1,813	15.0%
Banamex	1,603	16.9	1,596	14.9	1,623	15.1	1,696	15.0	1,703	14.4	1,706	14.2
Banorte(2)...........	1,052	11.1	1,118	10.4	1,088	10.1	1,134	10.0	1,289	10.9	1,299	10.8
Santander	983	10.4	1,026	9.6	1,066	9.9	1,075	9.5	1,097	9.3	1,097	9.1
HSBC	59	0.6	1,251	11.7	1,191	11.1	1,144	10.1	1,067	9.1	1,067	8.9
Scotiabank	1,361	14.4	587	5.5	598	5.6	646	5.7	647	5.5	647	5.4
Inbursa	534	5.6	72	0.7	144	1.3	254	2.2	270	2.3	272	2.3
Santander + Top 6(3)	**7,452**	**78.8%**	**7,510**	**70.0%**	**7,505**	**69.9%**	**7,745**	**68.6%**	**7,883**	**66.9%**	**7,901**	**65.6%**
Total System......	**9,458**	**100.0%**	**10,722**	**100.0%**	**10,731**	**100.0%**	**11,291**	**100.0%**	**11,786**	**100.0%**	**12,048**	**100.0%**

Source: CNBV, R1 Information on branches, ATMs and credit cards. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Market share data are calculated by us, using information published by the CNBV.

(2) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(3) Total bank branches and market share data for "Santander + Top 6" are calculated by us, using information published by the CNBV.

The following table sets forth our total number of ATMs and market share in terms of ATMs for the time periods indicated.

	As of December 31,								As of June 30,	
	2008		2009		2010		2011		2012	
	(ATMs)	(Market share (%))(1)	(ATMs)	(Market share (%))(1)	(ATMs)	(Market share (%))(1)	(ATMs)	(Market share (%))(1)	(ATMs)	(Market share (%))(1)
BBVA Bancomer.............	6,237	21.0%	6,237	18.5%	6,760	18.8%	7,710	21.2%	7,830	20.2%
Banamex	5,710	19.3	5,710	17.0	5,855	16.3	6,029	16.6	6,136	15.8
Banorte(2)	4,255	14.4	4,478	13.3	5,004	13.9	5,179	14.2	6,454	16.6
Santander	4,280	14.4	4,265	12.7	4,439	12.4	4,689	12.9	4,779	12.3
HSBC..............................	5,958	20.1	6,249	18.6	6,331	17.6	6,195	17.0	6,240	16.1
Scotiabank.......................	1,450	4.9	1,459	4.3	1,492	4.2	1,554	4.3	1,561	4.0
Inbursa	76	0.3	591	1.8	745	2.1	781	2.1	706	1.8
Santander + Top 6(3)	**27,966**	**94.4%**	**28,989**	**86.2%**	**30,626**	**85.2%**	**32,137**	**88.2%**	**33,706**	**86.9%**
Total System..................	**29,640**	**100.0%**	**33,648**	**100.0%**	**35,942**	**100.0%**	**36,429**	**100.0%**	**38,772**	**100.0%**

Source: CNBV, R1 Information on branches, ATMs and credit cards. Figures for June 30, 2012 are based on the latest available information published by the CNBV.

(1) Market share data are calculated by us, using information published by the CNBV.

(2) In March 2011, IXE merged with Banorte, and the information above for Banorte in 2011 is consolidated with IXE results.

(3) Total ATMs and market share data are calculated by us, using information published by the CNBV.

Properties

We are domiciled in Mexico and own our principal executive offices, which are located at Avenida Prolongación Paseo de la Reforma 500, Colonia Lomas de Santa Fe, Delegación Álvaro Obregón, 01219, México, Distrito Federal, Mexico. We also own another building in the vicinity of our headquarters and rent 124 other buildings. At June 30, 2012, we owned the locations at which 2 of our branches were located. The remaining branches are operated at rented locations, with lease terms varying from 1 to 10 years.

The following table sets forth our main properties as of the date indicated.

Main properties as of June 30, 2012	Number
Central Offices	
Owned	2
Rented	124
Total	126
Branches	
Owned	2
Rented(1)	1,095
Total	1,097
Other property(2)	
Owned	1
Rented	807
Total	808

(1) Includes 67 branches under bailment (*comodato*).

(2) Consists mainly of back offices, storage, parking lots and ATMs.

On April 27, 2012, we entered into an agreement to sell 220 properties (branches, offices and parking lots) to Fibra Uno, a Mexican publicly traded real estate investment trust. The sale of the properties was completed in May 2012 for Ps.3,334 million, which resulted in the recognition of net gains in the amount of Ps.1,710 million. Under the agreement, the properties will be immediately leased back to Banco Santander Mexico for a period of 20 years with an annual rent of Ps.275 million. See note 10 to our unaudited condensed consolidated interim financial statements.

Environmental Matters

We have initiated a strategic Social Corporate Responsibility (*Responsabilidad Social Corporativa*) program which promotes a continuous commitment to acting in a responsible manner, thereby contributing to economic development and improving the quality of life of our employees and their families, and the community as a whole.

In this context, we have reaffirmed our respect and commitment to the environment by establishing environmental policies and an Environmental Management System (*Sistema de Gestión Ambiental*, or "SGA").

On December 15, 2009, we obtained AENOR re-certification of the UNE concession certificate ISO 14001:2004, and this accounts for the SGA, which applies to the administration, management and maintenance of our principal executive offices in Santa Fe, Mexico City. The re-certification has a term of three years with annual revisions. In January 2012, the certificator conducted a maintenance audit and confirmed that the SGA was operating in an effective manner.

Our environmental policy aims to integrate sustainability into our day-to-day management and is carried out by our senior management. Further, our environmental policy requires us to be committed to the following:

- Complying with environmental law requirements applicable to the environmental aspects of the production and management process and services in general, as well as with other requirements which Grupo Financiero Santander Mexico sets forth and environmental requirements of clients and associates.
- Controlling and later reducing the environmental impact generated by the production and management process and services in general.
- Maintaining a commitment to continually improve and prevent land, water and air pollution within work premises.
- Establishing and continuously carrying out the objectives and action plans necessary to reduce environmental impact.

Additionally, our environmental policy is communicated to all of our employees through one or more of the following means: communication ads, posters located within the workplace, intranet website and/or training courses to contractors and new employees.

Below is a list of the acknowledgments and certifications which we have obtained:

- *Corporativo Centro Santa Fe*, Mexico City, Mexico: ISO 14001:2004 and the award for "Smart Building" in 1994.
- *Centro Tecnológico de Operaciones* (CETOS), Queretaro, Mexico: IMEI National Award for "Smart Building" in 2004, Quinta Wellington Redwood Mexico Award in 2005, 2007 and 2008 (related to optimization of internal processes), and the *Empresa Socialmente Responsable* (Socially Responsible Business) Award in 2010.
- *Contacto Centro*, Queretaro, Mexico: IMEI National Award for "Smart Building" in 2008.

To the best of our knowledge, there are currently no international, federal, state or local environmental laws, rules or regulations that will materially adversely affect our results of operations or our position with respect to our competitors. However, possible future environmental laws may adversely affect our operating results.

Intellectual Property

In Mexico, ownership of trademarks can be acquired only through a validly approved registration with the Mexican Institute of Industrial Property (*Instituto Mexicano de la Propiedad Industrial*, or "IMPI"), the agency responsible for registering trademarks and patents in Mexico. After registration, the owner has exclusive use of the trademark in Mexico for ten years. Trademarks registrations can be renewed indefinitely for additional ten-year periods, if the registrant proves that it has used such trademark within the last five years.

We have several trademarks, most of which are brand names of our products or services. All our material trademarks are registered or have been submitted to IMPI for registration by the Santander Group or us.

We own the principal domain names used in our business, which include www.santander.com.mx, www.llamasantander.com.mx, www.valorsantander.com.mx and www.supernetempresas.com.mx. None of the information contained on our websites is incorporated by reference into, or forms part of, this offering memorandum.

Employees

As of June 30, 2012, on a consolidated basis we had 12,224 employees, an increase of 0.6% since December 31, 2011. We classify our employees as executives, professionals and administrative employees. Executives include the top management. Professionals are middle-management personnel. The remainder of the employees are administrative employees. We intend to add 200 new branches to our branch network during the next three years and to hire an additional 2,000 employees to staff these branches.

We have traditionally enjoyed good relations with our employees and their union. Of the total number of our employees, 3,511, or 28.7%, were members of the Banco Santander Mexico labor union, which is affiliated with the National Federation of Bank Unions (*Federación Nacional de Sindicatos Bancarios*), as of June 30, 2012. We negotiate salaries with our union on an annual basis and benefits every two years, as required under Mexican law. In 2011, the collective bargaining agreement relating to both salaries and benefits was renewed, and in 2012, the collective bargaining agreement relating to salaries was renewed again, in accordance with Mexican law. Our collective bargaining agreement applies only to our unionized employees. While terms of employment are generally the same for unionized and non-unionized employees, benefits may differ.

The following chart summarizes the number and type of our employees as of December 31, 2010 and 2011 and June 30, 2012.

	As of December 31,		As of June 30,
Employees	**2010**	**2011**	**2012**
Executives	86	97	100
Professionals	4,702	5,048	5,097
Administrative	6,791	7,006	7,027
Total	**11,579**	**12,151**	**12,224**

Legal Proceedings

We are subject to certain claims and are party to certain legal and arbitration proceedings in the normal course of our business. We do not believe that the liabilities related to such claims and proceedings are likely to have, in the aggregate, a material adverse effect on our consolidated financial condition or results of operations. There are no material proceedings in which any of our directors, any members of our senior management, or any of our affiliates is either a party adverse to us or to our subsidiaries or has a material interest adverse to us or to our subsidiaries.

In our role as trustee or other fiduciary, we are party to certain legal and arbitration proceedings in the normal course of our business. We do not believe that the liabilities related to such claims and proceedings are likely to have, in the aggregate, a material adverse effect on our consolidated financial condition or results of operations.

The Mexican tax authorities issued an official communication dated February 16, 2012 setting forth that the deduction of losses arising from our sale of its past due loans during fiscal year 2007 was not in compliance with applicable law. The amount of the assessment arising from the Mexican tax authorities' determination is equal to approximately Ps.5,236 million (U.S.$390.50 million), including penalties and interest. We believe the assessment is incorrect and have filed an administrative appeal to challenge the assessment. Based upon the advice of our external legal advisors, we believe that the grounds to contest this assessment are based on sound legal premises and we will continue to challenge the assessment vigorously. Furthermore, based on such advice, we believe that the risk of a material loss to Banco Santander Mexico is remote and accordingly, we have not recorded any provisions related to this assessment in our audited financial statements. However, we can provide no assurances that Banco Santander Mexico will prevail in its challenge of the assessment.

We estimate that our aggregate liability, if all legal proceedings were determined adversely to us, could result in significant losses not estimated by us. As of June 30, 2012, we have set aside Ps.1,133 million (U.S.$84.5 million) as provisions for these legal actions (including tax-related litigation). See note 15 to our unaudited condensed consolidated interim financial statements. These provisions are presented under the "Sundry creditors and other payables" line item in our unaudited condensed consolidated interim financial statements.

RISK MANAGEMENT

General

The principal types of risk inherent in our business are market, liquidity, credit and operational risks. The effectiveness with which we are able to manage the balance between risk and reward is a significant factor in our ability to generate long-term, stable earnings growth. Toward that end, our senior management places great emphasis on risk management.

Organizational Structure

We regard risk management as a competitive element of a strategic nature, the ultimate goal of which is to maximize shareholder value. Risk management is defined, both conceptually and organizationally, as the comprehensive treatment of the different risks (market, liquidity, credit, counterparty, operating, legal and technological risks) that are quantifiable and are assumed by us in the normal course of business. The way we manage the risks inherent in our business is essential to understanding and determining our financial position and creating value in the long term.

The CNBV has issued regulations governing risk management applicable to credit institutions. Our Board of Directors has formed and maintains our Comprehensive Risk Management Committee (*Comité de Administración Integral de Riesgos*) based on the guidelines set forth in these regulations. Our Comprehensive Risk Management Committee must be comprised of at least five members, including the head of our Comprehensive Risk Management Unit, our Chief Executive Officer, two board members (one of whom is the committee president) and our internal auditor. Our Comprehensive Risk Management Committee meets monthly and seeks to ensure that our operations adhere to the objectives, policies and procedures approved by the Board of Directors for risk management, which are set forth in our Comprehensive Risk Management Manual.

Our Comprehensive Risk Management Committee proposes to the Board of Directors, for their approval:

- Objectives, policies and procedures for the general management of risks.
- Risk exposure limits (on a consolidated basis, for each business unit and for each type of risk).
- Strategies for assigning resources related to the execution of operations.

In addition, our Comprehensive Risk Management Committee approves:

- Methodologies to identify, measure, monitor, limit, control, inform and disclose the different types of risks to which we are exposed.
- Models, parameters and scenarios used to measure and control risks.
- Execution of new transactions and services that involve risks.

Our Comprehensive Risk Management Committee also monitors compliance with the risk limits established by our Board of Directors.

Our Comprehensive Risk Management Committee reports existing risk exposure to our senior management and our Board of Directors, at least on a quarterly basis. In particular, it reports our risk levels, as well as any deviation from the risk limits imposed by the risk policies and the corrective measures that have been implemented. When a risk limit is breached, as determined by the credit or market risk department, as applicable, the excess is reported immediately, regardless of the severity of such breach, to the Comprehensive Risk Management Unit, which reports to the Comprehensive Risk Management Committee. Our Comprehensive Risk Management Committee, in turn, reports to senior management and the Board of Directors. The relevant business unit must then report to the credit or market risk department, as applicable, regarding the corrective measures that are being implemented to reduce risk below the risk limit. The credit or market risk department, as applicable, monitors the risk until it is reduced below the risk limit.

Our Comprehensive Risk Management Committee has delegated to our Comprehensive Risk Management Unit (*Unidad de Administración Integral de Riesgos*) the responsibility for implementing the procedures for the measurement, management and control of risks, in accordance with established policies. Our Comprehensive Risk Management Committee appoints one person responsible for the management of the Comprehensive Risk Management Unit. This person, on behalf of the Comprehensive Risk Management Unit, reports any breaches of the risk limits and the corrective measures that have been implemented monthly to our Comprehensive Risk Management Committee and to the Board of Directors. This person is also responsible for, among other things, presenting to the Board of Directors the Comprehensive Risk Management Committee's reports, approvals and the risk exposures.

Our Comprehensive Risk Management Committee has the power to authorize deviations above the established risk limits, but any deviations must be reported to the Board of Directors on at least a quarterly basis. Generally any breaches of the risk limits are low in severity and last for a few days. Nevertheless, in the infrequent event that a breach is high in severity, the relevant business unit may request authorization from our Comprehensive Risk Management Committee, through the Comprehensive Risk Management Unit, for a specific and temporary deviation during which it will act to reduce the risk. If the authorization is denied, then the business unit must reduce the risk as soon as possible by reducing the open risk position or hedging it, even if such action results in a loss.

Our Comprehensive Risk Management Committee may also create any subcommittees necessary to exercise its functions. Our Credit Risk Committee, Market Risk Committee, Legal Risk Subcommittee and Operational Risk Subcommittee are subcommittees of the Comprehensive Risk Management Unit. See "Management—Committees—Comprehensive Risk Management Committee" for additional information about our Comprehensive Risk Management Committee.

Regulatory Review Process

We are subject to the CNBV's ordinary regulatory review process, specified in regulations that govern the CNBV's supervisory activities, which includes the annual evaluation of our risk models and risk management. This annual review comprises the following steps:

- The CNBV sends us an official notice stating the date on which its inspection visit will take place, the purpose of the inspection and the initial documents that will be subject to review.
- The CNBV sends us an official notice confirming the date on which the inspection visit will take place.
- The inspection visit takes place on the scheduled date at our offices. The visit includes review of information, interviews with officers and additional requests for information. The visit is generally conducted in a fashion that permits dialogue between us and those officers of the CNBV conducting the review.
- Once the inspection visit is completed, the CNBV prepares an official report, which includes observations arising from the inspection visit regarding regulations or internal processes. These observations may require answers to specific questions and may result in additional information requests. In addition, the official report may require us to take corrective actions and provide a timetable for their implementation.
- We are entitled to respond to the observations set forth in the CNBV's official report, including by expressing our disagreement with conclusions reached by the CNBV.
- After receipt of our responses, the CNBV issues a final report, setting forth its agreement or disagreement with the responses and the information provided. This final report confirms the conclusion of the termination of the annual inspection process. If we disagree with the CNBV's conclusions, we are entitled to initiate an administrative or judicial action against any such conclusions.

Market Risk

General

We are exposed to market risk mainly as a result of the following activities:

- trading in financial instruments, which involves interest rate, foreign exchange rate, volatility and equity price risks;
- engaging in retail banking activities, which involves interest rate risk because a change in interest rates affects interest income, interest expense and customer behavior;
- investing in assets or instruments the returns or accounts of which are denominated in currencies other than the peso, which involves foreign exchange rate risk; and
- all trading and non-trading activities, which involve liquidity risk.

Primary Market Risks and How They Arise

The primary market risks to which we are exposed are interest rate risk, foreign exchange rate risk, equity price risk and liquidity risk. We are exposed to interest rate risk whenever there is a mismatch between interest rate sensitive assets and liabilities. Interest rate risk arises in connection with both our trading and non-trading activities. Interest rate risk related to our trading activities primarily results from our investments in short-term Mexican Central Bank bills and notes, cross-currency swaps and sovereign bonds.

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, either as a result of trading or in the normal course of business. Our principal non-trading currency exposure is the U.S. dollar, which, as mandated by our policies, is hedged to the Mexican peso within established limits. Our exposure to trading-related foreign exchange risk is based on our positions in bonds and currency swaps.

We are exposed to equity price risk in connection with our trading investments in equity securities. The execution of brokerage services is carried out by our affiliate, Casa de Bolsa Santander.

We are also exposed to liquidity risk. Market depth is the main liquidity driver in our trading portfolio, even though our policy is to trade the most liquid assets. Our liquidity risk also arises in non-trading activities, due to the maturity gap between assets and liabilities mostly in our retail banking business.

We use derivatives for both trading and non-trading activities. Trading derivatives are used to eliminate, reduce or modify risk in trading portfolios (primarily interest rate and foreign exchange risk) and to provide financial services to customers. Our principal counterparties (in addition to customers) for this activity are financial institutions and clearing houses, such as the MexDer. Our principal derivative instruments include foreign exchange forwards, cross-currency swaps and interest rate swaps. We also use derivatives in non-trading activity in order to manage the interest rate risk arising from asset and liability management activity.

Market Risk Management Policies

Our Market Risk Management Department within the Comprehensive Risk Management Unit is responsible for recommending the market risk management policies to be implemented by us, by establishing the parameters for measuring risks and delivering reports, analyses and evaluations to senior management, to our Comprehensive Risk Management Committee and to the Board of Directors.

The measurement of market risk quantifies the potential change in the value of our positions as a result of changes in market risk factors.

Depending on the types of activities performed by the business units, debt securities and share certificates are recorded as trading securities, securities available for sale and/or securities held to maturity. In particular, what underlies and identifies securities available for sale is their permanent status, and they are handled as a structural part of the consolidated balance sheets. We have established guidelines that must be applied to securities available for sale, as well as controls to seek to ensure compliance.

When significant risks are identified, they are measured and assigned limits with the aim of ensuring adequate control. The risk is measured from a comprehensive perspective through a combination of the methodology applied to trading portfolios and the methodology applied to the management of assets and liabilities.

Trading Portfolios

To measure risks using a comprehensive approach, we follow the VaR method, which is defined as the statistical estimate of the potential loss of value of a specific position in a specific period of time and with a specific level of confidence. VaR is a universal measure of the exposure levels of the various risk portfolios. It helps compare the risk levels among different instruments and markets by expressing the exposure level of each portfolio through a unique figure in economic units.

VaR is calculated using the historical simulation method, based on full valuation with 521 scenarios, a one-day horizon and a confidence level of 99%.

Furthermore, we perform monthly simulations of the losses or gains from the portfolios through revaluations under different scenarios (Stress Tests). These simulations are generated in two ways:

- By applying to the risk factors percentage changes observed in a given historical period that includes significant market turbulence.
- By applying to the risk factors changes that depend on the volatility of each risk factor.

We perform backtesting every month to compare the daily losses and gains that would have occurred if the same positions had been maintained, considering only the change in value due to market movements, against the calculation of value at risk, which enables our models to be calibrated. Although they are prepared monthly, these reports include tests for all of the days.

For further information about our methodologies, see note 36 to our audited financial statements.

The table below presents the VaR inherent in our portfolios as of December 31, 2010 and 2011 and June 30, 2012:

	At December 31,				At June 30,	
	2010		2011		2012	
	VaR (thousands of pesos)	Percentage of net capital (%)	VaR (thousands of pesos)	Percentage of net capital (%)	VaR (thousands of pesos)	Percentage of net capital (%)
Trading desks	Ps. 157,148.50	0.23%	Ps.102,654.69	0.14%	Ps. 110,689.81	0.15%
Market Making	78,946.12	0.11	49,315.66	0.07	51,333.74	0.07
Proprietary Trading	115,935.73	0.17	52,127.74	0.07	90,675.65	0.12
Risk factor						
Interest Rate	157,036.51	0.23	114,878.56	0.16	110,907.41	0.15
Foreign Exchange	6,067.62	0.01	4,848.19	0.01	12,446.18	0.02
Equity	66,080.87	0.09	16,606.47	0.02	13,121.10	0.02

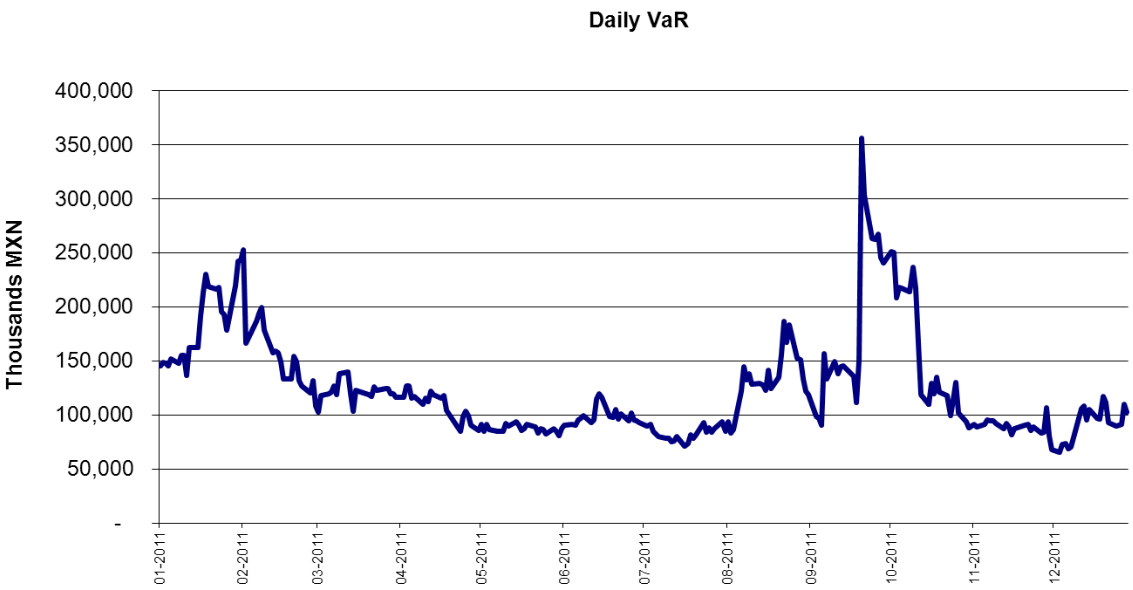
The average VaR (based on month-end amounts) in 2011 (unaudited) was:

	VaR (thousands of pesos)	Percentage of net capital (%)
Trading desks	Ps. 124,506.58	0.17%
Market Making	67,292.99	0.09
Proprietary Trading	90,569.91	0.12
Risk factor		
Interest Rate	127,892.39	0.17
Foreign Exchange	19,433.59	0.03
Equity	42,988.99	0.06

The average VaR (based on month-end amounts) in the six months ended June 30, 2012 (unaudited) was:

	VaR (thousands of pesos)	Percentage of net capital (%)
Trading desks	Ps. 98,726.51	0.13%
Market Making	55,189.57	0.07%
Proprietary Trading	73,561.04	0.10%
Risk factor		
Interest Rate	101,299.55	0.13%
Foreign Exchange	8,600.78	0.01%
Equity	12,924.53	0.02%

The risk performance of our trading portfolio with regard to trading activity in financial markets during 2011, measured by daily VaR in thousands of pesos, is shown in the following graph.



The above graph shows that daily VaR generally decreased from February until the end of the third quarter, when our VaR limit of approximately U.S.$25 million (Ps.335 million) was exceeded for two days on September 22 and September 23, 2011, due to the sharp and sustained increase in volatility in Europe and Asia related to concerns the global economy was slipping into another recession along with uncertainty about the central banks having the tools available to prevent it. After that, the VaR decreased and remained stable for the rest of the year.

In January 2012, we reduced our VaR limit to approximately U.S.$20 million (Ps.268 million). We determined the new VaR limit by taking into consideration the following factors: (i) the historical VaR consumption levels observed during 2011, (ii) our business strategy for 2012; (iii) our estimated results for 2012; and (iv) the ratio between profit and loss against VaR during 2011.

Assets and Liabilities Management (Banking Books)

Our retail banking activities generate significant balance sheet amounts. ALCO is responsible for determining guidelines for managing risk with respect to financial margin, net worth and long-term liquidity, which must be monitored in the different retail portfolios. The ALCO reports to our senior management. Under this approach, our finance senior management is responsible for executing the strategies and policies established by ALCO in order to modify the risk profile of the commercial balance sheet.

The ALCO adopts investment strategies and hedges to keep these sensitivities within the target range and is responsible for the management of interest rate risk, long-term liquidity risk and capital structure. As of the date of this offering memorandum, the foreign exchange risk in our banking books is not material and we intend to maintain the foreign exchange risk in the banking books at an immaterial level. Interest rate risk is the possibility of suffering losses as a consequence of the impact on the asset and liability structure from fluctuations in market interest rates. When quantified, interest rate risk is our exposure to movements in the interest rate curves.

As part of corporate activities, we analyze the interest rate sensitivity of the financial margin, or "NIM," and market value of equity, or "MVE," of the different balance sheet headings against interest rate variations. This sensitivity derives from the maturity and interest rate re-pricing gaps for every asset and liability. The analysis is based on the classification of each balance line sensitive to interest rates over time, as a function of their amortization dates, maturity or contractual modification of the applicable interest rate.

The MVE is the net present value of the projected future flows of the financial assets and liabilities in the banking book. We monitor the exposure of MVE to changes in interest rates by measuring the 1% MVE sensitivity, which is an estimate of the impact on MVE from a parallel movement of 100 basis points in market interest rates.

The NIM is the difference between the return on assets and the financial cost of financial liabilities in the banking book in a period. We monitor the exposure of NIM to changes in interest rates by measuring the 1% NIM sensitivity, which is an estimate of the impact on NIM, in a one-year time frame, from a parallel movement of 100 basis points in market interest rates. The impact on NIM from changes in interest rates is reflected in profit and loss accounts and balance sheet quality.

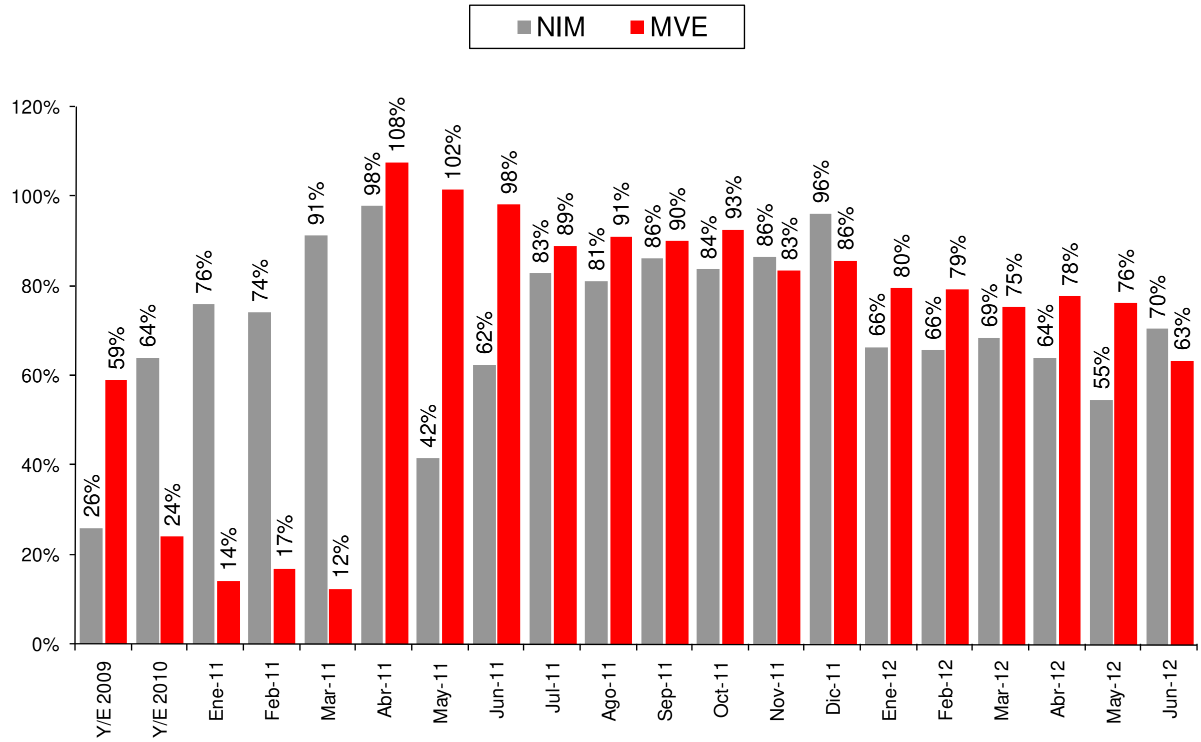
The 1% NIM sensitivity and 1% MVE sensitivity measures are complementary: while 1% MVE sensitivity measure estimates the exposure of our assets and liabilities to fixed rates, the 1% NIM sensitivity measure estimates the exposure of the assets and liabilities to variable rates. As a result, if a financial instrument has a high 1% MVE sensitivity, it would have a low 1% NIM sensitivity, and if a financial instrument has a low 1% MVE sensitivity, it would have a high 1% NIM sensitivity.

We use a sensitivity analysis to measure the interest rate risk of local and foreign currency (not included in the trading portfolios). We perform a simulation of scenarios, which are calculated as the difference between the present value of the flows in the chosen scenario (a curve with a parallel movement of 100 basis points in all its segments) and their value in the base scenario (current market). We have also established limits in regard to the maximum loss which these interest rate movements could impose on the capital (Ps.3,500 million in local currency and U.S.$20 million in foreign currency) and net financial income (Ps.1,200 million in local currency and U.S.$15 million in foreign currency) in one year.

Our Comprehensive Risk Management Committee approves the 1% NIM and MVE sensitivity limits on an annual basis. These limits are consistent with our risk policies and with our financial planning. MVE and NIM limit consumption represents the amount of interest rate risk present in the banking books at any given time relative to the abovementioned sensitivity limits.

Although the limit consumption metrics are complementary, they are not directly correlated. A change in interest rates has opposite directional impacts on market consumption levels of these metrics, but the amount of the impact may differ. For this reason the consumption of limits could be similar. Although having similar limit consumption on both measures does not necessarily imply that interest rate risk management is optimized or balanced, setting limits on both sensitivities does help ensure that management does not create interest rate exposure which could compromise the MVE or NIM.

The following chart shows our NIM and MVE limit consumption for 2009 and 2010 year-end as well as for each month in 2011 and the first six months of 2012.



At the beginning of 2011, the Bank's mortgage loan portfolio consisted mainly of floating-rate loans, which led to higher NIM limit consumption. The incorporation of the GE Capital residential mortgage loan portfolio in April 2011 added a significant amount of mostly long-term and fixed-rate loans to the Bank's portfolio, which served to increase MVE limit consumption. The NIM and MVE consumption levels have been at much more similar levels since July 2011 because the MVE limit was adjusted to calibrate the interest rate methodology so that consumption levels at that time were similar, although not necessarily equal. Subsequent to that change, the relative consumption levels of the NIM and MVE limits have been similar within a range, but we do not require them to be similar as a matter of policy.

Due to the acquisition of GE Capital residential mortgage portfolio, which has long-term instruments with high MVE sensitivity, we undertook a review of our interest rate risk sensitivity methodology. As a result of this review, we began using compound interest rates instead of linear interest rates in our sensitivity analysis in order to make the measurement consistent with the management of the Bank and the way the market usually operates. A compound interest rate allows us to estimate long-term MVE sensitivity more accurately. As expected given the nature of compounding, the change to a compound interest rate curve was immaterial for short-term loans (those with a maturity of less than one year), but led to significant increases in sensitivity for long-term loans (those with a maturity of more than one year). Given that the 1% NIM sensitivity measure only tracks changes in flows over a one-year period, the methodological change only had a small impact. On the contrary, the 1% MVE sensitivity, which measures impacts over the lives of the instruments in the banking book, was more significantly impacted by the change.

Methodological changes in the calculation of 1% MVE sensitivity and 1% NIM sensitivity require a series of internal and external approvals. Our Board of Directors established the Comprehensive Risk Management Committee in order to comply with CNBV guidelines regarding the comprehensive management of risk for credit institutions.

Our internal risk units propose risk methodology and risk model changes to our Comprehensive Risk Management Committee. The Comprehensive Risk Management Committee is responsible for approving, among other things, (i) methodologies to identify, measure, monitor, limit, control, inform and disclose the different types of risks to which we are exposed; (ii) models, parameters and scenarios used to measure and control risks and (iii) new transactions and services that involve risks. This Committee holds monthly meetings and monitors that transactions are in line with the objectives, policies and procedures approved by the CNBV's guidelines.

On an annual basis, the CNBV and Mexican Central Bank carry out an inspection visit to verify that we have complied with prudential rules established by CNBV regarding the comprehensive management of risk for credit institutions. The agenda of the inspection visit includes a review of the functions of the Comprehensive Risk Management Committee. Risk methodology and risk model validations and approvals are also reviewed as part of this inspection.

Liquidity Gap

The following table shows the liquidity gap of our assets and liabilities of different maturities as of June 30, 2012.

	Total	0-1 months	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	> 5 years	Not Sensitive
	(Millions of pesos)								
Money Market	Ps. 107,455	Ps. 73,272	—	Ps. 3	Ps. 10	Ps. 37	Ps. 34	Ps. 61	Ps. 34,039
Loans	418,933	56,360	32,729	29,522	49,671	120,659	44,918	92,673	(7,599)
Trade Finance	—	—	—	—	—	—	—	—	—
Intragroup	1,343	—	—	—	—	—	—	—	1,343
Securities	262,915	238,032	6	—	—	5,367	—	—	19,511
Permanent	(1,942)	—	—	—	—	—	—	—	(1,942)
Other Balance Sheet Assets	201,977	—	—	—	—	—	—	—	201,977
Total Balance Sheet Assets	**990,682**	**367,665**	**32,735**	**29,525**	**49,680**	**126,062**	**44,952**	**92,734**	**247,329**
Money Market	(230,421)	(204,409)	(2,358)	(1,438)	(4,782)	—	—	—	(17,433)
Deposits	(321,881)	(148,642)	(3,656)	(404)	(7,364)	(160,839)	—	—	(976)
Trade Finance	(1,722)	—	—	—	—	—	—	—	(1,722)
Intragroup	—	—	—	—	—	—	—	—	—
Long-Term Funding	(39,783)	(4,927)	(3,469)	(316)	(10,455)	(8,173)	(4,740)	(2,313)	(5,390)
Equity	(113,745)	—	—	—	—	—	—	—	(113,745)
Other Balance Sheet Liabilities	(214,986)	—	—	—	—	—	—	—	(214,986)
Total Balance Sheet Liabilities	**(922,536)**	**(357,978)**	**(9,482)**	**(2,158)**	**(22,601)**	**(169,012)**	**(4,740)**	**(2,313)**	**(354,252)**
Total Balance Sheet Gap	**68,145**	**9,687**	**23,253**	**27,367**	**27,079**	**(42,949)**	**40,212**	**90,421**	**(106,923)**
Total Off-Balance Sheet Gap	**(18,507)**	**(2,549)**	**(2,671)**	**(424)**	**(2,234)**	**(7,583)**	**(834)**	**(2,212)**	**—**
Total Structural Gap	**Ps. 49,639**	**Ps. 7,138**	**Ps. 20,582**	**Ps. 26,942**	**Ps. 24,844**	**Ps. (50,532)**	**Ps. 39,378**	**Ps. 88,209**	**Ps. (106,923)**
Accumulated Gap		**7,138**	**27,720**	**54,662**	**79,506**	**28,974**	**68,353**	**156,562**	**49,639**

The following table shows the liquidity gap of our assets and liabilities of different maturities as of December 31, 2011.

	Total	0-1 months	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	> 5 years	Not Sensitive
	(Millions of pesos)								
Money Market	Ps. 80,485	Ps. 60,227	—	Ps. 3	Ps. 10	Ps. 39	Ps. 36	Ps. 72	Ps. 20,099
Loans	390,019	50,724	29,464	30,906	41,673	108,848	43,628	92,889	(8,113)
Trade Finance	—	—	—	—	—	—	—	—	—
Intragroup	66,811	2,208	1,323	783	36,197	5,107	2,606	18,449	139
Securities	235,707	214,408	324	2	—	5,252	—	—	15,721
Permanent	615	—	—	—	—	—	—	—	615
Other Balance Sheet Assets	140,229	—	—	—	—	—	—	—	140,229
Total Balance Sheet Assets	**913,867**	**327,567**	**31,111**	**31,694**	**77,880**	**119,246**	**46,270**	**111,411**	**168,689**

	Total	0-1 months	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	> 5 years	Not Sensitive
					(Millions of pesos)				
Money Market	(153,940)	(145,852)	(251)	—	—	—	—	—	(7,837)
Deposits	(320,032)	(94,694)	—	—	(6,884)	(217,803)	—	—	(651)
Trade Finance	(1,387)	—	—	—	—	—	—	—	(1,387)
Intragroup	(66,673)	(2,208)	(1,323)	(783)	(36,197)	(5,107)	(2,606)	(18,449)	(1)
Long-Term Funding	(29,471)	(1,235)	(244)	(222)	(549)	(19,884)	(4,948)	(2,389)	—
Equity	(105,070)	—	—	—	—	—	—	—	(105,070)
Other Balance Sheet Liabilities	(154,398)	—	—	—	—	—	—	—	(154,398)
Total Balance Sheet Liabilities	**(830,972)**	**(243,989)**	**(1,818)**	**(1,005)**	**(43,630)**	**(242,794)**	**(7,554)**	**(20,839)**	**(269,342)**
Total Balance Sheet Gap	**82,895**	**83,577**	**29,293**	**30,689**	**34,249**	**(123,548)**	**38,716**	**90,572**	**(100,654)**
Total Off-Balance Sheet Gap	**(13,986)**	**(4,654)**	**(1,662)**	**(386)**	**(2,200)**	**(5,428)**	**773**	**(430)**	**0**
Total Structural Gap	**Ps. 68,910**	**Ps. 78,923**	**Ps. 27,631**	**Ps. 30,303**	**Ps. 32,049**	**Ps. (128,976)**	**Ps. 39,490**	**Ps. 90,142**	**Ps. (100,654)**
Accumulated Gap	—	**78,923**	**106,555**	**136,858**	**168,907**	**39,932**	**79,421**	**169,563**	**68,910**

Interest Rate Risk Profile

The table below shows the distribution of interest rate risk by maturity as of June 30, 2012.

	Total	0-1 months	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	> 5 years	Not Sensitive
					(Millions of pesos)				
Money Market	Ps. 107,434	Ps. 32,649	—	Ps. 1	Ps. 8	Ps. 31	Ps. 30	Ps. 57	Ps. 74,659
Loans	386,860	230,579	11,891	10,524	15,609	43,970	21,549	62,892	(10,154)
Trade Finance	—	—	—	—	—	—	—	—	—
Intragroup	1,343	—	—	—	—	—	—	—	1,343
Securities	288,336	20,313	8,688	763	5,351	12,996	6,127	6,277	227,820
Permanent	(1,942)	—	—	—	—	—	—	—	(1,942)
Other Balance Sheet Assets	201,977	—	—	—	—	—	—	—	201,977
Total Balance Sheet Assets	**984,009**	**283,541**	**20,579**	**11,288**	**20,968**	**56,997**	**27,706**	**69,226**	**493,704**
Money Market	(230,352)	(16,822)	(4,023)	(2,022)	—	—	—	—	(207,484)
Deposits	(321,880)	(177,557)	(8,089)	(935)	(7,437)	(126,787)	—	—	(1,074)
Trade Finance	(1,722)	—	—	—	—	—	—	—	(1,722)
Intragroup	—	—	—	—	—	—	—	—	—
Long-Term Funding	(37,596)	(26,800)	(77)	—	(77)	(306)	(306)	(2,313)	(7,718)
Equity	(113,745)	—	—	—	—	—	—	—	(113,745)
Other Balance Sheet Liabilities	(214,986)	—	—	—	—	—	—	—	(214,986)
Total Balance Sheet Liabilities	**(920,281)**	**(221,180)**	**(12,189)**	**(2,958)**	**(7,514)**	**(127,093)**	**(306)**	**(2,313)**	**(546,728)**
Total Balance Sheet Gap	**63,728**	**62,361**	**8,391**	**8,330**	**13,454**	**(70,096)**	**27,400**	**66,913**	**(53,024)**
Total Off-Balance Sheet Gap	**(20,530)**	**(15,885)**	**(621)**	**22**	**2,230**	**(615)**	**(659)**	**(5,001)**	**(0)**
Total Structural Gap	**Ps. 43,197**	**Ps. 46,476**	**Ps. 7,770**	**Ps. 8,352**	**Ps. 15,684**	**Ps. (70,712)**	**Ps. 26,740**	**Ps. 61,912**	**Ps. (53,024)**
Accumulated Gap		**46,476**	**54,245**	**62,597**	**78,281**	**7,569**	**34,309**	**96,221**	**43,197**

The table below shows the distribution of interest rate risk by maturity as of December 31, 2011.

	Total	0-1 months	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	> 5 years	Not Sensitive
					(Millions of pesos)				
Money Market	Ps. 80,465	Ps. 31,430	—	Ps. 1	Ps. 8	Ps. 32	Ps. 31	Ps. 67	Ps. 48,896
Loans	355,838	215,837	8,768	11,978	14,202	38,854	20,108	56,612	(10,521
Trade Finance	—	—	—	—	—	—	—	—	—
Intragroup	65,568	36,979	986	437	865	5,107	2,606	18,450	139
Securities	135,106	19,821	8,690	8,031	972	17,549	6,931	6,393	66,720
Permanent	615	—	—	—	—	—	—	—	615
Other Balance Sheet Assets	140,229	—	—	—	—	—	—	—	140,229
Total Balance Sheet Assets	**777,821**	**304,065**	**18,444**	**20,447**	**16,047**	**61,542**	**29,676**	**81,522**	**246,077**

	Total	0-1 months	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	> 5 years	Not Sensitive
					(Millions of pesos)				
Money Market............	(153,940)	(19,190)	(251)	—	—	—	—	—	(134,499)
Deposits	(320,349)	(182,273)	(11,856)	(1,428)	(6,940)	(110,683)	—	—	(7,168)
Trade Finance.............	(1,387)	—	—	—	—	—	—	—	(1,387)
Intragroup....................	(65,430)	(36,979)	(986)	(437)	(865)	(5,107)	(2,606)	(18,450)	(1)
Long-Term Funding	(26,838)	(22,617)	(77)	—	(77)	(307)	(306)	(2,389)	(1,066)
Equity..........................	(105,070)	—	—	—	—	—	—	—	(105,070)
Other Balance Sheet Liabilities	(154,401)	—	—	—	—	—	—	—	(154,401)
Total Balance Sheet Liabilities	**(827,415)**	**(261,059)**	**(13,170)**	**(1,865)**	**(7,882)**	**(116,097)**	**(2,912)**	**(20,839)**	**(403,591)**
Total Balance Sheet Gap.............	**(49,594)**	**43,006**	**5,525**	**18,582**	**8,166**	**(54,555)**	**26,764**	**60,683**	**(157,514)**
	(27,968)	**(20,450)**							**(0)**
Total Off-Balance Sheet Gap.............	65,568	**(261,059)**	**(330)**	**(2,642)**	**711**	**180**	**(515)**	**(4,922)**	139
Total Structural Gap........................	**Ps. (77,562)**	**Ps. 22,556**	**Ps. 4,944**	**Ps. 15,939**	**Ps. 8,877**	**Ps. (54,374)**	**Ps. 26,250**	**Ps. 55,760**	**Ps. (157,514)**
Accumulated Gap......		**22,556**	**27,500**	**43,439**	**52,316**	**(2,058)**	**24,191**	**79,952**	**(77,562)**

Market Risk Limits

Our Comprehensive Risk Management Committee establishes market risk limits annually to accommodate senior management's appetite for risk and to comply with the desired risk/return ratio (on a consolidated basis, for each business unit and for each type of risk). The business units must request any subsequent limit modification from our Comprehensive Risk Management Committee through the Comprehensive Risk Management Unit. This level includes trading and investment portfolio activities, balance sheet management and strategic positions (classified in accordance with business intentions).

Our market risk limits are based on each of our portfolios and books. The limits structure is applied to control exposure and establish the total risk applicable to the business units.

We establish market risk limits for:

Trading Books:	VaR	
	Loss Trigger	
	Stop Loss	
	Interest Rate equivalent amount	
	Equity Delta	
	Fx Open positions	
Banking Books:	Interest Rate Sensitivity	NIM
		MVE

For further information about the market risk limits established for our trading and banking books, see note 36 to our audited financial statements.

Liquidity Risk

Liquidity risk is associated with our capacity to finance the commitments we undertake at reasonable market prices, and it is important to our ability to carry out our business plans with stable financing sources. Factors that influence liquidity risk may be external, such as a liquidity crisis, or internal, such as an excessive concentration of expirations.

The measures used to control liquidity risk in balance sheet management are the liquidity gap, liquidity ratios, stress scenarios and contingency plans. We manage expirations of assets and liabilities, performing oversight of maximum profiles for time lags. This oversight is based on analyses of asset and liability expirations, both contractual and related to management. Liquidity risk is limited in terms of a liquidity level accrual over a one-month period and an established liquidity coefficient. This liquidity coefficient is calculated by dividing the amount of liquid assets (calculated at market value) by the sum of the amount of due liabilities and irrevocable committed contingencies. We calculate two liquidity coefficients monthly, one for our peso-denominated positions and one for our foreign currency-denominated positions, which are translated into U.S. dollars for the purpose of the calculation. We seek to maintain the liquidity coefficient at greater than 10% for each of our Mexican peso-denominated positions and our U.S. dollar-denominated positions. In the event that a liquidity coefficient is below 10%, ALCO is obligated to determine the actions necessary in order to reestablish the coefficient at a level greater than 10%. The financial management division within our Corporate Activities segment is in charge of executing the actions recommended by ALCO.

Our liquidity risk, including our liquidity management framework and our current liquidity position, is fully described in note 36 to our audited financial statements.

Liquidity Coefficient

	2010	2011
Mexican peso Gap(1)	32.25%	38.61%
U.S. dollar Gap(1)(2)	16.50%	18.25%

(1) Monthly average.

(2) U.S. dollar and other foreign currencies are expressed and aggregated in U.S. dollars.

Credit Risk

General

Our Credit Committee is an internal management committee required by Mexican law that has powers to assist our Board of Directors in fulfilling its oversight responsibilities relating to:

- Any emerging risks associated with our loan portfolio.
- Investments in our portfolio.
- Resolving issues with respect to any of our credit operations.

In addition to the responsibilities mentioned above, and others expressly delegated by our Board of Directors, our Credit Committee also performs the following functions and duties with full authority to act on behalf of our Board of Directors in these matters:

- Review and approve any and all amendments or modifications to the requirements, conditions or other provisions relating to the Board of Director's general authorization of our lending activities.
- Review memoranda or other reports provided by our senior management concerning our loan portfolio and investment activities.
- Periodically review and assess underwriting policies and guidelines.
- Periodically review and assess surveillance and loss remediation policies and guidelines, including those relating to insured credits on the "Watch List."
- Periodically review, assess and recommend to our Board of Directors investment policies, criteria, guidelines and strategy for its approval.
- Evaluate our performance on an annual basis and report the results of the evaluation to our Board of Directors.

The management of credit risk covers the identification, measurement, composition and valuation of aggregated risk and the determination of profitability adjusted to such risk, the purpose of which is to oversee the levels of risk concentration and adjust them to established limits and objectives. We have implemented a policy of selective growth of credit risk and strict treatment of late payments and provisions.

As required under applicable provisions of the Mexican Banking Law (*Ley de Instituciones de Crédito*) and General Rules Applicable to Mexican Banks and pursuant to our internal policies, in connection with each loan (including mortgage and other consumer loans), we apply credit assessment and approval processes, undertaken by trained officers and, when applicable, committees that comprise experienced bankers. Furthermore, we maintain systems and personnel that continuously monitor loans, that we believe permit us to react promptly if delinquent conditions are present. Our credit and monitoring personnel is subject to periodic training. Furthermore, although we believe our systems relating to maintaining and supervising loans are state-of-the-art, we periodically conduct benchmarkings against similar systems used by our affiliates.

We manage our credit risk differently for each of our customer segments throughout the three phases of the credit process: admission, follow-up and recovery, as explained below.

Admission

The loans that receive individual treatment (companies, financial institutions and entities) are identified and differentiated from those handled in standardized fashion (consumer and mortgage loans of private individuals and loans to businesses and micro-companies).

In the case of loans to which we apply individual treatment, we have a solvency classification or "rating" system that calculates the probability of nonperformance, which enables us to measure the risk associated with each customer from the start of the respective transaction. The customer valuation obtained after analyzing the relevant risk factors in different areas is subsequently adjusted based on the specific characteristics of the transaction (such as guarantee or term).

Standardized risks, given their special characteristics (a large number of transactions involving relatively small amounts) require a different approach that ensures effective treatment and efficient allocation of resources, for which we use automatic decision-making tools, such as expert and credit scoring systems.

Follow-up

Business loans are subject to our "special oversight system" during the follow-up stage. The special oversight system determines the policy to be followed in handling risk with companies or groups classified in such category. There are four distinct special oversight situations or degrees, that in turn give rise to four different possible actions: to follow, to reduce, to get guarantees and to extinguish. When a company and its loans are being evaluated, the risk analyst must decide whether to classify the company in any of these four categories and to begin special supervision until the relevant objective is accomplished (which means either the risk is reduced, the guarantees are obtained or the risk is extinguished). The special oversight rating may be determined either by alert signals, systematic reviews or special initiatives promoted by the Risk Division or Internal Audit Areas. Our Risk Division is divided into nine territories, each of which has a group of risk analysts that are responsible for the follow-up of their portfolios according to the policies described above.

Recovery

Risks that we classify as irregular based on noncompliance with the relevant payment schedule are assigned to our Recovery Units. Our Recovery Units are fundamental to our management of irregular risks and are intended to minimize the final losses we incur. These Recovery Units perform specialized risk management activities such as restructuring of loans, rescheduling payments or reaching a settlement agreement when the client is sued. We have different risk management activities with respect to (i) business installment loans (principally commercial loans), (ii) revolving SME credit, (iii) mortgages, and (iv) credit cards and consumer credit.

With respect to business installment loans, we do not have prequalified restructuring programs or schemes. Instead, we negotiate with each debtor, review its capacity to make payments and the possibility of obtaining new guarantees, and seek partial upfront payments as a sign of commitment. Based on this information, we decide whether the debtor qualifies for restructuring. Our success rate with respect to restructured business installment loans is approximately 72%. This percentage is calculated based on the peso amount of the loans. The time period that this success rate covers is 12 months. This percentage is based on the total amount of renegotiated loans at the time of renegotiation. Restructured business installment loans refer mainly to our renegotiated commercial loans. With respect to revolving SME credit, restructuring consists in eliminating the revolving characteristic of the credit and transforming it into an installment loan.

We do not have any prequalified restructuring programs or schemes for mortgage loans that have been classified as irregular mainly due to the notarial and registration costs that such prequalified programs or schemes would entail. However, we have two deferral programs for those debtors whose payment capacity has been diminished but not eliminated. The first program consists of deferring a maximum of six payments until the date of the last natural payment of the original loan. The second program consists of decreasing a maximum of 12 payments due by up to 50% and then deferring payment of these amounts until the date of the last natural payment of the original loan. Under both of these deferral programs, the loans are booked as non-performing until a period of sustained payment is achieved. Our recovery activities with respect to mortgage loans have resulted in average recoveries of approximately 70% of the principal amount due plus 90 days of accrued interest.

In relation to credit cards and consumer credits that have been classified as irregular based on noncompliance with the relevant payment schedule, we offer restructuring plans that allow us to adjust the payments of our clients to their capacity to make payments and to address their reasons for missing previous payments. These adjustments include reducing the rate and/or extending the period of payment for up to 60 months. The credit card and consumer credit loan portfolios are booked as non-performing until a period of sustained payment is achieved. Restructuring plans offered to our credit card holders have a recovery rate between 45% and 50%. Six months after restructuring, approximately 45% of consumer credits are current in terms of repayment.

Approximately 90% of our total renegotiated loans are performing at the time of renegotiation. The following table shows the average during the last 24 months (renegotiation vintages from January 2009 to December 2011) of the accumulated amount of both performing and non-performing loans that were transferred to non-performing or written off, as a percentage of the total amount of loans that was renegotiated at different points in time after the renegotiation:

	NPLs and write-offs as a % of total renegotiated amount at indicated points in time		
	at 6 months	**at 12 months**	**at 18 months**
Consumer Loans			
Performing at the time of the renegotiation	20%	40%	48%
Non-performing at the time of the renegotiation	43%	60%	68%
Total Consumer Loans	21%	40%	49%
Commercial Loans			
Performing at the time of the renegotiation	14%	28%	31%
Non-performing at the time of the renegotiation	22%	34%	39%
Total Commercial Loans	15%	28%	31%

Based on the table above, the success rates for renegotiation vintages from January 2009 to December 2011 are as follows:

	Success Rates		
	at 6 months	**at 12 months**	**at 18 months**
Consumer Loans			
Performing at the time of the renegotiation	80%	60%	52%
Non-performing at the time of the renegotiation	57%	40%	32%
Total Consumer Loans	79%	60%	51%

	Success Rates		
	at 6 months	at 12 months	at 18 months
Commercial Loans			
Performing at the time of the renegotiation	86%	72%	69%
Non-performing at the time of the renegotiation	78%	66%	61%
Total Commercial Loans	85%	72%	69%

The success rates tend to decrease going forward because the non-performing loans increase and accumulate as time goes by after the restructuring. The success rate for mortgages is not presented because renegotiations of mortgage loans are immaterial.

The following table shows point-in-time estimates of our success rates segmented by type of renegotiation, using the 2010 vintage and 2011 vintage performance as of June 30, 2012, to illustrate the different trends in its success rates for loans renegotiated due to concerns about credit (including impaired loans) and loans renegotiated due to factors other than concerns about credit. The amounts in the following table are presented in accordance with IFRS as issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee. The following table includes the two largest renegotiated loans in 2011, and we have included adjusted rates in the footnotes to the table that exclude the two largest renegotiated loans. Under Mexican Banking GAAP, not all of the loans that are included in the following table would be classified as renegotiated loans. In particular, the two largest renegotiated loans in 2011 as determined in accordance with IFRS would not be considered renegotiated loans under Mexican Banking GAAP.

	IFRS							
	For the year ended December 31, 2010				For the year ended December 31, 2011			
	Performing Loans				Performing Loans			
	Renegotiated due to concerns about current or potential credit deterioration	Renegotaited due to other factors	Impaired Loans	Total	Renegotiated due to concerns about current or potential credit deterioration	Renegotiated due to other factors	Impaired Loans	Total
	(Millions of pesos)							
Commercial	653	—	1,101	1,754	13,444	15	148	13,607
Mortgages	18	—	—	18	11	—	4	15
Consumer	1,555	—	117	1,672	1,352	—	92	1,444
Total	2,226	—	1,217	3,443	14,807	15	243	15,066
NPLs and write offs	**at June 30, 2012 (24 months*)**				**at June 30, 2012 (12 months**)**			
Commercial	30%	—	12%	19%	2%(1)	—	96%	3%(3)
Consumer	49%	—	93%	52%	31%	—	88%	35%
Total	43%	—	20%	35%	4%(2)	—	92%	6%(4)
Success Rate	**at June 30, 2012 (24 months*)**				**at June 30, 2012 (12 months**)**			
Commercial	70%	—	88%	81%	98%(5)	—	4%	97%(7)
Consumer	51%	—	7%	48%	68%	—	12%	65%
Total	57%	—	80%	65%	96%(6)	—	8%	94%(8)

* From 18 to 30 months of performance at June 30, 2012 (24 months on average)

** From 6 to 18 months of performance at June 30, 2012 (12 months on average)

(1) The rate would be 31% excluding the two largest renegotiated loans in 2011.

(2) The rate would be 31% excluding the two largest renegotiated loans in 2011.

(3) The rate would be 38% excluding the two largest renegotiated loans in 2011.

(4) The rate would be 36% excluding the two largest renegotiated loans in 2011.

(5) The rate would be 69% excluding the two largest renegotiated loans in 2011.

(6) The rate would be 69% excluding the two largest renegotiated loans in 2011.

(7) The rate would be 62% excluding the two largest renegotiated loans in 2011.

(8) The rate would be 64% excluding the two largest renegotiated loans in 2011.

Success rates of renegotiated loans are reflected in the probability of default of the total portfolio, which includes performing, non-performing and renegotiated loans. In accordance with our provisioning methodology, the probability of default is calculated based on the PD transition matrix through roll rates in the consumer and mortgage portfolios, and based on ratings in the commercial portfolio.

Renegotiated loans have decreased from 10.2% of the total consumer loan portfolio as of December 31, 2010, to 6.0% as of December 31, 2011 and 4.5% as of June 30, 2012, as determined in accordance with IFRS. Our probability of default estimates reflect the behavior of our customer mix, which includes renegotiated and non-renegotiated loans, as well as performing and non-performing loans. As such, our allowance for loan losses is estimated based on the probability of default of the total portfolio and not on the probability of default of any specific segment of the portfolio. The net decrease in the percentage of renegotiated loans between December 31, 2010 and June 30, 2012 is attributed to the movements set forth in the table below as well as increases in the total volume of consumer loans outstanding:

	IFRS
	% of Total Consumer Loans
Renegotiated Loans at December 31, 2010	**10.2%**
Collections repayments on renegotiated loans	(3.7)%
Write-offs	(2.6)%
Increase in consumer portfolio	(2.9)%
New renegotiations	3.5%
Renegotiated Loans at June 30, 2012	**4.5%**

Counterparty Risk

We assume counterparty risk in our dealings with government, government agencies, financial institutions, corporations, companies and individuals in our treasury and correspondent banking activities. We manage counterparty risk through a special unit whose organizational structure is independent of our business units.

We use a Kondor Global Risk, or “KGR,” system to ascertain the line of credit available with any Corporate and Financial counterparty, in any product and for any term and Equivalent Credit Risk, or “REC,” to control counterparty lines. REC is a measure that estimates the potential loss if the counterparty ceases payment. Because equivalent credit risk takes into account coefficients by product for the measurement of the potential risk and considers the current exposure with respect to each counterparty, the REC varies depending on the type of product and the effective term of the transactions.

Furthermore, the REC incorporates the Potential Credit Exposure or Additional Potential Risk, or “RPA,” which represents the possible evolution of the current credit exposure up to expiration, based on the characteristics of the transaction and possible variations in market factors. Mexican Financial Institutions and Foreign Financial Institutions are very active counterparties with which we have current positions for financial instruments with counterparty credit risk. The REC is mitigated by the existence of netting agreements and, in certain cases, with collateral agreements or revaluation agreements with the counterparties.

Another element of credit risk is settlement risk, which arises in any transaction at its expiration date, given the possibility that the counterparty will not comply with its obligations to pay us, once we have satisfied our obligations by issuing our respective payment instructions.

To control these risks, our Financial Risk Senior Management, comprised of the Counterparty and Market Credit Risk Area, supervises on a daily basis our compliance with the counterparty risk limits. These limits are established by counterparty, product and tenor. The Credit Risk Admission Area for Global Wholesale Banking approves these counterparty risk limits. Our Financial Risk Senior Management is also responsible for communicating the limits, consumptions and any excesses incurred on a daily basis. Furthermore, our Financial Risk Senior Management reports monthly to our Comprehensive Risk Management Committee the limits for Counterparty Risk Lines and the limits for Issuer Risk Lines, current consumptions and any excesses or transactions with unauthorized customers. It also reports the calculation of the expected loss for current operations in financial markets at the close of each month and presents different stress scenarios of the expected loss.

Counterparty Risk Lines refer to the maximum equivalent credit risk amount and the maximum permitted term for derivatives, repos, money market, foreign exchange spot or any other trading transactions. Such risk lines are approved by the Credit Committee and are established for the following sectors: Mexican Sovereign Risk and Local Development Banking, Foreign Financial Institutions, Mexican Financial Institutions, Corporate Head Offices, Corporate Banking-SGC, Institutional Banking, Large Companies Unit and Project Finance. Issuer Risk Lines refer to the minimum amount permitted for the purchase of fixed income securities and, in addition, regulate the maximum holding period permitted for each issuer.

The equivalent credit risk of the Counterparty Risk Lines and Issuer Risk Lines of the Bank as of December 31, 2011 is concentrated as follows: 92.05% in the segment of Sovereign Risk, Development Banking and Financial Institutions, 7.56% in the Corporate sector and 0.38% in the Companies sector. The average quarterly REC of the Counterparty Risk and Issuer Risk lines of the Bank for the fourth quarter of 2011 was U.S.$18,948.91 million (unaudited) REC in the segment of Sovereign Risk, Development Banking and Financial Institutions, U.S.$1,591.61 million (unaudited) REC in the Corporate sector and U.S.$78.69 million (unaudited) REC in the Companies sector. The Expected Loss of the Bank as of December 31, 2011 is concentrated as follows: 14.51% in the segment Sovereign Risk, Development Banking and Financial Institutions, 81.09% in the Corporate sector, and 4.40% in the Companies sector.

Operational Risk

Operational risk is defined as the risk of loss due to inadequate or failed internal processes, personnel or internal systems or due to external events. This definition includes legal risk but excludes reputational risk and strategic risk.

We have an operational and technological risk management unit that is responsible for coordinating the implementation of policies and procedures according to the corporate model defined in Spain. This unit also submits proposals to our Comprehensive Risk Management Committee for its approval of the methodologies, models and parameters used to identify, measure, limit, report and disclose the operational risk to which we are exposed. Our operational risk unit reports directly to the operations head in Mexico and to the corporate operational risk manager in Spain.

Our Corporate Operational Risk Management Model is based on qualitative and quantitative tools for managing operational risk. Among the qualitative tools are the risk and controls matrix, risk map and self-assessment questionnaire, while quantitative tools include tolerance levels, indicators, an error database and a system for data collection.

Anti-Money Laundering

Our Communications and Operations Control Committee approves, modifies and ensures the compliance of internal guidelines regarding the prevention, detection and disclosure of money-laundering operations. In particular, the committee:

- establishes and amends our internal policies to prevent and detect acts or transactions that may be of illicit origin and may fall within the threshold of Article 400 bis of the Mexican Federal Criminal Code (*Código Penal Federal*) and rules thereunder;
- oversees our compliance with our applicable policies;
- evaluates the effectiveness of our policies based on the results observed and determines the necessary remedial measures;

- decides on certain transactions that may fall within the category of unusual transactions and determines if we should notify the public authorities; and

- approves training policies for personnel and provides information to detect these transactions and ensure the enforcement of the prevention policies.

The Communications and Operations Control Committee (*Comité de Comunicación y Control*) reports to the Compliance Committee and Audit Committee. Its primary purpose is to monitor the operations of our prevention system and, in particular, to decide when to communicate suspicious transactions to the authorities. In addition, this committee reviews and approves the regulations and procedures relating to prevention, annual office review projects or plans, annual training programs, analyses of operations and the list of clients subject to special authorizations and monitoring.

In general, this committee includes the individuals who are primarily responsible within each area that is directly involved in prevention: Commercial, Human Resources, Training, Media, Systems, Global Wholesale Banking, International Business, Legal Affairs and Internal Audit. This committee is chaired, as appropriate, by our General Manager, Legal Officer or Compliance Officer.

Legal Risk

Legal risk is defined as the potential loss from noncompliance with applicable legal and administrative provisions, the issuance of adverse administrative and court rulings and the application of penalties in relation to our transactions.

The following activities are performed in compliance with our Comprehensive Risk Management guidelines:

- establishment of policies and procedures to analyze legal validity and ensure the proper instrumentation of the legal acts performed;

- estimation of the amount of potential losses derived from unfavorable legal or administrative rulings and the possible application of penalties;

- analysis of legal acts governed by foreign legal systems;

- publication among managerial personnel and employees of legal and administrative provisions applicable to transactions;

- performance, at least annually, of internal legal audits; and

- maintenance of a historical database relating to judicial and administrative decisions, and their causes and costs, ensuring that those judicial and administrative decisions that result in a loss are registered systematically along with their different types of loss and costs, in accordance with accounting records, and properly identified with the line or business unit of origin.

Technological Risk

Technological risk is defined as the potential loss from damages, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information technology services provided to our customers.

We have developed a model in accordance with the corporate model created by Banco Santander Spain to deal with technological risk. This model is currently integrated into the service and support processes of our corporate technology locations in order to identify, oversee, control and report on the technology risks to which our operations are exposed. This model is intended to prioritize the establishment of control measures that will reduce the probability of risks materializing.

MANAGEMENT

Board of Directors

Our Board of Directors is comprised of eleven members and eleven alternate directors. The members of our Board of Directors and alternate directors are elected for one-year terms at our annual ordinary general shareholders' meeting and may be re-elected. Pursuant to Mexican law, members of our Board of Directors continue to be members of the Board despite the expiration of their term until new members of the Board have been appointed and assumed office.

Under our bylaws and in accordance with the Mexican Banking Law and the Mexican Securities Market Law, at least 25% of the members of our Board of Directors have to be independent. Independence is determined in accordance with Article 22 of the Mexican Banking Law and our bylaws. The CNBV may contest the determination made by our shareholders as to the independence of our directors.

An alternate director must be appointed for each member of our Board of Directors. Alternate directors attend Board of Directors' meetings only when called to substitute for his or her respective member of the Board of Directors. Alternate directors have in the past attended Board of Directors' meetings in temporary absences of members or by invitation.

There are two different categories of directors depending on the type of shareholder proposing each such director: Series B and Series F. Series B shares can be freely subscribed. Series F shares can be acquired directly or indirectly only by Banco Santander Spain and can be sold only with the previous authorization of the CNBV, unless such shares must be transferred to the IPAB as collateral or as property. Both categories of directors have the same rights and obligations.

The following table sets forth information about the members and alternate members of our Board of Directors, each of whom was elected at our general shareholders' meeting on May 14, 2012 for a period of one year. The business address of our directors is Avenida Prolongación Paseo de la Reforma 500, Colonia Lomas de Santa Fe, Delegación Álvaro Obregón, 01219, México, Distrito Federal, México.

Name	Position	Series
Carlos Gómez y Gómez	Chairman	Series F
Marcos Alejandro Martínez Gavica	Director	Series F
Juan Sebastián Moreno Blanco	Director	Series F
Pedro José Moreno Cantalejo	Director	Series F
Antonino Fernández Rodríguez	Independent Director	Series F
Joaquín Vargas Guajardo	Independent Director	Series F
Fernando Solana Morales	Independent Director	Series F
Vittorio Corbo Lioi	Independent Director	Series F
Carlos Fernández González	Independent Director	Series B
Fernando Ruiz Sahagún	Independent Director	Series B
Alberto Torrado Martínez	Independent Director	Series B
Ramón Riva Marañón	Alternate Director	Series F
Rodrigo Brand de Lara	Alternate Director	Series F
Francisco Manuel Ortega Souvirón	Alternate Director	Series F
Eduardo Fernández García-Travesí	Alternate Director	Series F
José Eduardo Carredano Fernández	Alternate Independent Director	Series F
Alberto Felipe Mulas Alonso	Alternate Independent Director	Series F
Jesús Federico Reyes Heroles González Garza	Alternate Independent Director	Series F
Guillermo Güemez García	Alternate Independent Director	Series F
Enrique Krauze Kleinbort	Alternate Independent Director	Series B
Luis Orvañanos Lascurain	Alternate Independent Director	Series B
Antonio Purón Mier y Terán	Alternate Independent Director	Series B

The secretary of the Board of Directors is Alfredo Acevedo Rivas and the assistant secretary of our Board of Directors is Rocío Erika Bulhosen Aracil.

Set forth below are the biographies of the members of our Board of Directors.

Carlos Gómez y Gómez is the Chairman of our Board of Directors and Chairman of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Gestión Santander, Santander Consumo and Santander Hipotecario. He has also been a member of the Boards of Directors of Grupo KUO, S.A.B. de C.V. and DINE, S.A.B. de C.V. since 1972. He is also a member of the Boards of Directors of Grupo Trimex, S.A. de C.V., Grupo Yoreda, S.A. de C.V., Grupo Ceslo, S.A. de C.V., Grupo Dupuis, S.A. de C.V., Club de Industriales, A.C., Club de Banqueros de México, A.C. (Mexican Banking Club), Arena Media Communications, S.A. de C.V. and Consejo Mexicano de Asuntos Internacionales, A.C. From 2005 to 2008, he served as the Vice Chairman of the Board of Directors of the BMV and from 2006 to 2007, he was a member of the Board of Directors of Consorcio Aeromexico, S.A.B. de C.V. His other principal business experiences have included serving as the Chairman of the Board of Directors of Casa de Bolsa InverMéxico, S.A. de C.V. from 1986 to 1991, Vice President of the Mexican Banking Association from 1992 to 1997, President of the Mexican Banking Club from 1994 to 2000 and Chairman of the Mexican Banking Association from 1998 to 2000. He holds a degree in Business Administration from Universidad Anáhuac.

Marcos Alejandro Martínez Gavica is a member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Gestión Santander, Santander Consumo and Santander Hipotecario. He also serves as our and Banco Santander Mexico's Executive President and Chief Executive Officer. He began his career in 1978 at the Banco Nacional de México, S.A., holding various positions and ultimately joining the bank's management. He holds a degree in Chemical Engineering from Universidad Iberoamericana and a Masters in Administration with a specialty in financial planning from the Instituto Panamericano de Alta Dirección Empresarial.

Juan Sebastián Moreno Blanco is a member of our Board of Directors, an alternate member of the Board of Directors of Grupo Financiero Santander México and a member of the Boards of Directors of Casa de Bolsa Santander, Santander Consumo and Santander Hipotecario. He has been the Vice President of Retail Banking for Banco Santander Mexico since September 2010. Mr. Moreno Blanco began his career as an executive officer of Bankinter in Spain in 1987. From 1997 to 2005, he headed Banco Santander Mexico's Business Development Department. From 2006 to 2008, he served as the head of the Latin American Division of Banco Santander Mexico's Business Development Department in Madrid, Spain. From 2008 to 2010, he acted as President and Chief Executive Officer of Banco Santander Puerto Rico. In addition, he has served as a member of the Board of Directors of Santander Bancorp in Puerto Rico since 2007. He holds a bachelor's degree in Business Administration with a major in Finance from the University of Houston.

Pedro José Moreno Cantalejo is a member of our Board of Directors, an alternate member of the Board of Directors of Grupo Financiero Santander Mexico and a member of the Boards of Directors of Casa de Bolsa Santander, Santander Consumo and Santander Hipotecario. He started his career in the banking industry in 1985 as Chief of Administration at GESBISA Caja Postal de Ahorros – Madrid. From 1991 to 1998, he worked in Grupo Hispamer Grupo Financiero holding various positions and ultimately joining the group's management. From 1998 to 2000, he acted as Chief Executive Officer and Vice President of Investment Banking of Banco Central Hispanoamericano. From 2000 to 2001, he acted as President of Strategic Planning in Hispamer Banco Financiero as well as Chief Executive Officer Asernet (Asp Internet) in Banco Santander Spain. From 2001 to 2004, he acted as Chief Strategic and Financial Officer of the European Division of Banco Santander Spain. From 2004 to 2006, he acted as a member of the Board of Directors of Santander Consumer EFC (Spain), Santander Consumer UK, Ltd. and Santander Consumer Bank (Poland). During such period he also acted as Chief Financial Officer and Chief Risk Officer of the European Division of Banco Santander Spain. From 2006 to 2010, he acted as Banco Santander Mexico's Vice President of Finance. In October 2010, he became Banco Santander Mexico's Vice President of Administration and Finance. He holds a degree in Economic and Business Sciences, CEU Luis Vives, from Universidad de Madrid, a Masters in Management of Financial Entities from the Centro de Estudios Comerciales (CECO), and MBAs from the Executive and Senior Executive Programs from the Escuela de Negocios (ESDEN).

Antonino Fernández Rodríguez is an independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Santander Consumo and Santander Hipotecario. He has been the Honorary for Life Chairman of the Board of Directors of Grupo Modelo S.A.B. de C.V. since 2005, and previously he served as the company's Chairman of the Board. He has also been a member of the Board of Directors and the Chief Executive Officer of several companies in Mexico.

Joaquín Vargas Guajardo is an independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Santander Hipotecario and Santander Consumo. He is the Chairman of the Board of Directors of Corporación Mexicana de Restaurantes, S.A.B. de C.V. He is also a member of the Boards of Directors of several companies including Vitro, S.A.B. de C.V., Grupo Posadas, S.A.B de C.V., Médica Sur, S.A.B. de C.V. and Grupo Aeroportuario del Pacífico, S.A.B. de C.V. From April 1997 to April 2005 and from April 2008 to April 2012, he was a member of the Board of Directors of the BMV. He is a member of the compensation committee of Grupo Aeroportuario del Pacífico, S.A.B. de C.V. He holds a degree in Business Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey and studied Business Management at the Instituto Panamericano de Alta Dirección Empresarial.

Fernando Solana Morales is an independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Santander Hipotecario and Santander Consumo. He serves on the Boards of Directors of various companies, including Solana Consultores, S.A. de C.V., Impulsora de Desarrollo y Empleo en América Latina, S.A. de C.V., Acrosur, S.A. de C.V., Telmex, S.A.B. de C.V., Grupo Carso, S.A.B., Siglo XXI Editores S.A. de C.V., Consejo Mexicano de Asuntos Internacionales S.A. de C.V. and Fresnillo plc. From 1976 to 1977, he served as the Mexican Minister of Commerce. From 1982 to 1988, he acted as the Chief Executive Officer of Banco Nacional de México. From 1988 to 1993, he served as the Mexican Minister of Foreign Affairs. In 1994, he was elected to the Mexican Senate and served as a Senator until 2000, when he became the Chairman of the Board of Directors and Chief Executive Officer of Solana y Asociados. He has degrees in Engineering, Philosophy, Business Administration and Public Policy from the Universidad Nacional Autónoma de México.

Vittorio Corbo Lioi is an independent member of our Board of Directors and of the Board of Directors of Banco Santander Mexico. Mr. Corbo Lioi is a senior researcher at the Centro de Estudios Públicos in Santiago, Chile and a part-time professor of Economics at the Pontificia Universidad Católica, Chile and at the University of Chile. He is a director of Banco Santander, S.A. in Spain and Banco Santander Chile, SURA S.A., Empresa Nacional de Electricidad, S.A. and Compañía Cerveceras Unidas in Chile. He is the President of the management committee of the Insurance Company SURA Chile, a financial consultant to certain companies and an advisor to the World Bank and the International Monetary Fund. From 2003 to 2007, he was the President of the Central Bank of Chile. From 1991 to 2003, he was a full-time professor of Economics at the Universidad Pontificia of Chile. From 1984 to 1991, he served in several management positions at the World Bank. He was also Professor of Economics at the Concordia University in Montreal, Canada from 1972 to 1981 and a lecturer at Georgetown University from 1985 to 1991. Mr. Corbo holds a degree in Commercial Engineering from the University of Chile (with honors) and a doctorate in Economics from MIT.

Carlos Fernández González is an independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Santander Consumo and Santander Hipotecario. He is the Chief Executive Officer and Chairman of the Board of Directors of Grupo Modelo, S.A. de C.V. He is also a member of the Boards of Directors of Emerson Electric Co. and Grupo Televisa, S.A.B. de C.V. He holds a degree in Industrial Engineering from Universidad Anahuac, completed Proficiency Program AD2 from the Instituto Panamericano de Alta Dirección Empresarial and has participated in diverse seminars on financial engineering, marketing and industrial relations among others.

Fernando Ruíz Sahagún is an independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Santander Hipotecario and Santander Consumo. He also serves on the Board of Directors of several companies, such as Bolsa Mexicana de Valores, S.A.B. de C.V., Empresas ICA, S.A.B. de C.V., Fresnillo PLC, Grupo Cementos de Chihuahua S.A.B. de C.V., Grupo México, S.A.B. de C.V., Grupo Modelo, S.A.B. de C.V., Grupo Palacio de Hierro, S.A.B. de C.V., Grupo Pochteca, S.A.B. de C.V., Kimberly Clark de México, S.A.B. de C.V., Mexichen, S.A.B. de C.V., San Luis Corporación, S.A.B. de C.V. Mr. Ruíz Sahagún is a member of the International Fiscal Association (IFA) and of the Instituto Mexicano de Ejecutivos de Finanzas, A.C. (Mexican Institute of Finance Executives). He is also a member of the Instituto

Mexicano de Contadores Públicos A.C. (Mexican Institute of Public Accountants) and served as a member of its Board from 1993 to 1996. He is one of the founding partners of Chevez, Ruiz, Zamarripa y Cia. S.C., a tax law firm in which he now serves as counsel. He holds a degree in Public Accounting from the Universidad Nacional Autónoma de México.

Alberto Torrado Martínez is an independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Santander Hipotecario and Santander Consumo. He is the Chairman of the Board of Directors and Chief Executive Officer of Alsea, S.A.B. de C.V., and Chairman of the Mexican Communications Council. Mr. Torrado has also served as Chairman of the Asociación Nacional de Servicios de Comida Rápida and as a member of the Cámara Nacional de la Industria Restaurantera y de Alimentos Condimentados. He is one of founding partners of Torrquin, S.A. de C.V., serving as the CEO from 1990 to 1999. From 1984 to 1989, he was the CEO of Candiles Royal, S.A. de C.V. Mr. Martínez holds a degree in Accounting from the Instituto Tecnológico Autónomo de México. He also completed graduate studies at the Instituto Panamericano de Alta Dirección Empresarial and participated in other seminars, and completed studies at Harvard University and the Wharton School of the University of Pennsylvania.

Ramón Riva Marañón is an alternate member of our Board of Directors. Mr. Riva Marañón was appointed Deputy General Director of Business and Institutional Banking for Grupo Financiero Santander Mexico in 2009. He was the Executive Director of Corporate Banking at Grupo Financiero Santander Mexico from 1998 to 2005, the Deputy General Director of Business and Institutional Banking from 2005 to 2006 and the Deputy General Director of Commercial Banking from 2007 to 2009. Prior to joining the Santander Group, Mr. Riva Marañón served in various managerial positions at Bancomer, Bancrecer and Banca Serfin starting in 1987. He began his career as an accounts executive at Procter & Gamble in 1986. Mr. Riva Marañón graduated with honors in Civil Engineering from the Universidad Iberoamericana and received honors in his master's degree in Business Administration from ITAM.

Rodrigo Brand de Lara is an alternate member of our Board of Directors. Mr. Brand de Lara was appointed Deputy General Director of Institutional Relationships and Communication for Grupo Financiero Santander Mexico in 2011. In 2010, he was the Director General for the Social Communication Division of the Mexican Ministry of Foreign Affairs (SRE). From 2006 to 2010, he was the head of the Social Communication Unit and the Spokesperson for the SHCP. From 2004 to 2006, he served as Director General of Social Communication and Institutional Link for IPAB. Mr. Brand de Lara has held the following positions at SHCP: Deputy General Director of Economic and Financial Analysis from 2001 to 2004; Senior Advisor to the Subsecretary of Finance and Public Credit from 2000 to 2001; Subdirector of Internal Credit Coordination and Training from 1999 to 2000. From 1996 to 1999, he was an Economist in Mexico for Deutsche Morgan Grenfel and during 1996 he was also an Advisor to the Deputy Director of Financial Engineering of BANOBRAS (Mexico). Mr. Brand de Lara graduated with a degree in Economics from ITAM.

Francisco Manuel Ortega Souviron is an alternate member of our Board of Directors and of the Boards of Directors of Casa de Bolsa Santander, Santander Hipotecario and Santander Consumo. He served as the Deputy General Director of Business Development of Banco Santander from 2006 to 2009. He was an Associate Principal responsible for clients' projects and development in McKinsey & Company in Mexico from 2003 to 2006. He was an engagement manager in McKinsey & Company in Mexico from 2002 to 2003, served as an engagement manager responsible for McKinsey New York's advisors team from 2000 to 2002 and was an associate at McKinsey New York from 1998 to 2000. Mr. Ortega Souviron was an electricity market analyst at ENEGAS Madrid from 1994 to 1996. He was a nuclear central structural analyst engineer in GHESA Madrid. He completed studies in Math Sciences and Physical Sciences at the Universidad Nacional de Educación a Distancia in Spain and also holds a Masters in Business Administration from the Massachusetts Institute of Technology and a degree in Industrial Engineering from the Universidad Pontificia Comillas in Madrid, Spain.

Eduardo Fernández García-Travesí is an alternate member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Santander Consumo, Santander Hipotecario and Gestión Santander. Mr. Fernández García-Travesí was appointed Chief Legal Officer of Banco Santander Mexico in 2007. Previously, he was Banco Santander Mexico's Executive Legal Director from 2001 to 2006. He joined Banco Santander Mexico in 1992. Mr. Fernández García-Travesí began his career in 1981 at

Bremer, Quintana, Obregón y Mancera S.C. Mr. Fernández García-Travesí graduated from the Universidad Iberoamericana in Mexico with a law degree.

José Eduardo Carredano Fernández is an alternate independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Santander Hipotecario and Santander Consumo. He has been a member of the Boards of Directors of Grupo Financiero Asecam, S.A. de C.V. since 1994 and of Industrial Formacero, S.A. de C.V. since 1987, of La Ideal S.A. de C.V. since 1984 and of Aceros La Ideal S.A. de C.V. since 1978. Mr. Carredano Fernández has been the Chairman of the Board of Directors of Misa de México, S.A. de C.V. since 1993. He was Director of Seguros Génesis, S.A. from June 1995 to October 1998. He holds a Public Accountant degree from the Universidad Iberoamericana.

Alberto Felipe Mulas Alonso is an alternate independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Banco Santander Spain, Casa de Bolsa Santander, Santander Hipotecario and Santander Consumo. He is a member of the Boards of Directors of multiple companies, including Empresas ICA, S.A.B. de C.V., URBI Desarrollos Urbanos, S.A.B. de C.V., Grupo Aeroportuario Centro Norte, S.A.B. de C.V., Grupo Modelo, S.A.B. de C.V., Grupo Comex, Organización Ramírez, Farmacias de Ahorro, RCO and Societaria Hipotecaria Federal. Previously, he was a member of the Advisory Board of IFC in Mexico and a consultant to the Interamerican Development Bank, the World Bank and the International Monetary Fund. Mr. Mulas Alonso served as the first National Commissioner and Coordinator of the National Housing Commission reporting to the President of the Republic of Mexico from August 2001 to December 2002. He worked in investment banking in the following positions: as Associate in Bankers Trust Company in the city of New York from 1998 to 1990; as Vice President of J.P. Morgan in Mexico from 1992 to 1996; as Mexico Country Manager of Lehman Brothers, Inc. in Mexico from 1992 to 1996 and as Managing Director and Representative of Donaldson, Lufkin & Jenrette from 1999 to 2001. Mr. Mulas Alonso has a degree in Chemical Engineering with honors from Universidad Iberoamericana and a master's degree in Business Administration, specializing in finance and strategic planning, from the Wharton School of the University of Pennsylvania.

Jesús Federico Reyes Heroles González Garza is an alternate independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Santander Hipotecario and Santander Consumo. He was the chief executive officer of Petróleos Mexicanos from December 2006 to September 2009. He is the Executive President of StructurA. He is a member of several Boards of Directors such as OHL México, S.A.B. de C.V. and Water Capital Mexico (WCAP Holdings S.A. de C.V.). He is a member of the consulting Boards of Energy Intelligence Group (EIG) and Deutsche Bank. He is also a member of a Morgan Stanley Private Equity group that develops energy projects in Mexico and Latin America. He served as an ambassador to the United States of America for Mexico from 1997 to 2000. From 1995 to 1997, he was the Secretary of Energy in Mexico. From 1994 to 1995, he was the General Director of Banobras. From 1993 to 1994, he was the representative of Mexico of the *Grupo de Personas Eminentes* (Eminent Persons Group) of APEC. Mr. Reyes Heroles González Garza graduated with a degree in Economics from ITAM in 1976 and studied law at UNAM. He earned a doctorate degree in Economics from the Massachusetts Institute of Technology in 1980.

Guillermo Güemez García is an alternate independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Santander Consumo, Santander Hipotecario and Zurich Santander Seguros Mexico, S.A. He is an independent member of the Board of Directors and member of the investment committee of ING AFORE. He is also an independent member of the Board of Directors and member of the audit committee of Zurich Compañía de Seguros S.A. In addition, he serves as a member of the strategy and finance committee of Nacional Monte de Piedad, a member of the Board of Directors of GEUPEC S.A. de C.V., a member of the senior advisory board of Oliver Wyman and chairman of the assets and liabilities committee of Banco Latinoamericano de Comercio Exterior. He is the President of the advisory committee of the Economics and Business Administration school of the Universidad Panamericana and of the Music Academy of the Palacio de Minería. He was Deputy Governor of the Mexican Central Bank and President of the responsibilities commission of the Mexican Central Bank from 1995 to 2010. He was a member of the cabinet of the CNBV from 2007 until 2010, an alternate member of the cabinet of the Comisión Nacional de Seguros y Fianzas, or "CNSF," from 1995 to 2007 and Executive Director of the *Coordinadora Empresarial para el Tratado de Libre Comercio* (Business Coordinator for the Free Trade Agreement) (Mexico-USA-Canada) from 1991 until 1993. He held several executive positions at Banamex from 1974 to 1990. He has a degree with honors in Civil

Engineering from the Universidad Nacional Autónoma de Mexico. He holds a master's degree in Science from Stanford University.

Enrique Krauze Kleinbort is an alternate independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Banco Santander Spain, Casa de Bolsa Santander and Santander Consumo. He is director and founder of the publisher Editorial Clío. He has published numerous books over the last 30 years. He is the author of multiple documentaries and television series on Mexican history. In 1990 he was inducted into the Mexican Academy of History. He obtained the Premio Comillas biography award in Spain in 1993. In December 2003, the Spanish government awarded him the Gran Cruz de la Orden de Alfonso X, el Sabio. In April 2005, he became a member of the Colegio Nacional. In July 2006, he was honored with the Ezequiel Montes Ledesma Award by the government of Queretaro, Mexico. In September 2007, he was honored by the Universidad Autónoma de Nuevo León with the Honoris Causa doctorate. Mr. Krauze Kleinbort holds a degree in Industrial Engineering from UNAM and a doctorate degree in History from El Colegio de México.

Luis Orvañanos Lascurain is an alternate independent member of our Board of Directors and a member of the Board of Directors of Grupo Financiero Santander Mexico. He is the founder, Chairman of the Board of Directors and Chief Executive Officer of Corporación GEO, a developer and construction company, and its 24 subsidiary companies. He is a member of the Board of Directors of Club de Industriales, A.C., Grupo Zúrich México, S.A., *Consejo Mexicano de Hombres de Negocios* (Mexican Council of Businessmen) and Arroz con Leche, S.A. de C.V. and a member of CANADEVI and *Colegio de Arquitectos, A.C.* (Association of Architects). He has a degree in Architecture from the Universidad Iberoamericana.

Antonio Purón Mier y Terán is an alternate independent member of our Board of Directors and of the Boards of Directors of Grupo Financiero Santander Mexico, Casa de Bolsa Santander, Santander Hipotecario and Santander Consumo. He is also a member of the Board of Directors of Zurich Santander Seguros Mexico, S.A. He serves as an associate of the *Centro de Investigación y Análisis Económico* (Economic Research and Analysis Center, or "CIDAC") and he is a member of the *Instituto de Fomento e Investigación Educativa* (Institute for the Promotion of Educational Research, or "IFIE") and of Metrópoli 2025. He advises public and private institutions with respect to strategy, transactions and organization in collaboration with the *Centro de Investigación y Docencia Económicas* (Center for Economic Research and Training, or "CIDE") and with other specialists. He served as a director-partner in the Mexican office of McKinsey & Company, Inc. for over 26 years. He is currently a professor of training courses to McKinsey's partners and he is in charge of the partners' coaching program at a worldwide level. He is a member of the Board of Directors of Nadro, S.A., of *Patronato del Museo Nacional de Arte* (the Patronage of the National Art Museum) of Banco Santander Spain and of the Universidad Iberoamericana. Mr. Purón Mier y Terán holds a Masters in Business Administration from Stanford University and a degree in Chemical Engineering from the Universidad Iberoamericana. Before starting at McKinsey, he was a full-time teacher at the Universidad Iberoamericana and worked at the Mexican Petroleum Institute, Ingeniería Panamericana and Polioles, S.A.

Executive Officers

Our executive officers are responsible for the management and representation of the Bank. The following table presents the names and positions of our executive officers. The business address of our officers is Avenida Prolongación Paseo de la Reforma 500, Colonia Lomas de Santa Fe, 01219, México, Distrito Federal, Mexico. Certain of our executive officers are also members of the Board of Directors and of the Boards of Directors of our subsidiaries.

Executive Officers	Position	Year of Appointment to Current Position
Marcos Alejandro Martínez Gavica	Executive President and Chief Executive Officer	1997
Pedro José Moreno Cantalejo	Vice President of Administration and Finance	2010
Juan Sebastián Moreno Blanco	Vice President of Retail Banking	2010
Eduardo Fernández García-Travesí	General Counsel	2006
Emilio de Eusebio Saiz	Deputy General Director of Intervention and Control Management	2010
Estanislao de la Torre Álvarez	Deputy General Director of Media	2006
José Carlos Ávila Benito	Deputy General Director of Credit	2002
Carlos Rodríguez de Robles Arienza	Deputy General Director of Global Wholesale Banking	2009
José Antonio Alonso Mendívil	Deputy General Director of Business Strategy	2011
Rodrigo Brand de Lara	Deputy General Director of Institutional Relationships and Communication	2011
Ramón Riva Marañón	Deputy General Director of Business and Institutional Banking	2009
Jorge Alberto Alfaro Lara	Deputy General Director of Payment Systems	2005
Javier Pliego Alegría	Executive Director of Internal Audit	2011
Pablo Fernando Quesada Gómez	Deputy General Director of Private Banking	2011
Juan Pedro Oechsle Bernos	Deputy General Director of Individual and SME Banking	2011
Enrique Luis Mondragón Domínguez	Deputy General Director of Human Resources	2011

Set forth below are the biographies of our executive officers who are not also members of our Board of Directors.

Emilio de Eusebio Saiz became the Deputy General Director of Intervention and Control Management in December 2010 after serving as the Director for Control of Corporate Management of Expenses in the Santander Group between March 2008 and November 2010. He began his career in the Santander Group's Human Resources Department, where he worked from 1989 to 1990. He worked in the Financial Division of the Santander Group from 1990 to 1992 and in the General Invervention and Control Management division from 1992 to 2008. Mr. Eusebio Saiz holds a degree in Economics from the Universidad Complutense de Madrid and completed graduate studies at the Instituto de Empresas de Madrid in Spain.

Estanislao de la Torre Álvarez has been our Deputy General Director of Media since 2006. He previously served as CEO of Altec México from 2004 to 2006 and Executive Director of Operations for Grupo Financiero Santander Mexico from 1998 to 2005. He holds a master's degree in Public Accounting from the Instituto Tecnológico Autónomo de México (ITAM).

José Carlos Ávila Benito was appointed Deputy General Director of Banco Santander Mexico's Credit department in 2002 after holding the position of Senior Credit Manager at Banco Santander Río in Argentina from 1998 to 2002. He is also a member of the Board of Directors of Banco Santander Mexico. Mr. Ávila Benito began his career in the Santander Group in 1975. He has been a member of the Board of Directors of Dun & Bradstreet in Mexico since April 2004 and a member of the Compensation Committee of the same entity since April 2009. He has a trade expert degree from the Escuela Universitaria de Estudios Empresariales.

Carlos Rodríguez de Robles Arienza has been the Deputy Director of Global Wholesale Banking since 2009. He previously served as the Director of Global Transaction Banking from 2007 to 2009 and as the Director of Business Development and Control from 2004 to 2007 for Banco Santander Spain. Mr. Robles Arienza began his career as an analyst at Hambros Bank Limited in 1995 and subsequently worked as Director of Capital Markets at CEMEX, S.A. de C.V. and as a Senior Banking and Telecommunications Consultant at McKinsey & Company before joining the Santander Group. He is a graduate of the Universidad Complutense de Madrid in Spain and holds a master's degree in Business Administration from the Amos Tuck School of Business at Dartmouth College.

José Antonio Alonso Mendívil was appointed Deputy General Director of Business Strategy in October 2011. Previously, he was appointed Deputy General Director of Individual and SME Banking in 2009 after serving in various positions within the Santander Group since 2007. Mr. Alonso Mendívil is a member of the board of directors of the investment funds managed by Gestión Santander and a member of the board of directors of Zurich Santander Seguros Mexico, S.A. He is also an alternate member of the board of directors of Gestión Santander. From 1997 to 2007, Mr. Alonso Mendívil was a director of various groups at Banco Mercantil del Norte and he started working in the banking industry in 1986 at Bancomer. Mr. Alonso Mendívil graduated with a degree in Administration from the Universidad Intercontinental in Mexico and holds a master's degree in Business Administration from the Universidad de Monterrey in Mexico.

Jorge Alberto Alfaro Lara was appointed Deputy General Director of Payment Systems in 2005 and also serves as an alternate member of the Board of Directors of Santander Consumo. He was the Executive Director of Consumer Credit and Payment Systems for Banco Santander Mexico from 1996 to 2005. Prior to joining the Santander Group, Mr. Alfaro Lara served on the boards of directors of, among others, Total System de México, S.A., Controladora Prosa, S.A. and Transunion de México, S.A. Mr. Alfaro Lara began his career as Vice President of Operations for American Express in 1986. He studied Civil Engineering at Texas A&M University and received his master's degree in Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) in Mexico.

Javier Pliego Alegría was appointed Executive Director of Internal Audit in 2011. Previously, he was the Director of Internal Audit for Grupo Santander in Portugal from 2006 to 2011 and Managing Internal Auditor for Grupo Santander (Spain) from 1997 to 2006. Mr. Pliego also worked in data treatment for SECEMG S.A. (Spain) in 1997 and as a Risk Analyst for The Chase Manhattan Bank from 1994 to 1997. Mr. Pliego Alegría graduated with a degree in Economic and Entrepreneurial Sciences from the Universidad Autónoma de Madrid.

Pablo Fernando Quesada Gómez was appointed Deputy General Director of Private Banking in 2011. He has previously held the following positions in Santander since 1993: Director of Corporate Banking from 1993 to 1994; Regional Business Director from 1995 to 1996; Regional Director of Company Banking from 1997 to 1999; Regional Director (Center –West) from 2000 to 2004; Regional Director (Southern Metropolis) in 2005; Executive Director of Company and Institutional Banking in 2006; Western Region Executive Director from 2007 to 2009; Western Region Executive Director for Company Banking from 2009 to 2010. Mr. Quesada was also the Subdirector of Corporate Banking for Banco Mercantil Probusa (Mexico) from 1989 to 1992 and Corporate Bank Account Executive Banca Cremi (Mexico) from 1984 to 1988. Pablo Fernando Quesada Gómez graduated with a degree in Business Administration from the Universidad del Valle of Atemajac, Guadalajara.

Juan Pedro Oechsle Bernos was appointed Deputy General Director of Individual and SME Banking in 2011. He also serves as a member of the Board of Directors of Zurich Santander Seguros Mexico, S.A. Between 2010 and 2011, Mr. Oechsle was Chief Executive Officer of Banco Santander Hong Kong Branch with regional responsibilities for the group in Asia. From 2003 to 2010, he had several managerial responsibilities in Banco Santander Mexico, as Executive Director for South and Southeastern regions, Executive Director of Business and Institutional Banking and Director of Corporate Banking. Prior to this he was responsible for Structured Transactions in Santander Brazil and led the Cost Efficiency Department in Santander Puerto Rico. Before he joined Banco Santander, Mr. Oechsle worked for Citibank in Corporate Banking as well as in Banco Wiese in Peru. Mr. Oechsle holds a degree in Business Administration with a major in Finance from the University of Texas at Austin and completed graduate studies in Finance at Fundação Dom Cabral (Brazil).

Enrique Luis Mondragón Domínguez was appointed Deputy General Director of Human Resources in 2011. He has also held the following positions at Banco Santander Mexico: Executive Director of Human Resources from 2008 to 2011; Executive Regional Director (Southern Metropolis) from 2007 to 2008; Executive Director of Corporate Resources from 2000 to 2007; Executive Director of the General Division from 1997 to 2000; Executive Director of Planning and Projects from 1996 to 1997; Director of Strategic Planning and Marketing from 1993 to 1996; and Subdirector of Company Banking in 1993. Before joining the Santander Group, Mr. Mondragón was the General Manager for Grupo Karat, S.A. de C.V. (Mexico) and also worked for Banamex as an Account and New Products Executive within the Corporate Finance Division from 1989 to 1990 and as a Credit Analyst from 1986 to

1989. Mr. Mondragón Domínguez has a degree in Finance from ITAM, a master's degree in Economics from the University of London (Queen Mary's College) and a degree in Economics from ITAM.

Committees

Pursuant to our bylaws, our Board of Directors has created the following committees which report to the Board of Directors:

- Audit Committee;
- Corporate Practices Committee;
- Comprehensive Risk Management Committee; and
- Compensation Committee.

Audit Committee

The purpose, composition, authority and responsibilities of our Audit Committee (*Comité de Auditoría*), which reports to our Board of Directors, derives from Mexican law and has been established in a charter approved by our Board of Directors in accordance with Mexican law.

The principal functions of our Audit Committee are to (i) evaluate the performance of our external auditors, including the review and approval of their annual audit, (ii) review and approve financial statements, and recommend their approval to the Board of Directors, (iii) review our internal controls and inform the Board of Directors of any irregularities, (iv) opine in respect of the financial information prepared by the chief executive officer, which includes opinions in respect of (a) whether accounting policies and criteria are adequate and sufficient, and (b) whether financial information fairly reflects our financial condition and results, and (v) ensure that related party transactions and transactions required to be approved by the Board of Directors or the shareholders are approved.

The Audit Committee may generally review our financial information and its preparation and for that purpose may undertake investigations, require opinions of third parties and require explanations and information from our officers.

Pursuant to Mexican law, the members of the Audit Committee must be appointed for their professional qualifications, expertise and reputation. At least one of the members must have broad experience in the financial, auditing and/or internal control sectors. The executives or employees of Banco Santander Mexico cannot be members of the Audit Committee. The Audit Committee must have at least three members and no more than five members of the Board of Directors, all of whom are independent, as determined in accordance with Article 22 of the Mexican Banking Law and our bylaws.

Pursuant to Mexican law and our bylaws, the president of the Audit Committee is elected and removed at the general shareholders' meeting. Such president cannot be the president of the Board of Directors. The rest of the members of the Audit Committee are elected and/or removed by the Board of Directors. The Audit Committee members are appointed indefinitely until they are removed or resign.

The current members of our Audit Committee are:

Name	Position	Status
Fernando Ruíz Sahagún	President of the Audit Committee and Independent Director	Independent
Antonino Fernández Rodríguez	Independent Director	Independent
José Eduardo Carredano Fernández	Independent Director	Independent
Alberto Felipe Mulas Alonso	Independent Director	Independent
Antonio Purón Mier y Terán	Independent Director	Independent

Certain invitees (*invitados habituales*) also attend the meetings of our Audit Committee on a regular basis. Invitees may participate in meetings without voting rights, and the President of the Audit Committee has discretion to ask them to leave. The current regular invitees of our Audit Committee are:

Name	Position
Javier Pliego Alegria	Executive General Director of Internal Audit
Guillermo Roa Luvianos	External Auditor
Ricardo García Chagoyan	External Auditor

The secretary of the Audit Committee is Alfredo Acevedo Rivas and the assistant secretary of our Audit Committee is Eduardo Fernández García-Travesí.

Corporate Practices Committee

The primary functions of our Corporate Practices Committee (*Comité de Prácticas Societarias*) are to obtain the opinion of independent experts in respect of required matters, call shareholder meetings, to aid the Board of Directors in the preparation of reports to be presented at shareholder meetings, and propose and provide advice to the Board of Directors on the following subjects:

- policies and guidelines for the use or enjoyment of our property;
- policies for loans and other transactions with related parties;
- policies for exempting related party transactions from authorization;
- transactions with employees;
- unusual or non-recurring transactions;
- appointment, dismissal and compensation of the CEO;
- appointment and compensation of executive officers;
- policies that set limits on the authority of the CEO and executive officers;
- organization of human resources;
- waivers to directors, executive officers or other persons to take advantage of our business opportunities for themselves or on behalf of third parties;
- policies to promote activities in compliance with the relevant legal framework and access to adequate legal defense;
- proposed compensation to directors and members of committees;
- monitoring compliance of established corporate practices and compliance with all applicable laws or regulations;
- presenting a report to the Board of Directors, based on reports of the activities of the CEO and the internal committees; and
- proposing appropriate legal actions against our officers who do not comply with the principles of loyalty and diligence.

The Corporate Practices Committee may solicit the opinion of independent experts as it deems appropriate for the proper performance of its functions.

The current members of our Corporate Practices Committee are:

Members	Position
Alberto Felipe Mulas Alonso	President (Independent Director)
Fernando Ruíz Sahagún	Member (Independent Director)
Antonino Fernández Rodríguez	Member (Independent Director)
José Eduardo Carredano Fernández	Member (Independent Director)
Antonio Purón Mier y Terán	Member (Independent Director)

The secretary of the Corporate Practices Committee is Alfredo Acevedo Rivas and the assistant secretary of the Corporate Practices Committee is Eduardo Fernández García-Travesí.

The Corporate Practices Committee must include least three members of the Board of Directors, which may be members or alternate members, all of whom must be independent, as determined in accordance with Article 22 of the Mexican Banking Law and our bylaws. Pursuant to Mexican law and our bylaws, the president of the Corporate Practices Committee is elected and removed by the general shareholders meeting. Such president cannot be the president of the Board of Directors and shall be elected on the basis of his expertise, competence and professional reputation. The Corporate Practices Committee members are appointed indefinitely until they are removed or resign.

Comprehensive Risk Management Committee

Our Comprehensive Risk Management Committee (*Comité de Administración Integral de Riesgos*) reports to the Board of Directors as required by local law. This committee proposes objectives, policies and procedures for the management of risk as well as risk exposure limits to the Board of Directors. In addition, our Comprehensive Risk Management Committee approves the methodologies that we use to measure the various types of risks to which we are subject, as well as the models, parameters and scenarios for risk measurement, and monitors market, liquidity, credit, counterparty, legal and operational risks. See "—Risk Management—Organizational Structure" for additional information about the committee's activities.

The current members of our Comprehensive Risk Management Committee are:

Members	Position
Guillermo Güemez García	Alternate Independent Director and President of the Comprehensive Risk Management Committee
Marcos Alejandro Martínez Gavica	Executive President, Chief Executive Officer and Director
Antonino Fernández Rodríguez	Independent Director
Alberto Torrado Martínez	Independent Director
Joaquín Vargas Guajardo	Independent Director
Juan Sebastián Moreno Blanco	Director and Vice President of Retail Banking
Pedro José Moreno Cantalejo	Director and Vice President of Administration and Finance
José Carlos Ávila Benito	Deputy General Director of Credit
Javier Pliego Alegria*	Executive General Director of Internal Audit

* No voting rights.

Certain invitees (*invitados habituales*) also attend the meetings of our Comprehensive Risk Management Committee on a regular basis. Invitees may participate in meetings at the discretion of the President and without voting rights. The current regular invitees of our Comprehensive Risk Management Committee are: Estanislao de la Torre Alvarez, Guillermo Alfonso Maass Moreno, Eduardo Fernández García-Travesí and Emilio de Eusebio Saiz. In addition, Jorge Alberto Alfaro Lara is a special invitee (*invitado especial*) to the meetings of our Comprehensive Risk Management Committee.

Compensation Committee

The purpose, composition, authority and responsibilities of our Compensation Committee (*Comité de Remuneraciones*), which reports to our Board of Directors, have been established in a charter approved by our Board of Directors in accordance with Mexican law.

The Compensation Committee's primary purpose is to assist our Board of Directors in developing norms and policies relating to the administration and evaluation of the compensation plans, that together form our compensation system and to promulgate compensation plan criteria and policies to some of our employees. The Compensation Committee prepares biannual reports about the administration of our compensation plans and informs the CNBV about modifications to our compensation system.

The Compensation Committee is responsible for implementing and maintaining our compensation system and informs the Board of Directors twice a year regarding the operation of the compensation system. Additionally, the Compensation Committee proposes compensation policies and procedures, recommends employees or personnel for inclusion in the compensation system and brings special cases and circumstances to the attention of the Board of Directors for its approval.

Our Compensation Committee charter provides that:

- It must include at least two members of the Board of Directors, one of whom must be independent, who shall be the one presiding.
- At least one member must have knowledge and experience in risk management or internal controls.
- The person responsible for the Comprehensive Risk Management Unit shall be a member.
- A representative from the human resources division shall be a member.
- A representative from the financial planning or budget division shall be a member.
- The internal auditor may participate without voting rights.

The Compensation Committee must meet every quarter, and at least a majority of its members must be present; provided, that an independent director shall at all times be present. The meetings and resolutions adopted at Compensation Committee meetings must be documented in minutes signed by all of the members who are present.

The current members of our Compensation Committee are:

Name	Position
Antonio Purón Mier y Terán	Independent Director
Alberto Felipe Mulas Alonso	Independent Director
Marcos Alejandro Martínez Gavica	Executive President, Chief Executive Officer and Director
José Carlos Ávila Benito	Deputy General Director of Credit
Enrique Mondragón Domínguez	Deputy General Director of Human Resources
Pedro José Moreno Cantalejo	Director and Vice President of Administration and Finance
Javier Pliego Alegría	Executive General Director of Internal Audit
Jesús María Zabalza Lotina	Director General of Banco Santander Spain American Division
Eduardo Fernández García-Travesí	General Counsel

External Auditors

Our bylaws provide for an external auditor to be designated by the Board of Directors, with the favorable opinion of the Audit Committee. Under the Mexican Securities Market Law and our bylaws, the duties of the external auditor include, among other things, the examination of the operations, books, records and any other relevant documents of a company and the presentation of a report of such examination at the annual ordinary general meeting of shareholders.

Our external auditors are Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited in Mexico.

RELATED PARTY TRANSACTIONS

Loans to Related Parties

Articles 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law (*Ley de Instituciones de Crédito*) regulates and limits loans and other transactions pursuant to which related parties may be liable to a bank. Transactions covered under the Articles are deposits, any type of loans, restructurings and amendments to such loans, net derivatives positions and investments in securities other than equity securities. For purposes of these provisions, the term related parties refers to (1) holders, either directly or indirectly, of 2% or more of the Bank's, Grupo Financiero Santander Mexico's or any of its subsidiaries' shares; (2) principal and alternate Board members of the Bank, Grupo Financiero Santander Mexico or any of its subsidiaries; (3) relatives of a Board member or of any person specified in (1) and (2) above; (4) any person not an officer or employee of Grupo Financiero Santander Mexico or us who, nevertheless, is empowered to contractually bind Grupo Financiero Santander Mexico or us; (5) any corporation (or its directors or executive employees) in which Grupo Financiero Santander Mexico or any of its subsidiaries owns, directly or indirectly, 10% or more of its equity stock; (6) any corporation who has a director or officer in common with Grupo Financiero Santander Mexico or any of its subsidiaries; or (7) any corporation in which Grupo Financiero Santander Mexico's external auditors, our employees, holders of 2% or more of Grupo Financiero Santander Mexico's shares, 2% or more of our shares, or we or any director or officer of Grupo Financiero Santander Mexico or us holds 10% or more of the outstanding capital stock. The majority of our Board of Directors must approve such loans. Before approval, however, the loan must undergo our customary review procedures for loans, which will vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the highest loan review committee at the management level, and must be recommended by a special committee of directors responsible for reviewing our largest loans and all loans falling within the scope of Articles 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law. In addition, certain filings must be made with the CNBV with respect to such loans. Loans to individuals in amounts less than the greater of (1) two million UDIs (*Unidades de inversión*, a peso-equivalent unit of account indexed for Mexican inflation) or (2) 1% of a bank's Tier 1 net capital (approximately Ps.735.7 million at June 30, 2012, in our case) are exempt from such provisions. Loans to related parties may not exceed 50% of a bank's Tier 1 Capital. The CNBV may, upon request, grant exemptions from these provisions. In our case, all loans to individuals who are related parties, regardless of the amount, are approved by our Board of Directors.

The SHCP has adopted rules which exclude from the category of loans to related parties loans granted to the Mexican government, provided that the recipient does not make a loan to a related party, and loans to our directors or officers if they fall within the minimum thresholds set forth above. The SHCP rules also exclude from the category of loans to related parties loans to companies that provide ancillary services to us, meaning our affiliates that provide the necessary auxiliary services we need in order to carry out our operations, such as administrative, accounting, finance, legal, IT and other services, provided that such companies do not make a loan to a related party. These three categories of loans are not considered for purposes of determining the 50% of Tier 1 Capital limit of our loan portfolio that may consist of loans to related parties, and do not require the prior approval of our Board of Directors.

As of June 30, 2012 our loans granted to related parties per Article 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law totaled Ps.70,135 million (U.S.$5,230.7 million), which included loans granted to our subsidiaries Santander Consumo and Santander Hipotecario (formerly GE Consumo México S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad no Regulada) for Ps.40,048 million (U.S.$2,986.8 million) and Ps.16,944 million (U.S.$1,263.7 million), respectively, which were eliminated from the balance sheet on consolidation. These loans with related parties were approved by the Board of Directors. According to Mexican Banking Law, loans with subsidiaries that form part of our financial group are not considered to be related party transactions and therefore do not count against the 50% of Tier 1 Capital limit. Pursuant to the methodology to classify the loan portfolio set forth under the loan classification and rating rules, 99.0% of the loans granted to related parties have a credit quality of A1 and 1.0% have a credit quality of A2. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk.

Additionally, pursuant to the Mexican Banking Law, no loans may be made to any bank officers or employees, except in connection with certain employment benefits. As permitted by the Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Affiliate Transactions

From time to time, we enter into agreements, including service agreements, with our holding company, subsidiaries and affiliates such as Santander Consumo, Casa de Bolsa Santander, Gestión Santander, Grupo Financiero Santander Mexico, Isban México, S.A. de C.V., Gesban México Servicios Administrativos Globales, S.A. de C.V. and Santander Global Property, S.A. de C.V. We have entered into service agreements pursuant to which we render services, such as administrative, accounting, finance, treasury, legal services and others. We believe that these transactions with our affiliates have been made on terms that are not less favorable to us than those that could be obtained from unrelated third parties.

We have agreements with the following service providers, which are also affiliates of the Santander Group:

- ISBAN, for the provision of IT services such as project development, quality plans, remediation plans, maintenance of application software, functional support of various applications and consulting.
- Produban, for the provision of IT services such as data processing, administration of IT services, project development, consulting, software quality management and project development support.
- Gesban Mexico Servicios Administrativos Globales, S.A. de C.V., or "Gesban," for the provision of accounting services, fiscal management, budget control, support services and inspections and audits.

In addition, in January, February and April 2011, we acquired loans previously held by non-Mexican related parties for which the borrower or the holding company of the borrower was a Mexican company. The acquisition of the portfolios amounted to Ps.18,110 million and was made at fair value. The amount was recognized in our consolidated income statement. See note 1 to our audited financial statements included elsewhere in ths offering memorandum for further information regarding our related party transactions with Banco Santander Spain, Grupo Financiero Santander Mexico and its subsidiaries and other affiliated companies.

During the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, we had the following assets and liabilities with related parties:

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	(millions of Pesos)			
Assets:				
Funds available	10,632	3,602	5,930	8,318
Debtors under sale and repurchase agreements	9,792	1,378	1,125	1,823
Derivatives	19,997	26,434	23,697	19,463
Total loan portfolio	0	569	1,528	1,992
Other receivables (net)	577	1,240	885	4,157
Total assets	**40,998**	**33,223**	**33,165**	**35,753**
Liabilities:				
Demand deposits	555	426	7,482	831
Credit instruments issued(1)	856	928	955	1,002
Bank and other loans	0	6,161	21	234
Creditors under sale and repurchase agreements(2)	38,780	28,344	49,989	56,011
Derivatives	20,707	27,250	28,490	26,310
Subordinated debentures outstanding	3,933	0	0	0
Sundry creditors and other payables	4,354	6,512	308	5,009
Total liabilities	**69,185**	**69,621**	**87,245**	**89,397**

(1) These are structured bank bonds and unsecured bonds.

(2) These are also known as "repos."

During the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, we had the following significant income or expense from services provided to or by related parties:

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	(millions of Pesos)			
Income recorded:				
Interest income	845	572	108	105
Commission and fee income	2,435	2,821	3,499	2,044
Net gain (loss) on financial assets and liabilities	89,952	107,423	120,584	24,661
Expense recorded:				
Interest expense	2,946	2,290	2,713	1,553
Administrative and promotional expenses	185	298	218	110
Net gain (loss) on financial assets and liabilities	84,493	108,194	124,556	28,625
Technical advisory services	1,632	1,104	1,298	699

THE MEXICAN FINANCIAL SYSTEM

General

Mexico's financial system is currently comprised of commercial banks, national development banks, brokerage firms, development trust funds and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loans companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies, limited purpose financial institutions, multiple purpose financial institutions and limited purpose banks. In 1990, the Mexican government adopted the Mexican Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company. Most major Mexican financial institutions are members of financial groups.

The principal financial authorities that regulate financial institutions are the SHCP, the Mexican Central Bank, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF.

Financial Groups

The enactment of the Mexican Financial Groups Law in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups controlled by a financial services holding company, such as Grupo Financiero Santander Mexico, and made up of a number of financial operating entities. The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial services operating subsidiaries. Such subsidiaries, whether direct or indirect, may include Mexican banks, broker-dealers, insurance companies, bonding companies, mutual fund operators, mutual funds, auxiliary credit organizations (such as factoring, financial leasing and bond-warehousing companies), *Sofoles*, *Sofomes*, foreign exchange service providers and retirement fund administrators. Financial groups may be comprised by a holding company and any two financial institutions (which may be of the same type of financial institution), provided that a financial group may not be comprised solely by the holding company and two *Sofomes*, and two insurance companies shall be counted as one entity for purposes of the number of entities to form a financial group.

The Mexican Financial Groups Law permits entities controlled by the same financial services holding company:

- to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;
- use similar corporate names; and
- conduct their activities in the offices and branches of other entities part of the same group.

In addition, the Mexican Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial services subsidiaries pursuant to which the holding company agrees to be responsible secondarily and without limitation for the satisfaction of the obligations incurred by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the holding company's assets. For such purposes, a subsidiary is deemed to have losses if:

- its shareholders' equity represents an amount that is less than the amount the subsidiary is required to have as minimum paid-in capital under applicable law;
- capital and reserves are less than the subsidiary is required to have under applicable law; and
- in the judgment of the regulatory commission supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations.

No subsidiary of any such holding company is responsible for the losses of the holding company or any other subsidiary thereof.

We have entered into such an agreement with Grupo Financiero Santander Mexico, as described under "Supervision and Regulation—Financial Groups' Statutory Responsibility."

Authorities of the Mexican Financial System

The principal authorities that regulate and supervise financial institutions in Mexico are the Mexican Central Bank, the SHCP, the CNBV, the CONSAR, the CNSF, the IPAB and the CONDUSEF. These authorities are subject to a number of organic laws and other administrative regulations that govern their regulatory, supervisory and other powers. Also, these entities continually enact administrative regulations within the scope of their respective authority for the regulation of the corresponding financial entities, as further mentioned below.

Banco de México

Banco de México is the Mexican Central Bank. It is an autonomous entity that is not subordinated to any other body in the Mexican government. Its primary purpose is to issue the Mexican currency, as well as to maintain the acquisition power of such currency, to establish reference interest rates and to ensure that the banking and payments systems perform under safe and sound principles.

Monetary policy decisions are taken by the members of the Governing Board of the Mexican Central Bank. The Governing Board is composed of a Governor and four Deputy Governors, all of which are appointed by the President and ratified by the Senate or the Permanent Commission of Congress, as applicable.

Among the decisions that only the Governing Board may take are the authorization of the issuance of currency and the minting of coins, the decision to extend credit to the Mexican government, the determination of policies and criteria that the Mexican Central Bank uses in its operations and in the regulations that it issues, and the approval of its rules of procedure, budget, working conditions and similar internal matters.

SHCP

The SHCP is the regulator in charge of proposing, conducting and controlling the economic policy of the Mexican government in matters of economics, tax, finance, public budget, public debt and income. Together with the CNBV and the Mexican Central Bank, it is the primary regulator of commercial banks and national development banks. The SHCP participates in the process of incorporation, revocation, operation, merger, control and stock purchase of financial institutions.

CNBV

The CNBV is a governmental body subordinate to the SHCP, having independent technical and executive powers. The CNBV is in charge of the supervision and regulation of financial entities, with the purpose of ensuring their stability and sound performance, as well as the maintenance of a safe and sound financial system. The scope of the CNBV's authority includes inspection, supervision, prevention and correction powers. The primary financial entities regulated by the CNBV are commercial banks, national development banks, regulated multiple purpose financial institutions, brokerage firms, as well as publicly traded companies and other entities that have issued debt securities to the public. The CNBV is also in charge of granting and revoking banking and securities brokerage licenses in Mexico.

CONSAR

The CONSAR is a governmental body subordinated to the SHCP, having independent technical and executive powers. The CONSAR was created in 1997 as part of a comprehensive reform of the retirement savings and pensions system, and is in charge of protecting the retirement savings of employees through the regulation and supervision of *Afores* and *Siefores*. The CONSAR evaluates risks borne by the participants in the retirement savings system and makes sure these participants are solvent and maintain adequate liquidity levels.

CNSF

The CNSF is a governmental body ascribed to the SHCP, having independent technical and executive powers. The CNSF is in charge of the supervision and regulation of insurance and bonding companies, promoting the safe and sound development of the insurance and guaranty bond financial sectors.

IPAB

After the 1994 financial crisis, the Mexican government created the IPAB, an independent, decentralized governmental institution with its own legal standing and assets. The IPAB's primary purpose is the protection and insurance of bank deposits, having also powers to provide solvency to banking institutions, contributing to the safe and sound development of the banking sector and the national payments system. The IPAB is also entitled to acquire assets from distressed banking institutions.

CONDUSEF

The CONDUSEF is a governmental body under the SHCP. The CONDUSEF is in charge of the provision of financial orientation, guidance and information to customers of financial services, as well as implementation of corrective measures through the processing of claims by such customers, with the primary purpose of protecting customer's interests. The CONDUSEF may also act as arbitrator in disputes between financial institutions and their customers and establish regulations and impose sanctions to financial institutions in order to protect their clients.

The History of the Banking Sector

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies. Prior to the early 1990s, lending by Mexican banks to the private sector had fallen to very low levels. It is estimated, however, that by the end of 1994 average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the Mexican peso in December 1994 initiated a crisis, and the resulting high interest rates and contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects, among others, caused an increase in the non-performing loan portfolio of Mexican financial institutions, particularly during 1995, which adversely affected the capitalization level of financial institutions. Also, increased domestic interest rates and the deteriorating value of the peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV had assumed or intervened in the operations of 13 banks and had adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- creating a temporary capitalization program to assist banks;
- establishing a foreign exchange credit facility with the Mexican Central Bank to help banks with dollar liquidity problems;
- increasing the level of required allowance for loan losses;
- establishing a temporary program for the reduction of interest rates on certain loans;
- establishing various programs to absorb a portion of debt service cost for mortgage loan debtors (including debt restructuring and conversion support programs); and
- broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

Reforms to Mexican Banking Law

On February 1, 2008, the Mexican Congress enacted a number of reforms to the Mexican Banking Law (*Ley de Instituciones de Crédito*), which grant more power to the CNBV and establish new provisions on transparency and reliability in the disclosure of a bank's information. The main objectives of the reforms include:

Enhancing the CNBV supervisory practices. The reforms grant ample authority to the CNBV for the supervision of the financial entities under the Mexican Banking Law. The CNBV may perform visits to banks, with the aim to review, verify, test and evaluate the operations, processes, systems of internal control and risk management among others elements that may affect the financial position of banks.

Additionally, the reforms permit the CNBV to partially suspend or restrict the execution of the authorized transactions referred to in Article 46 of the Mexican Banking Law, when such transactions are prohibited or not performed with the required infrastructure or internal controls. The order of suspension can be issued regardless of any other applicable sanctions under the Mexican Banking Law.

Increasing requirements for the granting of loans to customers. For the granting of loans, banks are required to analyze and evaluate the viability of payment by borrowers or counterparties, relying on an analysis based on quantitative and qualitative information that allows establishing their creditworthiness and ability of timely payment of the loan. Banks must issue guidelines and lending process manuals and credit procedures shall be performed in accordance with such policies.

Establishing new provisions on transparency and reliability. Banks are required to publicly disclose their corporate, financial, administrative, operational, economic and legal information, as determined by the CNBV. Banks must post on their website and in a national newspaper their balance sheets and other relevant information periodically.

Establishing fiscalization powers for the supervision of external auditors. The CNBV has powers of inspection and surveillance with respect to entities that provide external audit services to banks, including those partners or employees who are part of the audit team, in order to verify the compliance with the Mexican Banking Law. The CNBV is allowed to: (i) request any information and documentation related to the services rendered; (ii) practice inspection visits; (iii) require the attendance of partners, legal representatives and other employees; and (iv) issue audit procedures to be complied by the auditors, in connection with the tax opinions and practices performed by them.

Limited-purpose banks. The reform introduced limited-purpose banks (bancos de nicho), which can only engage in a limited amount of banking activities which are specifically set forth in their bylaws. The minimum required capital of limited-purpose banks can vary depending on the activities carried out by such entities, from a range of 90,000,000 UDIs to 36,000,000 UDIs. UDIs are Unidades de inversión, a peso-equivalent unit of account indexed for Mexican inflation.

Improvement of Creditors' Rights and Remedies

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a new bankruptcy law.

Collateral Mechanisms

The Mexican Commerce Code (*Código de Comercio*), the General Law of Negotiable Instruments and Credit Transactions (*Ley General de Títulos y Operaciones de Crédito*), the former Mexican Securities Market Law, the Mexican Banking Law, the Insurance Companies Law (*Ley General de Instituciones y Sociedades Mutualistas de Seguros*), the Bonding Companies Law (*Ley Federal de Instituciones de Fianzas*) and the General Law of Ancillary Credit Organizations and Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*) were amended with the purpose of providing an improved legal framework for secured lending and, as a consequence, encourage banks to increase their lending activities. Among its provisions, the decree eliminated a prior non-recourse provision applicable to non-possessory pledges (which allowed the creation of a pledge over all the assets used in the main business activity of the debtor, but limited recourse to the applicable collateral) and collateral trusts, to allow creditors further recourse against debtors in the event that proceeds derived from the sale or foreclosure of collateral are insufficient to repay secured obligations.

Bankruptcy Law

The Mexican Bankruptcy Law provides for a single insolvency proceeding encompassing two successive phases: a conciliatory phase of mediation between creditors and debtor, and bankruptcy.

Only IPAB or the CNBV may demand the declaration of insolvency of banking institutions, including Banco Santander Mexico. In the case of banking institutions, such as Banco Santander Mexico, with the declaration of bankruptcy (*concurso mercantil*) the judicial procedure is initiated in the bankruptcy phase and not, as in common procedures, in the conciliatory phase. The bankruptcy of a Mexican bank is viewed as an extreme measure (because it results in a liquidation and dissolution), which has not been resorted to in practice, and is preceded by a number of measures that seek to avoid it, such as precautionary measures taken by the CNBV, facilities made available by IPAB and an intervention led by the CNBV. Upon filing of the application for the declaration of insolvency, banking institutions must cease operations and suspend payment of all obligations.

The Mexican Bankruptcy Law establishes precise rules that determine when a debtor is in general default in its payment obligations. The principal indications are failure by a debtor to comply with its payment obligations in respect of two or more creditors, and the existence of any of the following two conditions: (i) 35.0% or more of a debtor's outstanding liabilities are 30 days past due; or (ii) the debtor fails to have certain specifically defined liquid assets and receivables to cover at least 80.0% of its obligations which are due and payable.

The law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the intervenor (*interventor*), conciliator (*conciliador*) and receiver (*síndico*). The IPAB acts as the liquidator and receiver and the CONDUSEF may appoint up to three intervenors.

On the date the insolvency judgment is entered, all peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (i.e., mortgage, pledge or security trust) continue to accrue interest on their loans. The Mexican Bankruptcy Law mandates the netting of derivative transactions upon the declaration of insolvency.

The Mexican Bankruptcy Law provides for a general rule as to the period when transactions may be scrutinized by the judge to determine if they were entered into for fraudulent purposes, which is 270 calendar days prior to the judgment declaring insolvency. This period is referred to as the retroactivity period. Nevertheless, upon the reasoned request of the conciliator, the intervenors, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period.

In December 2007, the Mexican Bankruptcy Law was amended to incorporate provisions relating to pre-agreed insolvency proceedings, frequently used in other jurisdictions, that permit debtors and creditors to agree upon the terms of a restructuring and thereafter file, as a means to obtain the judicial recognition of a restructuring reached on an out-of-court basis. This also provides protection against dissident minority creditors.

Deregulation of Lending Entities and Activities

In July 2006, the Mexican Congress enacted reforms to the General Law of Auxiliary Credit Organizations and Activities, the Mexican Banking Law and the Foreign Investment Law (*Ley de Inversión Extranjera*), with the objective of creating a new type of financial entity called multiple purpose financial entities (*sociedad financiera de objeto múltiple*, or "*Sofom*") (the "*Sofom* Amendments"). The *Sofom* Amendments were published in the Official Gazette of the Federation on July 18, 2006.

The main purpose of the *Sofom* Amendments is to deregulate lending activities, including financial leasing and factoring activities. *Sofomes* are Mexican corporations (*sociedades anónimas*) that expressly include as their main corporate purpose in their bylaws, engaging in lending and/or financial leasing and/or factoring services. Pursuant to the *Sofom* Amendments, the SHCP has ceased to authorize the creation of new *Sofoles*, and all existing *Sofol* authorizations will automatically terminate on July 19, 2013. On or prior to that date, existing *Sofoles* must cease operating as a *Sofol*. Failure to comply with this requirement will result in dissolution or liquidation of the *Sofol*. Existing *Sofoles* also have the option of converting to *Sofomes* or otherwise extending their corporate purposes to include activities carried out by *Sofomes*.

Among others, *Sofomes* that are affiliates of Mexican credit institutions (i.e., private or public banks) or the holding companies of financial groups that hold a credit institution will be regulated and supervised by the CNBV, and will be required to comply with a number of provisions and requirements applicable to credit institutions such as capital adequacy requirements, risk allocation requirements, related party transactions rules, write-offs and assignment provisions, as well as reporting obligations. Regulated *Sofomes* are required to include in their denomination the words "*Entidad Regulada*" (regulated entity) or the abbreviation thereof, "*E.R.*" All other entities whose main purpose is engaging in lending, financial leasing and factoring activities are non-regulated *Sofomes* and must so indicate in their corporate denomination by including the words "*Entidad No Regulada*" (non-regulated entity) or the abbreviation thereof, "*E.N.R.*" Non-regulated *Sofomes* are not subject to the supervision of the CNBV.

Sofomes (regulated or non-regulated) will be subject to the supervision of the CONDUSEF as is the case with any other financial entity.

The *Sofom* Amendments also eliminated the restrictions on foreign equity investment applicable to *Sofoles*, financial leasing and factoring companies, which until the *Sofom* Amendments became effective, was limited to 49.0%. Accordingly, the *Sofom* Amendments may result in an increase in competition in the financial services industry, from foreign financial institutions.

Amendments to Financial Regulations Impacting Banks

The Mexican financial system has continued to advance in recent years, consistent with demands from regulators and market participants, developments in other jurisdictions and to address systemic issues resulting from the global financial crisis. In particular, in June 2007, a new Law for the Transparency and Ordering of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*) was approved, which granted the Mexican Central Bank authority to regulate interest rates and fees and the terms of disclosure of fees charged by banks to their customers.

Even though the recent global financial crisis did not affect Mexican banks directly, many Mexican corporations were affected, primarily by having engaged in foreign-currency linked derivative transactions, which increased exposures substantially as a result of the devaluation of the peso, triggering a new regulation issued by the CNBV that seeks to improve disclosure standards as they relate to derivative transactions.

The Federal Law for Protection of Personal Data Held by Private Persons (*Ley Federal de Protección de Datos Personales en Posesión de Particulares*) that protects personal data collected, recently became effective. Under such law, we are required to ensure the confidentiality of information received from clients. No assurances may be given as to how such law will be interpreted. However, if strictly interpreted and enforced, we may be subject to fines and penalties in the event of violations to the provisions of such law.

SUPERVISION AND REGULATION

The following is a summary of certain matters relating to the Mexican banking system, including provisions of Mexican law and regulations applicable to financial institutions in Mexico, and of certain matters related to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act's regulation of derivatives. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to financial institutions in Mexico or of U.S. regulations applicable to such financial institutions.

Introduction

Our operations are primarily regulated by the Mexican Banking Law and the rules and regulations issued by the SHCP, the CNBV, the Mexican Central Bank and the IPAB. The authorities that supervise us and our operations are the SHCP, the Mexican Central Bank, CONDUSEF and the CNBV.

Banking Regulation

The SHCP, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities. Reports to bank regulators are often supplemented by periodic meetings between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

Additionally, banks must publish on their website, among other information:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's Board of Directors, identifying independent and non-independent directors and their resumes;
- a description and the total sum of compensation and benefits paid to the members of the Board of Directors and senior officers during the past year;
- unaudited quarterly financial statements for the periods ending March, Juen and September of each year, together with any comments thereon;
- any information requested by the CNBV to approve the accounting criteria and special registries;
- a detailed explanation regarding the main differences in the accounting used to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification (as determined by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's bylaws.

The CNBV has authority to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations promulgated thereunder. In addition, the Mexican Central Bank has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of the Mexican Central Bank

(*Ley del Banco de México*) and regulations adopted by it and the Law for the Transparency and Ordering of Financial Services, particularly as violations relate to interest rates, fees and the terms of disclosure of fees charged by banks to clients. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

Licensing of Banks

Authorization of the Mexican government is required to conduct banking activities. The CNBV, with the approval of its Governing Board and subject to the prior favorable opinion of the Mexican Central Bank, has the power to authorize the establishment of new banks, subject to minimum capital standards, among other things. Approval of the CNBV is also required prior to opening, closing or relocating offices, including branches, of any kind outside of Mexico or transfer of assets or liabilities between branches.

Intervention

The CNBV, with the approval of its Governing Board, may declare the managerial intervention (*intervención*) of a banking institution pursuant to Articles 138 through 149 of the Mexican Banking Law (a "CNBV Intervention"). In addition, the Governing Board of IPAB may also appoint a peremptory manager (*administrador cautelar*) if IPAB provides liquidity, in accordance with applicable law, to a banking institution.

A CNBV Intervention pursuant to Articles 138 through 149 of the Mexican Banking Law will only occur when (i) during a calendar month, the Capital Ratio of a bank is reduced from a level equal to or below the minimum Capital Ratio required under the Mexican Capitalization Requirements, to 50% or less than such minimum Capital Ratio, (ii) the bank does not maintain the minimum Capital Ratio required under the Mexican Capitalization Requirements; (iii) the CNBV, in its sole discretion, determines the existence of irregularities that may affect the stability or solvency of the bank and, as a result, the interests of the public and of the bank's creditors, and (iv) if the bank (a) does not timely repay loans or debt securities issued, or (b) does not timely pay deposits or clear checks.

The peremptory manager will be appointed by IPAB, if IPAB has granted extraordinary financial support to a bank in accordance with the Mexican Banking Law. The peremptory manager appointed by IPAB will assume the authority of the Board of Directors and the shareholders. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law, will prepare and submit to IPAB the bank's budget (for approval), will be authorized the contract liabilities, make investments, undertake acquisitions or dispositions and incur expenses, is authorized to hire and fire personnel and may suspend operations. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

Resolution and Payment of Guaranteed Obligations

Revocation of Banking License. In the case that the CNBV revokes a license to be organized and operate as a banking institution, IPAB's Governing Board will determine the manner under which the corresponding banking institution shall be dissolved and liquidated in accordance with Articles 122 Bis 16 through 122 Bis 29 of the Mexican Banking Law. In such a case, IPAB's Governing Board may determine to undertake the liquidation through any or a combination of the following transactions: (i) transfer the liabilities and assets of the banking institution in liquidation to another banking institution directly or indirectly through a trust incorporated for such purposes; (ii) constitute, organize and manage a new banking institution owned and operated directly by IPAB with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or (iii) any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that IPAB considers as the best and least expensive option to protect the interest of bank depositors.

Causes to Revoke a Banking License. The above mentioned amendments significantly expand the events upon which the CNBV may revoke a banking license. The following are among the most relevant events:

(i) if the banking institution is dissolved or initiates liquidation or bankruptcy procedures (*concurso mercantil* or *quiebra*);

(ii) if the banking institution (a) does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 134 Bis 1 of the Mexican Banking Law; (b) does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 134 Bis 1; or (c) consistently does not comply with an additional special corrective measure ordered by the CNBV;

(iii) if the banking institution does not comply with the minimum Capital Ratio required under the Mexican Banking Law and the Mexican Capitalization Rules; or

(iv) if the banking institution defaults with respect to any of the following payment obligations (a) in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or the Mexican Central Bank, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system, and (b) in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its clients.

Upon publication of the resolution of the CNBV revoking a banking license in the Official Gazette of the Federation and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation or the declaration of bankruptcy (*concurso mercantil*) of a banking institution, IPAB shall proceed to make payment of all "guaranteed obligations" of the relevant banking institution.

Obligations of a banking institution in liquidation that are not considered "guaranteed obligations" pursuant to the IPAB Law, and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

(i) term obligations will become due (including interest accrued);

(ii) unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;

(iii) unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue interest and will be converted into pesos at the prevailing exchange rate determined by the Mexican Central Bank;

(iv) secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;

(v) obligations subject to a condition precedent, shall be deemed unconditional; and

(vi) obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference: (i) liquid and enforceable labor liabilities, (ii) secured liabilities, (iii) tax liabilities, (iv) liabilities to IPAB, as a result of the partial payment of obligations of the banking institution supported by IPAB in accordance with the Mexican Banking Law, (v) bank deposits, loans and credits as provided by Article 46, Sections I and II of the Mexican Banking Law, to the extent not transferred to another banking institution, as well as any other liabilities in favor of IPAB different from those referred to in clause (iv) above, (vi) any other liabilities other than those referred to in the following clauses, (vii) preferred subordinated debentures, (viii) non-preferred subordinated debentures (such as the Notes), and (ix) the remaining amounts, if any, shall be distributed to shareholders.

Financial Support

Determination by the Financial Stability Committee. The newly created Financial Stability Committee (the "FSC") includes representatives of the SHCP, the Mexican Central Bank, the CNBV and IPAB. In the case that the FSC determines that if a bank were to default on its payment obligations and such default may (i) generate severe negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (ii) put the operation of the payments' system at risk, then the FSC may determine, on a single-case basis, that a general percentage of all of the outstanding obligations of the troubled bank that are not considered "guaranteed obligations" under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the board of directors and certain senior officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures, such as the Notes, be covered or paid by IPAB or any other Mexican governmental agency.

Types of Financial Support. In the case that the FSC makes the determination referred to in the prior paragraph, then IPAB's Governing Board will determine the manner according to which the troubled bank will receive financial support, which may be through either of the following options:

(a) If the FSC determines that the full amount of all of the outstanding liabilities of the relevant troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (i) capital contributions granted by IPAB in accordance with Articles 122 Bis 2 through 122 Bis 6 of the Mexican Banking Law, or (ii) credit support granted by IPAB in accordance with Articles 122 Bis 7 through 122 Bis 15 of the Mexican Banking Law, and in either case the CNBV shall refrain from revoking the banking license granted to such commercial bank.

(b) If the FSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of transferring the assets and liabilities of such commercial bank to a third party, as set forth in Articles 122 Bis 27 or 122 Bis 29 of the Mexican Banking Law.

Conditional Management Regime. As an alternative to revoking the banking license, a new conditional management regime was created, that may apply to commercial banks with a Capital Ratio below the minimum required pursuant to the Mexican Capitalization Rules. To adopt this regime, the relevant bank must voluntarily request from the CNBV, with prior approval of its shareholders, the application of the conditional management regime. In order to qualify for such regime, the relevant commercial bank should (i) deliver to the CNBV a plan for the reconstitution of its capital, and (ii) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions with a Capital Ratio equal to or below 50% of the minimum Capital Ratio required by the Mexican Capitalization Rules may not adopt the conditional management regime.

Capitalization

The minimum subscribed and paid-in capital for banks is set in accordance with the transactions in which they may engage. Pursuant to the General Rules Applicable to Mexican Banks, banks may perform any of the activities and render the services as provided under Article 46 of the Mexican Banking Law, as well as those permitted under other laws. Applicable corporate by-laws of all banks shall provide for the performance of at least one credit activity and one funding activity.

The minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law (such as Banco Santander Mexico) is 90,000,000 UDIs (approximately Ps.422.2 million as of December 31, 2011); however, the minimum equity capital may vary from 54,000,000 UDIs to 36,000,000 UDIs for limited-purpose banks, depending on the activities each bank is allowed to carry out.

Banks are required to maintain a net capital (*capital neto*) relative to market risk, risk-weighted assets, and operations risk, which may not be less than the capital required in respect of each type of risk. The Mexican Capitalization Rules set forth the methodology to determine the net capital relative to market risk, risk-weighted assets and operations risk. Under the relevant regulations, the CNBV may impose additional capital requirements. The Mexican Capitalization Rules provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee on Banking Supervision.

Under the Mexican Capitalization Rules, Mexican banks are required to maintain a minimum Capital Ratio of 10.0% to avoid the imposition of any of the corrective measures described below. Aggregate net capital consists of Tier 1 capital and Tier 2 capital. At all times, Tier 1 capital must represent at least 50.0% of our aggregate net capital. The Mexican Capitalization Rules subtract from Tier 1 capital, among other things, certain subordinated debt instruments, capital investments in certain financial entities and in non-financial, non-publicly traded companies, certain investments in the equity of venture-capital funds and investments in related companies, reserves pending to be created, loans and other transactions that contravene applicable law, and intangibles (including goodwill).

The Mexican Capitalization Rules and the Rules for Capitalization authorize banks to issue capitalization instruments. The proceeds from these instruments may constitute Tier 1 or Tier 2 capital depending on their terms. However, such proceeds may only qualify as Tier 1 capital up to an amount not greater than 15.0% of aggregate net Tier 1 capital (without taking into account other convertible and non-convertible subordinated debentures, such as the Notes).

Failure to meet the capital requirements may result in the imposition of certain corrective measures, such as suspension of payment of dividends to shareholders and bonuses to high level executives, and suspension of payment of interest or principal due under capitalization instruments. Banco Santander Mexico and its subsidiaries operating in the financial sector are in compliance with all applicable Mexican Capitalization Rules.

Every Mexican bank must create certain legal reserves (*fondo de reserva de capital*), included as part of Tier 1 capital. Banks must allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The balance of net income, to the extent not distributed to shareholders, is added to the retained earnings account. Under Mexican law, dividends may not be paid out of the legal reserve. As of December 31, 2011, we and our subsidiaries operating in the financial sector had set aside Ps.8,230 million in legal reserves compared to paid-in capital of Ps.18,418 million (without adjustment for inflation).

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

The CNBV announced to the Mexican banks in 2011 that the proposed change in order to implement Basel III will take place during 2012, but that its effectiveness is not expected until 2013. However, the exact date remains uncertain and we are waiting for the final regulations of the CNBV in relation to the Basel III capital requirement. According to our estimates, the Bank and its subsidiaries will be above the minimum capital requirement (10.5% capital ratio).

Corrective Measures

Article 134 Bis of the Mexican Banking Law provides the following:

(1) In the exercise of its supervisory duties, the CNBV, by means of the general regulations approved by its governance board (which are the General Rules Applicable to Mexican Banks), will classify Mexican

banks into categories based on their compliance with the Mexican Capitalization Requirements issued by the CNBV pursuant to Article 50 of the Mexican Banking Law. For the classification purposes referred to in this paragraph, the CNBV may establish different categories, depending on whether the banks maintain a superior or inferior Capital Ratio as compared to the required Capital Ratio applicable to them.

(2) The rules issued by the CNBV shall establish the minimum corrective and special additional measures that banks must fulfill according to the category in which they were classified. For the issuance of the general rules, the CNBV shall observe the provisions set forth in Article 134 Bis 1 of the Mexican Banking Law. These corrective measures must be designed to prevent and, when necessary, correct the issues resulting from the operations of the banks that could negatively affect their solvency or financial stability. The CNBV shall notify the relevant bank in writing of the corrective measures that it must observe in accordance with Chapter II – *De la Inspección y Vigilancia*, Title Seventh – *De la Comisión Nacional Bancaria y de Valores*, of the Mexican Banking Law, as well as verify its compliance in accordance with the provisions of such law. In the notification referred to in this paragraph, the CNBV shall define the terms and dates for the satisfaction of the corrective measures referenced in Article 134 Bis and Article 134 Bis 1 of the Mexican Banking Law. The provisions of this Article 134 Bis, as well as Articles 134 Bis 1 and 134 Bis 2 of the Mexican Banking Law, will be enforced without prejudice of the powers attributed to the CNBV in accordance with the Mexican Banking Law and other applicable provisions. The banks shall include in their bylaws provisions to implement the corrective measures or to undertake other corrective actions applicable to them from time to time.

(3) The adoption of any corrective measures imposed by the CNBV pursuant to Article 134 Bis 1 and the relevant rules and regulations, as well as the penalization or revocation proceedings that arise from a bank's breach of the corrective measures, are considered in the interest of the public; therefore, these measures may not be halted by a suspension measure.

Article 134 Bis 1 of the Mexican Banking Law provides the following, for purposes of Article 134 Bis of the Mexican Banking Law:

(1) If a bank does not comply with the capitalization requirements determined in accordance with Article 50 of the Mexican Banking Law and the provisions that derive therefrom, the CNBV has the authority to order the implementation of corrective measures, which may include:

(a) requiring the bank to (y) inform the board of directors about the bank's classification, as well as the causes that motivated such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, and (z) include in such report any observations mandated, in accordance with their respective scope of authority, by each of the CNBV and the Mexican Central Bank. If the bank is part of a financial group, the bank would be required to report in writing its financial situation to the chief executive officer and chairman of the board of directors of the bank's holding company;

(b) requiring the bank, within no more than 15 business days, submit to the CNBV, for its approval, a plan for capital restoration that will result in an increase in its Capital Ratio, which may contemplate a program to improve its operational efficiency, streamlining costs and increasing profitability, carrying out capital contributions and impose limits to the operations that the banks may carry out, in compliance with their bylaws or the risks derived from such operations. The capital restoration plan shall be approved by such bank's board of directors before being presented to the CNBV. The bank shall determine in the capital restoration plan (prepared and filed in accordance with this subsection), periodic targets as well as the date in which the capital of such bank will reach the capitalization level required in accordance with the applicable provisions. The CNBV, through its governing board, must resolve all that corresponds to the capital restoration plan that has been presented to such authority, in a maximum of 60 calendar days from the date the plan was submitted. Once the capital restoration plan is approved by the CNBV, the bank must comply with such plan within the period specified by the CNBV, which in no case may exceed 270 calendar days starting the day after the bank was notified of the respective approval. To determine the period for the completion of the restoration plan, the CNBV shall consider the bank's category, its financial situation, as well as the general conditions prevailing in the financial markets. The CNBV, with the prior consent of its governing board, may only extend one time the deadline once by a period to comply with the capital restoration program, by a period that will not exceed 90 calendar days. The CNBV will monitor and verify compliance with the capital restoration plan, provided that other corrective measures may be imposed, depending on the category in which the corresponding bank is classified;

(c) requiring the bank to suspend any payment of dividends to its shareholders, as well as any mechanism or act that involves the transfer of any economic benefits. If the bank is part of a financial group, the measure provided in this subsection will apply to the bank's holding company, as well as the financial entities or companies that are part of such group. This restriction on the payment of dividends by entities that are part of the same financial group (other than the relevant bank) will not apply if the respective dividend is applied to the capitalization of the bank;

(d) requiring the bank to suspend any bank's capital stock repurchase programs and, if the bank is part of a financial group, also suspend the repurchase programs of the holding company of such group;

(e) requiring the bank to defer or cancel the interest payments on outstanding subordinated debt and, when applicable, defer the payment of the principal or exchange, in advance and on a *pro rata* basis, the debt into shares of the bank, in the amount necessary to cover the capital deficiency, according to the characteristics of such debt. This corrective measure will be applicable to those subordinated notes that included these provisions in their indenture or issuance documents. The banks issuing subordinated notes must include in the corresponding certificates, the indenture, the prospectus, as well as any other instrument evidencing the issuance, the characteristics of the subordinated notes, as well as the indication that some of the measures mentioned above are possibly applicable when the relevant facts are satisfied in accordance with the rules of Article 134 Bis of the Mexican Banking Law, provided that such circumstance will not be deemed an event of default attributable to the issuer. We have not included in the terms of the Notes, the possibility of interest being cancelled but only deferred;

(f) requiring the bank to suspend payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the chief executive officer or any officer within the next two levels below the chief executive officer, as well as requiring the bank to not grant any new benefits in the future for the chief executive officer and the officers until the bank complies with the minimum levels of capitalization required by the CNBV in accordance Mexican Capitalization Requirements. This provision must be included in the respective individual labor agreements and any other documentation governing labor conditions of bank's officers;

(g) requiring the bank to refrain from increasing the existing amounts of any loans granted to any individual who is a related party under Article 73 of the Mexican Banking Law; and

(h) requiring the bank to undertake other corrective measures provided for in the general rules of Article 134 Bis of the Mexican Banking Law (which are the General Rules Applicable to Mexican Banks), from time to time.

(2) When a bank complies with the capitalization requirements set forth in Article 50 of the Mexican Banking Law and the provisions that derive therefrom, it will be classified in the category with banks that meet such a minimum and the CNBV has the authority to order the implementation of corrective measures, which may include:

(a) requiring the bank to (y) inform the board of directors about the bank's classification, as well as the causes that motivated such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank, and (z) include in such report any observations mandated, in accordance with their respective scope of authority, by each of the CNBV and the Mexican Central Bank. If the bank is part of a financial group, the bank would be required to report in writing its financial situation to the chief executive officer and chairman of the board of directors of the bank's holding company;

(b) requiring the bank to refrain from participating in transactions that would cause its Capital Ratio to drop below the minimum required pursuant to the applicable provisions; and

(c) requiring the bank to undertake other corrective measures provided for in the general rules of Article 134 Bis of the Mexican Banking Law (which are the General Rules Applicable to Mexican Banks), from time to time.

(3) Regardless of the capitalization level of the banks, the CNBV may order the implementation of additional special corrective measures. The additional special corrective measures that, if applicable, the banks must comply with are the following: (v) define the specific actions that it will carry out in order to not deteriorate its Capital Ratio; (w) hire the services of external auditors or any other specialized third party for special audits on specific issues; (x) refrain from agreeing to increase salaries and benefits of officers and employees in general, except for salary revisions previously agreed and respecting at all times employee's labor rights previously acquired. The provisions specified in this subsection shall also apply with respect to payments made to legal entities different from the corresponding bank, when such legal entities make the payments to the employees or officers of the bank; (y) substitute officers, directors, statutory examiners or external auditors with individuals appointed by the bank to occupy such positions; however, this provision shall not limit the CNBV's authority under Article 25 of the Mexican Banking Law to remove or suspend the members of the board, executives, statutory examiners, directors and managers, trustees and other officers authorized to act on behalf of the bank; or (z) undertake other actions required by the CNBV, based on the result of its functions of monitoring and inspection, as well as with sound banking and financial practices. For the implementation of the measures referred to in this subparagraph, the CNBV may consider, among other things, the category in which the bank has been classified, its financial situation, its compliance with the regulatory framework, the tendency of the bank's Capital Ratio and of the principal indicators that reflect its grade of stability and solvency, as well as the quality of the accounting and financial information and the compliance on delivery of such information.

(4) If a bank maintains a Capital Ratio equal to or greater than 25% of the required minimum Capital Ratio, no minimal corrective measures or additional special corrective measures will be applied.

The Capital Ratio currently required by the Mexican Capitalization Requirements for a bank not to be required to defer or cancel payment of interest and defer payment of principal on outstanding subordinated debt, as applicable, is 8%. Under the Mexican Capitalization Requirements currently in effect a bank with a Capital Ratio of 10% or greater will not be subject to any corrective measures.

The General Rules Applicable to Mexican Banks, classify Mexican banks in several categories based on their Capital Ratio. The relevant corrective measures are determined based on the following classifications:

Class	Capital ratio
Class I	Equal to or greater than 10%
Class II	Equal to or greater than 8% and less than 10%
Class III	Equal to or greater than 7% and less than 8%
Class IV	Equal to or greater than 4% and less than 7%
Class V	Less than 4%

Article 134 Bis of the Mexican Banking Law further provides that corrective measures applicable to banks classified in Class III, IV and V may include, among others, requiring a bank to suspend or cancel payments of interest and, if ordered by the CNBV, defer the payment of any principal on outstanding subordinated debt or exchange outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency; in the event that the bank issues subordinated debt, a bank must include in the relevant debt documentation, that such corrective measures may apply to subordinated debt depending on the bank's classification, and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

We are currently classified as Class I and our Capital Ratio was 14.82% as of December 31, 2011.

Reserve and Compulsory Deposit Requirements

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of the Mexican Central Bank's monetary policy is to maintain the stability of the purchasing power of the Mexican peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of the Mexican Central Bank have been directed towards a restrictive monetary policy.

Under the Law of the Mexican Central Bank, the Mexican Central Bank has the authority to order the percentage of the liabilities of financial institutions that must be deposited in interest or non-interest-bearing deposits with the Mexican Central Bank. These deposits may not exceed 20% of the aggregate liabilities of the relevant financial institution. The Mexican Central Bank also has the authority to order that 100% of the liabilities of Mexican banks resulting from specific funding purposes, or pursuant to special legal regimes, be invested in specific assets created in respect of any such purpose or regime.

To manage its maturity exposures to the Mexican financial markets, the Mexican Central Bank has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (*Depósitos de Regulación Monetaria*, or Monetary Regulation Deposit), and into investment securities such as longer-term government bonds (*Bondes*) and compulsory monetary regulatory bonds (Brems). At the same time, the Mexican Central Bank has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

The Mexican Central Bank imposes reserve and compulsory deposit requirements on Mexican commercial banks. Bulletin 36/2008 published on August 1, 2008, stated that the total compulsory reserve deposit required of Mexican commercial banks was Ps.280.0 billion, which had to be deposited in eight installments by eight deposits of Ps.35.0 billion each on August 21 and 28; September 4, 11, 18 and 25; and October 2 and 9, 2008. The amount of the deposit that each bank had to make was determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated as of May 31, 2008.

The compulsory deposit reserves required under the terms of the Bulletin 36/2008 have an indefinite term. During the time these reserves are maintained on deposit with the Mexican Central Bank, each banking institution receives interest on such deposits every 28 days. The Mexican Central Bank will provide advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

Classification of Loans and Allowance for Loan Losses

Non-performing loan portfolio

In accordance with Mexican Banking GAAP, the Bank applies the following criteria to classify past-due loans as non-performing:

- Loans with a single payment of principal and interest at maturity are considered non-performing 30 calendar days after the date of maturity.
- Loans with a single payment of principal at maturity and with scheduled interest payments are considered non-performing 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due.
- Loans whose payment of principal and interest had been agreed to in scheduled payments are considered non-performing 90 days after the first installment is due.
- In the case of revolving credit granted, loans are considered non-performing when payment has not been received for two normal successive billing periods, or 60 days after they become due.

- Mortgage loans with periodic partial payments of principal and interest are considered non-performing when a payment is 90 days or more past due.
- Customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

Restructured or renewed non-performing loans are not considered as performing until there is evidence of sustained payment; i.e., performance of payment by the borrower without arrears for the total amount due and payable in terms of principal and interest, for at least three consecutive installments under the credit payment scheme, or in the case of credits with installments that cover periods in excess of 60 calendar days, the payment of one installment as established in Mexican Banking GAAP.

Loans with a single payment of principal upon maturity and periodic payments of interest, which were restructured or renewed during the loan term, are considered as non-performing until there is evidence of sustained payment, as well as those in which at least 80% of the original term of the loan has not elapsed, which did not cover the total amount of the accrued interest or cover the principal of the original amount of the loan, and which should have been settled as of the date of renewal or restructuring in question.

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

For accrued but uncollected regular interest on non-performing loans, the Bank creates an allowance for an equal amount when the loan is transferred to the non-performing portfolio.

Classification of the loan portfolio and allowance for loan losses

The loan classification and rating rules set forth under the General Rules Applicable to Mexican Banks, provide a methodology to classify (i) consumer loans (i.e., each of credit card exposure and loans to individuals,divided as separate groups), considering as principal elements (a) for credit card exposure, the possibility of non-payment and potential losses, and (b) for loans to individuals, the possibility of non-payment, potential losses (taking into account collateral and guarantees received), and credit exposure (net of allowance for loan losses created); (ii) mortgage loans (i.e., residential, including loans for construction, remodeling or improvements), considering as principal elements delinquency periods, possibility of non-payment and potential losses (taking into account collateral and guarantees received); and (iii) commercial loans, based principally on an evaluation of the borrower's ability to repay its loan (including country risk, financial risk, industry risk and payment history) and an evaluation of the related collateral and guarantees. The loan classification and rating rules also permit banks, subject to prior approval by the CNBV, to develop and adopt specific internal procedures within certain parameters to grade the loans in their loan portfolio. Generally, our subsidiaries follow the methodology set forth in the loan classification and rating rules. However, with respect to our commercial, corporate and financial institutions portfolios, we have requested and received permission from the CNBV to use a proprietary methodology to determine allowance for loan losses as an alternative to the standard methodology starting as of January 1, 2012. Our approach is based on the Foundation Internal Ratings-Based Approach as defined in the Basel II accords and is based on the evaluation of four main factors: country risk, financial risk, industry risk and payment performance. This results in an overall determination of debtor risk, which is then applied to each loan operation and mitigated by any collateral to obtain a risk grade which is associated to a provision factor. We have a mapping between this risk grade and the internal customer rating that has been approved by the CNBV. Our proprietary methodology predicts expected losses more accurately than the standard methodology because it is based on the particular characteristics of our portfolio, whereas the standard methodology approved by the CNBV is based on the Mexican banking sector as a whole, which has a higher risk profile than us. While our proprietary methodology has resulted in the calculation of probabilities of default that are lower than the probabilities of default calculated and established by the CNBV in its standard methodology, the use of a proprietary methodology does not necessarily result in a reduction of capital requirements or in the allowance for loan losses.

The loan classification and rating rules require that consumer loans to individuals be stratified on a loan-by-loan basis, considering the type of loan, amounts due, the number of unpaid billing periods applicable to the relevant loans, collateral received and other factors that may influence delinquency, on an expected loss basis; and that a statutory percentage be applied to loans that are past due for each level, as a means to create allowance for loan losses.

Allowance for loan losses created in accordance with Mexican Banking GAAP may be decreased as the maturity of the applicable loan approaches and past due payments are made. Credit card loans must be reserved, on a loan-by-loan basis, considering amounts due, amounts paid to the relevant date, credit limits, and minimum payments required. Consumer loans to individuals may be classified as A, B, C, D or E, depending upon the percentage of allowance for loan losses required (from 0% to 100%); revolving consumer credit card loans may be classified as A, B-1, B-2, C, D or E also depending upon the percentage of allowance for loan losses required.

Under the loan classification and rating rules, mortgage loans must also be stratified on a loan-by-loan basis, considering the number of unpaid monthly installments applicable to the relevant loans, the current loan-to-value ratio and other factors that may influence the recovery process, on an expected loss basis; and a statutory percentage must be applied to loans that are past due for each level, as a means to create an allowance for loan losses. Mortgage loans to individuals may be classified as A, B, C, D or E, depending upon the percentage of allowance for loan losses required (ranging from 0% to 100%).

The loan classification and rating rules establish the following categories corresponding to levels of risk and applicable allowance for loan losses and set forth procedures for the grading of commercial loans: A-1, A-2, B-1, B-2, B-3, C-1, C-2, D and E.

The grading of commercial loan portfolios is determined by an analysis of the financial risk, industry risk, country risk and the credit experience, which include the following risk factors: financial structure and payment capacity, sources of financing, administration and decision making, integrity of the financial information, market position and the specific collateral or guarantees that cover the credits. Governmental entity loans, such as state and municipality loans, must also be graded considering financial risk, historical behavior and credit experience, the specific collateral or guarantees that cover the credits, and other factors established by the CNBV.

The loan classification and rating rules require that Mexican banks grade their commercial loan portfolio (except loans made to or guaranteed by the Mexican federal government) as of the end of each quarter and the classification must be reported to the CNBV. The classification of mortgage and consumer loans is required to be made monthly and reported to the CNBV.

The allowance for loan losses are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this allowance. Mexican banks are required to obtain authorization from their Board of Directors to write-off loans.

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

Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to regulations of the Mexican Central Bank, the total amount of maturity-adjusted (by applying a factor, depending upon the actual maturity of the relevant liability) net liabilities denominated or indexed to foreign currencies that Mexican banks, their subsidiaries or their foreign agencies or branches may maintain (calculated daily), are limited to 1.83 times the amount of their Tier 1 capital. To calculate such limit, maturity-adjusted foreign currency-denominated or indexed assets (including liquid assets, assets with a maturity of less than one year, short term derivatives and spot foreign exchange transactions) are subtracted from maturity-adjusted foreign currency-denominated or indexed liabilities, and the aforementioned factor is applied to the resulting amount.

The maturity-adjusted net liabilities of Mexican banks denominated or indexed to foreign currencies (including dollars) are subject to a liquidity coefficient (*i.e.*, to maintaining sufficient foreign currency-denominated or indexed liquid assets). These permitted liquid assets include, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible;

- deposits with the Mexican Central Bank;
- treasury bills, treasury bonds and treasury notes issued by the United States government or debt certificates issued by agencies of the U.S. government, which have the unconditional guarantee of the U.S. government;
- demand deposits or one to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's, or A-2 by S&P;
- investments in mutual or similar funds or companies approved by the Mexican Central Bank, that satisfy certain requirements; and
- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements.

Such liquid assets may not be posted as collateral, lent or be subject to repurchase transactions or any other similar transactions that may limit their transferability.

We are in compliance with the applicable reserve requirement and liquidity coefficients in all material aspects.

Lending Limits

In accordance with the General Rules Applicable to Mexican Banks, limits relating to the diversification of a bank's lending transactions are determined in accordance with the bank's compliance with Mexican Capitalization Requirements. For a bank with:

- a Capital Ratio greater than 8.0% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank, is limited to 12.0% of the bank's Tier 1 capital;
- a Capital Ratio greater than 9.0% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 capital;
- a Capital Ratio greater than 10.0% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 capital;
- a Capital Ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's Tier 1 capital; and
- a Capital Ratio greater than 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 40.0% of the bank's Tier 1 capital.

The limits mentioned in the prior paragraphs are required to be measured on a quarterly basis. The CNBV has discretion to reduce the aforementioned limits, if internal control systems or the risk management of the bank is deficient.

Financings guaranteed by unconditional and irrevocable security interests or guarantees, that may be enforced immediately and without judicial action, granted by foreign financial institutions with investment grade ratings and established in a country member of the European Union or the Organization for Economic Cooperation and Development (which guarantees must be accompanied with a legal opinion as to their enforceability), securities issued by the Mexican government, and cash (transferred to the bank lender under a deposit that may be freely disposed of by the lender) are exempted from the aforementioned limits, but such financings may not exceed 100.0% of a bank's Tier 1 capital.

Likewise, financings granted to *Sofomes* for which the bank owns at least 99% of its capital stock, are exempted from the aforementioned guidelines, but such financings may not exceed 100% of a bank's Tier 1 capital. Notwithstanding, if the *Sofomes* maintain or grant financing (regardless of the origin of the resources) to a person or a group of persons representing common risk, such financing shall comply with the aforementioned limits.

The aggregate amount of financings granted to the three largest borrowers of a bank, may not exceed 100.0% of the bank's Tier 1 capital. The aforementioned limits also do not apply to financings made to other Mexican banks and to government-controlled companies and decentralized agencies, but may not exceed 100.0% of such bank's Tier 1 capital.

Banks are not obligated to comply with the aforementioned limits with respect to financings made to the Mexican federal government, Mexican local governments (subject to such financings being guaranteed by the right of Mexican local governments to receive certain Federal taxes), the Mexican Central Bank, IPAB and development banks guaranteed by the Mexican government.

Banks are required to disclose, in the notes to their financial statements, (i) the number and amount of financings that exceed 10.0% of Tier 1 capital, and (ii) the aggregate amount of financings made to their three largest borrowers.

Funding Limits

In accordance with the General Rules Applicable to Mexican Banks, Mexican banks are required to diversify their funding risks. In particular, a Mexican bank is required to notify the CNBV, on the business day following the occurrence of the event, in the event it receives funds from a person or a group of persons acting in concert that represent in one or more funding transactions, more than 100% of such bank's Tier 1 capital. None of our liabilities to a person or group of persons exceeds the 100% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 50% of the bank's Tier 1 capital. For the case of loans and revocable credits, only the disposed amount will be counted. See "Related Party Transactions—Loans to Related Parties."

Foreign Currency Transactions

Mexican Central Bank regulations govern transactions by banks, denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot, foreign exchange transactions (*i.e.*, transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 capital. In addition, Mexican banks must maintain liquid assets, prescribed by regulations issued by the Mexican Central Bank, in connection with maturities of obligations denominated in foreign currencies (as discussed under "Liquidity Requirements for Foreign Currency-Denominated Liabilities").

Derivative Transactions

Certain Mexican Central Bank rules apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares that are listed in a securities exchange,
- stock exchange indexes,
- Mexican currency, foreign currencies and UDIs,
- inflation indexes,
- gold or silver,
- wheat, corn, soybean and sugar,

- swine meat,
- natural gas,
- aluminum and copper,
- rice, sorghum, cotton, oats, coffee, orange juice, cocoa, barley, cattle, swine, milk, canola, soybean oil, and soybean paste,
- nominal or real interest rates with respect to any debt instrument,
- loans or other advances; and
- futures, options and swaps with respect to the underlying assets mentioned above.

Mexican banks require an express general approval, issued in writing by the Mexican Central Bank to enter into, as so-called intermediaries, derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval, would require a specific approval from the Mexican Central Bank to enter into such derivative transactions (or even if in possession of such general approval, to enter into derivative transactions with underlying assets different from the assets specified above). Mexican banks may, however, enter into derivatives without the authorization of the Mexican Central Bank, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable Mexican bank fails to comply with Mexican Capitalization Rules, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks that execute derivative transactions with related parties or with respect to underlying assets of which the issuer or debtor are related parties, shall comply with the corresponding provisions established in the Mexican Banking Law.

Institutions may guarantee the compliance of the derivative transactions through cash deposits, receivables and/or securities of its portfolio. In the case of derivative transactions that take place in OTC markets, the above guarantees may be granted only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, pension fund managers, *Sofoles*, and any other counterpart authorized by the Mexican Central Bank. Mexican banks are required to periodically inform their board of directors with respect to the derivatives entered into, and whether or not the Mexican bank is in compliance with limits imposed by the board of directors and any applicable committee. Mexican banks must also inform the Mexican Central Bank periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of derivatives transactions entered into by Mexican banks, must be other Mexican banks, Mexican financial entities authorized to enter into such derivatives by the Mexican Central Bank or foreign financial institutions. Derivatives must be entered into pursuant to master agreements that must include international terms and guidelines, such as ISDA master agreements. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

We have received approval from the Mexican Central Bank to engage in swaps, forwards and options related to interest rates and foreign currencies.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from (i) pledging their securities or other assets as collateral (except (a) if the Mexican Central Bank or the CNBV so authorizes, including as described above with respect to derivative transactions or (b) for obligations in favor of the Mexican Central Bank, IPAB, Mexican development banks or governmental trusts) and (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers' acceptances.

Bank Secrecy Provisions; Credit Bureaus

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking transactions (including loans) to any third parties (including any purchaser, underwriter or broker, or holder of any of the bank's securities), other than (i) the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact, (ii) judicial authorities in trial proceedings in which the accountholder is a party or defendant, (iii) the Mexican federal tax authorities for tax purposes, (iv) the SHCP for purposes of the implementation of measures and procedures to prevent terrorism and money laundering, (v) the Federal Auditor (*Auditoría Superior de la Federación*), to exercise its supervisory authority, (vi) the supervisory unit of the Federal Electoral Agency, and (vii) the federal attorney general's office (*Procuraduría General de la República*) for purposes of criminal proceedings, among others. In most cases, the information needs to be requested through the CNBV.

The CNBV is authorized to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws, provided that an agreement must be in effect between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus.

Money Laundering Regulations

Mexico has in effect rules relating to money laundering; the most recent set of rules have been in effect since April 21, 2009 (the "Money Laundering Rules").

Under the Money Laundering Rules, we are required to satisfy various requirements, including:

- the establishment and implementation of procedures and policies, including client identification and know-your-customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (*Código Penal Federal*));
- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Money Laundering Rules);
- reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and
- the establishment of a communication and control committee (which, in turn, must appoint a compliance officer) in charge of, among other matters, supervising compliance with anti-money laundering provisions.

We are also required to organize and maintain a file before opening an account or entering into any kind of transaction, for the identification of each client (each, an "Identification File").

An individual's Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained or updated): (i) full name, (ii) date of birth, (iii) nationality and country of birth, (iv) tax identification number and the certificate evidencing the tax identification number issued by the SHCP or the population registry identification number and evidence thereof issued by the Ministry of Interior, as the case may be, (v) occupation, profession, main activity or line of business, (vi) complete domicile (including telephone number), (vii) e-mail address, if any, and (viii) advanced electronic signature series number, when applicable.

An entity's Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained updated): (i) corporate name, (ii) domicile, (iii) nationality, (iv) name of the sole administrator, the members of the board of directors, the general manager or any relevant attorney-in-fact, (v) main activity or line of business, (vi) tax identification number and the certificate evidencing the tax identification number issued by the SHCP, (vii) advanced electronic signature series number, when applicable, and (viii) copy of the public deed containing its constitutive documents.

Identification Files shall be maintained for the complete duration of the corresponding agreement entered into with such client, and for a minimum term of ten years from the date such agreement is terminated.

Under the Money Laundering Rules, we must provide to the SHCP, through the CNBV, (i) quarterly reports (within ten business days from the end of each quarter) with respect to transactions equal to, or exceeding, U.S.$10,000, (ii) monthly reports (within 15 business days from the end of the month) with respect to international funds transfers, received or sent by a client, with respect to transactions equal to, or exceeding, U.S.$10,000, (iii) reports of unusual transactions, within 60 calendar days counted from the date an unusual transaction is detected by our systems, and (iv) periodic reports of suspicious transactions, within 60 calendar days counted from the date the suspicious transaction is detected.

In June 2010 new regulations were issued by the SHCP, as amended in September and December 2010, which restrict cash transactions denominated in U.S. dollars that may be entered into by Mexican banks. Pursuant to such regulations, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals in excess of U.S.$4,000 per month for deposits. Mexican banks are also not permitted to receive physical cash amounts, in U.S. dollars, from their corporate clients, except in very limited circumstances.

Also, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals, in excess of U.S.$300 per day for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S.$1,500.

In addition, the newly enacted regulations set forth certain reporting obligations for Mexican banks regarding their U.S. dollar cash transactions, to the SHCP (through the CNBV).

A new Money Laundering Law (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) was published in the Offical Gazette of the Federation on October 17, 2012, which shall enter into force on July 17, 2013. We are still analyzing the potential effects of this new Money Laundering Law, and due to the recent date of its publication, we cannot predict how it might affect us.

Rules on Interest Rates

Mexican Central Bank regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For peso-denominated loans, banks may choose any of a fixed rate, TIIE, *Cetes*, CCP (*costo de captación promedio a plazo*), the rate determined by the Mexican Central Bank as applied to loans funded by or discounted with NAFIN, the rate agreed to with development banks in loans funded or discounted with them, the weighted bank funding rate (*tasa ponderada de fondeo bancario*) and the weighted governmental funding rate (*tasa ponderada de fondeo gubernamental*). For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose any of a fixed rate or floating market reference rates that are not unilaterally determined by a financial institution, including LIBOR or the rate agreed upon with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar-denominated loans, banks may choose either a fixed rate or any of the rates referred to in the prior sentence or CCP-Dollars, as calculated and published in the Official Gazette of the Federation by the Mexican Central Bank.

For transactions in which interest accrues based on a variable interest rate, the rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. A rate or the mechanism to determine a rate, may not be modified unilaterally by a bank. Rates must be calculated annually, based upon 360-day periods.

On November 11, 2010, the Mexican Central Bank published new rules that regulate the issuance and use of credit cards; such rules also include certain card user protection provisions.

Fees

Under Mexican Central Bank regulations, Mexican banks, *Sofoles* and *Sofomes* may not, in respect of loans, deposits or other forms of funding and services with their respective clients, among others (i) charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (*costo anual total*), (ii) charge alternative fees, except if the fee charged is the lower fee, and (iii) charge fees for the cancellation of credit cards issued. In addition, among other things, Mexican banks may not (i) charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts, (ii) charge fees for returned checks received for deposit in a deposit account or as payment for loans granted, (iii) charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services, or (iv) charge different fees depending upon the amount of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks, *Sofoles* and *Sofomes* permitting customers the use of, or operating, ATMs must choose between two options for charging fees to clients withdrawing cash or requesting balances: (i) specifying a fee for the relevant transactions, in which case, Mexican banks, *Sofoles* and *Sofomes* issuing credit or debit cards may not charge cardholders any additional fee (credit or debit card issuers are entitled to charge operators the respective fee), or (ii) permit credit card or debit card issuers to charge a fee to clients, in which case, banks, *Sofoles* and *Sofomes* may not charge additional fees to clients.

The Mexican Central Bank, on its own initiative or as per request from the CONDUSEF, banks, *Sofoles* or *Sofomes*, may assess whether reasonable competitive conditions exist in connection with fees charged by banks, *Sofoles* or *Sofomes* in performing financial operations. The Mexican Central Bank must obtain the opinion of the Federal Antitrust Commission (*Comisión Federal de Competencia*) in carrying out this assessment. The Mexican Central Bank may take measures to address these issues.

On July 22, 2010, the Mexican Central Bank published Circular 22/2010, which modifies the rules on ATM-user fees. This new regulation may result in changes to our current ability to charge fees for ATM use to our clients or the amount of such charges.

IPAB

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the Mexican bank savings protection agency. IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits and other bank credits.

Only in exceptional cases may IPAB grant financial support to banking institutions.

According to the IPAB Law, banks must provide the information required by IPAB for the assessment of their financial situation and notify IPAB about any event that could affect their financial stability. The IPAB Law expressly excludes the release of such data from bank secrecy provisions contained in the Mexican Banking Law and expressly provides that IPAB and the CNBV can share information databases of banks.

IPAB will manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to Congress prepared by IPAB with a detailed account of the transactions conducted by IPAB in the prior year.

IPAB has a governing board of seven members: (i) the Minister of Finance and Public Credit, (ii) the Governor of the Mexican Central Bank, (iii) the President of the CNBV, and (iv) four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The deposit insurance to be provided by IPAB to bank depositors will be paid upon determination of the dissolution and liquidation, or bankruptcy of a bank. IPAB will act as liquidator or receiver in the dissolution and liquidation, or bankruptcy of banks, either directly or through designation of a representative. IPAB will guarantee obligations of banks to certain depositors and creditors only up to the amount of 400,000 UDIs (or approximately U.S.$141,435 as of June 29, 2012), per person per bank.

Banks have the obligation to pay IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of IPAB. Under the IPAB Law, banks are required to make monthly ordinary contributions to IPAB, equal to 1/12 of 0.004% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less (i) holdings of term bonds issued by other commercial banks; (ii) financing granted to other commercial banks; (iii) financing granted by IPAB; (iv) subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and (v) restricted assets and liabilities resulting from the repurchase transactions (*reportos*) and lending of securities with the same counterparty, pursuant to the provisions issued by IPAB.

IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) may not exceed, on an annual basis, the amount equivalent to 0.003% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB ordinary contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.008% multiplied by the total amount of a bank's liabilities subject to IPAB contributions.

The Mexican Congress allocates funds to IPAB on a yearly basis to manage and service the IPAB's liabilities. In emergency situations, IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of certain Mexican banks as determined by the CNBV.

Limitations on Investments in Other Entities

Under the Mexican Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*), subsidiaries of a financial services holding company shall not own more than 1.0% of the capital stock of another Mexican financial institution, any shares of the capital stock of their own holding company, of other subsidiaries of their financial holding company or of entities that are shareholders of the holding company or of other subsidiaries of their financial services holding company. In addition, entities member of a financial group may not extend credit in connection with the acquisition of their capital stock, the capital stock of their financial services holding company or the capital stock of other subsidiaries of their financial services holding company. Without the prior approval of the SHCP (which shall take into consideration the opinions of the Mexican Central Bank and the primary Mexican regulatory commission supervising the relevant financial entity), entities member of a financial group may not accept as collateral shares of capital stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks. The approval of the SHCP is required prior to acquisition of shares of capital stock of non-Mexican financial entities.

The Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines: (i) up to 5.0% of the capital of such companies at any time, without any approval; (ii) more than 5.0% and up to 15.0% of the capital of such companies, for a period not to exceed three years, upon prior authorization of a majority of the members of the bank's Board of Directors; and (iii) higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, whether directly or indirectly, with prior authorization of the CNBV. The total of all such investments (divided considering investments in listed and in non-listed companies) made by a bank may not exceed 30.0% of such bank's Mexican Tier 1 capital.

A Mexican bank requires the prior approval of the CNBV to invest in the capital stock of companies that render auxiliary services to such bank and of companies that hold real estate where the offices of the applicable bank may be located.

Under the Mexican Banking Law, the approval of the CNBV is required prior to the merger of a commercial bank with a ny other entity taking into consideration the opinion of the Mexican Antitrust Commission (*Comisión Federal de Competencia*) and the favorable opinion of the Mexican Central Bank.

Financial Groups' Statutory Responsibility

The Mexican Financial Groups Law requires that each financial services holding company, such as Grupo Financiero Santander Mexico, enter into an agreement with each of its financial services subsidiaries (the "Statutory Responsibility Agreement"), and Grupo Financiero Santander Mexico has entered into such an agreement with its financial services subsidiaries, which includes us. Pursuant to such agreement, the financial services holding company is responsible secondarily and without limitation for performance of the obligations incurred by its subsidiaries as a result of the authorized activities of such subsidiaries, and is fully responsible for certain losses of its subsidiaries, up to the total amount of the financial services holding company's assets. For such purposes, a subsidiary is deemed to have losses if (i) its shareholders' equity represents an amount that is less than the amount the subsidiary is required to have as minimum paid-in capital under applicable law, (ii) its capital and reserves are less than the subsidiary is required to have under applicable law, or (iii) in the judgment of the regulatory commission supervising the subsidiary's activities, the subsidiary is insolvent and cannot fulfill its obligations.

The financial services holding company has to inform the CNBV of the existence or potential existence of any such obligation or loss. The financial services holding company would only be liable with respect to the obligations of its financial services subsidiaries fifteen business days after the CNBV (or any other principal regulator) delivers notice of its approval of the enforceability of such obligations. The financial services holding company responds to the losses of its subsidiaries by making capital contributions to such subsidiaries (no later than 30 days counted from the date the applicable losses shall arise).

In the event of a financial services holding company's statutory responsibility with respect to a bank, IPAB must determine the amount of the preliminary losses of such bank. The financial services holding company is required to create a capital reserve for the amount of such losses. The financial services holding company is also required to guarantee the payment of the bank's losses that are paid by IPAB pursuant to its law. Such guarantee may be created over the financial services holding company's assets or over such company's shares or those of its subsidiaries. Pursuant to Article 28 Bis of the Mexican Financial Groups Law, any shareholder of the financial services holding company, due to its holding of the shares, accepts that its shares could be posted as guarantee in favor of IPAB, and that such shares will be transferred to IPAB if the financial services holding company is unable to pay any amounts due to IPAB as a result of the bank's losses.

A financial services holding company is not allowed to pay any dividends or transfer any monetary benefit to its shareholders as of the date on which IPAB determines the bank's losses up to the date on which the financial services holding company has paid for the bank's losses. No subsidiary is responsible for the losses of the financial services holding company or of the financial services holding company's subsidiaries.

Law for the Protection and Defense of Financial Services Users

A Law for the Protection and Defense of Financial Services Users is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). CONDUSEF acts as arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. As a banking institution, we must submit to CONDUSEF's jurisdiction in all conciliation proceedings (initial stages of a dispute) and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks, such as us, to maintain an internal unit designated to resolve any and all controversies submitted by clients. We maintain such a unit.

CONDUSEF maintains a Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*), in which all financial services providers must be registered, that assists CONDUSEF in the performance of its activities. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions. Furthermore, CONDUSEF may scrutinize banking services provided by approving and supervising the use of standard accession agreements.

We may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. We may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. We may be subject to coercive measures or sanctions imposed by CONDUSEF. We are not the subject of any material proceedings before CONDUSEF.

Law for the Transparency and Ordering of Financial Services

The Law for the Transparency and Ordering of Financial Services regulates (i) the fees charged to clients of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds, (ii) the fees that financial institutions charge to each other for the use of any payment system, (iii) interest rates that may be charged to clients, and (iv) other aspects related to financial services, all in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants the Mexican Central Bank the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements (see "—Rules on Interest Rates" and "—Fees" above). The Mexican Central Bank has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (*costo anual total)*, which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any publicity and of information provided in account statements. We must inform the Mexican Central Bank of any changes in fees at least 30 calendar days before they become effective.

Law on Transparency and Development of Competition for Secured Credit

On December 30, 2002, the Mexican Congress enacted the Law on Transparency and Development of Competition for Secured Credit (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*, or the "Secured Credit Law"), as amended on May 25, 2010. The Secured Credit Law provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (i.e., purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following: (i) the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable; (ii) the compliance by credit institutions and borrowers with certain requirements in the application process; (iii) the binding effect of offers made by credit institutions granting secured loans; (iv) the inclusion of mandatory provisions in loan agreements; and (v) the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among credit institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers.

Dodd-Frank Act and Regulation of Derivatives

Title VII of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, or "Dodd-Frank," establishes a new U.S. regulatory regime for derivatives contracts, including swaps, security-based swaps and mixed swaps (generically referred to in this paragraph as "swaps"). Among other things, Title VII provides the Commodity Futures Exchange Commission, or "CFTC," and the SEC with jurisdiction and regulatory authority over swaps, establishes a comprehensive registration and regulatory framework applicable to swap dealers and other major market participants in swaps (referred to as "major swap participants"), imposes clearing and execution requirements on many types of swaps, requires higher margin requirements for uncleared swaps, and requires swap market participants to report all swaps transactions to swap data repositories. Entities that are swap dealers, security-based swap dealers, major swap participants or major security-based swap participants will be required to register with the SEC or the CFTC, or both, and will become subject to requirements as to capital, business conduct, recordkeeping, collateral segregation, and other requirements. The specific parameters of these requirements are being developed through CFTC, SEC and bank regulator rulemakings. While it is possible that we will be required to register with the CFTC or SEC as a result of our swaps activities, the impact of Title VII of Dodd-Frank, and the regulations adopted thereunder, on usremains unclear.

DESCRIPTION OF NOTES

The Notes have been issued pursuant to an indenture dated as of November 9, 2012 among us, The Bank of New York Mellon, as trustee, and The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg paying agent, transfer agent and listing agent, which may be amended or supplemented from time to time.

The indenture provides for the issuance of the Notes but does not limit the aggregate principal amount of Notes that may be issued under the indenture, and provides that, subject to certain conditions, additional Notes may be issued under the indenture from time to time. The indenture does not limit the amount of senior, secured or other additional indebtedness or other obligations that we may incur.

The terms of the Notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended, or the "TIA."

This summary describes certain terms and provisions of the Notes and does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the indenture and the Notes, including the definitions therein of certain terms. We urge you to read each of the indenture and the form of the Notes because they, and not this description, define your rights as a holder of Notes. In case of any conflict regarding the rights and obligations of the holders of the Notes under the indenture, the Note, and this offering memorandum, the terms of the indenture will prevail. Capitalized terms not otherwise defined in this "Description of Notes" have the meanings ascribed to them in the indenture. You may obtain a copy of the indenture and the form of the Notes by contacting the trustee at the address indicated in this offering memorandum and, for so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market, at the office of the paying agent in Luxembourg.

General

The Notes will initially be issued in the aggregate principal amount of U.S.$1,000,000,000 in registered form, in minimum denominations of U.S.$150,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be unsecured and not guaranteed, or otherwise eligible for reimbursement, by the IPAB or any other Mexican governmental agency, or by any other entity that is part of Grupo Financiero Santander, and are not convertible, by their terms, into our shares or equity capital.

The Notes will mature and be payable in full on November 9, 2022 (the "Maturity Date") unless earlier redeemed or permitted under the indenture. We may redeem the Notes in whole, but not in part, under the circumstances described below under "—Redemption—Withholding Tax Redemption." We may also redeem the Notes, in whole or in part, at our option at any time, as described below under "—Redemption—Optional Redemption." Other than in accordance with a Withholding Tax Redemption or an Optional Redemption, the Notes will not be redeemable prior to the Maturity Date.

Ranking

The Notes will be our direct, unconditional and unsecured general obligations and will, other than as set forth below, at all times rank *pari passu* in right of payment with all of our other unsecured obligations other than obligations that are, by their terms, expressly subordinated in right of payment to the Notes. The Notes will be effectively subordinated to (i) all of our secured indebtedness with respect and up to the value of our assets securing that indebtedness, (ii) certain direct, unconditional and unsecured general obligations that in case of our insolvency are granted preferential treatment pursuant to Mexican law (including tax and labor claims) and (iii) all of the existing and future liabilities of our subsidiaries, including trade payables. We currently do not have any secured indebtedness.

As of June 30, 2012, we had approximately Ps.21,581 million (approximately U.S.$1,609 million) aggregate principal amount of indebtedness outstanding that ranked *pari passu* with the Notes (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Long-term Funding Outstanding") and Ps.330,892 million (U.S.$24,678 million) outstanding in demand obligations to depositors that ranked senior to the Notes.

Principal and Interest

The Notes will bear interest from (and including) November 9, 2012, or the "Issue Date," to (but excluding) the Maturity Date, at a rate per annum equal to 4.125%, payable semi-annually in arrears on May 9 and November 9 of each year (each an "Interest Payment Date"), commencing on May 9, 2013. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date to (but excluding) the Maturity Date is called an "Interest Period." If any Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay. Interest on the Notes in respect of an Interest Period will be calculated on the basis of a 360-day year of twelve 30-day months. For purposes hereof, the term Business Day is defined in the indenture for the Notes as any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York or Mexico City are authorized or required by law, regulation or executive order to remain closed.

Further Issuances; Additional Notes

The Bank may issue additional Notes from time to time without the consent of the holders of the Notes then outstanding. The issuance of additional Notes may not change the terms of the outstanding Notes.

The Bank may issue Notes from time to time having terms identical to the Notes but for the original issue date, the issue price, the first interest payment date and the first interest accrual date ("Additional Notes"). Once any Additional Notes have been issued, whether Regulation S Global Notes or Rule 144A Global Notes, such Additional Notes together with the prior and subsequent Notes issued shall constitute one and the same series of Notes for all purposes; provided, however, that in the case of Regulation S Global Notes, such consolidation of Additional Notes issued will occur only following the exchange of interests in the temporary global note for interests in the permanent global note; and provided further that if the Additional Notes are not fungible with the earlier Notes for United States federal income tax purposes, the Additional Notes will have a separate ISIN number, CUSIP number and Common Code. The offering memorandum relating to any Additional Notes will set forth matters related to the issuance, exchange and transfer of Additional Notes, including identifying the prior Notes, their original issue date and aggregate principal amount.

Payment and Administration of the Notes

The Notes will bear interest at the rate specified above. See "Principal and Interest" above. Interest on the Notes will be paid on the dates specified above to the person in whose name a Note is registered at the close of business on the 15th day preceding the respective Interest Payment Date (such date, a "record date," whether or not a Business Day).

If any Interest Payment Date or maturity date for the Notes falls on a day that is not a Business Day, the related payment of principal or interest will be made on the next succeeding Business Day as if it were made on the date such payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date or maturity date, as the case may be.

Highly Leveraged Transactions; Change of Control

The indenture does not include any debt covenants or other provisions which afford holders of the Notes protection in the event of a highly leveraged transaction or a change of control.

Indebtedness, Liens, Dividends, Reserves and Maintenance of Properties

The indenture does not limit our ability to incur senior, secured or other additional indebtedness (including additional Notes), our ability to grant liens on our assets and properties, our payment of dividends or require us to create or maintain any reserves.

Payment of Additional Amounts

All payments made by or on our behalf in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature and interest, penalties and fines in respect thereof, imposed or levied by or on behalf of Mexico or any other jurisdiction through which payments are made or any authority or agency therein or thereof having power to tax (each a "Relevant Jurisdiction" and any such amount, a "Relevant Tax") unless the withholding or deduction of such Relevant Tax is required by law. In that event, we will pay as additional distributions of interest and principal such additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders of the Notes after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder to the extent that such Relevant Tax:

(1) is imposed only by virtue of the existence of any present or former connection between such holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder or beneficial owner, if such holder or beneficial owner is an estate, a trust, a partnership, a limited liability company or a corporation) and a Relevant Jurisdiction, including, without limitation, the holder or beneficial owner (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident of a Relevant Jurisdiction or being or having been engaged in a trade or business or present in a Relevant Jurisdiction or having, or having had, a permanent establishment for tax purposes in a Relevant Jurisdiction, other than the mere receipt of payment in respect of the Notes or ownership of the Notes or the enforcement of rights thereunder;

(2) is imposed only by virtue of the failure of such holder or beneficial owner to comply with certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with the applicable Relevant Jurisdiction of such holder or beneficial owner, if compliance is required by statute or by regulation of a Relevant Jurisdiction as a precondition to relief or exemption from the Relevant Tax, provided that (x) we have or our agent has provided the holder of the Notes or its nominee with at least 30 days' written notice that such holder will be required to provide any such information, documentation or reporting requirement, and (y) in no event, shall such holder's requirement to make such a declaration or claim require such holder to provide any materially more onerous information, documents or other evidence than would be required to be provided had such holder been required to file IRS Forms W-8BEN, W-8ECI, W-8EXP and/or W-8IMY, except to the extent required under applicable law or regulation or a double taxation treaty, so that we may determine the appropriate rate for tax withholding;

(3) is imposed on a holder (or beneficial owner) that has presented a Note (where presentation is required) for payment on a date more than 30 days after the date on which such payment becomes due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent such holder would be entitled to Additional Amounts had the Notes been surrendered during such 30 day period;

(4) is imposed on a payment to an individual and that is required to be made pursuant to the European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to such Directive;

(5) in the case of any Relevant Tax required to be withheld by any paying agent from any payment of the principal of, or interest on any Note, results from the presentation of any Note for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment by at least one other paying agent;

(6) is an estate, inheritance, gift, sale, transfer or personal property tax or any similar tax, assessment or governmental charge;

(7) is payable other than by withholding or deduction from payments on or in respect of any Note; or

(8) is imposed as a result of any combination of (1) through (7) above.

Nor will Additional Amounts be paid with respect to any payment on a Note to a holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment to the extent that payment would be required by the laws of a Relevant Jurisdiction to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interestholder in a limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the holder.

We will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in the Relevant Jurisdiction in accordance with applicable law.

We will provide the trustee with documentation, which may be certified copies of filed returns, evidencing the payment of any such taxes in respect of which we have paid any Additional Amount. We will make copies of such documentation available to the holders of the Notes or the relevant paying agent upon request.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Notes is due and payable, in which case it will be promptly thereafter), if we will be obligated to pay Additional Amounts with respect to such payment, we will deliver to the trustee an officer's certificate stating that such Additional Amounts will be payable and the amounts so payable and setting forth such other information as is necessary to enable the trustee to pay such Additional Amounts to the holders of such Notes on the payment date.

We will also pay any present or future stamp, administrative, court, or any similar documentary taxes or any other excise or property taxes, charges or similar taxes or levies arising in a Relevant Jurisdiction in connection with the execution, delivery or registration of the Notes or any other document or instrument referred to herein or therein and will indemnify the holders for any such taxes paid by holders.

All references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by us under the Notes or the indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the indenture.

If we shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the indenture and such payment gives rise to the right on our part to effect a Withholding Tax Redemption, as described below, we will use our reasonable efforts to obtain an exemption (such measures not involving any material cost to us or the incurring by us of any other tax or penalty or changing our place of residence) from the payment of the Relevant Tax that has resulted in the requirement that we pay such Additional Amounts.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder or beneficial owner of the Notes, and as a result thereof such holder or beneficial owner is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder or beneficial owner shall, by accepting the Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such a refund or credit and incurs no other obligation with respect thereto, except for such assignment and transfer and for assisting us in obtaining such refund. We will inform the trustee in writing of the refund or credit within 30 Business Days of our determination that we are entitled to receive such refund or credit.

Unclaimed Money, Prescription

If money deposited with the trustee or any agent for the payment of principal of, premium, if any, or interest or Additional Amounts (as defined below), if any, on the Notes remains unclaimed for two years, the trustee or such paying agent, upon our request, shall return the money to the Bank subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to the Bank for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the indenture does not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

Redemption

Withholding tax redemption

We have the option under the indenture for the Notes to redeem the Notes at any time prior to the Maturity Date, in whole but not in part, at par plus accrued and unpaid interest due on, or with respect to, the Notes and Additional Amounts upon the occurrence of a Withholding Tax Event (as defined below) affecting the Notes (a "Withholding Tax Redemption"). For the purposes of the foregoing, the term Withholding Tax Event is defined in the indenture to mean (i) the receipt by us and the delivery to the trustee of an opinion of a nationally recognized law firm experienced in such matters to the effect that, as a result of (a) any amendment to or change (including an official announcement of any prospective change) in the laws or treaties (or any rules or regulations thereunder) of any Relevant Jurisdiction affecting taxation, (b) any judicial decision, administrative pronouncement or regulatory procedure, of any Relevant Jurisdiction (each, an "Administrative Action"), or (c) any amendment to or change in the official position or the official interpretation of such Administrative Action that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction, irrespective of the manner in which such amendment or change is made known, which amendment or change is effective or such pronouncement or decision is announced on or after the date of issuance of the Notes, (collectively, a "Change in Tax Law"), there is more than an insubstantial risk that we are or will be liable for a payment of Additional Amounts in excess of the Additional Amounts attributable to a 4.9% withholding tax in respect of the Notes, and (ii) the delivery to the trustee of a certificate signed by our chief financial officer stating that the requirement to make such withholding or deduction cannot be avoided by taking reasonable measures available to us (such measures not involving any material cost to us or the incurring by us of any other tax or penalty or changing our place of residence). For the avoidance of doubt, reasonable measures shall include a change in the jurisdiction of a paying agent.

Optional redemption

The Notes will be redeemable as a whole or in part, at our option at any time, at a redemption price, as calculated by us, equal to the greater of (i) 100% of the principal amount of the Notes and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 40 basis points, plus, in each case, accrued interest thereon to the date of redemption and any Additional Amounts payable with respect thereto.

On and after the redemption date, interest on the Notes or any portion of the Notes called for redemption will cease to accrue (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with the trustee funds sufficient to pay the redemption price and accrued interest, through the redemption date, on the Notes subject to redemption. If the redemption date falls after a record date but on or prior to the corresponding interest payment date, we will pay accrued interest to the holder of record on the corresponding record date, which may or may not be the person who will receive payment of the redemption price (which will exclude such accrued interest). If less than all the Notes are to be redeemed, the Notes to be redeemed that are not held through DTC will be selected by the trustee by lot pro rata, or by such other method as the trustee shall deem fair and appropriate, and the Notes to be redeemed that are held through DTC will be selected by DTC in accordance with its procedures.

Redemption procedures

If we give a notice of a Withholding Tax Redemption or Optional Redemption in respect of the Notes, by 12:00 noon, New York City time, on the applicable Redemption Date, to the extent funds are legally available, with respect to the Notes being redeemed and held by DTC or its nominee, the trustee or the Paying Agent will pay the applicable redemption price to DTC. Such notice will also be made in accordance with the procedure set forth in "—Notices." With respect to the Notes being redeemed and held in certificated form, the trustee, to the extent funds are legally available, will pay the applicable redemption price to the holders thereof upon surrender of their certificates evidencing the Notes. Interest payable on or prior to the Redemption Date shall be payable to the holders of the Notes on the relevant record dates. If notice of redemption shall have been given and funds deposited with the trustee to pay the applicable redemption price for the Notes being redeemed, then upon the date of such deposit, all rights of the holders of the Notes will cease, except the right of the holders of the Notes to receive the applicable redemption price, but without interest on such redemption price, and the Notes will cease to be outstanding. In the event that any Redemption Date in respect of the Notes, is not a Business Day then the applicable redemption price payable on such date will be paid on the next succeeding day that is a Business Day (without any interest or other payment in respect of any such delay) with the same force and effect as if made on such date. In the event that payment of the applicable redemption price is improperly withheld or refused and not paid by us (1) interest due on the Notes being redeemed will continue to accrue at the then applicable rate, from the Redemption Date originally established by us to the date such applicable redemption price is actually paid, and (2) the actual payment date will be the Redemption Date for purposes of calculating the applicable redemption price.

In the event of a partial optional prepayment of the Notes, the Notes shall be redeemed from each holder thereof pro rata according to the aggregate principal amount of the Notes held by the relevant holder in relation to the aggregate principal amount of all Notes. In respect of the Notes held by DTC or its nominee, the distribution of the proceeds from such redemption will be made to DTC or its nominee and disbursed by DTC or its nominee in accordance with the procedures applied by DTC or its nominee. In determining the proration of the Notes to be redeemed, we may make such adjustments as may be appropriate in order that only the Notes in authorized denominations shall be redeemed, subject to the minimum denominations set forth in this offering memorandum.

We shall deliver notice of any redemption to the trustee at least 40 days prior to the applicable Redemption Date. The trustee shall in turn mail notice of any such redemption to each holder of the Note at least 30 days but not more than 60 days prior to the Redemption Date to each holder of the Notes in accordance with the procedures described in the indenture. Unless we default in payment of the applicable amounts due on, or in the repayment of, the Notes, on and after the applicable Redemption Date, interest due will cease to accrue on the Notes called for redemption.

Rule 144A Information

For so long as any of the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer shall furnish, upon the request of any holder, such information as is specified in Rule 144A(d)(4) under the Securities Act: (i) to such holder, (ii) to a prospective purchaser of such Note (or beneficial interests therein) who is a qualified institutional buyer (“QIB”) designated by such holder and (iii) to the trustee for delivery to any applicable holders or such prospective purchaser so designated, in each case in order to permit compliance by such holder with Rule 144A in connection with the resale of such Note (or beneficial interest therein) in reliance upon Rule 144A. All such information shall be in the English language.

Periodic Reports

So long as any Notes of a particular series are outstanding, we will furnish to the trustee:

(a) Within 120 days following the end of each of our fiscal years, (i) our consolidated audited income statements, balance sheets and cash flow statements and the related notes thereto for the two most recent fiscal years in accordance with Mexican Banking GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission, together with an audit report thereon by our independent auditors and (ii) an English translation of our annual financial statements;

(b) Within 225 days following the end of each of our fiscal years (beginning with the fiscal year ending December 31, 2012), annual financial information included in our annual report, translated into English; and

(c) Within 60 days following the end of the first three fiscal quarters in each of our fiscal years, (i) quarterly reports containing unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for us and our consolidated subsidiaries on a consolidated basis, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with Mexican Banking GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission and (ii) quarterly financial information included in our quarterly report, translated into English.

None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the U.S. Securities and Exchange Commission. In addition, we shall furnish to the holders of the Notes and to prospective investors, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by Persons who are not ''affiliates'' under the Securities Act.

In addition, if and so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market and the rules of the Luxembourg Stock Exchange so require, copies of such reports and information furnished to the trustee will also be made available at the specified office of the paying agent in Luxembourg.

Events of Default

An "Event of Default" with respect to the Notes is defined in the indenture as:

(i) our default in the payment of any principal of any of the Notes, when due and payable, whether at maturity or otherwise; or

(ii) our default in the payment of any interest or any Additional Amounts when due and payable on any of the Notes and the continuance of such default for a period of 30 days; or

(iii) our default in the performance or observance of any other term, covenant, warranty, or obligation in respect of the Notes or the indenture, not otherwise expressly defined as an Event of Default in (i) or (ii) above, and the continuance of such default for more than 60 days after written notice of such default has been given to us by the trustee or the holders of at least 25% in aggregate principal amount of the Notes outstanding specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default;" or

(iv) certain events involving our bankruptcy or insolvency (including *concurso mercantil* or *quiebra*), liquidation or dissolution with respect to us; or

(v) if any of our Indebtedness (as defined below) becomes due and repayable prematurely by reason of an event of default (however described) or we fail to make any payment in respect of any Indebtedness on the due date for such payment or within any originally applicable grace period or any security given by us for any Indebtedness becomes enforceable and steps are taken to enforce the same or if we default in making any payment when due (or within any originally applicable grace period in respect thereof) under any guarantee and/or indemnity given by us in relation to any Indebtedness of any other person, provided that no such event as aforesaid shall constitute an Event of Default unless such Indebtedness either alone or when aggregated with other Indebtedness in respect of which one or more of the events mentioned in this paragraph (v) has occurred shall amount to at least U.S.$50,000,000 (or its equivalent in any other currency on the basis of the middle spot rate for any relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates).

For purposes of the above, "Indebtedness" means money borrowed and premiums and accrued interest in respect thereof evidenced by any bonds, notes, debentures, or similar instruments.

The indenture provides that (i) if an Event of Default (other than an Event of Default described in clause (iv) above) shall have occurred and be continuing with respect to the Notes, either the trustee or the holders of not less than 25% of the total principal amount of the Notes then outstanding may declare the principal of all outstanding Notes and the interest accrued thereon, if any, to be due and payable immediately and (ii) if an Event of Default described in clause (iv) above shall have occurred, the principal of all outstanding Notes and the interest accrued thereon, if any, shall become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder of Notes. The indenture provides that the Notes owned by us or any of our affiliates shall be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the Notes. Upon the satisfaction by us of certain conditions, the declaration described in clause (i) of this paragraph may be annulled by the holders of a majority of the total principal amount of the Notes then outstanding. Past defaults, other than non-payment of principal, interest and compliance with certain covenants, may be waived by the holders of a majority of the total principal amount of the Notes outstanding.

Modification of Indenture; Waiver of Covenants

We and the trustee may, without the consent of any holders of Notes, amend, waive or supplement each of the indenture or the Notes in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the indenture or the Notes to any provision in this "Description of Notes" and to make any change that does not adversely affect the rights of any relevant holder in any material respect.

In addition, we and the trustee may amend, waive or supplement the indenture or the Notes with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Notes. However, without the consent of the holder of each Note we may not, among other things:

- change the maturity date of the principal of or any interest payment date (or periods on any Note);
- reduce the principal amount of or interest on any Note;
- change the currency of payment of principal or interest on any Note;
- modify any other payment provision of any Note;
- impair the right to sue for the enforcement of any payment on or with respect to any Note; or
- reduce the percentage in principal amount of outstanding Notes that is required for the consent of the holders in order to modify or amend the indenture or to waive compliance with some provisions of the indenture or to waive some defaults.

The holders of a majority in aggregate principal amount of the outstanding Notes may waive any past default or Event of Default under the indenture, except a default under a provision that cannot be modified without the consent of each holder of a Note that would be affected.

Consolidation, Merger, Conveyance or Transfer

We may not consolidate with or merge into any other corporation or convey or transfer our properties and assets substantially as an entirety to any person, unless:

(i) the successor corporation, if other than us, shall be a corporation organized and existing under the laws of Mexico or the United States of America or any state thereof, and shall expressly assume by a supplemental indenture, delivered to and in a form satisfactory to the trustee, the due and punctual payment of the principal of, premium, if any and interest on all the outstanding Notes and the performance of every covenant in the indenture on our part to be performed or observed,

(ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both would become an Event of Default, shall have happened and be continuing, and

(iii) we shall have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer and, if a supplemental indenture is required, such supplemental indenture comply with the foregoing provisions relating to such transaction and all conditions precedent in the indenture relating to such a transaction have been complied with. In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for us as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of our obligations by any such successor corporation in such circumstances, subject to certain exceptions, we will be discharged from all obligations under the Notes and the indenture.

Notices

Notice to holders of the Notes will be given by mail to the addresses of such holders as they appear in the security register.

For so long as the Notes are listed on the Euro MTF market of the Luxembourg Stock Exchange, the notices will be published in a leading newspaper having general circulation in Luxembourg (expected to be the *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange, www.bourse.lu.

Notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication. In addition, notices will be mailed to holders of Notes at their registered addresses in Luxembourg.

Book-Entry System

The Notes are represented by global notes.

The global notes representing the Notes have been issued in the form of registered notes in global form, without interest coupons and have been deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes were offered and sold in this initial offering in the United States solely to qualified institutional buyers under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S; and
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under "Transfer Restrictions."

Rule 144A Global Notes

Notes offered and sold to qualified institutional buyers under Rule 144A are referred to collectively as the "Rule 144A Global Notes." Interests in the Rule 144A Global Notes will be available for purchase only by qualified institutional buyers.

Regulation S Global Notes

Notes offered and sold in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933 to persons which are non-U.S. persons are referred to collectively as the "Regulation S Global Notes" and, together with the Rule 144A Global Notes, the "Global Notes."

On or prior to the 40th day after the date of issuance of the Notes sold pursuant to Regulation S, any resale or transfer of beneficial interests in the Regulation S Global Notes to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Investors may hold their interest in a Global Note representing the Notes through organizations that are participants in DTC (including, Euroclear or Clearstream, Luxembourg).

Exchanges among the Global Notes

Transfers by an owner of a beneficial interest in a Regulation S Global Note representing the Notes to a transferee who takes delivery of that interest through a Rule 144A Global Note representing the Notes will be made only in accordance with applicable procedures and upon receipt by the trustee of a written certification from the transferee of the beneficial interest in the form provided in the indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing the Notes to a transferee who takes delivery of the interest through a Regulation S Global Note representing the Notes will be made only upon receipt by the trustee of a certification from the transferor that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144A under the Securities Act.

Any beneficial interest in one of the Global Notes representing the Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note representing the Notes will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-entry procedures for the Global Notes

Ownership of beneficial interests in a Global Note representing the Notes will be limited to DTC and to persons that may hold interests through institutions that have accounts with DTC. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by DTC, and its respective participants for that Global Note. The conveyance of notices and other communications by DTC to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect.

DTC holds the securities of its respective participants and facilitates the clearance and settlement of securities transactions among its respective participants through electronic book-entry changes in accounts.

Principal and interest payments on the Notes represented by a Global Note will be made to DTC, as the sole registered owner and the sole holder of the Notes represented by the Global Note for all purposes under the indenture. Accordingly, we, the trustee and any paying agent will have no responsibility or liability for:

- any aspect of DTC's records relating to, or payments made on account of, beneficial ownership interests in a Note represented by a Global Note;
- any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a Global Note held through those participants; or
- the maintenance, supervision or review of any of DTC's records relating to those beneficial ownership interests.

DTC

DTC has advised us that upon receipt of any payment of principal of or interest on a Global Note representing the Notes, DTC will immediately credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Note as shown on DTC's records. The initial purchasers of the Notes will initially designate the accounts to be credited. Payments by participants to owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices, as is the case with securities held for customer accounts registered in "street names," and will be the sole responsibility of those participants.

The Notes represented by a Global Note can be exchanged for definitive Notes of the same series in registered form only if:

- DTC notifies us that it is unwilling or unable to continue as depositary for that Global Note or at any time DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by us within 90 calendar days; we, in our sole discretion, determine that such Global Note will be exchangeable for definitive Notes in registered form and notify the trustee of our decision; or an Event of Default with respect to the Notes of such series represented by that Global Note has occurred and is continuing and DTC so requests.

- A Global Note representing the Notes that can be exchanged under the preceding sentence will be exchanged for definitive Notes that are issued in authorized denominations in registered form for the same aggregate amount. Those definitive Notes will be registered in the names of the owners of the beneficial interests in the relevant Global Note as directed by DTC and may bear the legend as set forth under "Transfer Restrictions."

Registrar, Transfer Agent and Paying Agents

The trustee will act as registrar for the Notes. The trustee will also act as transfer agent and paying agent for the Notes. We have the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as we may require) in respect of any tax or other governmental charges that may be imposed in relation to it. We will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

For so long as the notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF market, we will maintain a paying agent in Luxembourg. We have initially appointed The Bank of New York Mellon (Luxembourg) S.A. as Luxembourg paying agent, transfer agent and listing agent. To the extent that the Luxembourg paying agent is obliged to withhold or deduct tax on payments of interest or similar income, we will, to the extent permitted by law, ensure that it maintains an additional paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the European Council of Economic and Finance Ministers (ECOFIN) meeting of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

Listing

Application has been made to admit the Notes on the Official List of the LSE and for admission to trading on the Euro MTF market of the Luxembourg Stock Exchange. In the event that the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market, we will use our 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 we 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 we would otherwise use to prepare its published financial information, or we determine that it is unduly burdensome to maintain a listing on the LSE, we 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 or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as we may decide. Although there is no assurance 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.

The Trustee

The Bank of New York Mellon will act as trustee under the indenture. Notices to the trustee should be directed to the trustee at its Corporate Trust Office, located at 101 Barclay Street, Floor 4E, New York, New York 10286, Attn: International Corporate Trust. The trustee also will initially act as registrar, paying agent and transfer agent for service of demands and notices in connection with the Notes and the indenture. The trustee may resign or be removed under circumstances described in the indenture and we may appoint a successor trustee to act in connection with the Notes. Any action described in this offering memorandum to be taken by the trustee may then be taken by the successor trustee.

The trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with us or our affiliates with the same rights it would have if it were not trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

The indenture contains some limitations on the right of the trustee should it become a creditor of ours, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The trustee will be permitted to engage in transactions with us. The occurrence of a default under the indenture could create a conflicting interest (as defined in the indenture) for the trustee. In this case, if the default has not been cured or waived within 90 days after the trustee has or acquires a conflicting interest, the trustee generally is required to eliminate the conflicting interest or resign as trustee for the Notes. In the event of the trustee's resignation, we will promptly appoint a successor trustee for the Notes.

The trustee may be removed by the holders of a majority of the outstanding Notes if an Event of Default under the indenture has occurred and is continuing. No resignation or removal of the trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the indenture.

Governing Law; Consent to Jurisdiction

The indenture and the Notes will be governed by, and construed in accordance with, the law of the State of New York.

We will consent to the jurisdiction of the Supreme Court of the State of New York, County of New York or the United States District Court for the Southern District of New York, each in the Borough of Manhattan, and will agree that all disputes under the indenture may be submitted to the jurisdiction of such courts. We will irrevocably consent to and waive to the fullest extent permitted by law any objection that we may have to the laying of venue of any suit, action or proceeding against us or our properties, assets and revenues with respect to the indenture or any such suit, action or proceeding in any such court and any right to which we may be entitled on account of place of residence or domicile.

To the extent that we or any of our revenues, assets or properties shall be entitled to any immunity from suit, from the jurisdiction of any such court, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process remedy, we will irrevocably agree not to claim and will irrevocably waive such immunity to the fullest extent permitted by the laws of such jurisdiction.

We will agree that service of all writs, claims, process and summons in any suit, action or proceeding against us or our properties, assets or revenues with respect to the indenture or any suit, action or proceeding to enforce or execute any judgment brought against us in the State of New York may be made upon CT Corporation System, 111 Eighth Avenue, New York, New York 10011, and we will irrevocably appoint CT Corporation System as our agent to accept such service of any and all such writs, claims, process and summonses.

Currency Rate Indemnity

We have agreed that, to the greatest extent permitted under applicable law, if a judgment or order made by any court for the payment of any amount in respect of any Notes is expressed in a currency other than U.S. dollars, we will indemnify the relevant holder against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from our other obligations under the indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the indenture or the Notes.

Replacement of Notes

In case of mutilated, 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.

Certain Definitions

"Comparable Treasury Issue" means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of the Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (A) the average, as calculated by the Bank, of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Bank obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Bank.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Bank, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Bank by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Reference Treasury Dealer" means each of Deutsche Bank Securities Inc., Goldman, Sachs & Co. and Santander Investment Securities Inc., or their respective affiliates or successors which are primary U.S. Government securities dealers, and no less than two other leading primary U.S. Government securities dealers in The City of New York reasonably designated by the Bank; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a "Primary Treasury Dealer"), the Bank shall substitute therefor another Primary Treasury Dealer.

TAXATION

The following discussion summarizes certain Mexican federal tax and U.S. federal income tax consequences to beneficial owners arising from the purchase, ownership or disposition of the Notes. The summary does not purport to be a comprehensive description of all potential Mexican federal tax and U.S. federal income tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and is not intended as tax advice to any particular investor. This summary does not describe any tax consequences arising under the laws of any state, municipality or other taxing jurisdiction other than federal income tax consequences applicable in Mexico and the United States.

Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican, United States or other tax consequences (including tax consequences arising under double-taxation treaties) of the purchase, ownership and disposition 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, municipal, foreign or other tax laws.

Certain Mexican Income Tax Considerations

The following summary contains a description of the principal Mexican federal income tax consequences of the purchase, ownership and disposition of Notes by a Non-Mexican Holder (as defined below). This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or dispose of the Notes. In addition, it does not describe any tax consequences (i) arising under the laws of any taxing jurisdiction other than Mexico, (ii) arising under the laws other than the federal tax laws of Mexico (excluding the laws of any state or municipality within Mexico), or (iii) that are applicable to a resident of Mexico for tax purposes that may purchase, own or dispose of the Notes.

For purposes of this summary, the term "non-Mexican holder" shall mean a holder that is not a resident of Mexico for tax purposes, as defined by the Mexican Federal Fiscal Code (*Código Fiscal de la Federación*), or that does not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico to which income in respect of the Notes is attributable.

For purposes of Mexican taxation:

- individuals are residents of Mexico for tax purposes, if they have established their principal place of residence in Mexico or, if they have established their principal place of residence outside Mexico, if their core of vital interests (*centro de intereses vitales*) is located within Mexican territory. This will be deemed to occur if (i) at least 50.0% of their aggregate annual income derives from Mexican sources, or (ii) the main center of their professional activities is located in Mexico. Mexican nationals who filed a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico, in which their income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law (*Ley de Impuesto Sobre la Renta*), will be considered Mexican residents for tax purposes during the year of filing of the notice of such residence change and during the following three years;

- unless otherwise evidenced, a Mexican national individual shall be deemed a Mexican resident for tax purposes. An individual will also be considered a resident Mexico for tax purposes, if such individual is a state employee, regardless of the location of the individual's core of vital interests; and

- a legal entity is a resident of Mexico for tax purposes if it maintains the principal administration of its business, or the place of its effective management, in Mexico.

Non-residents of Mexico (whether individuals or corporate entities) who are deemed to have a permanent establishment in Mexico for tax purposes, shall be subject to the Mexican income tax laws, and all income attributable to such permanent establishment, will be subject to Mexican taxes in accordance with the Mexican Income Tax Law.

This summary is based upon the Mexican Income Tax Law and the Mexican Federal Fiscal Code in effect as of the date of this offering memorandum, all of which are subject to change.

Mexico has entered into, and is negotiating, several double taxation treaties with various countries, that may affect the Mexican withholding tax liabilities applicable to Non-Mexican Holders. Prospective purchasers of the Notes should consult their own tax advisers as to the tax consequences, if any, of such treaties.

Payments of Interest

Under the Mexican Income Tax Law, payments of interest we make in respect of the Notes (including payments of principal in excess of the issue price of the Notes, if any, which, under Mexican law, are deemed to be interest) to a Non-Mexican Holder, will be subject to a Mexican withholding tax assessed at a rate of 4.9%, if (i) the Notes are placed through banks or brokerage houses (*casas de bolsa*) in a country with which Mexico has entered into a tax treaty for the avoidance of double taxation, which is in effect, (ii) we deliver notice of the offering of the Notes to the CNBV in accordance with Article 7 of the *Ley del Mercado de Valores* (the Mexican Securities Market Law), and (iii) the information requirements specified by the Ministry of Finance and Public Credit or by the *Servicio de Administración Tributaría* (the "Tax Administration System") under its general rules are satisfied. In addition, under the Mexican Income Tax Law, interest payments that a banking institution, such as us, makes to a Non-Mexican Holder are subject to a Mexican withholding tax assessed at a rate of 4.9%, regardless of whether the aforementioned requirements are met. Although the requirements described in (i) through (iii) above are expected to be satisfied, the applicable withholding tax rate is expected to be 4.9% regardless of their satisfaction, because of the benefit of the application of the 4.9% withholding tax rate on interest payments to non-residents of Mexico for tax purposes, which benefits Mexican banking institutions.

A higher income tax withholding rate will be applicable when the effective beneficiaries of payments treated as interest, whether directly or indirectly, individually or collectively with related persons, who receive more than 5% of the aggregate amount of such payments of interest on the Notes, are persons related to us as set forth under applicable Mexican tax law.

Payments of interest we make in respect of the Notes to a non-Mexican pension or retirement fund will be generally exempt from Mexican withholding taxes, provided that (i) the fund is the effective beneficiary of such interest income, (ii) the fund is duly established pursuant to the laws of its country of residence, (iii) the relevant interest income is exempt from taxation in such country, and (iv) the fund is duly registered with the Tax Administration System in accordance with certain general rules issued for these purposes.

We have agreed, subject to specified exceptions and limitations, to pay additional amounts to Non-Mexican Holders of the Notes in respect of the Mexican withholding taxes attributable to interest payments mentioned above. If we pay additional amounts in respect of such Mexican withholding taxes attributable to interest payments, any refunds of such additional amounts will be for our account. See "Description of Notes—Payment of Additional Amounts."

Holders or beneficial owners of the Notes may be requested to provide information or documentation necessary to enable us to determine the appropriate Mexican withholding tax rate applicable to interest and deemed interest payments made to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner, if requested, is not provided on a complete or timely basis, our obligations to pay additional amounts may be limited as set forth under "Description of Notes — Payment of Additional Amounts."

Under the Mexican Income Tax Law, payments of principal we make to a Non-Mexican Holder of the Notes will not be subject to any Mexican withholding or similar taxes.

Sale or Other Disposition of the Notes

Under the Mexican Income Tax Law and regulations thereunder, capital gains resulting from the sale or other disposition of the Notes by a Non-Mexican Holder to another Non-Mexican Holder are not taxable in Mexico, although this treatment is subject to uncertainties. Gains resulting from the sale or other disposition of the Notes by a Non-Mexican Holder to a Mexican resident for tax purposes or to a Non-Mexican Holder deemed to have a permanent establishment in Mexico for tax purposes or by a Mexican resident or foreign holder deemed to have a permanent establishment in Mexico for tax purposes, will be subject to the Mexican withholding taxes pursuant to the rules described above in respect of interest payments.

A Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership, or disposition of the Notes, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

Certain U.S. Federal Income Tax Considerations

This disclosure is limited to the U.S. federal income tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal income tax treatment of the Notes. This tax disclosure was written in connection with the promotion or marketing of the Notes by the Bank, and it was not intended or written to be used, and cannot be used, by any holder for the purpose of avoiding penalties that may be asserted against the holder under the Internal Revenue Code of 1986, as amended (the "Code"). Holders should seek their own advice based on their particular circumstances from an independent tax advisor.

The following are certain U.S. federal income tax consequences of ownership and disposition of the Notes to United States Holders (as defined below). This discussion applies only to Notes that are:

- purchased by those initial holders who purchase Notes at the "issue price," which will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money; and
- held as capital assets (generally, property held for investment purposes).

This discussion does not describe the potential application of the Medicare contribution tax or all of the tax consequences that may be relevant to holders in light of their particular circumstances or to holders subject to special rules, such as:

- certain financial institutions;
- dealers and traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons holding Notes as part of a hedge, straddle or other integrated transaction;
- persons whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes; or
- tax-exempt organizations.

This summary is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which subsequent to the date of this offering memorandum may affect the tax consequences described herein, possibly with retroactive effect. Persons considering the purchase of Notes are urged to consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

As used herein, the term "United States Holder" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;

- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisors concerning the U.S. federal income tax consequences to their partners of the ownership and disposition of Notes by the partnership.

Payments of Interest

Interest paid on a Note will be taxable to a United States Holder as ordinary interest income at the time it accrues or is received in accordance with the United States Holder's method of accounting for U.S. federal income tax purposes.

The amount of interest taxable as ordinary income will include amounts withheld in respect of Mexican taxes. Interest income earned by a United States Holder with respect to a Note will constitute foreign source income for U.S. federal income tax purposes, which may be relevant to a United States Holder in calculating the United States Holder's foreign tax credit limitation. Mexican taxes withheld from interest income on a Note may be eligible for credit against the United States Holder's U.S. federal income tax liability, subject to generally applicable limitations and conditions, or, at the election of the United States Holder, for deduction in computing the United States Holder's taxable income. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For these purposes, interest on the Notes will generally be considered passive category income. The rules governing foreign tax credits are complex and, therefore, United States Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances.

Additional Amounts paid pursuant to the obligations described under "Description of Notes—Additional Amounts" will be treated as ordinary interest income for U.S. federal income tax purposes.

Original Issue Discount

The Notes may be issued with original issue discount. A Note that is issued at an issue price less than its stated principal amount will be considered to have been issued with original issue discount for U.S. federal income tax purposes unless the difference between the stated principal amount and the issue price satisfies a *de minimis* test (i.e., the difference is less than ¼ of 1 percent of the stated principal amount multiplied by the number of complete years to maturity).

In general, a United States Holder will be required to include original issue discount in income as it accrues, in accordance with a constant yield method based on a compounding of interest, before the receipt of cash payments attributable to this income. Under this method, United States Holders generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Alternatively, a United States Holder may make an election to include in gross income all interest that accrues on a Note (including stated interest and original issue discount) in accordance with a constant yield method based on the compounding of interest. This election applies only to the Note with respect to which it is made and may not be revoked without the consent of the Internal Revenue Service ("IRS").

Sale, Exchange, Retirement or Other Taxable Disposition of the Notes

Upon the sale, exchange, retirement or other taxable disposition of a Note, a United States Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other taxable disposition and the United States Holder's adjusted tax basis in the Note, which will generally be the United States Holder's cost of that Note, increased by the amount of any original issue discount previously included in income by the Holder with respect to the Note. Gain or loss, if any, will generally be U.S. source income for purposes of computing a United States Holder's foreign tax credit limitation; therefore, if any gain is subject to Mexican income tax, a United States Holder may not be able to credit the Mexican income tax against its

U.S. federal income tax liability. For these purposes, the amount realized does not include any amount attributable to accrued interest, which will be treated as a payment of interest.

Gain or loss realized on the sale, exchange, retirement or other taxable disposition 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, retirement or other taxable disposition, the Note has been held for more than one year. Long-term capital gains recognized by certain non-corporate United States Holders will be subject to reduced tax rates. The deductibility of capital losses may be subject to limitations.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale, exchange, retirement or other taxable disposition of the Notes. A United States Holder may be subject to U.S. backup withholding on these payments if the United States Holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a United States Holder will be allowed as a credit against the United States Holder's U.S. federal income tax liability and may entitle the United States Holder to a refund, provided that the required information is furnished to the IRS.

BENEFIT PLAN INVESTOR CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and Section 4975 of the Code impose certain requirements on (a) employee benefit plans subject to Title I of ERISA, (b) individual retirement accounts, Keogh plans or other arrangements subject to Section 4975 of the Code, (c) entities whose underlying assets include "plan assets" by reason of any such plan's or arrangement's investment therein (we refer to the foregoing collectively as "Plans") and (d) persons who are fiduciaries with respect to Plans. In addition, certain governmental, church and non-U.S. plans ("Non-ERISA Arrangements") are not subject to Title I of ERISA or Section 4975 of the Code, but may be subject to non-U.S., state, local or other federal laws that are substantially similar to those provisions of ERISA or the Code (each, a "Similar Law").

In addition to ERISA's general fiduciary standards, Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Plan and persons who have specified relationships to the Plan, i.e., "parties in interest" as defined in ERISA or "disqualified persons" as defined in Section 4975 of the Code (we refer to the foregoing collectively as "parties in interest") unless exemptive relief is available under an exemption issued by the U.S. Department of Labor. Parties in interest that engage in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code. We, the initial purchasers, the agents and their respective current and future affiliates, may be parties in interest with respect to many Plans. Thus, a Plan fiduciary considering an investment in the Notes should also consider whether such an investment might constitute or give rise to a prohibited transaction under ERISA or Section 4975 of the Code. For example, the Notes may be deemed to represent a direct or indirect sale of property, extension of credit or furnishing of services between us and an investing Plan which would be prohibited if we are a party in interest with respect to the Plan unless exemptive relief were available under an applicable exemption.

In this regard, each prospective purchaser that is, or is acting on behalf of, a Plan, and proposes to purchase the Notes, should consider the exemptive relief available under the following prohibited transaction class exemptions, or "PTCEs": (A) the in-house asset manager exemption (PTCE 96-23), (B) the insurance company general account exemption (PTCE 95-60), (C) the bank collective investment fund exemption (PTCE 91-38), (D) the insurance company pooled separate account exemption (PTCE 90-1) and (E) the qualified professional asset manager exemption (PTCE 84-14). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide a limited exemption for the purchase and sale of securities and related lending transactions, provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction and provided further that the Plan pays no more, and receives no less, than adequate consideration in connection with the transaction (the so-called "service provider exemption"). There can be no assurance that any of these statutory or class exemptions will be available with respect to transactions involving the Notes.

Each purchaser or holder of a Note, and each fiduciary who causes any entity to purchase or hold a Note, shall be deemed to have represented and warranted, on each day such purchaser or holder holds such Notes, that either (i) it is neither a Plan nor a Non-ERISA Arrangement and it is not purchasing or holding Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement; or (ii) its purchase, holding and subsequent disposition of such Notes shall not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or a violation of any provision of Similar Law.

Fiduciaries of any Plans and Non-ERISA Arrangements should consult their own legal counsel before purchasing the Notes. We also refer you to the portions of the offering memorandum addressing restrictions applicable under ERISA, the Code and Similar Law.

Each purchaser of a Note will have exclusive responsibility for ensuring that its purchase, holding and subsequent disposition of the Note does not violate the fiduciary or prohibited transaction rules of ERISA, the Code or any Similar Law. Nothing herein shall be construed as a representation that an investment in the Notes would meet any or all of the relevant legal requirements with respect to investments by, or is appropriate for, Plans or Non-ERISA Arrangements generally or any particular Plan or Non-ERISA Arrangement.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of the purchase agreement, the initial purchasers named below have severally agreed to purchase from us the following respective principal amounts of Notes listed opposite their name below at the initial offering price set forth on the cover page of this offering memorandum, less discounts and commissions:

Initial Purchasers	**Principal Amount of Notes**
Deutsche Bank Securities Inc.	U.S.$ 333,334,000
Goldman, Sachs & Co.	U.S.$ 333,333,000
Santander Investment Securities Inc.	U.S.$ 333,333,000
Total	**U.S.$1,000,000,000**

The addresses of the initial purchasers are (i) for Deutsche Bank Securities Inc., 60 Wall Street, New York, New York 10005, (ii) for Goldman, Sachs & Co., 200 West Street, New York, New York 10282, and (iii) for Santander Investment Securities Inc., 45 East 53rd Street, New York, New York 10022.

The purchase agreement provides that the obligations of the several initial purchasers to purchase the Notes offered hereby are subject to certain conditions precedent and that the initial purchasers will purchase all of the Notes offered by this offering memorandum if any of these Notes are purchased.

After the initial offering, the initial purchasers may change the offering price and other selling terms. The offering of the Notes by the Initial Purchasers is subject to receipt and acceptance and subject to the Initial Purchasers' right to reject any order in whole or in part.

We have agreed to indemnify the several initial purchasers against some specified types of liabilities, including liabilities under the Securities Act, and to contribute to payments the initial purchasers may be required to make in respect of any of these liabilities.

The Notes have not been registered under the Securities Act. Each initial purchaser has agreed that it will offer or sell the Notes only (i) in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act or (ii) in offshore transactions in reliance on Regulation S under the Securities Act. The Notes being offered and sold pursuant to Regulation S may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the Notes are registered under the Securities Act or an exemption from, the registration requirements thereof is available. Resales of the Notes are restricted as described under "Transfer Restrictions."

Until the expiration of forty (40) days after the commencement of the offering, any offer or sale of Notes within the United States by a broker-dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act, unless such offer or sale is made pursuant to Rule 144A under the Securities Act or another available exemption from the registration requirements thereof. Terms used above have the meanings given to them by Regulation S and Rule 144A under the Securities Act.

We have agreed that, for a period of 30 days from the date of this offering memorandum, other than with respect to the Notes and any other non-capital market debt, we will not, without the prior consent of the initial purchasers, offer, sell, contract to sell, grant any other option to purchase or otherwise dispose of, directly or indirectly, or announce the offering of, or file a registration statement for, any U.S. dollar-denominated debt similar to either series of the Notes issued or guaranteed by us or any of our direct or indirect subsidiaries or enter into any agreement to do any of the foregoing.

The Notes are a new issue of securities without an established trading market. The initial purchasers may make a market in the Notes after completion of the offering but will not be obligated to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes or that an active market for the Notes will develop. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

In connection with the offering, the initial purchasers may purchase and sell the Notes in the open market. These transactions may include short sales, purchases to cover positions created by short sales and stabilizing transactions.

Short sales involve the sale by the initial purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The initial purchasers may close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the initial purchasers are concerned that there may be downward pressure on the price of the Notes in the open market prior to the completion of the offering.

Stabilizing transactions consist of various bids for or purchases of the Notes made by the initial purchasers in the open market prior to the completion of the offering.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of the Notes. Additionally, these purchases, along with the imposition of the penalty bid by the initial purchasers, may stabilize, maintain or otherwise affect 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. These transactions may be effected in the over-the-counter market or otherwise.

The initial purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The initial purchasers and their affiliates have performed certain commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and expenses. The initial purchasers may, from time to time, continue to engage in transactions with and perform services for us in the ordinary course of their business for which they will receive customary fees. In addition, in the ordinary course of their business activities, the initial purchasers and their 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. If the initial purchasers or their affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, the initial purchasers and their affiliates 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 purchasers and their 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. In the ordinary course of their various business activities, the initial purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer. The initial purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Notice to Prospective Investors in Mexico

The Notes have not been and will not be registered with the Mexican National Securities Registry (*Registro Nacional de Valores*) maintained by the CNBV, and may not be offered or sold publicly, or otherwise be subject of brokerage activities in Mexico, except that the Notes may be offered to Mexican investors pursuant to certain exemptions specified under applicable law. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be delivered to the CNBV to comply with a legal requirement and for information purposes and the delivery and the acceptance by the CNBV of such notice, does not imply any certification as to the investment quality of the Notes or our solvency, liquidity or credit quality.

Notice to Prospective Investors in Canada

This offering memorandum is not, and under no circumstances is to be construed as, an advertisement or a public offering of the Notes in Canada or any province or territory thereof. This offering memorandum is not a qualified prospectus for purposes of applicable Canadian provincial securities laws. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this offering memorandum or the merits of these securities, and any representation to the contrary is an offence. Any offer or sale of the Notes in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable provincial securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made.

Information in this document has not been prepared with regard to matters that may be of particular concern to Canadian purchasers and, accordingly, should be read with this in mind. Prospective purchasers are advised to consult their own advisors about their individual circumstances.

The Notes are not denominated in Canadian dollars. The value of the Notes to a Canadian investor, therefore, will fluctuate with changes in the exchange rate between the Canadian dollar and the currency of the securities.

Notice to Prospective Investors in Chile

The Notes will not be registered under Law 18,045, as amended, of Chile with the Chilean Securities Commission and, accordingly, they cannot and will not be offered or sold to persons in Chile except in circumstances which have not resulted and will not result in a public offering under Chilean Law.

Notice to Prospective Investors in Peru

The Notes have not been and will not be approved by or registered with the Peruvian securities regulatory authority, the Superintendency of the Securities Market (*Superintendencia del Mercado de Valores*). However, application has been made to register the Notes with the Superintendency of Banking, Insurance, and Private Pension Funds (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) in order to be offered or sold in private placement transactions addressed to Peruvian institutional investors such as Peruvian private pension funds.

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"), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of the Notes to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the issuer and the representatives; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Notes shall require the issuer in this offering or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

The seller of the Notes has not authorized and does not authorize the making of any offer of the Notes through any financial intermediary on its behalf, other than offers made by the initial purchasers with a view to the final placement of the Notes as contemplated in this offering memorandum. Accordingly, no initial purchaser of the Notes, other than the initial purchasers, is authorized to make any further offer of the Notes on behalf of the seller or the initial purchasers.

Notice to Prospective Investors in Switzerland

The Notes may not and will not be publicly offered, distributed or redistributed on a professional basis in or from Switzerland, only on the basis of a non-public offering, and neither this offering memorandum nor any other solicitation for investments in the Notes may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of articles 652a or 1156 of the Swiss Federal Code of Obligations or of Article 2 of the Federal Act on Investment Funds of March 18, 1994. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the initial purchasers' prior written consent. This offering memorandum is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to article 32 of the Listing Rules of the Swiss exchange and may not comply with the information standards required thereunder. We will not apply for a listing of the Notes on any Swiss stock exchange or other Swiss regulated market and this offering memorandum may not comply with the information required under the relevant listing rules. The Notes have not been and will not be approved by any Swiss regulatory authority. The Notes have not been and will not be registered with or supervised by the Swiss Federal Banking Commission, and have not been and will not be authorized under the Federal Act on Investment Funds of March 18, 1994. The investor protection afforded to acquirers of investment fund certificates by the Federal Act on Investment Funds of March 18, 1994 does not extend to acquirers of the Notes.

Notice to Prospective Investors in the United Kingdom

Each initial purchaser has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any other document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case, whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor (for corporations, under Section 274 of SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than US$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

Notice to Prospective Investors in Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each Initial Purchaser has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

TRANSFER RESTRICTIONS

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority in any jurisdiction and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons except that Notes may be offered or sold to (i) Qualified Institutional Buyers ("QIBs") in reliance upon the exemption from the registration requirement of the Securities Act provided by Rule 144A and (ii) persons other than U.S. persons as such term is defined in Regulation S under the Securities Act ("Foreign Purchasers") in offshore transactions in reliance upon Regulation S.

Each purchaser or beneficial owner of the Notes that is not a Foreign Purchaser will be deemed to:

(i) represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB and is aware that the sale to it is being made in reliance on Rule 144A under the Securities Act or (b) a non-U.S. person that is outside the United States;

(ii) acknowledge that the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority in any jurisdiction 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;

(iii) agree that if it should resell or otherwise transfer the securities, it will do so only pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States or any other applicable jurisdiction;

(iv) agree that it will deliver to each person to whom it transfers Notes notice of any restrictions on transfer of such Notes;

(v) agree that it shall not resell or otherwise transfer any of such Notes prior to (a) the first anniversary of the last date of original issuance of the Notes (or such shorter period of time as permitted by Rule 144(d) under the Securities Act) and (b) such later date, if any, as may be required by applicable laws except:

- to the Bank or any of its subsidiaries;
- pursuant to a registration statement which has been declared effective under the Securities Act;
- within the United States to a QIB in compliance with Rule 144A under the Securities Act;
- in transactions meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act; or
- pursuant to another available exemption from the registration requirements of the Securities Act;

(vi) agree that it is not an "affiliate" (within the meaning of Rule 144 under the Securities Act) of the Bank; and

(vii) acknowledge that we, the trustee, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account. If any of the acknowledgements, representations or agreements it is deemed to have been made by the purchase of notes is no longer accurate, it will promptly notify the Bank and the initial purchasers.

Each 144A Global Note will bear the following legend:

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("**DTC**"), NEW YORK, NEW YORK, TO

THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

UNTIL ONE YEAR AFTER THE COMMENCEMENT OF THE OFFERING, AN OFFER OR SALE OF SECURITIES WITHIN THE UNITED STATES BY A DEALER (AS DEFINED IN THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**")) MAY VIOLATE THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IF SUCH OFFER OR SALE IS MADE OTHERWISE THAN IN ACCORDANCE WITH RULE 144A THEREUNDER.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (*COMISIÓN NACIONAL BANCARIA Y DE VALORES*, OR CNBV), AND MAY NOT BE OFFERED OR SOLD PUBLICLY, OR OTHERWISE BE THE SUBJECT OF BROKERAGE ACTIVITIES IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED TO MEXICAN INVESTORS PURSUANT TO CERTAIN EXEMPTIONS SPECIFIED UNDER APPLICABLE LAW. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*), WE WILL NOTIFY THE CNBV OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY AND THE DELIVERY TO AND THE RECEIPT BY THE CNBV OF SUCH NOTICE DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR THE SOLVENCY, LIQUIDITY OR CREDIT QUALITY OF THE BANK. THE INFORMATION CONTAINED IN THE OFFERING MEMORANDUM IS EXCLUSIVELY THE RESPONSIBILITY OF THE BANK AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV. THE ACQUISITION OF THE NOTES BY AN INVESTOR RESIDENT OF MEXICO WILL BE MADE UNDER ITS OWN RESPONSIBILITY.

THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (2) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON THE HOLDER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULES 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (5) PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT, ACCOMPANIED BY AN OPINION OF COUNSEL REGARDING THE AVAILABILITY OF SUCH EXEMPTION OR (6) TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AND THE HOLDER WILL, AND

EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN THIS LEGEND.

Each purchaser or beneficial owner of Notes that is a Foreign Purchaser will be deemed to:

(i) represent that it is purchasing the Notes for its own account or an account for which it exercises sole investment discretion and that it and any such account is a Foreign Purchaser that is outside the United States and acknowledge that the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority in any jurisdiction 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;

(ii) agree that if it should resell or otherwise transfer the Notes prior to the expiration of a restricted period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the Notes), it will do so only (a)(i) outside the United States in compliance with Rule 904 under the Securities Act or (ii) to a qualified institutional buyer in compliance with Rule 144A, and (b) in accordance with all applicable securities laws of the states of the United States or any other applicable jurisdiction.

Each Regulation S Global Note will bear the following legend:

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("**DTC**"), NEW YORK, NEW YORK, TO THE BANK OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

UNTIL 40 DAYS AFTER THE COMMENCEMENT OF THE OFFERING, AN OFFER OR SALE OF SECURITIES WITHIN THE UNITED STATES BY A DEALER (AS DEFINED IN THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**")) MAY VIOLATE THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IF SUCH OFFER OR SALE IS MADE OTHERWISE THAN IN ACCORDANCE WITH RULE 144A THEREUNDER.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (*COMISIÓN NACIONAL BANCARIA Y DE VALORES, OR CNBV*), AND MAY NOT BE OFFERED OR SOLD PUBLICLY, OR OTHERWISE BE THE SUBJECT OF BROKERAGE ACTIVITIES IN MEXICO, EXCEPT THAT THE NOTES MAY BE OFFERED TO MEXICAN INVESTORS PURSUANT TO CERTAIN EXEMPTIONS SPECIFIED UNDER APPLICABLE LAW. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*), WE WILL NOTIFY THE CNBV OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE DELIVERED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY AND THE DELIVERY TO AND THE RECEIPT BY THE CNBV OF SUCH NOTICE DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE

NOTES OR THE SOLVENCY, LIQUIDITY OR CREDIT QUALITY OF THE BANK. THE INFORMATION CONTAINED IN THE OFFERING MEMORANDUM IS EXCLUSIVELY THE RESPONSIBILITY OF THE BANK AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV. THE ACQUISITION OF THE NOTES BY AN INVESTOR RESIDENT OF MEXICO WILL BE MADE UNDER ITS OWN RESPONSIBILITY.

THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (2) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON THE HOLDER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULES 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (5) PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT, ACCOMPANIED BY AN OPINION OF COUNSEL REGARDING THE AVAILABILITY OF SUCH EXEMPTION OR (6) TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN THIS LEGEND.

The transfer or exchange of a securities entitlement in respect of a Regulation S Global Note for a securities entitlement in respect of a 144A Global Note during the restricted period may be made only upon receipt by the trustee of a duly completed Rule 144A Certificate, as defined in the indenture. Such Rule 144A Certificate will no longer be required after the expiration of the restricted period. The transfer or exchange of a securities entitlement in respect of a 144A Global Note for a securities entitlement in respect of a Regulation S Global Note may be made only upon receipt by the trustee of a duly completed Regulation S Certificate, as defined in the indenture. The resale restriction periods may be extended, in our discretion, in the event of one or more issuances of additional notes or resales by our affiliates. The above legends (including the restrictions on resale specified thereon) may be removed solely in our discretion and at our direction.

Each purchaser of Notes will be deemed to have not used the assets of a plan or governmental or church plan to acquire the notes or an interest therein or the purchase and holding of the notes or an interest therein by such person does not constitute a non-exempt prohibited transaction under the U.S. Employee Retirement Income Security Act of 1974 or the Code or a violation of similar laws.

Each purchaser of Notes will be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in the Notes, as well as holders of the Notes.

Each person purchasing Notes from the initial purchasers or through an affiliate of the initial purchasers pursuant to Rule 144A under the Securities Act, by accepting delivery of this offering memorandum, acknowledges that (i) it has not relied on the initial purchasers or any person affiliated with the initial purchasers in connection with its investigation of the accuracy of the information contained in this offering memorandum or its investment decision; and (ii) no person has been authorized to give any information or to make any representation concerning us or the Notes other than those contained in this offering memorandum and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the initial purchasers.

Any resale or other transfer, or attempted resale of other transfer, made other than in compliance with the above stated restrictions shall not be recognized by us.

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interests in Global Notes, see "Description of Notes—Book-Entry System—Exchanges among the Global Notes."

We have prepared this offering memorandum solely for use in connection with the offer and sale of the Notes outside the United States and for the private placement of the Notes in the United States. We and the initial purchasers reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the amount of Notes offered pursuant to Rule 144A under the Securities Act. This offering memorandum does not constitute an offer to any person in the United States other than any QIB under the Securities Act to whom an offer has been made directly by the initial purchasers or an affiliate of the initial purchasers.

Each purchaser of Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes this offering memorandum or any part of it and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or resales, and neither the company nor the initial purchasers shall have any responsibility therefor.

Each purchaser or holder of a Note, and each fiduciary who causes any entity to purchase or hold a Note, shall be deemed to have represented and warranted, on each day such purchaser or holder holds such Notes, that either (i) it is neither a Plan nor a Non-ERISA Arrangement and it is not purchasing or holding Notes on behalf of or with the assets of any Plan or Non-ERISA arrangement; or (ii) its purchase, holding and subsequent disposition of such Notes shall not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or a violation of any provision of Similar Law.

GENERAL INFORMATION

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream. In addition, the Notes have been accepted for trading in book-entry form by DTC. For the Rule 144A Global Note, the ISIN number is US05969BAA17, the CUSIP number is 05969B AA1 and the Common Code is 085435582. For the Regulation S Global Note, the ISIN number is USP1507SAC19, the CUSIP number is P1507S AC1 and the Common Code is 085435604.

Listing

We have applied to list the Notes on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF market of that Exchange. Copies of our bylaws, the indenture, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements and any quarterly unaudited consolidated financial information included in our published quarterly reports will be available at our principal executive offices, as well as at the offices of the trustee, registrar, paying agent and transfer agent, and at the offices of the Luxembourg listing agent, paying agent and transfer agent, as such addresses are set forth in this offering memorandum. We believe the auditor's reports included herein have been accurately reproduced. We will maintain a paying and transfer agent in Luxembourg for so long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange.

Authorization

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes. Our Board of Directors authorized the issuance of the Notes on January 27, 2011 and ratified such authorization on October 18, 2012.

Financial Position

Except as disclosed in this offering memorandum, there has been no material adverse change in our financial position since June 30, 2012, the date of our latest financial statements included in this offering memorandum.

Litigation

Except as disclosed in this offering memorandum, we are not involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor so far as we are aware is any such litigation or arbitration threatened.

LEGAL MATTERS

The validity of the Notes offered and sold in this offering will be passed upon for us by Davis Polk & Wardwell LLP, New York, New York, United States counsel for us, and for the initial purchasers by Shearman & Sterling LLP, New York, New York, United States counsel for the initial purchasers. Certain legal matters governed by Mexican law will be passed upon for us by Ritch Mueller, S.C. and for the initial purchasers by Bufete Robles Miaja S.C., Mexican counsel for the initial purchasers.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our consolidated financial statements as of December 31, 2011, 2010 and 2009 and for each of the fiscal years ended December 31, 2011, 2010 and 2009 have been audited by Galaz, Yamazaki, Ruíz Urquiza, S.C., member firm of Deloitte Touche Tohmatsu Limited, our independent auditors, as stated in their report included in this offering memorandum.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Condensed Consolidated Interim Financial Statements—Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México and Subsidiaries

Audited Consolidated Financial Statements—Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México and Subsidiaries

Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santar

Unaudited Condensed Consolidated Balance Sheets

As of June 30, 2012 and December 31, 2011
(In millions of Mexican pesos)

Assets	**June 30, 2012**	**December 31, 2011**
Funds available	$ 96,468	$ 84,862
Margin accounts	3,825	7,910
Investment in securities:		
Trading securities	203,183	155,632
Securities available for sale	54,736	61,437
Securities held to maturity	4,975	4,861
	262,894	221,930
Debtors under sale and repurchase agreements	5,832	4,602
Derivatives:		
Trading purposes	87,289	85,083
Hedging purposes	571	897
	87,860	85,980
Valuation adjustment for hedged financial assets	220	122
Performing loan portfolio:		
Commercial loans-		
Commercial or business activity	176,332	162,419
Financial entities loans	606	1,975
Government entities loans	35,554	33,378
	212,492	197,772
Consumer loans	57,043	49,342
Mortgage loans	64,417	61,243
Total performing loan portfolio	333,952	308,357
Nonperforming portfolio:		
Commercial loans -		
Commercial or business activity	1,313	1,926
Government entities loans	-	2
	1,313	1,928
Consumer loans	1,709	1,270
Mortgage loans	1,931	2,118
Total nonperforming portfolio	4,953	5,316
Total loan portfolio	338,905	313,673
Allowance for loan losses	(11,101)	(11,191)
Loan portfolio (net)	327,804	302,482
Other receivables (net)	35,962	13,355
Foreclosed assets (net)	196	253
Property, furniture and fixtures (net)	3,771	5,604
Long-term investment in shares	99	139
Deferred taxes (net)	8,522	8,058
Other assets (net):		
Deferred charges, advance payments and intangibles	3,787	3,715
Other	50	51
	3,837	3,766
Total assets	$ 837,290	$ 739,063

Memorandum accounts

Contingent assets and liabilities
Credit commitments
Assets in trust or mandate:
Trusts
Mandates
Assets in custody or under administration
Collateral received
Collateral received and sold or pledged as guarantee
Investment banking transactions on behalf of third pa
Uncollected interest earned on past due loan portfolio
Other record accounts

The accompanying notes are part of these unaudited condensed consolidated interim financial statements.

Banco Santander (México), S.A., Institución de Banca Múltiple,
Grupo Financiero Santander México and Subsidiaries

Unaudited Condensed Consolidated Statements of Income

For the six-month periods ended June 30, 2012 and 2011
(In millions of Mexican pesos)

	June 30, 2012	June 30, 2011
Interest income	$ 27,298	$ 21,656
Interest expense	(10,893)	(8,162)
Financial margin	16,405	13,494
Provisions for loan losses	(3,962)	(3,435)
Financial margin after provisions for loan losses	12,443	10,059
Commission and fee income	6,465	5,466
Commission and fee expense	(1,160)	(892)
Net gain on financial assets and liabilities	749	912
Other operating income	2,731	559
Administrative and promotional expenses	(8,651)	(7,922)
Total operating income	12,577	8,182
Equity in results of associated companies	34	40
Income before income taxes	12,611	8,222
Current income taxes	(2,840)	(5,026)
Deferred income taxes (net)	341	3,257
Consolidated income before non-controlling interest	10,112	6,453
Non-controlling interest	(1)	(6)
Net income	$ 10,111	$ 6,447

The accompanying notes are part of these unaudited condensed consolidated interim financial statements.

Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santa

Unaudited Condensed Consolidated Statements of Changes in

As of June 30, 2012 and 2011
(In millions of Mexican pesos)

	Paid-in Capital			
	Historical	Restated	Total	Share premiu
Balances, December 31, 2010	$ 7,829	$ 3,262	$ 11,091	$ 20,63
Transfer of prior year's net income	-	-	-	-
Total entries approved by stockholders	-	-	-	-
Comprehensive income-				
Result from valuation of available for sale securities, net	-	-	-	-
Result from valuation of cash flow hedge instruments, net	-	-	-	-
Recoveries of allowance for loan losses previously applied to retained earnings	-	-	-	-
Share of comprehensive income of associated companies accounted by the equity method	-	-	-	-
Initial cumulative effect of change in methodology for measuring allowance for loan losses with respect to states and municipalities loan portfolio, mortgage loans and non revolving consumer loan portfolio, net of deferred taxes	-	-	-	-
Net income	-	-	-	-
Total comprehensive result	-	-	-	-
Balances, June 30, 2011 (unaudited)	7,829	3,262	11,091	20,63
Balances, December 31, 2011	7,829	3,262	11,091	20,63
Capital increase	257	-	257	2,81
Transfer of prior year's net income	-	-	-	-
Dividends declared	-	-	-	-
Total entries approved by stockholders	257	-	257	2,81
Comprehensive income-				
Result from valuation of available for sale securities, net	-	-	-	-
Result from valuation of cash flow hedge instruments, net	-	-	-	-
Recoveries of allowance for loan losses previously applied to retained earnings	-	-	-	-
Share of comprehensive income of associated companies accounted by the equity method	-	-	-	-
Net income	-	-	-	-
Total comprehensive result	-	-	-	-
Balances, June 30, 2012 (unaudited)	$ 8,086	$ 3,262	$ 11,348	$ 23,45

The accompanying notes are part of these unaudited condensed consolidated interim financial statements.

Banco Santander (México), S.A., Institución de Banca Múltiple,
Grupo Financiero Santander México and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

For the six-month periods ended June 30, 2012 and 2011
(In millions of Mexican pesos)

	June 30, 2012	June 30, 2011
Net income	$ 10,111	$ 6,447
Adjustment for line items that do not result in cash flows -		
Result from valuation associated with investing or financing activities	(504)	2,103
Equity in the results of associated companies	(34)	(40)
Impairment losses associated with investing and financing activities	-	30
Depreciation of property, furniture and fixtures	315	313
Amortization of intangible assets	433	384
Provisions	24	7
Current and deferred income taxes	2,499	1,769
	12,844	11,013
Operating activities:		
Margin accounts	4,085	(449)
Investment in securities	(40,648)	(32,544)
Debtors under sale and repurchase agreements	(1,230)	(6,664)
Derivatives-asset	(2,689)	17,306
Loan portfolio-net	(25,322)	(22,321)
Acquisition of loan portfolio	-	(18,110)
Foreclosed assets	33	(220)
Other operating assets	(23,892)	(4,846)
Deposits	15,452	33,645
Bank and other loans	5,251	4,764
Creditors under sale and repurchase agreements	47,220	58,908
Collateral sold or pledged as guarantee	3,288	(5,481)
Derivatives-liability	(2,537)	(12,719)
Other operating liabilities	25,482	12,262
Payments of income taxes	(2,145)	(1,010)
Net cash flows provided by operating activities	15,192	33,534

	June 30, 2012	June 30, 2011
Investing activities:		
Payments for acquisition of mortgage business	-	(22,846)
Proceeds from disposal of property, furniture and fixtures	2,936	4
Payments for acquisition of property, furniture and fixtures	(40)	(73)
Proceeds from disposal of associated companies	-	(2)
Cash dividends received	74	41
Payments for acquisition of intangible assets	(387)	(368)
Net cash flows provided by (used in) investing activities	2,583	(23,244)
Financing activities:		
Capital increase	3,071	-
Cash payment of dividends	(8,075)	(5,690)
Recovery of allowance for loan losses previously applied to retained earnings	32	35
Net cash flows used in financing activities	(4,972)	(5,655)
Net increase in cash and cash equivalents	12,803	4,635
Effects on exchange rate changes on cash and cash equivalents	(1,197)	(2,098)
Cash and cash equivalents at the beginning of the period	84,862	102,141
Cash and cash equivalents at the end of the period	$ 96,468	$ 104,678

The accompanying notes are part of these unaudited condensed consolidated interim financial statements.

Banco Santander (México), S.A., Institución de Banca Múltiple,
Grupo Financiero Santander México and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2012 and 2011 and for the year ended December 31, 2011,
(In millions of Mexican pesos)

1. Principal activity and economic and regulatory environment

Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México (the "Institution") is a subsidiary of Grupo Financiero Santander México, S.A.B. de C.V. (formerly Grupo Financiero Santander, S.A.B. de C.V.) (the "Financial Group"), which holds 99.99% of its common stock. The Institution's corporate purpose is to render banking and credit services, which include taking deposits, acceptance and granting of loans, securities trading and the execution of trust contracts. Such operations are subject to regulations established by, among others, the Credit Institutions Law, the Mexican National Banking and Securities Commission (the "Commission") and Banco de México ("Central Bank").

During the first half of 2012, the macroeconomic indicators have been stable, with inflation of 1.07%, estimated GDP growth of 3.7% and an appreciation of the Mexican peso with respect to the U.S. dollar of (3.87%).

2. Basis of presentation of the unaudited condensed consolidated interim financial statements

Except for the omission of quarterly income statements for the quarters ended June 30, 2012 and 2011, these unaudited condensed consolidated interim financial statements were prepared and are presented in accordance with the criteria established by the Commission, which incorporate on a supplemental basis, the accounting and reporting requirements set forth in Financial Reporting Standard ("NIF") B-9, *Interim Financial Information* ("NIF B-9"). The results of the periods are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the audited financial statements of the Institution and the respective notes for the year ended December 31, 2011 as issued on January 25, 2012.

3. Explanation for translation into English

The accompanying unaudited condensed consolidated interim financial statements have been translated from Spanish into English for use outside of México. Certain accounting practices applied by the Institution may not conform to accounting principles generally accepted in the country of use.

4. Significant accounting policies

The same accounting policies, presentation and methods of computation have been followed in these unaudited condensed consolidated interim financial statements as were applied in the preparation of the Institution's financial statements for the year ended December 31, 2011.

a. ***Monetary unit of the financial statements* -** These unaudited condensed consolidated interim financial statements and notes as of June 30, 2012 and 2011 and for the years ended December 31, 2011, include balances and transactions in Mexican pesos of different purchasing power.

b. ***Basis for consolidation*** - The accompanying unaudited condensed consolidated interim financial statements include those of the Institution, its UDI trusts, and the subsidiaries mentioned below. All significant balances and transactions among the subsidiaries and among the UDI trusts and the Institution have been eliminated.

Below is a breakdown of the consolidated subsidiaries and the Institution's equity percentage as of June 30, 2012:

	Equity percentage
Santander Consumo, S.A. de C.V., SOFOM, E.R.	99.99%
Santander Hipotecario, S.A. de C.V., SOFOM, E.R. (Santander Hipotecario)	87.87%
Instituto Santander Serfin, A.C.	99.99%
Banco Santander, S.A., Fideicomiso 100740	100.00%
Fideicomiso GFSSLPT, Banco Santander, S.A.	93.83%
Santander Holding Vivienda, S.A. de C.V.	99.99%
Santander Servicios Corporativos, S.A. de C.V.	99.99%
Santander Servicios Especializados, S.A. de C.V.	99.99%

During the six-month period ended as of June 30, 2012, no changes have occurred in the method and in the scope of consolidation.

c. ***Earnings per share -*** Basic earnings per share is calculated by dividing the consolidated income before non-controlling interest by the weighted average number of shares outstanding in each period, thus giving a retroactive effect to shares issued due to the capitalization of additional paid-in capital or retained earnings. For the six-month periods ended June 30, 2012 and 2011, the average number of paid-in, outstanding weighted shares was 79,587,537,172 and 78,291,495,726, respectively and the basic earnings per share profit was $ 0.13 pesos and $ 0.08 pesos, respectively.

5. Investment in securities

Trading securities - As of June 30, 2012 and December 31, 2011, trading securities were as follows:

	June 30, 2012			
	Acquisition cost	Accrued interest	Unrealized gain (loss)	Total
Debt instruments:				
Government securities-				
Federal Treasury Securities (CETES)	$ 77,764	$ 2	$ 34	$ 77,800
United Mexican States Bonds (UMS)	935	20	-	955
Brazilian Government Bonds	53	10	2	65
Federal Mexican Government Development Bonds (BONDES)	23,499	3	104	23,606
M and M10 Mexican Government Bonds (M Bonds)	27,982	20	498	28,500
Mexican Bank Saving Protection Bonds (BPATS)	40,933	1	(82)	40,852
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	15,712	7	252	15,971
Private bank-issued securities-				
Promissory notes	655	-	-	655
Unsecured bonds	1,310	2	1	1,313
Private securities -				
Unsecured bonds	843	1	(57)	787
Convertible debt securities	739	5	(57)	687
Commercial paper	31	-	(24)	7
Capital market instruments:				
Shares listed in stock exchanges	8,544	288	-	8,832
Investments in investment funds	22	-	1	23

	June 30, 2012			
	Acquisition cost	Accrued interest	Unrealized gain (loss)	Total
Value date transactions (not settled):				
Government securities -				
Federal Treasury Securities (CETES)	608	-	-	608
Federal Mexican Government Development Bonds (BONDES)	(2,676)	-	1	(2,675)
M and M10 Mexican Government Bonds (M Bonds)	2,133	-	6	2,139
Mexican Bank Saving Protection Bonds (BPATS)	3,327	-	(1)	3,326
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	(268)	-	-	(268)
Total trading securities	$ 202,146	$ 359	$ 678	$ 203,183

	December 31, 2011			
	Acquisition cost	Accrued interest	Unrealized gain (loss)	Total
Debt instruments:				
Government securities-				
Federal Treasury Securities (CETES)	$ 44,294	$ 11	$ 17	$ 44,322
United Mexican States Bonds (UMS)	277	6	1	284
Brazilian Government Bonds	59	8	1	68
US Government Treasury Bills (TBILLS)	13	-	-	13
Federal Mexican Government Development Bonds (BONDES)	923	-	(2)	921
M and M10 Mexican Government Bonds (M Bonds)	34,043	3	111	34,157
Mexican Bank Saving Protection Bonds (BPATS)	41,389	2	110	41,501
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	13,503	-	(2)	13,501
Private bank-issued securities-				
Unsecured bonds	1,981	6	2	1,989
Private securities-				
Unsecured bonds	919	10	(41)	888
Convertible debt securities	950	6	(75)	881
Commercial paper	30	-	(18)	12
Capital market instruments:				
Shares listed in stock exchanges	9,870	-	242	10,112
Investments in investment funds	23	-	-	23

	December 31, 2011			
	Acquisition cost	Accrued interest	Unrealized gain (loss)	Total
Value date transactions (not settled):				
Government securities -				
Federal Treasury Securities (CETES)	407	-	-	407
M and M10 Mexican Government Bonds (M Bonds)	6,149	-	(9)	6,140
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	413	-	-	413
Total trading securities	$ 155,243	$ 52	$ 337	$ 155,632

The investment in CETES as of June 30, 2012 and December 31, 2011, includes the amounts of $266 and $14,124 respectively, which refer to the guarantee on secured loan transactions, in which the lender is the Central Bank and other institutions. As of June 30, 2012 and December 31, 2011, the related liability is reflected in the unaudited condensed consolidated balance sheet line item "Collateral sold or pledged as guarantee" for $18,766 and $15,478, respectively, and was as follows:

	June, 2012		December, 2011	
	Loan term in days	Amount	Loan term in days	Amount
Asset guarantee:				
Central Bank-				
CETES	-	$ -	3	$ 14,124
UDIBONDS	3	4,714	-	-
BONDES	3	13,306	-	-
		18,020		14,124
Other institutions-				
M Bonds	18	1,017	-	-
CETES	7	266	-	-
		1,283	-	-
		$ 19,303	-	$ 14,124
Liability loan				
Central Bank-				
CETES	3	$ 3,898	3	$ 4,497
M Bonds	3	13,840	3	8,046
UDIBONDS	3	9	3	1,094
		17,747		13,637
Other institutions-				
M Bonds	18	789	-	-
Shares listed in stock exchanges	7	230	21	1,841
		1,019		1,841
		$ 18,766		$ 15,478

As of June 30, 2012 and December 31, 2011, have been repurchased $155,281 and $103,840 respectively, for which reason they are considered as a restricted position.

Securities available for sale - As of June 30, 2012 and December 31, 2011, securities available for sale are comprised as follows:

	June 2012				December 2011
	Acquisition Cost	Accrued Interest	Unrealized gain (loss)	Total	Total
Debt instruments:					
Government securities-					
M, M3 and M5 Mexican Government Bonds	$ 15,245	$ 30	$ 591	$ 15,866	$ 23,099
United Mexican States Bonds (UMS)	2,234	1	107	2,342	2,444
Federal Mexican Government Development Bonds (BONDES)	16,941	114	57	17,112	17,128
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	4,313	4	408	4,725	4,340
Mexican Bank Saving Protection Bonds (BPATS)	8,549	30	4	8,583	8,568
Private bank-issued securities-					
Unsecured bonds	501	1	-	502	74
Private securities-					
Unsecured bonds	5,624	161	(179)	5,606	5,784
Total securities available for sale	$ 53,407	$ 341	$ 988	$ 54,736	$ 61,437

As of June 30, 2012 and December 31, 2011 of the government securities related to M Bonds, BONDES, UDIBONDS, UMS and Unsecured bonds, the amounts of $16,044 and $19,340 respectively, have been repurchased, for which reason they are classified as restricted positions.

Securities held to maturity - As of June 30, 2012 and December 31, 2011, securities held to maturity were as follows:

	June 2012	December 2011
Government securities-		
Special CETES - program of credit support and additional benefits to the States and Municipalities	$ 2,198	$ 2,151
Special CETES - support program for housing loan debtors	3,150	3,083
Total securities held to maturity	5,348	5,234
Less-		
Reserve for Special CETES	(373)	(373)
Total securities held to maturity, net	$ 4,975	$ 4,861

6. Sale and repurchase agreements

When the Institution acts as purchaser:

	June 30, 2012		
	Debtors under sale and repurchase agreements	Collateral received and sold in repurchase agreements	Position-net
Government securities-			
Federal Mexican Government Development Bonds (BONDES)	$ 26,457	$ (25,091)	$ 1,366
Federal Treasury Securities (CETES)	2,419	(2,232)	187
Subtotal	28,876	(27,323)	1,553
Private bank-issued securities-			
Unsecured bonds	4,468	(189)	4,279
Subtotal	4,468	(189)	4,279
Total	$ 33,344	$ (27,512)	$ 5,832

	December 31, 2011		
	Debtors in repurchase agreements	Collateral received and sold for repurchase agreements	Position-net
Government securities-			
Federal Mexican Government Development Bonds (BONDES)	$ 19,729	$ (19,258)	$ 471
Federal Treasury Securities (CETES)	310	(5)	305
Subtotal	20,039	(19,263)	776
Private bank-issued securities -			
Unsecured bonds	4,438	(711)	3,727
Promissory notes	99	-	99
Subtotal	4,537	(711)	3,826
Private securities:			
Unsecured bonds	459	(459)	-
Subtotal	459	(459)	-
Total	$ 25,035	$ (20,433)	$ 4,602

As of June 30, 2012 and December 31, 2011, the sale and repurchase agreements performed by the Institution, acting as purchaser, were agreed at terms ranging between 3 and 28 days.

When the Institution acts as seller:

	June 30, 2012	December 31, 2011
Government securities-		
Federal Mexican Government Development Bonds (BONDES)	$ 44,565	$ 20,421
Federal Treasury Securities (CETES)	77,512	28,893
M and M10 Mexican Government Bonds (M Bonds)	13,684	35,439
Mexican Bank Saving Protection Bonds (BPATS)	14,598	13,284
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	10,521	17,840
United Mexican States Bonds (UMS)	2,133	2,301
Subtotal	163,013	118,178

	June 30, 2012	December 31, 2011
Private bank-issued securities-		
Unsecured bonds	1,520	599
Subtotal	1,520	599
Private securities -		
Unsecured bonds	5,588	4,124
Subtotal	5,588	4,124
Total	$ 170,121	$ 122,901

As of June 30, 2012 and December 31, 2011 the sale and repurchase agreements performed by the Institution, acting as seller, were agreed at terms ranging between 3 and 28 days.

7. Derivatives

As of June 30, 2012 and December 31, 2011 the financial derivatives instruments position is as follows

	June 30, 2012		December 31, 2011	
Asset position	Nominal amount	Asset position	Nominal amount	Asset position
Futures-				
Foreign currency futures	$ 670	$ 4	$ 1,586	$ 48
Interest rate futures	1,460	68	6,149	26
Index futures	4,551	143	3,789	64
Forwards-				
Foreign currency forwards	72,671	2,654	64,984	4,245
Interest rate forwards			1,600	35
Equity forwards	3,011	163	4,848	117
Options-				
Foreign currency options	8,192	114	24,661	629
Interest rate options	146,867	2,254	123,025	1,865
Index options	11,945	581	10,256	824
Equity securities options	3,159	608	10,603	925
Swaps-				
Interest rate swaps (IRS)	1,532,686	57,085	1,411,802	49,123
Cross currency swaps (CCS)	267,022	23,615	256,319	27,182
Total trading	2,052,234	87,289	1,919,622	85,083
Swaps-				
Cash flow hedge (IRS)	24,825	571	28,535	842
Fair value hedge (CCS)	-	-	3,869	55
Total hedge	24,825	571	32,404	897
Total position	$ 2,077,059	$ 87,860	$ 1,952,026	$ 85,980

Liability position	June 30, 2012 Nominal amount	June 30, 2012 Liability position	December 31, 2011 Nominal amount	December 31, 2011 Liability position
Futures-				
Foreign currency futures	$ 1,863	$ 67	$ 373	$ 16
Interest rate futures	557,797	1,546	1,945,481	3,894
Index futures	8,494	486	4,645	111
Forwards-				
Foreign currency forwards	73,593	1,975	98,406	5,714
Interest rate forwards	1,000	26	1,740	35
Equity forwards	8,189	199	8,210	224
Options-				
Foreign currency options	8,610	121	25,163	663
Interest rate options	192,961	3,876	280,322	4,472
Index options	8,621	683	12,535	714
Equity securities options	2,800	277	7,080	851
Index warrants	17,186	411	-	-
Swaps-				
Interest rate swaps (IRS)	1,577,024	52,007	1,376,177	43,655
Cross currency swaps (CCS)	282,481	24,560	237,631	27,647
Total trading	2,740,619	86,234	3,997,763	87,996
Swaps-				
Fair value hedge (CCS)	2,099	170	-	-
Cash flow hedge (IRS)	19,227	1,283	20,572	2,354
Fair value hedge (IRS)	7,670	273	2,832	147
Total hedges	28,996	1,726	23,404	2,501
Total position	$ 2,769,615	$ 87,960	$ 4,021,167	$ 90,497

The guarantees and/or collateral received and delivered for the derivative financing transactions as of June 30, 2012 and December 31, 2011 are comprised as follows

Delivered	Type of collateral	June 30, 2012	December 31, 2011
Funds available			
Foreign Financial Entity	Cash	$ 16,119	$ 15,003
Mexican Financial Entity	Cash	3,330	3,261
		$ 19,449	$ 18,264
Trading securities			
Mexican Financial Entity	Government bonds	$ 1,588	$ 1,514
		$ 1,588	$ 1,514

Received	Type of collateral	June 30, 2012	December 31, 2011
Sundry creditors and other payables			
Foreign Financial Entity	Cash	$ 4,738	$ 2,234
Mexican Financial Entities	Cash	1,151	1,108
		$ 5,889	$ 3,342

8. Loan portfolio

As of June 30, 2012 and December 31, 2011 the loans granted by type of customer and currency are as follows*:*

Loan type	June 30, 2012 Mexican Pesos	US Dollars	UDIS	Total
Performing loan portfolio:				
Commercial loans				
Commercial or business activity	$ 135,926	$ 40,405	$ 1	$ 176,332
Financial entities loans	604	2	-	606
Government entities loans	25,330	10,221	3	35,554
Consumer loans	57,043	-	-	57,043
Mortgage loans	61,612	1,133	1,672	64,417
	280,515	51,761	1,676	333,952
Non-performing loan portfolio:				
Commercial loans				
Commercial or business activity	1,269	44	-	1,313
Consumer loans	1,709	-	-	1,709
Mortgage loans	1,546	123	262	1,931
	4,524	167	262	4,953
	$ 285,039	$ 51,928	$ 1,938	$ 338,905

Loan type	December 31, 2011 Mexican Pesos	US Dollars	UDIS	Total
Performing loan portfolio:				
Commercial loans				
Commercial or business activity	$ 120,040	$ 42,377	$ 2	$ 162,419
Financial entities loans	1,975	-	-	1,975
Government entities loans	22,525	10,850	3	33,378
Consumer loans	49,342	-	-	49,342
Mortgage loans	58,224	1,187	1,832	61,243
	252,106	54,414	1,837	308,357
Non-performing loan portfolio:				
Commercial loans				
Commercial or business activity	1,783	143	-	1,926
Government entities loans	2	-	-	2
Consumer loans	1,270	-	-	1,270
Mortgage loans	1,723	162	233	2,118
Non-performing loan portfolio	4,778	305	233	5,316
Total loan portfolio	$ 256,884	$ 54,719	$ 2,070	$ 313,673

During first half of 2012, the average placement interest rate was 12.27% and 3.42% for loans denominated in Mexican pesos and US dollars, respectively, and during 2011, this rate was 12.14% and 3.15% for loans denominated in Mexican pesos and US dollars and UDIS, respectively.

Loans to related parties - As of June 30, 2012 and December 31, 2011, loans have been granted to related parties amounting to $70,135 and $63,105, respectively, which were approved by the Board of Directors and otherwise complied in all respects with regulations set forth in Article 73 of the Law on Credit Institutions. As of June 30, 2012 and December 31, 2011 these amounts include a loan granted to Santander Consumo, S.A. de C.V. SOFOM, E.R. (the SOFOM) for $40,048 and $34,936, respectively, as well as a loan of $16,944 and $18,548, respectively, to Santander Hipotecario, which were eliminated from the balance sheet on consolidation.

Available lines of credit under credit card loans - As of June 30, 2012 and December 31, 2011, authorized credit available under credit card loans amounts to $159,491 and $112,672, respectively.

Government entities loans - As of June 30, 2012 and December 31, 2011, loans granted to the Federal Government agencies, including those of the support programs and agreements, were as follows:

	June 30, 2012	December 31, 2011
Loans derived from credit support programs	$ 322	$ 484
Guarantees for Final Recovery Remnants of FOVI credits	429	434
Other loans granted to government agencies:		
Simple loans	30,550	29,188
General loans	958	1,076
Restructured loans	1,630	1,653
Discounted portfolio loans	1,665	545
	34,803	32,462
Total government entities loans	$ 35,554	$ 33,380

As of June 30, 2012, aging of non-performing portfolio is as follows:

	Period			
Portfolio	From 1 to 180	From 181 to 365	From 365 to 2 years	Total
Commercial or business activity	$ 655	$ 271	$ 387	$ 1,313
Consumer loans	1,698	10	1	1,709
Mortgage loans	658	982	291	1,931
	$ 3,011	$ 1,263	$ 679	$ 4,953

As of December 31, 2011, aging of non-performing portfolio is as follows:

	Period			
Portfolio	From 1 to 180	From 181 to 365	From 365 to 2 years	Total
Commercial or business activity	$ 1,129	$ 202	$ 595	$ 1,926
Government entities loans	2	-	-	2
Consumer loans	1,255	12	3	1,270
Mortgage loans	1,634	424	60	2,118
	$ 4,020	$ 638	$ 658	$ 5,316

For the six-month periods ended June 30, 2012 and 2011, interest generated on the loan portfolio of the Institution is as follows:

Interest	June 30, 2012	June 30, 2011
Commercial or business activity	$ 6,563	$ 5,417
Financial entities loans	46	128
Government entities loans	754	504
Non revolving consumer loans	3,199	2,408
Mortgage loans	3,302	2,188
	13,864	10,645
Credit card loans	3,801	3,148
Total	$ 17,665	$ 13,793

9. Allowances for loan losses

As of June 30, 2012 and December 31, 2011, the allowances for loan losses were $11,101 and $11,191, respectively, and were comprised as follows:

June 30, 2012	Performing portfolio	Non-performing portfolio	Total
Commercial and financial entities loans	$ 2,148	$ 756	$ 2,904
Credit cards and consumer loans	6,277	1,132	7,409
Mortgage loans	443	345	788
Total	$ 8,868	$ 2,233	$ 11,101

December 31, 2011	Performing portfolio	Non-performing portfolio	Total
Commercial and financial entities loans	$ 2,218	$ 952	$ 3,170
Credit cards and consumer loans	6,178	840	7,018
Mortgage loans	598	405	1,003
Total	$ 8,994	$ 2,197	$ 11,191

As of June 30, 2012 and December 31, 2011, the Institution maintained an allowance for loan losses equivalent to 224% and 211% of the non-performing portfolio, respectively.

The allowances for loan losses resulting from the loan portfolio classifications of June 30, 2012 and December 31, 2011 recorded in the same years, together with the additional allowances required and those established for the UDIS trust, were classified as follows:

	June 30, 2012		December 31, 2011	
Degree of credit risk	Classification of the portfolio by degree of risk	Amount of allowance recorded	Classification of the portfolio by degree of risk	Amount of allowance recorded
A	$ 299,531	$ 3,128	$ 275,060	$ 3,560
B	50,392	3,464	51,959	3,327
C	5,530	1,894	5,943	1,922
D	2,467	1,748	1,907	1,347
E	623	680	822	867
Base classification portfolio	358,543	10,914	335,691	11,023
Portfolio excluded (includes government agencies with federal government guarantee, among others)	5,310	-	5,394	-
Total portfolio	363,853	10,914	341,085	11,023

Degree of credit risk	June 30, 2012 Classification of the portfolio by degree of risk	June 30, 2012 Amount of allowance recorded	December 31, 2011 Classification of the portfolio by degree of risk	December 31, 2011 Amount of allowance recorded
Less-				
Guarantees and credit openings	(24,624)	-	(27,134)	-
Unaccrued financial burden	(38)	-	(49)	
Interest collected in advance on factoring operations and eliminations	(286)	-	(229)	-
Loan portfolio, net	$ 338,905	$ 10,914	$ 313,673	11,023
Allowance for loan losses resulting from the mortgage loans portfolio restructuring process		87		76
Additional allowance for loan losses		100		92
Total allowances for loan losses		$ 11,101		$ 11,191

Additional allowance for loan losses:

As of June 30, 2012 and December 31, 2011 the Institution has recorded an additional allowance for loan losses over and above the minimum requirements based on the standard model of the Commission and the allowance for loan losses in the restructuring process denominated "Commerce Fund" for commercial and mortgage loans portfolio, of $187 and $168. As of June 30, 2012 and December 31, 2011, the amounts of the allowance for loan losses includes the allowance to cover the cost of the loan portfolio support program.

Changes in the allowances for loan losses for the six-months period ended June 30, 2012 and for the year ended December 31, 2011 are as follows:

	June 2012	December 2011
Opening balances	$ 11,191	$ 10,254
Provisions (applications) with a charge (credit) to:		
Allowance for loan losses of Santander Hipotecario based on its fair value valuation	-	2,514
Provisions for loan losses	3,962	6,556
Provisions for loan losses recorded against shareholders' equity (states and municipalities, mortgages and non-revolving consumer loan portfolio)	-	864
Recoveries credited in results from retained earnings	(32)	(76)
Charge-offs against allowance for loan losses	(3,627)	(8,982)
Exchange result	(14)	-
Recoveries credited to other operating income	(378)	-
Others	(1)	61
Closing balances	$ 11,101	$ 11,191

10. Property, furniture and fixtures

In the second quarter of 2012, the Institution entered into a contract with Fibra Uno, S.A. de C.V. (hereinafter, "Fibra Uno") related to the sale and subsequent 20 year leaseback of 220 properties (branches, offices and parking lots). Such transaction was subject to the approval of the corresponding regulatory entities which was granted in May 2012. The sale amounted to $3,334 and resulted in a gain reported in Other operating income of $1,710.

The lease contract, which is accounted for as an operating lease, is non-cancellable and includes an option to renew up to an additional four consecutive periods of five years each with a market rates to be determined on the date of the renewal. The lease agreement includes rent adjustments based on the Mexican National Consumer Price Index and does not contain volume based or leveraged contingent rent payment clauses or purchase options, or impose any restrictions on the Institution's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

As of June 30, 2012, the future minimum lease payments required under the Institution's operating lease are as follows:

Minimum payments	June 30, 2012
2013	$ 253
2014	253
2015	253
2016	266
2017	276
2018 and thereafter	3,952
Total commitments for minimum payments under operating lease	$ 5,253

11. Issuance program

At June 30, 2012 and December 31, 2011, the balance of debt issuances by the Institution amounted to $ 5,947 and $5,949, respectively, under the general program, and $404 and $305, in structured bank bonds issued pursuant to private placements, respectively, and $15,230 in unsecured bonds issued pursuant to public placements as of both periods.

Instrument	June 30, 2012	December 31, 2011	Term	Rate
Unsecured Bonds	$ 18	$ 20	04/16/2013	Guaranteed rate subject to IPC(1) yield
Unsecured Bonds	4	4	07/15/2013	Guaranteed rate subject to IPC yield
Unsecured Bonds	5,000	5,000	04/18/2013	TIIE Rate + 12bps
Unsecured Bonds	1,700	1,700	03/09/2021	8.91%
Unsecured Bonds	3,700	3,700	04/16/2013	TIIE Rate + 15bps
Unsecured Bonds	5,000	5,000	01/27/2014	TIIE Rate + 20bps
Unsecured Bonds	730	730	01/27/2014	TIIE Rate + 20bps
Unsecured Bonds	2,800	2,800	09/21/2016	TIIE Rate + 50bps
Unsecured Bonds	1,300	1,300	09/21/2016	TIIE Rate + 50bps
Structured bank bonds	76	76	05/23/2013	IPC, S&P 500, Dow Jones and Euro Stoxx 50
Structured bank bonds	100	100	06/25/2013	IPC, Dow Jones, Euro Stoxx 50 and Nikkei 225
Structured bank bonds	749	749	07/30/2013	IPC, Dow Jones, Euro Stoxx 50 and Nikkei 225
Structured bank bonds	10	10	07/11/2014	TIIE Rate
Structured bank bonds	92	92	05/29/2014	TIIE Rate
Structured bank bonds	-	105	01/05/2012	1.00%
Structured bank bonds	-	28	01/05/2012	6.00%
Structured bank bonds	-	70	01/25/2012	3.00%
Structured bank bonds	200	-	05/05/2014	TIIE Rate
Structured bank bonds	57	-	05/17/2013	TIIE Rate
Structured bank bonds	18	-	08/07/2012	Subject to exchange rate movements
Structured bank bonds	27	-	07/26/2012	5.06%
	21,581	21,484		
Add -				
Unpaid accrued interest	297	192		
Total issuance	$ 21,878	$ 21,676		

(1) IPC refers to Mexican Stock Exchange Prices and Quotations Index

12. Comparative maturities of principal assets and liabilities

The maturities of the significant assets and liabilities held as of June 30, 2012 were as follows:

	6 months	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets:					
Funds available (1)	$ 96,344	$ -	$ -	$ 124	$ 96,468
Margin accounts	3,825	-	-	-	3,825
Trading securities	29,809	77,756	38,685	56,933	203,183
Securities available for sale	7,416	14,943	25,591	6,786	54,736
Securities held to maturity	-	-	2,012	2,963	4,975
Debtors under sale and repurchase agreements	5,832	-	-	-	5,832
Derivatives	4,385	3,527	26,476	53,472	87,860
Performing loan portfolio (2)	78,070	40,272	139,037	76,573	333,952
Other receivables, (net)	32,220	1,098	909	1,735	35,962
Total assets	$ 257,901	$ 137,596	$ 232,710	$ 198,586	$ 826,793
Liabilities:					
Demand deposits	$ 204,617	$ -	$ -	$ -	$ 204,617
Time deposits	124,705	1,120	450	-	126,275
Credit instruments issued	44	9,004	11,087	1,743	21,878
Bank and other loans	15,537	5,442	3,587	238	24,804
Creditors under sale and repurchase agreements	170,121	-	-	-	170,121
Collateral sold or pledged as guarantee	18,766	-	-	-	18,766
Derivatives	5,874	5,225	28,060	48,801	87,960
Creditors from settlement of transactions	52,521	-	-	-	52,521
Sundry creditors and other payables	26,190	6,065	-	-	32,255
Total liabilities	$ 618,375	$ 26,856	$ 43,184	$ 50,782	$ 739,197
Assets less liabilities	$ (360,474)	$ 110,740	$ 189,526	$ 147,804	$ 87,596

(1) Funds available include Monetary Regulation Deposit with Central Bank. Such deposit as of June 30, 2012 is $31,320, and cannot be disbursed.

(2) The heading of performing loan portfolio includes the credit card loans and non-revolving consumer loans, which is recoverable depending on the individual credit circumstances.

13. Related party transactions and balances

Transactions are carried out among subsidiaries and affiliate companies of the Institution (related companies), such as investment, deposits, rendering of services, etc., most of which generate income for one entity and an expense for another. Transactions and balances among consolidating companies were eliminated, while those of unconsolidated entities remain in effect.

Balances receivable and payable with related companies greater than 1% of the Institution net capital as of June 30, 2012 and December 31, 2011, are:

	June 2012	December 2011
Assets-		
Funds available (1)	$ 8,318	$ 5,930
Debtors under sale and repurchase agreements (2)	$ 1,823	$ 1,125
Derivatives (asset) (3)	$ 19,463	$ 23,697
Performing loan portfolio (4)	$ 1,992	$ 1,528
Other receivables, (net) (5)	$ 4,157	$ 885
Liabilities-		
Time deposits (6)	$ 831	$ 7,482
Credit instruments issued (7)	$ 1,002	$ 955
Creditors under sale and repurchase agreements (8)	$ 56,011	$ 49,989
Bank and other loans	$ 234	$ 21
Derivatives (liability) (3)	$ 26,310	$ 28,490
Other payables (9)	$ 5,009	$ 308

For the six month periods ended June 30, 2012 and 2011, the most significant transactions carried out by the Institution with related companies (at face values) were as follows:

	2012	2011
Income recorded-		
Interest income	$ 105	$ 150
Commission and fee income	$ 2,044	$ 1,683
Net gain on financial assets and liabilities	$ 24,661	$ 68,332
Expense recorded-		
Interest expense	$ 1,553	$ 1,161
Administrative and promotional expenses	$ 110	$ 521
Net gain (loss) on financial assets and liabilities	$ 28,625	$ 66,896
Technical advisory services	$ 699	$ 402

(1) As of June 30, 2012, transactions with related companies reported under Funds available, mainly include:

- Time deposits with Banco Santander, S.A. (Spain) of $20 for terms of 1 to 21 days and 4.9% rate.
- Collateral on transactions with derivative financial instruments traded with Benelux, S.A. N.V. of $4,930; with Abbey National Treasury Services plc (London) of $827 and with Banco Santander, S.A. (Spain) of $2,013.

(2) As of June 30, 2012, transactions with related companies reported in Debtors under sale and repurchase agreements are:

	Amount	Term	Rate
Debtors under sale and repurchase agreements- Casa de Bolsa Santander, S.A. de C.V.	$ 1,823	3 days	4.47%

(3) As of June 30, 2012 asset and liability transactions with derivative financial instruments are as follows:

	Assets	Liability
Banco Santander, S.A. (Spain)	$ 8,869	$ 11,198
Santander Benelux, S.A., N.V.	10,434	14,867
Abbey National Treasury Services plc (London)	157	244
Others	3	1
	$ 19,463	$ 26,310

(4) As of June 30, 2012, the companies: Santander Capital Structuring, S.A. de C.V. (SCS) and Promociones y Servicios Polanco, S.A. de C.V. (Polanco) and Produban Servicios Informáticos Generales, S.L. (PSIG), received a loan from the Banco Santander (México), S.A. for $963, $139 and $890, respectively, at the rates of 5.62% (SCS), 7.27% (Polanco) and 3.40% to (PSIG).

(5) As of June 30, 2012, Other receivables, (net) are as mainly follows:

- Commissions receivable from Zurich Santander Seguros México, S.A. of $595 for the placement of insurance policies through Institution's branches.
- Transactions not settled for $2,687 to Banco Santander, S.A. (Spain)
- Balances available in investment contracts for $308 with Banco Santander, S.A. (Spain)
- Administrative services of $177 from Gestión Santander, S.A. de C.V.
- Transactions not settled for $170 to Casa de Bolsa Santander, S.A. de C.V.

(6) As of June 30, 2012, time deposits are as follows:

Entity	Concept	Amount	Term	Rate
ISBAN México, S.A. de C.V.	Promissory notes	$ 74	3	4.40%
ISBAN México, S.A. de C.V.	Promissory notes	271	3	4.40%
ISBAN México, S.A. de C.V	US Dollars	156	1	0.15%
Produban Servicios Informáticos Generales, S.L.	Promissory notes	73	3	4.40%
Produban Servicios Informáticos Generales, S.L.	US Dollars	176	1	0.15%
Others	US Dollars and Pesos	81	various	various
		$ 831		

(7) As of June 30, 2012, Zurich Santander Seguros México, S.A. holds an investment in securities issued by the Institution. The characteristics of this investment are as follows:

Series		Amount	Term	Rate
BSANT 1-08	$	88	1,819	2.96%
BSANT 2-08		100	1,821	0.99%
BSANT 3-08		762	999	0.99%
FBANSAN		52	-	0.32% and 0.35%
	$	1,002		

(8) As of June 30, 2012, with related companies reported in Creditors under sale and repurchase agreements are:

Entity		Amount	Term	Rate
Casa de Bolsa Santander, S.A. de C.V.	$	55,206	3 to 7	4.5 to 4.8%
ISBAN México, S.A. de C.V.		500	14	4.3%
Grupo Financiero Santander México, S.A.B. de C.V.		305	3	4.00%
	$	56,011		

(9) As of June 30, 2012, transactions with related companies reported in Sundry creditors and other payables are:

- Transactions pending settlement of $4,782 with Banco Santander, S.A. (Spain).
- Transactions pending settlement of $54 with Casa de Bolsa Santander, S.A. de C.V.

The Institution executed professional service contracts with ISBAN México, S.A. de C.V. (Isban), Ingeniería de Software Bancario, S.L. Spain (Isban Spain), Produban México, S.A. de C.V. (Produban) and Produban Servicios Informaticos Generales, S.L. (Produban Spain) which provide systems development and operation services, among others. Similarly, the Institution acquired software developed by Isban, Isban Spain, Produban and Produban Spain for $173 as of June 30, 2012 and $697 as of December 31, 2011.

Management believes that transactions with related parties are performed according to the prices and payment amounts that would be utilized with or between independent parties for comparable transactions.

14. Income taxes

In 2012, the Institution is subject to income tax (ISR) and business flat tax (IETU).

ISR is calculated considering certain effects of inflation, such as depreciation calculated according to values at constant prices. In addition, the effect of inflation on certain monetary assets and liabilities is accrued or deducted for the purpose of determining taxable income

The corporate rate for the years 2011 and 2012 is 30%, 29% for the year 2013 and 28% for 2014.

IETU is generally determined based on a measure of cash flow basis revenues, deductions and certain tax credits. However, for the operations involving the payment and collection of interest, the Institution, the SOFOM and Santander Hipotecario, IETU is based on the net margin based on what is accrued. The IETU Law (LIETU) establishes that the tax will be incurred at the rate of 17.5%.

Based on its financial projections and in accordance with INIF 8, Effects of the Business Flat Tax, management determined that it will pay mostly ISR, and will not pay IETU over the foreseeable future. Accordingly, the Institution recognizes deferred ISR.

The income tax provision for the six months ended June 30, 2012 reflects effective tax rates of 19.82% and 21.51% for the six-month period ended June 30, 2011.

Tax reviews and issues

a. On April 16, 2007, the Institution filed a proceeding for annulment against the ruling issued by the Tax Administration Service which, among other items, determined a tax liability of $110 for 2003 for income tax, inflation adjustments, surcharges and fines.

   This proceeding was sent to the Seventh Regional Metropolitan Court of the Federal Tax Court for study and the respective ruling. On August 21, 2007, the Court issued notification regarding the admission of this lawsuit, together with the requirement that the Institution submit certain evidence, which has since been filed. Consequently, the Institution is currently waiting for the tax authorities to file their response to this proceeding.

   On August 14, 2008, the Institution was notified of the agreement in which the defendant authority filed a motion for reconsideration against the admission decree.

   On August 20, 2008, the response to the motion for reconsideration filed by the defendant authority was submitted, for which reason the Institution is waiting for the Chamber to issue its ruling accepting such response as filed.

   On March 12, 2009, the Institution was notified of the interlocutory judgment declaring that the constitutional appeal filed by tax authorities was unfounded.

   On March 19, 2009, the Institution's expert appeared to accept his designation in this trial, having filed his report on April 15 of that year.

   The expert of the authorities recently issued its expert report and filed it with the Tax Court.

   The Tax Court analyzed the reports filed by both the Institution and the authority's experts and due to the discrepancies between them, appointed a third party expert, who recently issued his accounting expert report.

   Currently, the Institution is waiting for a ruling on the accounting report submitted by the aforementioned expert, and on the related copy requested.

b. Through official notice 900-06-03-2010-4377 issued by the Central Administration for Audits of the Financial Sector, a tax liability was determined, for which a total of $5 was provisioned for income tax allegedly unpaid, together with restatement, surcharges and fines, all related to the year 2004.

   On May 31, 2010 an action for annulment was filed against the ruling contained in such official notice, which was turned over to the Third Metropolitan Regional Court of the Federal Tax Court.

   Through a ruling issued on August 2, 2010, the action for annulment was admitted and the evidence was taken as duly submitted.

   The Institution was recently notified of the ruling whereby the Tax Court acknowledged that the defendant authority had responded to the proceeding for annulment by submitting evidence and extending the expert witness's report submitted by the Institution.

   Similarly, in such agreement the Tax Court asked the Institution expert to accept the Position, which he accepted on August 2, 2011, and granted a term for filing his respective report. An extension was requested and granted.

On January 26, 2012, the Institution's expert filed his expert report with the Tax Court which has not yet been admitted.

Notwithstanding the above, we filed a constitutional appeal against the admission of the addition made by the challenged authority to the expert evidence offered by the Institution, which was ruled on by the Tax Court confirming the May 2, 2011 agreement through which the expert evidence offered by the tax authorities was admitted and added to that offered by the Institution.

Furthermore, through an agreement dated March 2, 2012, the Tax Court deemed that the request made to the Federal Public Prosecutor to present a certified copy of the fraud report filed by the Institution was fulfilled. In such agreement, the Tax Court stated that the Federal Public Prosecutor states that he is unable to submit such certified copy and that it summoned the Institution to state whatever may be in its best interest in regard thereto.

Such summons was satisfied through a document dated May 3, 2012, challenging the alleged inability stated by the Federal Public Prosecutor. Furthermore, the Tax Court again summoned the Federal Public Prosecutor to submit the requested report on facts.

To date, the tax authority's expert has not filed his accounting expert report and the Tax Court has not issued an agreement confirming that the request made to the Institution has been fulfilled.

15. Stockholders' equity

As of June 30, 2012 and December 31, 2011, capital stock, at par value, was as follows:

	Number of shares			
	June 30, 2012	**December 31, 2011**	**June 30, 2012**	**December 31, 2011**
Fixed Capital-				
Series "F" Shares	67,792,912,762	65,643,213,565	$ 6,780	$ 6,564
Series "B" Shares	13,062,491,041	12,648,282,161	1,306	1,265
Total	80,855,403,803	78,291,495,726	$ 8,086	$ 7,829

During a Stockholders' Annual Ordinary General Meeting held on February 22, 2012, and given that the financial statements had been approved by that Meeting, a net income of $13,700 was reported for fiscal 2011, with the following allocations.

a) From the net income for the year obtained by the Institution, individually, of $7,207, to the "Retained earnings" account.

b) The net income obtained during the year by its subsidiaries of $6,493, to the "Retained earnings" account.

c) Increase the Institution's common stock by up to $256 (face value), by issuing 2,563,908,077 common, nominative shares representing the Institution's equity, with a par value of $0.10 pesos each, of which 2,149,699,197 are Series "F" shares and 414,208,880 are Series "B" shares. These shares will be offered to the Institution's stockholders to be subscribed and paid-in at $1.1975 pesos per share, of which $0.10 is the par value of each share and the rest is the premium per share

16. Contingencies

As of June 30, 2011 and December 31, 2011, the Institution was the defendant in various legal proceedings and claims arising in the ordinary course of business. While this situation represents contingent liabilities, according to the Institution's management and their legal, tax and labor lawyers, in the event of an unfavorable final decision, they do not expect any significant effect on the consolidated financial statements.

a. *IPAB hedges*

As of June 30, 2012 and December 31, 2011, Grupo Financiero Serfin (which was merged with Grupo Financiero Santander Mexicano, S.A., currently Grupo Financiero Santander México) was the defendant in various legal proceedings and claims arising in the ordinary course of business. While this situation represents contingent liabilities, according to management and its legal, tax and labor lawyers, in the event of an unfavorable final decision, they do not expect any significant adverse effect on the consolidated financial statements. This is because all or most of them are covered by the agreement to purchase shares of the capital stock of Grupo Financiero Serfin, S.A. and Subsidiaries (Grupo Financiero Serfin) entered into by the Institution and IPAB, as described below.

In accordance with the contract of sale of shares of Grupo Financiero Serfin concluded between the Financial Group and the IPAB, IPAB is obliged to respond to the Financial Group for the amount resulting from any type of administrative, judicial or arbitration against Grupo Financiero Serfin and/or its financial entities (Banca Serfin, merged with Banco Santander Mexicano, currently denominated Banco Santander (México), Operadora de Bolsa Serfin, merged with Casa de Bolsa Santander Mexicano, currently denominated Casa de Bolsa Santander, Almacenadora Serfin, Factoraje Serfin, merged with Factoring Santander, currently Factoraje Santander Serfin, subsequently merged with Banco Santander Mexicano, currently known as Banco Santander (México)), and Seguros Serfin, formerly Seguros Serfin Lincoln, the absorbing company of Seguros Santander Mexicano, later denominated Seguros Santander and finally sold during July 2011 filed before the agreement was executed (May 23, 2000) or occurring within a three-year period following this date, which result in a final adverse court decision from a Mexican authority or court, or a foreign court if the decision is ratified in México, or a final arbitration judgment duly ratified and executed in México.

According to Clause 11 of the above agreement, IPAB is liable before the buyer and designated buyer, accordingly, for any amount of taxes assessed on Grupo Financiero Serfin and/or its financial entities by the Mexican tax authorities, including contributions to the Mexican Social Security Institute (IMSS) and National Institute of the Workers' Housing Fund (INFONAVIT). This liability, however, will apply only to taxes, penalties, surcharges and tax restatements payable prior to the date of transfer of title to the shares of Grupo Financiero Serfin, or generated through that date, but paid on a later date.

Also, IPAB is therefore liable before the buyer and designated buyer for any amount resulting from labor claims related to a final adverse court decision issued against Grupo Financiero Serfin and/or its financial entities, or derived from any agreement executed before the respective arbitration panels, provided that such claims were filed prior to the date of transfer of ownership of the shares of Grupo Financiero Serfin.

The share purchase agreement also establishes that: a) the reserves established by Grupo Financiero Serfin and Banca Serfin for the respective amounts of $546 and $91 (face value), relative to legal and labor contingencies at the transfer date of the shares, as described in Exhibit G of the agreement, must be restated against Group Financiero Serfin's stockholders' equity for an amount equal to the result of applying the CETES rate to the reserves and b) the fees and expenses incurred in connection with services rendered to defend these entities from any legal, labor, arbitration or administrative claim, will be borne by IPAB. If this agreement is not fulfilled, IPAB will be released from any obligation to cover the above-mentioned contingencies.

If Grupo Financiero Serfin and/or its financial entities are required to transfer to IPAB any liabilities resulting in disputes due to administrative, legal or arbitration proceedings against Grupo Financiero Serfin and/or its financial entities, the Institution will have Grupo Financiero Serfin and/or its financial entities take all the necessary steps to transfer such liabilities to IPAB or to any legal vehicle or entity appointed by IPAB.

Neither Grupo Financiero Serfin nor its financial entities recorded any contingency reserve, in addition to that recorded prior to their acquisition by the Institution, in connection with any item generated from transactions performed prior to the transfer date of the shares of Grupo Financiero Serfin to the Institution, since IPAB will take the measures mentioned in the preceding paragraphs if any contingency should arise.

On September 30, 2010, the Institution signed an amendment agreement derived from the contract of purchase and sale of shares of Grupo Financiero Serfin, S.A. and subsidiaries (Grupo Financiero Serfin) entered into between Grupo Financiero Santander México, S.A.B. de C.V. and the IPAB.

In accordance with this amendment agreement, the Institution reimbursed to the IPAB the amount of $905, which was recorded under the heading of "Sundry creditors and other payables". This amount comes from the reserves contributed by the IPAB under the contract signed on May 23, 2000, as indicated in the preceding paragraphs.

As of June 30, 2012 and December 31, 2011, the amount of the maximum contingencies related to the lawsuits that are covered by the IPAB, without considering those not determined, is $165 and $168, respectively.

As a result of the amendment agreement to the contract of purchase and sale of shares dated September 30, 2010, it was agreed that the Institution could adjust the reserve created regardless of the nature of the contingency in question, on which basis the Institution will recover the Value Added Tax paid and will not pay the 5% fee for the reimbursement procedure. Based on such agreement, in 2012 and 2011, the reserve was affected by $26 and $40, respectively, as a result of the remnant of expenses incurred in dealing with several lawsuits.

b. *Fiduciary Area:*

As of June 30, 2012 and December 31, 2011, the Institution has recorded a provision of $140 (face value), to cover the contingency derived from the fiduciary area in which the Institution acts as trustee.

The Institution's fiduciary division is currently analyzing internal documentation. The Institution's management believes that there will be no additional contingencies that could materially affect the Institution's consolidated financial statements or those of the Institution.

c. *Legal contingencies:*

As of June 30, 2012 and December 31, 2011, as a result of its business activities (without considering contingencies derived from hedges with the IPAB), the Institution has had certain claims and lawsuits representing contingent liabilities filed against it. Notwithstanding, management and its internal and external legal, tax and labor advisers do not expect such proceedings to have a material effect on the consolidated financial statements in the event of an unfavorable outcome. As of June 30, 2012 and December 31, 2011 the Institution has recorded contingency reserves for the amounts of $1,133 and $1,184 respectively, that have been included under the "Sundry creditors and other payables" account, which, based on the opinion of its internal and external legal advisers, management considers to be adequate.

17. Financial margin

For the six months periods ended of June 30, 2012, and 2011, the main items comprising the financial margin are:

	June 2012		
	Appraised amount		
	Mexican Pesos	Foreign currency	Total
Interest income:			
Interest and yield on loan portfolio	$ 13,162	$ 702	$ 13,864
Interest and yield on loan portfolio related to credit card transactions	3,801	-	3,801
Interest and yield on securities	6,502	38	6,540
Interest on funds available	1,421	25	1,446

	June 2012		
	Appraised amount		
	Mexican Pesos	Foreign currency	Total
Interest and premium on sale and repurchase agreements and securities loans	1,275	-	1,275
Interest on margin accounts	42	-	42
Commissions collected on loan originations	330	-	330
Total interest income	26,533	765	27,298
Interest expense:			
Interest from demand deposits	(1,058)	(3)	(1,061)
Interest from time deposits	(2,778)	(20)	(2,798)
Interest on bank and other loans	(222)	(61)	(283)
Interest from credit instruments issued	(590)	(2)	(592)
Interest and premium on sale and repurchase agreements and securities loans	(6,159)	-	(6,159)
Total interest expense	(10,807)	(86)	(10,893)
Financial margin	$ 15,726	$ 679	$ 16,405

	June 2011		
	Appraised amount		
	Mexican Pesos	Foreign currency	Total
Interest income			
Interest and yield on loan portfolio	$ 10,139	506	$ 10,645
Interest and yield on loan portfolio related to credit card transactions	3,148	-	3,148
Interest and yield on securities	5,538	84	5,622
Interest on funds available	1,230	18	1,248
Interest and premium on sale and repurchase agreements and securities loans	628	-	628
Interest on margin accounts	95	-	95
Commissions collected on loan originations	270	-	270
Total interest income	21,048	608	21,656
Interest expense:			
Interest from demand deposits	(640)	(3)	(643)
Interest from time deposits	(2,470)	(34)	(2,504)
Interest on bank and other loans	(345)	(53)	(398)
Interest from credit instruments issued	(352)	(4)	(356)
Interest and premium on sale and repurchase agreements and securities loans	(4,261)	-	(4,261)
Total interest expense	(8,068)	(94)	(8,162)
Financial margin	$ 12,980	514	$ 13,494

18. Net gain on financial assets and liabilities

For the six-month periods ended June 30, 2012 and 2011, Net gain on financial assets and liabilities are comprised as follows:

	June 2012	June 2011
Valuation result		
Foreign exchange	$ 29	$ (11)
Derivatives	(8)	(3,862)
Equity	58	(1,321)
Debt instruments	499	(111)
	578	(5,305)
Purchase-sale result		
Foreign exchange	338	728
Derivatives	(650)	4,724
Equity	590	481
Debt instruments	(107)	284
	171	6,217
Total	$ 749	$ 912

19. Commission and fee income

For the six-month periods ended June 30, 2012 and 2011, Commission and fee income are comprised as follows:

	June 2012	June 2011
Credit and debit cards	$ 1,790	$ 1,572
Account management	353	259
Collection and payment services	736	658
Insurance	1,410	1,063
Investment funds management	621	616
Financial advisory services	508	336
Capital markets and securities activities	205	167
Checks	179	192
Foreign trade	271	271
Other commissions and fees	392	332
	$ 6,465	$ 5,466

20. Information by segments

As of June 30, 2012 and 2011, the Institution provides comprehensive financial services to its customers, including banking and loan transactions, brokerage, and retirement pension fund management.

The main segment information for the six-month period ended June 30, 2012, is as follows:

	Commercial bank	Global wholesale banking	Corporate activities	Total
		(In millions of pesos)		
Financial margin	$ 12,390	$ 1,966	$ 2,049	$ 16,405
Provisions for loan losses	(3,893)	(52)	(17)	(3,962)
Financial margin after provisions for loan losses	8,497	1,914	2,032	12,443
Net commission and fee income	4,721	649	(65)	5,305
Net gain on financial assets and liabilities	315	555	(121)	749
Other operating income	884	-	1,847	2,731
Administrative and promotional expenses	(7,791)	(958)	98	(8,651)
Total operating income	6,626	2,160	3,791	12,577
Equity in the results of associated companies	(2)	1	35	34
Income before income taxes	$ 6,624	$ 2,161	$ 3,826	$ 12,611

The main business segment information for the six-month period ended June 30, 2011, is as follows:

	Commercial bank	Global wholesale banking	Corporate activities	Total
Financial margin	$ 9,916	$ 1,728	$ 1,850	$ 13,494
Provisions for loan losses	(3,408)	(66)	39	(3,435)
Financial margin after provisions for loan losses	6,508	1,662	1,889	10,059
Net commission and fee income	4,043	542	(11)	4,574
Net gain on financial assets and liabilities	616	214	82	912
Other operating income	585	-	(26)	559
Administrative and promotional expenses	(6,824)	(993)	(105)	(7,922)
Total operating income	4,928	1,425	1,829	8,182
Equity in the results of associated companies	-	-	40	40
Income before income taxes	$ 4,928	$ 1,425	$ 1,869	$ 8,222

21. Comprehensive risk management

The Institution regards risk management as a competitive of a strategic nature, whose ultimate goal is to maximize stockholder value. This risk management is defined, both conceptually and organizationally, as the comprehensive treatment of the different risks (market, liquidity, credit, counterparty, operating, legal and technology risks) assumed by the Institution in the normal course of business. The manner in which the Institution manages the risk inherent in its transactions is essential to understand and determine how its future financial position and create value in the long term.

To measure the risk within a global approach, the Value at Risk methodology (VaR) is followed. VaR is defined as the statistical estimate of the potential loss in the value of a certain position within a determined time period and a determined reliance level. VaR provides a universal measure of the level of exposure of the various risk portfolios and allows a comparison of the risk level assumed by different instruments and markets, expressing each portfolio level using a unique figure in economic units. A more comprehensive explanation of this methodology is included in Note 35 to the Institution's audited consolidated financial statements as of December 31, 2011.

The VaR as of the June 2012 close was:

	VaR (In thousands of pesos)	%
Trading desks	**110,689.81**	**0.15%**
Market Making	51,333.74	0.07%
Propietary Trading	90,675.65	0.12%
Risk factor	**110,689.81**	**0.15%**
Interest rate	110,907.41	0.15%
Exchange rate	12,446.18	0.02%
Variable income	13,121.10	0.02%

Management of assets and liabilities

As part of the financial Management performed by the Institution, the sensitivity of the financial margin (NIM) and net worth (MVE) of the different balance sheet headings is analyzed against interest rate variations. This sensitivity derives from the differences between the expiration and modification dates of interest rates generated in the different headings of assets and liabilities. The analysis is based on the classification of each heading sensitive to interest rates over time, depending on their dates of amortization, expiration or contractual amendment of the applicable interest rate.

The NIM and MVE sensitivity analysis of the second quarter of 2012 is as follows:

	Sensitivity 1% NIM				Sensitivity 1% MVE			
	Apr 2012	May 2012	June 2012	Average	Apr 2012	May 2012	June 2012	Average
Pesos GAP	64%	55%	70%	63%	78%	76%	64%	72%
US Dollars GAP	7%	20%	19%	15%	62%	3%	57%	41%

Liquidity risk

The Institution manages expirations of assets and liabilities, performing oversight of maximum profiles for time lags. This oversight is based on analyses of asset and liability expirations, both contractual and related to management. Please note that the Liquidity Risk is limited in terms of a Liquidity level accumulated over a one-month period and an established Liquidity Coefficient.

The liquidity coefficient of the last quarter of 2012 is as follows:

	Liquidity Coefficient			
	Apr 2012	May 2012	June 2012	Average
Balance Mexican pesos GAP	38%	40%	33%	37%
Balance USD dollars GAP	21%	25%	23%	23%

22. Subsequent events

During a Stockholders' Ordinary General Meeting held on August 13, 2012, a payment of cash dividends to the Institution's stockholders of $7,300 from the "Retained earnings" account was approved. The dividends declared in such Meeting were paid on September 13, 2012.

In connection with the public offering of Series "B" shares of Grupo Financiero Santander México, S.A.B. de C.V., which took place on September 26, 2012 through the Mexican Stock Exchange, on September 21, 2012 the Institution established a management and investment trust with Casa de Bolsa Santander, S.A. de C.V. to prepare a share-based payment plan to reserve the amount of bonuses that will be given over three years to a group of top officers, on the condition that such officers must use the bonuses to acquire shares of the Financial Group. Note that to date the trust has already acquired the shares, which are part of the trust's assets.

Our holding company obtained shareholder approval on August 13, 2012 to change its name from Grupo Financiero Santander, S.A.B. de C.V. to Grupo Financiero Santander México, S.A.B. de C.V., and such name change was subsequently authorized by the Mexican Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público, or "SHCP"). We obtained shareholder approval on September 12, 2012 to change our name to Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, and such name change was subsequently authorized by the Commission.

* * * * * *

Independent Auditors' Report to the Board of Directors and Stockholders of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander and Subsidiaries

We have audited the accompanying consolidated balance sheets of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander and subsidiaries (the "Institution") as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011, all expressed in millions of Mexican pesos. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico, which require that we plan and conduct the audit to obtain reasonable assurance that the financial statements are free from material misstatements and that they are prepared in accordance with the accounting criteria established by the Mexican National Banking and Securities Commission (the "Commission") set forth in the *"General Provisions Applicable to Credit Institutions and Regulated Multiple Purpose Finance Entities"* (the "Provisions")". An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting criteria used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Notes 1, 3 and 4 to the accompanying consolidated financial statements describe the operations of the Institution and the conditions of the economic and regulatory environment that affect it. Furthermore, Note 1 to the financial statements describes the significant recent events of the Institution, as well as the related effects on its financial position and results. Note 4 to the consolidated financial statements describes the accounting criteria prescribed by the Commission in the Provisions, as well as through general and specific mandates issued by the Commission establishing the accounting treatment to be applied by the Institution for certain transactions. Note 3 to the consolidated financial statements establishes the main differences between the accounting criteria prescribed by the Commission and Mexican Financial Reporting Standards, which are used to prepare the financial statements of non-regulated Mexican entities, as well as the differences resulting from the general and specific mandates issued by the Commission to the Institution and its main subsidiaries specifying the accounting for certain transactions. Note 4 establishes that the Commission issued modifications to the classification methodologies for credit portfolio of states and municipalities and mortgage and nonrevolving consumer portfolio, by allowing credit institutions to recognize initial cumulative financial effect derived from the application of the aforementioned methodologies with a charge to stockholders' equity in 2011. The effect of these changes was US$43 (net of deferred taxes). Such effects were recorded under the heading of "Retained earnings", which forms part of stockholders' equity, in accordance with the methodology established by the Commission.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander and subsidiaries, as of December 31, 2011 and 2010, and the results of their operations, changes in their stockholders' equity and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with the accounting criteria established by the Commission.

Our audits also comprehended the translation of the Mexican peso amounts into U.S. dollars and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. The Auditors report and the consolidation financial statements and the financial statement amount into U.S. dollars have been translated into English for the convenience of users outside México.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

CPC Guillermo A. A. Roa Luvianos

April 25, 2012

Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2011 and 2010
(In millions of Mexican pesos)

Assets	2011 (Millions of U.S. $)	2011	2010
Funds available	$ 6,084	$ 84,862	$ 102,141
Margin accounts	567	7,910	7,812
Investment in securities:			
Trading securities	11,158	155,632	139,613
Securities available for sale	4,405	61,437	59,974
Securities held to maturity	349	4,861	4,619
	15,912	221,930	204,206
Debtors under sale and repurchase agreements	330	4,602	10,834
Derivatives:			
Trading purposes	6,100	85,083	96,528
Hedging purposes	64	897	1,287
	6,165	85,980	97,815
Valuation adjustment for hedged financial assets	9	122	8
Performing loan portfolio:			
Commercial loans-			
Commercial or business activity	11,645	162,419	128,906
Financial entities loans	142	1,975	4,719
Government entities loans	2,393	33,378	15,841
	14,180	197,772	149,466
Consumer loans	3,538	49,342	40,136
Mortgage loans	4,391	61,243	34,136
Total performing loan portfolio	22,108	308,357	223,738
Nonperforming portfolio:			
Commercial loans-			
Commercial or busines activity	138	1,926	1,731
Goverment entities loans	-	2	-
	138	1,928	1,731
Consumer loans	91	1,270	1,479
Mortgage loans	152	2,118	608
Total nonperforming portfolio	381	5,316	3,818
Total loan portfolio	22,489	313,673	227,556
Allowance for loan losses	(802)	(11,191)	(10,254)
Loan portfolio (net)	21,687	302,482	217,302
Other receivables (net)	958	13,355	19,399
Foreclosed assets (net)	18	253	163
Property, furniture and fixtures (net)	402	5,604	5,481
Long-term investment in shares	10	139	109
Deferred taxes (net)	578	8,058	5,083
Other assets (net)			
Deferred charges, advance payments and intangibles	266	3,715	2,082
Other	4	51	47
	270	3,766	2,129
Total assets	$ 52,989	$ 739,063	$ 672,482

Liabilities	2011 (Millions of U.S. $)	2011	2010
Deposits:			
Demand deposits	$ 12,767	$ 178,071	$ 156,912
Time deposits -			
General public	8,687	121,163	106,096
Money market	1,176	16,409	13,846
	9,863	137,572	119,942
Credit instruments issued	1,554	21,676	6,237
	24,185	337,319	283,091
Bank and other loans:			
Demand loans	170	2,371	10,696
Short-term loans	1,087	15,156	6,033
Long-term loans	145	2,027	2,134
	1,402	19,554	18,863
Creditors under sale and repurchase agreements	8,812	122,901	114,254
Collateral sold or pledged as guarantee:			
Securities loans	1,110	15,478	21,299
Derivatives:			
Trading purposes	6,309	87,996	91,020
Hedging purposes	179	2,501	28
	6,448	90,497	91,048
Other payables:			
Income taxes payable	32	447	3
Employee profit sharing payable	10	146	142
Creditors from settlement of transactions	2,049	28,580	36,305
Sundry creditors and other payables	2,249	31,370	26,971
	4,341	60,543	63,421
Deferred revenues and other advances	76	1,061	1,238
Total liabilities	46,413	647,353	593,214
Stockholders' equity			
Paid-in capital:			
Capital stock	795	11,091	11,091
Share premium	1,480	20,636	20,636
	2,275	31,727	31,727
Other capital:			
Capital reserves	674	9,401	8,468
Retained earnings	2,522	35,176	23,721
Result from valuation of available for sale securities, net	33	464	805
Result from valuation of cash flow hedge instruments, net	85	1,188	1,619
Cumulative effect from conversion	1	9	9
Net income	982	13,700	12,884
	4,297	59,938	47,506
Non-controlling interest	3	45	35
Total stockholders' equity	6,575	91,710	79,268
Total liabilities and stockholders' equity	$ 52,989	$ 739,063	$ 672,482

Continued

Memorandum accounts (see Note 32)

	2011	2010
Contingent assets and liabilities	31,331	30,638
Credit commitments	162,528	213,167
Assets in trust or mandate:		
Trusts	145,755	130,423
Mandates	1,556	1,479
Assets in custody or under administration	2,891,995	2,660,335
Collateral received	42,458	35,890
Collateral received and sold or pledged as guarantee	20,442	3,207
Investment bank operations on account of third parties	3,779,955	4,288,193
Uncollected interest earned on past due loan portfolio	701	928
Other record accounts	394,788	278,268
	$ 7,471,509	$ 7,642,528

The accompanying notes are part of these consolidated financial statements.

Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander and Subsidiaries

Consolidated Statements of Income

For the three years ended December 31, 2011, 2010 and 2009
(In millions of Mexican pesos)

	2011 (Millions of U.S. $)	2011	2010	2009
Interest income	$ 3,362	$ 46,885	$ 39,626	$ 45,934
Interest expense	(1,303)	(18,172)	(13,411)	(18,772)
Financial margin	2,059	28,713	26,215	27,162
Provisions for loan losses	(470)	(6,556)	(8,425)	(15,320)
Financial margin after provisions for loan losses	1,589	22,157	17,790	11,842
Commission and fee income	810	11,303	10,076	10,043
Commission and fee expense	(143)	(1,998)	(1,770)	(2,438)
Net gain (loss) on financial assets and liabilities	60	834	3,954	7,266
Other operating income	84	1,177	54	673
Administrative and promotional expenses	(1,246)	(17,382)	(15,380)	(15,096)
Total Operating income	1,154	16,091	14,724	12,290
Equity in results of associated companies	5	69	27	89
Income from continuing operations before income taxes	1,159	16,160	14,751	12,379
Current income taxes	(296)	(4,125)	(1,933)	(4,650)
Deferred income taxes (net)	120	1,675	(318)	3,421
	(176)	(2,450)	(2,251)	(1,229)
Income from continuing operations	983	13,710	12,500	11,150
Discontinued operations	-	-	386	34
Consolidated income before non-controlling interest	983	13,710	12,886	11,184
Non-controlling interest	(1)	(10)	(2)	(2)
Net income	$ 982	$ 13,700	$ 12,884	$ 11,182

The accompanying notes are part of these consolidated financial statements.

Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the three years ended December 31, 2011, 2010 and 2009
(In millions of Mexican pesos)

	Paid-in Capital				
	Historical	Restated	Total	Share premium	Capital reserves
Balances, December 31, 2008	$ 7,829	$ 3,262	$ 11,091	$ 20,636	$ 6,4
Transfer of prior year's result	-	-	-	-	9
Dividends declared	-	-	-	-	-
Total entries approved by stockholders	-	-	-	-	9
Comprehensive income-					
Result from valuation of available for sale securities, net	-	-	-	-	-
Result from valuation of cash flow hedge instruments, net	-	-	-	-	-
Recoveries of credit reserves and of securities previously applied to retained earnings	-	-	-	-	-
Share of comprehensive income of associated companies accounted by the equity method	-	-	-	-	-
Cumulative increase in credit card portfolio reserves due to change in methodology, net of deferred tax	-	-	-	-	-
Net income	-	-	-	-	-
Total comprehensive result	-	-	-	-	-
Balances, December 31, 2009	7,829	3,262	11,091	20,636	7,3
Transfer of prior year's earnings	-	-	-	-	1,1
Dividends declared	-	-	-	-	-
Total entries approved by stockholders	-	-	-	-	1,1
Comprehensive income-					
Result from valuation of available for sale securities, net	-	-	-	-	-
Result from valuation of cash flow hedge instruments, net	-	-	-	-	-
Recoveries of credit reserves and of securities previously applied to retained earnings	-	-	-	-	-
Share of comprehensive income of associated companies accounted by the equity method	-	-	-	-	-
Net income	-	-	-	-	-
Total comprehensive result	-	-	-	-	-
Balances, December 31, 2010	7,829	3,262	11,091	20,636	8,4
Transfer of prior year's earnings	-	-	-	-	9
Total entries approved by stockholders	-	-	-	-	9
Comprehensive income-					
Result from valuation of securities available for sale, net	-	-	-	-	-
Result from valuation of cash flow hedge instruments, net	-	-	-	-	-
Recoveries of credit reserves and of securities previously applied to retained earnings	-	-	-	-	-
Share of comprehensive income of associated companies accounted by the equity method	-	-	-	-	-
Initial cumulative effect of change in methodology for measuring loan loss reserves with respect to states and municipalities credit porftfolio, mortgages and nonrevolving consumer portfolio, net of deferred taxes	-	-	-	-	-
Net income	-	-	-	-	-
Total comprehensive result	-	-	-	-	-
Balances, December 31, 2011	$ 7,829	$ 3,262	$ 11,091	$ 20,636	$ 9,4

The accompanying notes are part of these consolidated financial statements.

Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2011, 2010 and 2009
(In millions of Mexican pesos)

	2011 (Millions of U.S. $)	2011	2010	2009
Net income	$ 982	$ 13,700	$ 12,884	$ 11,182
Adjustment for line items that do not require cash flows -				
Result from valuation associated with investing or financing activities	(261)	(3,647)	1,309	1,339
Equity in the results of associated companies	(5)	(69)	(27)	(89)
Impairment losses associated with investing and financing activities	2	30	33	88
Depreciation of property, furniture and fixtures	44	617	623	597
Amortizations of intangible assets	60	840	774	732
Provisions	3	48	140	72
Current and deferred income taxes	176	2,450	2,251	1,229
Discontinued operations	-	-	(386)	(34)
	1,002	13,969	17,601	15,116
Operating activities:				
Margin accounts	(7)	(98)	(4,787)	4,373
Investment in securities	(1,306)	(18,212)	(23,526)	5,338
Debtors under sale and repurchase agreements	447	6,232	2,056	(12,485)
Derivatives-asset	796	11,105	(18,594)	(695)
Loan portfolio-net	(3,448)	(48,098)	(20,933)	17,415
Acquisition of credit portfolio	(1,298)	(18,110)	-	-
Foreclosed assets	(6)	(90)	(115)	(81)
Other operating assets	382	5,334	(352)	11,785
Deposits	3,888	54,227	37,978	(58,791)
Bank and other loans	49	690	9,118	(11,910)
Creditors under sale and repurchase agreements	620	8,647	(16,255)	(861)
Collateral sold or pledged as guarantee	(417)	(5,820)	11,820	4,809
Derivatives-liability	(40)	(552)	15,026	(7,430)
Subordinated debentures outstanding	-	-	(3,933)	(250)
Other operating liabilities	167	2,332	29,011	(16,142)
Payments of income taxes	(176)	(2,453)	(5,321)	(3,942)
Net cash provided by operating activities	653	9,103	28,794	(53,753)

	2011 (Millions of U.S. $)	2011	2010	2009
Investing activities:				
Payments for acquisition of mortgage business	(1,638)	(22,846)	-	-
Proceeds from disposal of property, furniture and fixtures	3	36	29	39
Payments for acquisition of property, furniture and fixtures	(54)	(748)	(489)	(443)
Proceeds from disposal of subsidiaries and associated companies	-	(2)	191	5
Cash dividends received	3	40	41	52
Payments for acquisition of intangible assets	(62)	(861)	(866)	(877)
Proceeds from disposal of other long-lived assets	-	-	341	-
Proceeds from disposal of assets from discontinued operations	-	-	100	-
Net cash used in investing activities	(1,748)	(24,381)	(653)	(1,224)
Financing activities:				
Cash payment of dividends	(408)	(5,690)	(3,000)	-
Recovery of reserves previously applied to retained earnings	5	76	62	57
Net cash used in financing activities	(403)	(5,614)	(2,938)	57
Net (decrease) increase in cash	(1,498)	(20,892)	25,203	(54,920)
Adjustment to cash flows for changes in Exchange rate	259	3,613	(1,206)	(1,302)
Funds available at the beginning of the year	7,323	102,141	78,144	134,366
Funds available at the end of the year	$ 6,084	$ 84,862	$ 102,141	$ 78,144

The accompanying notes are part of these consolidated financial statements.

Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander and Subsidiaries

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, 2010 and 2009
(In millions of Mexican pesos)

1. Principal activity and economic and regulatory environment

Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander (the "Institution") is a subsidiary of Grupo Financiero Santander, S.A.B. de C.V. (the "Financial Group") , which holds 99.99% of its common stock and is regulated by, among others, the Credit Institutions Law and the General Provisions issued by the Mexican National Banking and Securities Commission (the "Commission") and Banco de México ("Central Bank"). The Institution's and its corporate purpose is to render banking and credit services under the terms of applicable laws, which services include, among others, reception of deposits, acceptance of loans, granting of credits, trading securities and the execution of trust contracts.

During 2011, the global economic environment has shown signs of instability, as reflected in reductions in the classification of sovereign debt of certain developed countries issued by ratings agencies. Such events have caused uncertainty among global investors, which in turn has led to high volatility in securities and foreign exchange markets, limited availability of credit and a lack of liquidity in global financial markets. These circumstances have adversely affected the profitability of the Institution's trading income.

Significant events -

Acquisition of the mortgage business of GE Capital México (currently known as Santander Hipotecario, S.A. de C.V., SOFOM ER) --

During December 2010, the Institution entered into a purchase agreement for the mortgage business operations of GE Capital Mexico. The transaction included the acquisition of a business which holds a portfolio of mortgage loans valued at $21,926. The acquisition was approved by the local regulatory agencies in March 2011.

GE Capital Mexico maintained absolute control over the business until the closing date, which was April 29, 2011.

On the aforementioned acquisition date, the Institution acquired control of the following entities: GE Consumo México, S.A. de C.V., SOFOM ENR (currently known as "Santander Hipotecario, S.A. de C.V. SOFOM ER"), GE Holding México, S.A. de C.V. (currently known as "Santander Holding Vivienda, S.A. de C.V."), GE Money Servicios Administrativos de Monterrey, S. de R.L. de C.V. (currently known as "Santander Servicios Corporativos, S.A. de C.V.") and PMS Servicios Administrativos, S. de R.L. de C.V. (currently known as "Santander Servicios Especializados, S.A. de C.V."). Consideration paid consisted primarily of settlement of GE Capital Mexico's intercompany payable with its parent company of $21,009, and a payment for $2,042, related to the valuation of stockholders' equity as of April 29, 2011 pursuant to the agreement.

As a result of this operation, during the months of May, June and December 2011, the Institution's management analyzed the fair values of the assets and liabilities acquired in this transaction, which generated goodwill for $1,589. The most important adjustments in the accounting of the purchase were those related to the reduction in the value of the credit portfolio for $2,052 and the reduction in the value of the foreclosed assets in the amount of $247, resulting in a deferred tax asset effect of $710. At this date, the Institution is in the process of concluding its analysis to identify and quantify the intangible assets generated on the acquisition, as the case may be, in accordance with Financial Reporting Standard B-7 "Business Acquisitions" (NIF B-7). In conformity with such Standard, the Institution has a maximum of one year as of the acquisition date to identify and recognize intangible assets resulting from the business acquisition.

Below we present the principal assets and liabilities acquired from GE Capital Mexico valued at fair value as of the acquisition date:

Heading		
Cash	$	205
Mortgage loans, net		19,552
Foreclosed assets, net		136
Accounts receivable		934
Other assets		615
Total assets		21,442
Other liabilities		322
Total liabilities		322
Net assets acquired	$	21,120

Acquisition of credit portfolio -

With the aim of maintaining relationships with regional customers at the local level, in the months of January, February and April 2011, the Institution acquired loans previously held by foreign related parties with Mexican companies or whose holding company of the borrowing entity is Mexican. The Institution acquired loans with a total carrying value of $14,365 during January and February 2011, and additional loans with a carrying value of $4,029 during April 2011. The acquired loans were recorded in the balance sheet under "Performing loan portfolio".

The price paid for the credits acquired during the months of January and February was $14,062, representing a discount from the carrying amount of $303, of which the Institution's management recorded $112 in earnings of the year under the heading of "Other operating income", for the amount of the provisions for loan losses created as of the acquisition date. The excess amount of $191 was recorded as a deferred credit, which will be amortized as the aforementioned credits are collected, in accordance with Bulletin B-6 “Credit Portfolio” issued by the Commission.

Also, for those loans acquired during April 2011 whose purchase price was $4,048, the Institution's management recorded a deferred charge of $19, which refers to the difference between the portfolio acquisition price and the contractual value of the credits, which will be amortized over the remaining life of the credits

The consideration paid for the acquisitions of such loans was consistent with market values.

2. Explanation for translation into English

The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of accounting criteria prescribed by the Commission. Certain accounting practices applied by the Institution may not conform to accounting principles generally accepted in the country of use.

In addition, solely for the convenience of users, the financial statements, except for the consolidated statements of changes in stockholders’ equity, as of and for the year ended December 31, 2011, have been translated into United States of America (USD dollars) at the rate of Ps. 13.9476 per USD dollar, the rate of exchange determined by Mexican Central Bank as of December 31, 2011. The presentation of USD dollar amounts should not be construed as a representation that the Mexican peso amounts shown could be converted into USD dollars at such rato or at any other rate.

3. Principal differences with Mexican Financial Reporting Standards

The consolidated financial statements have been prepared in conformity with the accounting criteria established by the Commission , which, in the following cases, differ from Mexican Financial Reporting Standards (MFRS, individually referred to as *Normas de Información Financiera* or NIFs) commonly applied in the preparation of financial statements for other kinds of unregulated companies:

– Depending on their nature, sundry debtor amounts that are not collected in 60 days are reserved in the consolidated statement of income, regardless of the likelihood of recovery by the Institution.

– The accrual of interest earned on credit transactions is suspended when the unpaid balance is considered non-performing. Insofar as the credit is maintained in the non-performing portfolio, interest earned is controlled in memorandum accounts. When such non-performing interest is collected, it is recognized directly in earnings under “interest income”. As of January 2010, the NIF establish that interest or returns accrued on accounts receivable derived from bad debts should not be recognized in the financial statements because they should be treated as contingent assets.

– The Commission establishes methodologies to determine a provision for loan losses based on the expected losses using formulas prescribed by the Commission. MFRS require the creation of a provision for loan losses based on an evaluation of loan recoverability, but does not establish a specific methodology for determining such allowance.

– The valuation and recording of the allowance created in March 2000 in regard to long-term Special UDI Treasury Bills (CETES) is not required by MFRS. As of December 31, 2011, 2010 and 2009, the Institution recorded loan portfolio allowances of $373, $373 and $427, respectively, and income of $54 and $40, as of December 31, 2010 and 2009, respectively, was recorded in the consolidated statements of income under “Other operating income” when the allowance was cancelled due to the repurchase by Central Bank of the Special UDI CETES. During the year 2011, as a result of the advance termination of the Debtors support programs of the Federal Government, there was no buyback of CETES Special UDIS, for which reason the Institution did not cancel the reserve in that year.

– As a result of the Commission’s authorization through official letter No. 601-I-DGSIF “C”-38625 issued in March 2001, as of December 31, 2011 and 2010, the Institution recorded loan portfolio allowances of $113 and $179, respectively, resulting from its restructuring process, of which $76 and $98, respectively, are additional allowances in excess of the minimum allowances required by the Commission. Based on the Commission’s authorization, these allowances were recorded in 2001 against retained earnings instead of to earnings as required by MFRS. Furthermore, that authorization establishes that any recoveries of loans subject to these allowances must be credited to retained earnings instead of in the statement of income. For the years ended December 31, 2011, 2010 and 2009, the subsidiaries of the Institution have recovered $76, $62 and $57, respectively.

– The accounting criteria of the Commission allow for reclassifications of the category of securities held to maturity, or of trading securities to that of available-for-sale under extraordinary circumstances (for example, a lack of market liquidity, or when there is no active market for the securities, among others), which should be assessed and, as the case may be, validated through the express authorization of the Commission. The Interpretation to Financial Recording Standards (INIF) No. 16, “*Transfer from category of primary financial instruments for trading purposes”* does not contain any restriction on carrying out the aforementioned classifications, subject to compliance with the requirements established therein.

– The contribution or margin accounts (delivered and received) used when derivative financial instruments are negotiated in non-recognized markets are recorded under “Funds available ” and “Sundry creditors and other payables”, respectively, instead of under the “Derivatives” line item as required by MFRS.

– Current Employee Statutory Profit Sharing (PTU) is presented in the income statement under the heading of "Administrative and promotional expenses". In accordance with the MFRS, current PTU is presented under the heading of "Other revenues and expenses".

– Up to December 31, 2010, segregated embedded derivatives were presented together with the host contract, instead of presenting them separately as established by MFRS.

– On October 25, 2010 and on October 5, 2011, the Commission modified the methodologies applicable to the creation of allowances for loan losses of nonrevolving consumer credit portfolios and housing mortgage portfolios and of credits owed by States and Municipalities, respectively, based on expected loss models, which went into effect during 2011. The Commission establishes that the initial cumulative financial effect derived from the application of the classification methodologies should be recorded directly in stockholders' equity within the heading of "Retained earnings". In conformity with NIF B-1 "Accounting changes and error corrections", changes in accounting estimates should be applied prospectively with the initial cumulative effect recognized in results for the year.

– The accounting criteria of the Commission establish that in fair value hedges, the adjustment to record changes in fair value of the hedged item is presented under a separate heading in the balance sheet, instead of presenting it together with the hedged item, as required by MFRS.

– Under the accounting criteria of the Commission deferred tax assets related to the allowance for the nonrecoverable deferred tax assets are only recognized such assets are expected to be realized in the over the short-term. Under MFRS, the deferred tax asset is recognized for the total benefits expected to be realized from deductible temporary differences resulting from comparing the accounting and tax balances, without considering the recovery period for such purpose.

– In the accounting criteria of the Commission, the counterparty risk is not considered for the valuation of the over-the-counter (OTC) financial derivatives, in contrast to MFRS.

– The accounting criteria of the Commission establish that in credit portfolio acquisitions, the amortized cost basis of the portfolio acquired must be recorded under the heading of credit portfolio, and any difference arising compared to the acquisition price, when it is less than the contractual value of the portfolio, in earnings up to the amount of any provision for loan losses created, as the case may be, and the excess as a deferred credit, which will be amortized as the respective collections are made, based on the percentage that the latter represent of the contractual value of the credit. When the acquisition price exceeds the contractual value of the portfolio, it will be recorded as a deferred charge, which will be amortized as the respective collections are made, based on the percentage that these represent of the contractual value of the credit. In accordance with the NIF, the portfolio should be recognized at fair value as of the acquisition date; i.e., at the purchase price.

– The accounting criteria of the Commission establish that the preparation of the statement of cash flow should be based on the indirect method, starting from the net result. In accordance with the NIF B-2 "Statement of cash flow", it may be prepared based on the direct or indirect method and starting from the result before taxes.

4. Significant accounting policies

The significant accounting policies applied by the Institution are in conformity with the accounting criteria established by the Commission in the *General Provisions Applicable to Credit Institutions and Regulated Multiple Purpose Financing Entities* (the "Provisions"), in its circulars and in general and specific official mandates, which require that management make certain estimates and utilize certain assumptions to determine the valuation of items included in the consolidated financial statements and to make required disclosures. Although the actual results may differ, management believes that the estimates and assumptions utilized were appropriate under the circumstances.

Based on accounting criterion A-1 of the Commission, the accounting of the Institution shall be in conformity with MFRS as promulgated by the Mexican Board of Financial Reporting Standards (CINIF), except when the Commission believes that a specific regulation or accounting treatment should be applied on the basis that the institutions subject to its rules carry out specialized transactions.

Changes in accounting policies –

Changes in the Accounting Criteria of the Commission –

Changes that occurred during 2011

During 2011, the Federal Official Gazette published certain modifications to the accounting criteria for Credit Institutions and Regulated Multiple Purpose Financing Entities.
The purpose of these changes is to achieve consistency with International Financial Reporting Standards (IFRS), and to provide more complete financial information with improved disclosures. Such changes principally affected investments in securities, derivatives and hedging operations, the credit portfolio, and the presentation of the basic financial statements.

The most significant effects of these changes are as follows:

- The presentation of the income statement is comprehensively restructured for purposes of compliance with MFRS. The headings of "Other products" and "Other expenses" are eliminated and the items which comprise these headings are now presented within the heading of "Other operating income”.

- The accounting standard related to the treatment of collateral in derivatives transactions in unrecognized markets (over-the-counter) is clarified. They will be accounted for separately from the margin accounts, and will be recorded in an account receivable or payable, as the case may be.

- The valuation of implicit derivatives denominated in foreign currency contained in contracts is not established, when such contracts require payments in a currency that is commonly used to purchase or sell non-financial items in the economic environment in which the transaction is performed (for example, a stable and liquid currency which is commonly used in local transactions or in foreign trade transactions).

- In the case of segregable hybrid financial instruments, the host contract and the embedded derivative will be presented separately. Previously, it was established that both should be presented together. Now the embedded derivative should be presented under the heading of "Derivatives".

- In convergence with the NIF, the requirement to incorporate the provision for loan losses in earnings as part of the cash flow statement is eliminated.

- Accounting Treatment B-6 “Credit portfolio” of the General provisions applicable to credit institutions, is amended mainly to establish the following:

  - The treatment for the restructuring and renewal of credits, as well as the respective commissions and costs.

  - The incorporation of the commissions for credit restructurings as commissions for the initial granting of the credit, which may be deferred during the new term of the restructured credit.

  - It is also established that the presentation of the commissions collected and paid should be net of their respective costs and expenses.

  - The requirements which should be followed to consider that there is sustained payment by the borrower.

  - Any deferred charge which was generated on the acquisition of portfolio should be presented under the heading of "Other assets" and, furthermore, the purchase option at the reduced price should be presented under the heading of "Deferred revenues and other advances", together with any excess originated on the portfolio acquisitions.

  - On the cancellation date of a credit line, the unamortized balance for commissions collected on the credit lines, which are canceled before the end of the 12 month period will be recognized directly in results of the year under the heading of "Commissions and fee income”.

Changes in NIF applicable to the Institution

The following accounting pronouncements were issued by the CINIF during the year 2010 and went into effect as of January 1, 2011:

NIF B-5, Financial information by segments- Establishes the management approach to disclose financial information by segments, in contrast to Bulletin B-5 which, although it used a management approach, required that the information to be disclosed should be classified by economic segments, geographical areas or by homogeneous groups of customers; it requires a separate disclosure of interest income, interest expense and liabilities, and information on products, services, geographical areas and principal customers and suppliers.

NIF C-5, Prepaid expenses- Establishes that a basic characteristic of prepaid expenses is that they have not yet transferred to the Company the risks and benefits inherent to the goods and services which it is yet to acquire or receive; and requires that impairment should be recognized when they lose their capacity to generate such benefits and their presentation in the balance sheet, under current assets or long-term assets.

NIF C-6, Property, plant and equipment- Incorporates the treatment of the exchange of assets based on the commercial substance; includes the bases for determining the residual value of a component, by considering current amounts; eliminates the rule of assigning an appraisal-based value to property, plant and equipment acquired at no cost or at a cost which is inadequate; establishes the rule of continuing to depreciate a component when it is not being used, except when depreciation methods are used based on the activity.

Furthermore, during December 2010, the CINIF issued the "Improvements to the NIF 2011", which document incorporates changes or clarifications to the NIF in order to establish a more appropriate regulatory framework. These improvements are classified into two sections as follows:

a. Improvements to the NIF's that generate accounting changes, which are modifications that generate accounting changes in the valuation, presentation or disclosure in the financial statements. The NIF's subject to this type of improvements are:

   NIF B-1, Accounting Changes and Error Corrections
   NIF B-2, Statement of Cash Flows
   Bulletin C-3, Accounts receivable
   NIF C-10, Financial derivative instruments and hedge transactions
   NIF C-13, Related Parties
   Bulletin D-5, Leases

b. Improvements to the NIF's that do not generate accounting changes, which are modifications to make clarifications to them, and which help establish a clearer and more understandable regulatory framework; because they are clarifications, they do not generate accounting changes in the financial statements. The NIF's subject to this type of improvements are:

   NIF C-2, Financial instruments
   NIF C-9, Liabilities, provisions, contingent assets and liabilities and commitments
   NIF C-10, Financial derivative instruments and hedge transactions
   NIF C-12, Financial instruments with characteristics of debt, equity or both
   NIF D-4, Income Taxes
   Bulletin D-5, Leases
   NIF D-6, Capitalization of the comprehensive result of financing

Changes in accounting estimates applicable in 2011

On October 25, 2010 and on October 5, 2011, the Commission issued rulings which modified the "General Provisions Applicable to Credit Institutions", whereby the methodologies applicable to the classification of nonrevolving consumer credit portfolio and the housing mortgage credit portfolio, as well as the classification of loans owed by States and Municipalities, in order to change the current model of creating allowances for loan losses based on the incurred loss model to an expected loss model. Such modifications went into effect on March 1 and September 1, 2011, respectively.

The Commission stipulated the recognition in stockholders'equity at the latest as of March 31 and September 30, 2011, under the heading "Retained earnings", of the initial cumulative financial effect derived from the application of the classification methods for the nonrevolving consumer credit portfolio and the housing credit portfolio, and for credits owed by States and Principalities, respectively.
The initial cumulative effect from application of the change in the classification methodology generated allowances for loan losses under the heading of "Retained earnings" within stockholders' equity, for the amount of $432, net of the related deferred tax, in relation to the nonrevolving consumer credit portfolio and the housing mortgage credit portfolio, and the amount of $173, net of the related deferred tax, in relation to the credits owed by States and Municipalities.

If the aforementioned effect had been recognized in the results for the year, the headings that would have been affected and the amounts that would have been recorded and presented in the balance sheet as of December 31, 2011, are as follows:

	2011
Retained earnings	$ 35,781
Net income	$ 13,095

And the following in the statement of income:

Provisions for loan losses	$ 7,420
Deferred income taxes (net)	$ 1,933
Net income	$ 13,095

The significant accounting policies applied by the Institution are as follows:

Monetary unit of the financial statements - The financial statements and notes for the years ended December 31, 2011, 2010 and 2009 include balances and transactions in Mexican pesos of different purchasing power.

Basis for consolidation - The accompanying consolidated financial statements include those of the Institution and its subsidiaries listed below. All significant balances and transactions between the subsidiaries and the Institution have been eliminated in consolidation.

The consolidated subsidiaries and the Institution's equity percentage are as follows

	Equity percentage	
	2011	2010
Santander Consumo, S.A. de C.V., SOFOM ER	99.99%	99.99%
Santander Hipotecario, S.A. de C.V., SOFOM ER (Santander Hipotecario)	87.87%	-
Almacenadora Somex, S.A. (In liquidation)	97.24%	97.24%
Instituto Santander Serfin, A.C.	99.99%	99.99%
Banco Santander, S.A., Fideicomiso 100740	100.00%	100.00%
Fideicomiso GFSSLPT, Banco Santander, S.A.	94.18%	96.29%
Santander Holding Vivienda, S.A. de C.V.	99.99%	-
Santander Servicios Corporativos, S.A. de C.V.	99.99%	-
Santander Servicios Especializados, S.A. de C.V.	99.99%	-

On December 29, 2011, the Ordinary General and Special Meeting of the Stockholders of Almacenadora Somex, S.A. (Almacenadora) was held, at which the final liquidation balance sheet was approved in all its terms, and the distribution of the remaining assets to the stockholders was agreed.

Recognition of the effects of inflation in the financial information - As of January 1, 2008, because it operates in a noninflationary environment, the Institution suspended recognition of inflation effects on financial information. Up to December 31, 2007, the recognition of inflation mainly resulted in gains or losses from inflation on nonmonetary and monetary assets and liabilities.

The balances of assets, liabilities and stockholders' equity include the effects of inflation recognized through December 31, 2007, during which time Mexico was considered to be an inflationary environment as previously defined under MFRS. The effects of inflation are derecognized on the date on which the assets and liabilities or components of stockholders' equity that were adjusted for such effects are derecognized. The consolidated financial statements as of December 31, 2011 and 2010 only include inflation adjustments recognized in previous periods, and which correspond to assets, liabilities and stockholders' equity that have not yet been derecognized.

As established in NIF B-10, *Effects of Inflation*, a non-inflationary environment is defined as one in which the cumulative inflation rate of the three preceding years is lower than 26%, and which is projected to maintain stable inflation rates according to the economic projections of government agencies. The inflation percentage under UDIS rates for 2011, 2010 and 2009 was 3.65%, 4.29% and 3.72%, respectively. The cumulative inflation of the three years periods preceding December 31, 2011, 2010 and 2009 is 14.40%, 13.92% and 14.35%, respectively; consequently, the economic environment qualifies as noninflationary in both years.

Funds available - Funds available are valued at face value; foreign currency funds available are valued at fair value using the yearend quoted exchange rates.

Foreign currency acquired which it is agreed will be settled on a date subsequent to the purchase-sale transaction is recognized as restricted funds available (foreign currency receivable). Foreign currency sold is recorded as a credit to funds available (foreign currency deliverable). The offsetting entry is recorded in a debit (credit) settlement account when a sale or purchase is performed, respectively.

For financial information presentation purposes, foreign currency settlement accounts receivable and payable are offset by contract and term and are presented under “Other receivables (net)” or “Creditors from settlement of transactions”, as applicable.

Interbank loans executed for a term of three working days or less, as well as other funds available such as correspondent Banks or other liquid notes, are also included in this line item.

Margin accounts - Margin accounts (guarantee deposits) for transactions with derivative financial instruments in recognized markets are recorded at face value.

Guarantee deposits are used to ensure compliance with the obligations related to the derivatives executed in recognized markets and refer to the initial margin, and subsequent contributions and withdrawals made during the term of the respective contracts.

Trading securities - Trading securities represent investments in debt and equity securities, in proprietary position and pledged as guarantee, which are acquired with the intention of selling them to realize gains from increases in fair value. Upon acquisition, they are initially recorded at fair value, which includes applicable the discounts or premiums. Furthermore, the cost is determined by the average costs method. They are subsequently valued at fair value determined by the price supplier engaged by the Institution in accordance with the Provisions of the Commission. The difference between the historical cost, which is determined using the average cost method, of the investments in debt securities plus accrued interest and of equity securities compared with their fair value is recorded in the consolidated statements of income under the item “Net gain on financial assets and liabilities ”. The effects of valuation will be treated as unrealized and, therefore, cannot be distributed to stockholders until the securities are sold.

Fair value is the amount at which an asset may be exchanged or a liability may be settled by informed, willing and interested parties in an arm’s length transaction.

The transaction costs for the acquisition of trading securities are recognized in earnings on the acquisition date.

Cash dividends of share certificates are recognized in earnings in the same period in which the right to receive such payment is generated.

The exchange gain or loss on foreign currency-denominated investments in securities is recognized in earnings.

This heading records “Value date transactions”, which refer to purchase and sale transactions of unsettled, assigned securities, which are valued and recorded as trading securities, recording the receipt and expense (debit or credit balance) of the securities subject to the transaction when they are agreed, against the respective debit or credit settlement account.

The accounting criteria of the Commission allow for certain reclassifications to securities held to maturity or of trading securities to securities available for sale, with the prior express authorization of the Commission.

In December 2011, the Institution's management carried out the transfer of securities from the category of Trading securities to that of Securities available for sale in order to align the management strategy with the dynamic of the current operation. This transaction was authorized by the Commission in official notices 113-1/23632/2011 and 113-1/51801/2012 which were received on December 20, 2011 and January 5, 2012, respectively. The Institution performed the transfer of securities at a face value of $10,688 and a market value of $11,580 from this category to that of “Securities available for sale”.

Securities available for sale - Securities available for sale are debt instruments and equity shares that are not held for purposes of realizing gains derived from increases in fair value and, in the case of debt instruments, those that the entity does not intend or is able to hold to maturity and, therefore, represent a residual category, i.e., they are acquired for purposes other than those of trading securities or securities held to maturity because the entity intends to trade them at some point in the future prior to maturity.

Upon acquisition they are initially recorded at fair value plus the acquisition transaction cost, including applicable discounts or premiums, which is the acquisition cost for the Institution. They are subsequently valued at fair value.

The Institution determines the increase or decrease in the fair value using current prices provided by the price supplier, which uses various market factors for their determination. The yield on debt securities is recorded using the imputed interest or effective interest method depending on the nature of the security; such yield is recognized as earned in the consolidated statements of income under “Interest income”. Unrealized gains or losses resulting from changes in fair value are recorded in comprehensive income items under stockholders' equity, specifically, under the "Result from valuation of available for sale securities, net” line item, provided such securities were not defined as hedged in a fair value hedging relationship through a derivative financial instrument, in which case they are recognized in earnings.

Cash dividends of share certificates are recognized in earnings in the same period in which the right to receive such payment is generated .

The exchange gain or loss on foreign currency-denominated investments in securities is recognized in earnings.

The accounting criteria of the Commission allow for the transfer of securities classified as "held to maturity" to that of "available for sale", provided that there is no intention or capacity to hold them to maturity, as well as reclassifications from the category of trading securities to available for sale under extraordinary circumstances (for example, a lack of market liquidity, or when there is no active market for the securities, among others), which should be assessed and, if applicable, validated through the express authorization of the Commission.

Securities held to maturity - Securities held to maturity are those with fixed or determinable payments and fixed maturity, which the entity has both the intention and the ability to hold until maturity. These securities are initially recorded at fair value plus acquisition transaction costs, including applicable discount or premium. They are subsequently valued at amortized cost. Interest earned is recorded in the consolidated statements of income under “Interest income” using the imputed interest or effective interest method, in accordance with the nature of the instrument.

The accounting criteria of the Commission allow for the transfer of securities classified as "held to maturity" to that of "available for sale", provided that there is no intention or capacity to hold them to maturity, as well as reclassifications from the category of trading securities to available for sale under extraordinary circumstances (for example, a lack of market liquidity, or when there is no active market for the securities, among others), which should be assessed and, if applicable, validated through the express authorization of the Commission.

The cash dividends of equity securities are recognized in earnings during the same period in which the fair value of these securities is affected as a result of the coupon cutoff date.

Impairment in the value of a financial instrument - The Institution must evaluate whether there is objective evidence that a financial instrument is impaired as of the balance sheet date.

A financial instrument is considered to be impaired and, accordingly, a loss from impairment is incurred if, and only if, ther is objective evidence of the impairment as a result of one or more events that took place after the initial recognition of the financial instrument, which had an impact on its estimated future cash flows that can be reliably determined. It is very unlikely that one identified event can be the sole cause of the impairment, and it is more feasible that the combined effect of different events might have caused the impairment. The expected losses as a result of future events are not recognized, regardless of how probable they are of occurring.

Sale and repurchase agreements - Sale and repurchase agreements are those in which the buying party acquires for a sum of money the ownership of securities and agrees within the agreed term and against reimbursement of the same price plus a premium, to transfer to the selling party the ownership of the other securities of the same kind. Unless otherwise agreed, the premium is for the buying party.

For legal purposes, sale and repurchase agreements are considered as a sale in which an agreement to repurchase the transferred financial assets is executed. Notwithstanding, the economic substance of sale and repurchase agreements is that of guaranteed financing in which the buying party provides cash as financing in exchange for obtaining financial assets that serve as protection in the event of default.

Sale and repurchase agreements are recorded as indicated below:

On the contracting date of the repurchase transaction, when the Institution acts as the selling party, the entry of the cash or asset or a debit settlement account is recognized, as well as an account payable, initially at the price agreed, which represents the obligation to repay such cash to the buying party. The account payable will be valued subsequently during the useful life of the sale and repurchase agreements at amortized cost, recognizing the interest on the sale and repurchase agreements based on the effective interest method in earnings.

When the Institution acts as the buying party on the contracting date of the sale and repurchase agreements, the withdrawal of funds available or a credit settlement account is recognized, recording an account receivable, initially at the price agreed, which represents the right to recover the cash delivered. The account receivable will be valued subsequently during the useful life of the sale and repurchase agreements at amortized cost, recognizing the interest on the sale and repurchase agreements based on the effective interest method in earnings.

When the transactions performed are considered to be cash-oriented, the transaction is intended to obtain cash financing by using financial assets as collateral for such purpose; by the same token, the buying party obtains a return on its investment at a certain rate, and as it is not seeking a specific value, receives financial assets as collateral to mitigate the exposure to credit risk which it faces in relation to the selling party. In this regard, the selling party pays the buying party the interest on the cash that it received as financing, calculated based on the rate negotiated in the sale and repurchase agreements. Also, the buying party obtains yields on its investment, whose payment is assured through the collateral.

When the transactions performed are considered to be securities-oriented, the intention of the buying party is to temporarily accept certain specific securities held by the selling party, by granting cash as collateral, which serves to mitigate the exposure to risk faced by the selling party in relation to the buying party. In this regard, the selling party pays the buying party the interest rate negotiated in the sale and repurchase agreements for the implicit financing obtained on the cash that it received, which rate is generally lower by comparison than the rates specified in "cash-oriented" sale and repurchase agreements.

Regardless of the economic intent, the accounting for “cash-oriented” or “securities-oriented” repurchase transactions is the same.

Collateral granted and received other than cash in sale and repurchase agreements - In relation to the collateral granted by the selling party to the buying party (other than cash), the buying party recognizes the collateral received in memorandum accounts, following the valuation guidelines for the securities established in Criterion B-9 issued by the Commission, in the account named "Custody and management of assets". The selling party reclassifies the financial asset in its consolidated balance sheets, and accounts for it as a restricted asset which is valued, presented and disclosed in accordance with the appropriate guidance established for credit institutions.

Memorandum accounts recognized for collateral received by the buying party are cancelled when the sale and repurchase agreements matures or when the selling party defaults.

When the buying party sells the collateral, the proceeds from the sale are recorded and an account payable for the obligation to repay the collateral to the selling party (measured initially at the agreed-upon price) is valued at fair value. If the collateral is pledged as guarantee in another repurchase or resale agreement, it will be measured at amortized cost (any difference between the price received and the value of the account payable is recognized in earnings).

Similarly, if the buying party becomes a selling party due to other sale and repurchase agreements with the same collateral received as guarantee of the initial transaction, the interest on the second sale and repurchase agreements must be recognized in earnings as accrued, using the effective interest method and affecting the account payable valued at amortized cost.

For transactions where the buying party sells or pledges as guarantee the collateral received (for example, when another repurchase or resale agreement securities loan transaction is established), memorandum accounts are used to control the collateral sold or pledged as guarantee, which is valued using the standards applicable to custody transactions included in Criterion B-9, *Custody and Management of Assets* issued by the Commission.

Memorandum accounts which are recognized for collateral received that in turn was sold or pledged as guarantee by the buyer, are cancelled when the collateral sold is purchased to return it to the selling party, or when the second transaction matures or the other party defaults.

Securities loans - A securities loan is a type of transaction in which the transfer of securities is agreed between the lender and the borrower, with the obligation to return such securities or other substantially similar instruments on a given date, or upon request, with a premium received as consideration. In this transaction, collateral or guarantee in the form of assets permitted under current regulations, other than cash, is requested by the lender from the borrower.

For legal purposes, securities loans are considered as a sale in which an agreement is reached to return the securities on a specific date. Notwithstanding, the economic substance of securities loans is that the borrower can temporarily access certain types of securities in which the collateral serves to mitigate the exposure to risk of the lender in regard to the borrower.

Securities loans are recorded as indicated below:

At the contracting date of the securities loan, when it acts as the lender, the Institution records the securities transferred in connection with the loan as restricted, and applies the applicable rules for valuation, presentation and disclosure in accordance with the respective accounting treatment.

The premium is recorded initially as deferred revenue, recording the debit settlement account or the entry of the cash. The amount of the accrued premium is recognized in earnings through the effective interest method over the effective term of the transaction.

When it acts as the borrower, at the contracting date of the securities loan, the Institution records the security subject to the loan received in memorandum accounts, following the valuation guidelines established for securities recognized included in Criterion B-9, *Custody and Management of Assets* issued by the Commission.

The premium is recorded initially as a deferred charge, recording the credit settlement account or the withdrawal of the cash. The amount of the accrued premium is recognized in earnings using the effective interest method over the effective term of the transaction.

The security subject matter of the transaction, as well as the collateral delivered, are presented as restricted, based on the type of financial asset in question.

The security subject matter of the transaction, as well as the collateral received, are presented in memorandum accounts under the heading of "Collateral received".

Derivatives (trading purposes) - The Institution's recognizes all its derivatives (including hedging derivatives) as assets or liabilities (depending on the related rights and/or obligations) in the balance sheet, initially at fair value, which presumably is equal to the price agreed in the transaction.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in earnings.

Subsequently, all derivatives are valued at fair value without deducting any transactions costs incurred during the sale or any other type of disposal, recognizing the valuation effect earnings under "Net gain on financial assets and liabilities".

The rights and obligations of derivatives that are traded in recognized markets or stock exchanges are considered to have matured when the risk position is closed, i.e., when an opposite derivative with the same characteristics is traded in such market or stock exchange.

The rights and obligations of derivatives that are not traded in recognized markets or stock exchanges are considered to have matured when they reach their maturity date, when the rights are exercised by either party or when the parties early exercise the rights in accordance with the related conditions and the agreed consideration is settled.

The Institution presents derivatives line item in the balance sheet, separating trading from hedging derivatives.

Forward and future contracts for trading purposes:

Forward and future contracts for trading purposes are those that establish an obligation to buy or sell an underlying asset on a future date at a pre-established quantity, quality and price on a trading contract. Both forward and futures contracts are recorded by the Institution as assets and liabilities in the consolidated balance sheets at fair value, which is theoretically represents the fair value of rights or obligations, established in the underlying asset purchase-sale contract, to receive and/or deliver the underlying asset, and to receive and/or deliver the cash equivalent to the underlying asset subject specified in the contract.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in earnings.

Differences between the exchange rate agreed in the forward contract and the monthly forward exchange rate, as well as the valuation effects, are recorded in the consolidated statements of income under "Net gain on financial assets and liabilities".

Futures entered into for trading purposes are recorded at market value and the difference between such value and the agreed-upon price is recorded in the consolidated statements of income.

For financial information classification purposes, the asset and liability positions of derivatives that have both rights and obligations, such as futures, forwards, or swaps, are offset on a contract by contract basis; if the result is a debit balance, the difference is presented under the asset line item "Derivatives"; and if it is a credit balance, under the liability line item "Derivatives".

Option contracts:

Options are contracts that, in exchange for a premium, grant the right, but not the obligation, to buy or sell a specified number of underlying instruments at a fixed price within a specified period.

The holder of a call has the right, but not the obligation, to buy from the issuer a specified number of underlying assets at a fixed price (exercise price) within a specified period.

The holder of a put has the right, but not the obligation, to sell a specified number of underlying assets at a fixed price (exercise price) within a specified period.

Considering the rights granted, options are divided into buy options (calls) and sell options (puts).

Options may be exercised at the end of the specified period (European options) or at any time during such period (American options); the exercise price is established in the contract and may be exercised at the holder's discretion. The instrument used to set this price is the reference value or underlying asset. The premium is the price paid by the holder to the issuer in exchange for the rights granted by the option.

The Institution records the premium paid for the option on the transaction date as an asset or liability. Any fluctuations from valuation of the premium at market are recognized in the consolidated statements of income under "Net gain on financial assets and liabilities", with the adjustment to the appropriate consolidated balance sheet account. When an option matures or is exercised, the related premium is canceled against earnings under "Net gain on financial assets and liabilities".

Recognized options that represent rights are presented, without offsetting, as a debit balance under the asset line item "Derivatives". Recognized options that represent obligations are presented, without offsetting, as a credit balance under the liability line item "Derivatives".

Trading option contracts are recorded in memorandum accounts at their exercise price, multiplied by the number of securities, distinguishing between options traded on the stock market from over-the-counter transactions, in order to control risk exposure.

All valuation gains or losses recognized before the option is exercised or before its expiration, are treated as unrealized and are not capitalized or distributed to stockholders until realized in cash.

Swaps:

A swap contract is an agreement between two parties establishing a bilateral obligation for the exchange of a series of cash flows within a specified period and on dates previously established.

Swaps are initially recognized by the Institution in the balance sheet as an asset or liability, at fair value, which presumably is equal to the agreed-upon price.

The Institution recognizes both an asset and a liability arising from the rights and obligations of the contractual terms, valued at the present value of the future cash flows to be received or delivered according to the projection of the implicit future rates to be applied, discounting the market interest rate on the valuation date using curves provided by the price vendor, which are reviewed by the market risk area.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in earnings.

Subsequently, all derivatives other than hedging derivatives are valued at fair value without deducting any transaction costs incurred during the sale or any other type of disposal, through earnings.

If the counterparty credit risk of a financial asset related to the rights established in the derivatives is impaired, the book value must be reduced to the estimated recoverable value and the loss is recognized in earnings. If the impairment situation subsequently disappears, the impairment is reversed up to the amount of the previously recognized impaired loss, recognizing this effect in earnings when it arises.

A swap contract may be settled in kind or in cash, according to the conditions established.

The result of offsetting the asset and liability positions, whether debit or credit, is presented as part of the "Derivatives" line item.

Derivative hedging transactions - The Institution´s management carries out derivative transactions for hedging purposes, which involve swap contracts.

The financial assets and liabilities which are designated and comply with the requirements to be designated as hedged items, as well as the derivative financial instruments which form part of the hedge relationship, are recognized in accordance with the Provisions related to hedge accounting for the recognition of the gain or loss on the hedge instrument and of the hedged item, as established in Criterion B-5, *Derivatives and Hedge Transactions* issued by the Commission.

A hedge relationship qualifies for the use of hedge accounting when all the following conditions are met:

- Formal designation and sufficient documentation of the hedge relationship.

- The hedge must be highly effective in achieving the offsetting of the changes in fair value or in the cash flows attributable to the hedged risk.

- For cash flow hedges, it must be highly probable that the forecast transaction that is intended to be hedged will occur.

- The hedge must be reliably measurable.

- The hedge must be evaluated periodically (at least quarterly).

All hedging derivatives are recognized as assets or liabilities (depending on the rights and/or obligations that they contain) in the balance sheet, initially at fair value, which refers to the price agreed for the transaction.

The result of offsetting the asset and liability positions, whether debtor or creditor, is presented independently of the hedged item, forming part of the "Derivatives" heading. Accrued interest is included in financial margin in the consolidated statements of income.

Derivative financial instruments contracted for hedging purposes are valued at the market value and the effect is recognized according to the type of accounting hedge, as follows:

a. Fair value hedge- This represents a hedge of exposure to changes in the fair value of recognized assets and liabilities or of unrecognized firm commitments, or a portion of both, which is attributable to a specific risk and which may affect earnings. The primary position for the risk hedged is valued at market and the hedging derivative instrument at market, and the net effect is recorded in earnings under the heading "Net gain on financial assets and liabilities".

b. Cash flow hedge- This represents a hedge of exposure to variations in the cash flows of a forecast transaction which (i) is attributable to a specific risk associated with a recognized asset or liability, or with a highly probable event, and which (ii) may affect earnings. The hedging derivative instrument is valued at market. The portion of the gain or loss on the hedging instrument that is effective in the hedge is recorded within the comprehensive income account and the ineffective part is recorded in earnings as part of "Net gain on financial assets and liabilities ".

   The effective hedge component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lower (in absolute terms) of the accumulated gain or loss of the hedging instrument from the inception of the hedge, and the accumulated change in the present value of expected future cash flows of the hedged item from the inception of the hedge.

   Any remaining gain or loss of the hedging instrument is recognized directly in earnings.

The Institution suspends hedge accounting when the derivative instrument has matured, been sold, is canceled or exercised, when the derivative financial instrument does not attain a high degree of effectiveness to offset changes in the fair value or cash flows of the hedged item, or when the hedge designation is canceled.

By ceasing to apply fair value hedge accounting on a prospective basis, any adjustment to the book value for the valuation of the hedged item attributable to the hedged risk is amortized in earnings. The amortization is carried out based on the straight-line method during the remaining life of the hedged item.

By suspending cash flow hedge accounting, the accrued gain or loss related to the effective part of the hedging derivative that was recorded in the stockholders' equity as part of comprehensive income, remains in stockholders' equity until the effects of the forecast transaction or firm commitment affect earnings. If it is no longer probable that the firm commitment or the forecast transaction will take place, the gain or loss that was recognized in the comprehensive income account is recorded immediately in earnings. When the hedge of a forecast transaction initially qualified for hedge accounting, but subsequently is not highly effective, the effects accumulated in comprehensive income within the stockholders' equity are proportionally carried to earnings to the degree that the forecast asset or liability affects earnings.

Packages of derivatives listed on a recognized market as a single instrument will be recognized and valued collectively (in other words, without disaggregating each derivative financial instrument individually). Packages of derivatives not listed on a recognized market will be recognized and valued on a disaggregated basis for each derivative comprising such packages.

The result of offsetting the asset and liability positions, whether debit or credit, is presented separately from the hedged ítem, as part of the heading of "Derivatives".

Embedded derivatives - An embedded derivative is a component of a hybrid (combined) financial instrument that includes a non-derivative contract (known as the host contract) in which certain cash flows vary in a manner similar to that of an independent derivative. An embedded derivative causes certain cash flows required by the contract (or even all cash flows) to be modified according to changes in a specific interest rate, the price of a financial instrument, an exchange rate, a price or rate index, a credit rating or index, or other variables allowed by applicable laws and regulations, as long as any non-financial variables are not specific to a portion of the contract. A derivative that is attached to a financial instrument but that contractually cannot be transferred independently from that instrument or that has a different counterparty, is not an embedded derivative but a separate financial instrument (for example, in structured transactions).

An embedded derivative is separated from the host contract for purposes of valuation and receives the accounting treatment of a derivative if all the following characteristics are met:

a. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b. A separate financial instrument that has the same terms of the embedded derivative would comply with the definition of a derivative, and

c. The hybrid (combined) financial instrument is not valued at fair value with changes recognized in earnings (for example, a derivative that is not embedded in a financial asset or a financial liability valued at fair value should not be separated).

The effects of the valuation of embedded derivatives are recorded under the same line item in which the host contract is recorded.

A foreign currency embedded derivative in a host contract, which is not a financial instrument, is an integral part of the agreement and therefore closely related to the host contract provided that it is not leveraged, does not contain an optional component and requires payments denominated in:

- The functional currency of one of the substantial parties to the contract;
- The currency in which the price of the related good or service that is acquired or delivered is regularly denominated for commercial transactions around the world.
- A currency which is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction is performed (for example, a stable and liquid currency which is commonly used in local transactions, or in foreign trade transactions).

At December 31, 2011 and 2010, the Institution recognized a gain (loss) of $(2) and $14, respectively due to the valuation of embedded derivatives contained in service, asset purchase, maintenance, and lease agreements referenced to USD dollars or any other currency other than Mexican pesos, which is recorded under "Net gain on financial assets and liabilities ".

Foreign currency transactions - Foreign currency transactions are recorded at the exchange rate in effect on the transaction date. Assets and liabilities denominated in foreign currency are adjusted at the year-end exchange rates determined and published by Central Bank.

Revenues and expenses from foreign currency transactions are translated at the exchange rate in effect on the transaction date, except for transactions carried out by the foreign branch, which are translated at the exchange rate in effect at the end of each period.

Foreign exchange fluctuations are recorded in the consolidated statements of income of the year in which they occur.

Commissions charged and associated costs and expenses - Commissions charged for initial loan granting are recorded as deferred revenues under "Deferred revenues and other advances", and are amortized to earnings under "Interest income", using the straight line method over the life of the loan, except for those related to revolving loans, which are amortized over a 12 month period.

The commissions collected for restructurings or renewals of credits are added to any commissions that were originated by recognizing a deferred credit that is amortized in results based on the straight-line method over the new term of the credit.

Commissions recognized after the initial loan grant, those incurred as part of the maintenance of such loans, or those collected on undrawn loans are recognized in earnings when they are generated.

Commissions collected for credit card annual fees, whether the first or subsequent renewal fees, are recognized as deferred revenues under "Deferred revenues and other advances", and are amortized over a 12 month period against earnings under "Commissions and fee income".

The incremental costs and expenses associated with the initial loan grant are recognized as a deferred charge and are amortized against earnings as interest expense during the same accounting period in which income from collected commissions is recognized.

Any other costs or expenses, including those related to promotion, advertising, potential customers, management of existing loans (follow-up, control, recoveries, etc.) and other ancillary activities related to the establishment and monitoring of loan policies are recognized directly in earnings as incurred under the respective line item that corresponds to the nature of the cost or expense.

Costs and expenses associated with the issuance of credit cards are recognized as a deferred charge, which is amortized to earnings over a 12 month period under the respective line item that corresponds to the nature of such cost or expense.

For the years ended December 31, 2011, 2010 and 2009, the main items for which the Institution recorded commissions charged in the consolidated statements of income are as follows:

Description	2011	2010	2009
Credit card	$ 3,333	$ 3,495	$ 4,361
Account management	590	591	647
Collection services	1,256	1,157	1,078
Insurance	2,311	1,525	1,168
Investment funds	1,252	1,251	1,256
Financial advice	645	442	160
Other	1,916	1,615	1,373
	$ 11,303	$ 10,076	$ 10,043

Performing loan portfolio -The Institution has the following criteria to classify the credits as performing portfolio:

- Loans that are current in the payments of both principal and interest.

- Loans that do not demonstrate the characteristics of nonperforming portfolio.

- Restructured or renewed loans which have evidence of sustained payment.

Non-performing loan portfolio - The Institution applies the following criteria to classify uncollected loans as non-performing:

– Loans with a single payment of principal and interest at maturity are considered non-performing 30 days after the date of maturity.

– Loans with a single payment of principal at maturity and with periodic interest payments are considered non-performing 90 days after interest is due or 30 days after principal is due.

– Loans whose principal and interest payments have been agreed in periodic installments are considered non-performing 90 days after an installment becomes due.

– Revolving credit loans are considered non-performing when payment is not received in two monthly billing cycles or 60 days after they become due.

– Mortgage loans with periodic partial payments of principal and interest and are considered non-performing when a payment is 90 days or more non-performing.

– Customer checking accounts showing overdrafts will be reported in the non-performing portfolio at the date of the overdraft.

– If the borrower is declared bankrupt, in accordance with the Commercial Bankruptcy Law.

Nonperforming portfolio which are restructured or renewed will remain in the nonperforming portfolio, until there is evidence of sustained payment; i.e., performance of payment by the borrower without arrears for the total amount due and payable in terms of principal and interest, for at least three consecutive installments under the credit payment scheme, or in the case of credits with installments that cover periods in excess of 60 calendar days, the payment of one installment as established in the accounting criteria of the Commission.

Furthermore, credits with a single payment of principal upon maturity and periodic payments of interest, which were restructured or renewed during the credit term, are considered as nonperforming portfolio until there is evidence of sustained payment, as well as those in which at least 80% of the original term of the credit has not elapsed, which did not cover the total amount of the accrued interest or cover the principal of the original amount of the credit, and which should have been settled as of the date of renewal or restructuring in question.

The accrual of interest earned on the credit transactions is suspended at the time the credit is classified as nonperforming portfolio, including those credits which, in accordance with the respective contract, capitalize interest to the amount of the debt.

With regard to ordinary uncollected accrued interest on credits which are considered as nonperforming portfolio, the Institution creates an allowance for the total amount of the interest at the time the credit is transferred as nonperforming portfolio.

Classification of the loan portfolio and allowance for loan losses-

Credit institutions must classify their portfolios under the following headings:

a. Commercial: direct or contingent loans, including bridge loans denominated in Mexican pesos, foreign currency or investment units (UDIS), together with any interest generated, which are granted to corporations or individuals with business activities, intended for their commercial or financial activity; discount, rediscount, factoring operations and leasing operations executed with such corporations or individuals; loans granted to trustees who act under the protection of trusts, and the credit schemes commonly known as "structured", in which there is an adjustment to net worth that enables the individual evaluation of the risk related to the scheme. Also, loans granted to states, municipalities and their decentralized agencies will be included when they can be classified in accordance with applicable regulations.

b. Housing mortgage: direct loans denominated in Mexican pesos, foreign currency, investment units or Minimum Daily Wage (SMG), as well as the interest generated, granted to individuals and intended for the acquisition, construction, remodeling or improvement of housing, without any speculative purpose; including those liquidity credits guaranteed by the borrower's home and those granted for such purposes to the former employees of the credit institution.

c. Consumer loans: direct loans denominated in Mexican or foreign currency or investment units, together with the interest generated, granted to individuals derived from credit card and personal loan transactions, loans for acquiring durable consumer goods and financial leasing transactions performed with individuals, including loans granted for such purpose to the former employees of the credit institution.

The Institution recognizes reserves created to cover credit risks in conformity with such provisions, based on the following:

Commercial portfolio:

a. Individual method - For borrowers with balances of over 4,000,000 investment units (UDIS), entails evaluating:

   – The creditworthiness of the debtor based on the result obtained from rating, as applicable, 1) the likelihood of default of the borrower using the proprietary methodology authorized by the Commission for these purposes, or 2) the application of the standard methodology, specifically and independently rating country risk, financial risk, industry risk, and payment experience aspects, as established in those provisions.

   – A differentiation is made between personal and real collateral, based on an estimate of probable loss. As a result of the analysis of real collateral, loans are classified into two groups, based on the discounted value of collateral: a) loans fully collateralized and b) loans with an exposed portion.

b. Non-individualized method - For borrowers with balances less than 4,000,000 UDIS:

   – Parametric calculation of the allowance for loan losses based on the debtor's payment history over the last 12 months and its credit behavior.

The commercial portfolio is classified every quarter and filed with the Commission within 30 days following the classification date. The allowance for loan losses is recorded based on the balance of the accounts on the last day of each month, considering the classification levels of the classified portfolio as of the lates known quarter, which includes the updated risks as of the current month-end.

On May 17, 2010, the Commission issued a Ruling that amends the Provisions, which modifies the commercial credit portfolio classification methodology of credit institutions by allowing credit institutions to reassess the risk inherent to loans that were restructured, renewed or assigned, considering the value of any guarantees associated with them.

The allowance for loan losses to be established by the Institution under the individual method equals the amount generated by applying the respective percentage to the collateralized portion and, if applicable, to the unsecured portion of the credit rating, based on the following table:

Table of sites within the range of reserves

Risk level	Low	Intermediate	High
A-1	0.50%	0.50%	0.50%
A-2	0.99%	0.99%	0.99%
B-1	1.00%	3.00%	4.99%
B-2	5.00%	7.00%	9.99%
B-3	10.00%	15.00%	19.99%
C-1	20.00%	30.00%	39.99%
C-2	40.00%	50.00%	59.99%
D	60.00%	75.00%	89.99%
E	100.00%	100.00%	100.00%

Credit portfolio of States and Municipalities:

On October 5, 2011, the Commission issued a Ruling amending the "General Provisions Applicable to Credit Institutions " which modifies the methodology applicable to the portfolio classification of States and Municipalities.

With the aforementioned change in methodology, the Institution, when classifying the credit portfolio of States and Municipalities, considers the probability of default, severity of the loss and exposure to default, while also classifying the aforementioned commercial portfolio into different groups and foreseeing different variables for the estimated probability of default on the commercial portfolio, in relation to credits granted to States and their Municipalities.

This change in methodology was adopted by the Institution on September 30, 2011, on which basis the amount of the provisions for loan losses on each credit will be the result of applying the following expression:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

Ri = Amount of allowances for loan losses to be created for the nth credit.
PIi = Probability of default on the nth credit.
SPi = Severity of the loss on the nth credit.
EIi = Exposure to default on the nth credit.

The probability of default on each credit (PI i), will be calculated by using the following formula:

$$PI_i = \frac{1}{1 + e^{-(500 - TotalCreditScore_i) \times \frac{\ln(2)}{40}}}$$

For purposes of obtaining the respective PI_i, the total credit score of each borrower is calculated by using the following expression:

Total Credit Score = α (PCCt)+ (1-α) PCCl

Where:

PCCt: Quantitative Credit Score = IA+ IB + IC

PPCl: Qualitative Credit Score = IIA + IIB

α= 80%

IA IA=Average number of days in arrears with banks (IFB) + % of timely payments with IFB + % of timely payments with non-bank financial institutions.

IB= Number of recognized ratings agencies in accordance with the provisions which provide a rating to the State or Municipality.

IC= Total debt to eligible participations + debt service to total adjusted revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + propietary revenues to total revenues.

IIA= Local unemployment rate + presence of financial services of regulated entities.

IIB= Contingent obligations derived from retirement benefits to total adjusted revenues + operating balance sheet to local GDP + level and efficiency of collections + soundness and flexibility of the regulatory and institutional framework for the approval and execution of the budget + soundness and flexibility of the regulatory and institutional framework for the approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the securities market.

Unsecured loans

The Severity of the Loss (SP_i) on the credits granted to States or Municipalities which have no real, personal or credit-based collateral will be:

a. 45%, for Senior Positions.

b. 100%, for Subordinated Positions or when the credit reports 18 or more months of payment arrears for the amount due and payable under the terms originally agreed.

The Exposure to Default on each credit (EI_i) will be determined based on the following:

$$EI_i = S_i * Max\left\{ \left(\frac{S_i}{CreditLineAuthorized} \right)^{-0.5794}, 100\% \right\}$$

Si = The unpaid balance of the nth credit at the classification date, which represents the amount of credit effectively granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reductions, amounts forgiven, rebates and discounts granted. In every case, the amount subject to the rating must not include the uncollected accrued interest, recognized in memorandum accounts within the balance sheet of credits in nonperforming portfolio.

Credit Line Authorized = Maximum authorized amount of the credit line as of the classification date.

The Institution may recognize the real collateral, personal collateral and credit-based collateral in the estimate of the Severity of the Loss on the credits, with the aim of reducing the reserves derived from the portfolio classification. For such purpose, they will use the provisions established by the Commission.

Eligible real collateral may be financial and nonfinancial. Furthermore, only the real collateral which complies with the requirements established by the Commission will be recognized.

Up to September 30, 2011, the allowance for the loans granted to states, municipalities and their decentralized agencies was determined as follows:

1. Credits whose balance was equal to or more than a Mexican peso equivalent of 4 million UDIs were classified individually, taking as reference the base classifications which they had been assigned by one of the agencies authorized by the Commission, in accordance with the methodology established in such provisions.

   For those credits in which no federal participations or other types of state and municipal revenues are granted, as the related source of payment, or those which are not registered in the Registry of Obligations and Loans of States and Municipalities, the degree of risk obtained must be moved two levels higher.

2. Credits whose balance was less than a Mexican peso equivalent of 4 million UDI's as of the classification date were classified using the parametric methodology established in the preceding numeral.

3. States, municipalities and their decentralized agencies which had real collateral, once the debtor's classification was obtained, classified each credit in relation to the value of the real collateral which covered such credits, in accordance with the procedure established in such provisions.

Credits intended for investment projects with their own source of payment that were in the construction stage were assessed by considering the cost overrun of the project which may affect the credit institution, the degree that the project was behind schedule, or the startup of the project, and the analysis of the financial run; in the operating stage the risk was determined through the evolution of the financial run, in accordance with the provisions described above.

The portfolio of government entities guaranteed expressly by the Federal Government was not subject to classification.

Housing mortgage loan portfolio

As of March 2011 the Institution, when classifying the housing mortgage loan portfolio, considers the type of credit, the estimated probability of default of the borrowers, the severity of the loss associated with the value and nature of the credit's collateral and the exposure to default.

Furthermore, the Institution classifies, creates and records the allowances for loan losses on the housing mortgage loan portfolio as follows:

Due and Payable Amount- Amount which in accordance with the income statement the borrower has to pay in the billing period agreed, without considering any previous due and payable amounts that were not paid. If the billing is half monthly or weekly, the due and payable amounts of the two half months or four weeks in the month, respectively, must be added up so that the due and payable amount reflects a monthly billing period.

The discounts and rebates may reduce the due and payable amount only when the borrower complies with the conditions required in the credit contract for such purpose.

Payment Made- Totals the payments made by the borrower in the billing period. Write-offs, reductions, amounts forgiven, rebates and discounts made to the credit or group of credits are not considered as payments.

If the billing is half monthly or weekly, the payments made for the two half months or four weeks of a month, respectively, must be added up so that the payment made reflects one full monthly billing period.

The variable "payment made" must be more than or equal to zero.

Value of the Home Vi - The value of the home at the time of the credit origination, restated in accordance with the following:

I. For credits with an origination date prior to January 1, 2000, in two stages:

a) First stage, based on the Minimum Daily Wage (SMG)

$$\textit{Value of Home 1st Stage} = \frac{SMG_{\textit{Dec 31, 1999}}}{SMG_{\textit{in the month of the origination}}} \text{ X } \textit{Value of Home at Origination}$$

Where:

The value of the home on the origination date reflects the home value ascertained through an appraisal at the time the credit was originated

Second stage, based on the monthly National Consumer Price Index (INPC)

$$\textit{Value of Home} = \frac{INPC_{\textit{month of classification}}}{INPC_{\textit{Jan 1, 2000}}} \text{ X } \textit{Value of Home 1st Stage}$$

II. For credits with an origination date prior to January 1, 2000, in accordance with subsection b) of numeral I above

$$\textit{Value of Home} = \frac{INPC_{\textit{month of classification}}}{INPC_{\textit{month of origination}}} \text{ X } \textit{Value of Home at Origination}$$

In any case, the home value at the time of the origination may be restated based on a formal appraisal.

Credit Balance S_i - The unpaid balance at the classification date, which represents the amount of the credit effectively granted to the borrower, adjusted for accrued interest, less any insurance payments which were financed, collections of principal and interest, as well as reductions, amounts forgiven, rebates and discounts granted, as the case may be.

Days in Arrears- Number of calendar days at the classification date during which the borrower did not fully settle the due and payable amount under the terms originally agreed.

Credit Denomination (MON) - This variable will take the value of one (1) when the housing loan is denominated in Investment Units (UDI), minimum wages or a currency other than Mexican pesos, and zero when it is denominated in pesos.

Completion of File (INTEXP) - This variable will take the value of one (1) if the selling party of the real estate property participated in obtaining the proof of income or in contracting the appraisal, and zero in any other case.

The total amount of reserves to be created by the Institution will be equal to the reserves for each credit, as follows:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

Ri= Amount of reserves to be created for the nth credit.
PI_i = Probability of default on the nth credit.
SPi = Severity of the loss on the nth credit.
EIi = Exposure to default on the nth credit.

In any case, the amount subject to the classification must not include uncollected accrued interest recorded on the balance sheet, of credits which are in nonperforming portfolio.

Up to February 28, 2011, the Institution, when classifying the housing mortgage loan portfolio, considered the defaults reported in the billing periods, the probability of default and/or, as the case may be, the severity of the loss associated with the value and nature of the collateral for the credits.

The Institution classified, created and recorded the allowances for losses on the housing mortgage loan portfolio, with figures as of the last day of each month, in accordance with the following procedure:

I. It stratified the total portfolio based on the number of monthly installments which showed nonperformance of the due and payable amount as of the classification date, using the history of payments on each credit, with data for at least nine months prior to such date, classifying it by type of credit, in accordance with that established in the table shown below.

II. For each stratum, it created allowances for loan losses by applying the respective percentage of severity of loss to the total amount of the unpaid balance of the credits located in each stratum and, multiplied the percentage of probability of default established in the following table by the result obtained, according to the type of credit. However, the amount subject to classification does not include the uncollected accrued interest recorded on the balance sheet, of credits which are classified as nonperforming portfolio. The uncollected accrued interest on nonperforming portfolio was fully provisioned at the time it was transferred.

Table applicable to housing mortgage loan portfolio:

Number of payment installments in default	Percentage of severity of loss	Percentage of probability of default (portfolio 1) (1)	Percentage of probability of default (portfolio 2) (2)
0	35%	1%	1%
1	35%	3%	5%
2	35%	7%	15%
3	35%	25%	50%
4	35%	50%	90%
5	35%	95%	95%
6	35%	98%	98%
7 to 47	70%	100%	100%
48 or more	100%	100%	100%

(1) Percentage of allowance applied to the loan portfolio granted as of June 1, 2000.

(2) Percentage of allowance applied to the credits denominated in Mexican pesos, restructured in UDIS, or denominated originally in UDIS, which were granted before June 1, 2000, or credits granted after this date which were subject to some type of restructuring, or granted at variable interest rates without establishing a maximum rate or when the percentage of income of the borrower dedicated to the payment of the loan at the time the credit was granted exceeds 35%.

To help determine the level of risk, the following table was used based on the ranges of applicable percentages of the allowances:

Risk level	**Percentage ranges of allowances for loan losses**
A	0 to 0.99%
B	1 to 19.99%
C	20 to 59.99%
D	60 to 89.99%
E	90 to 100.00%

As of February 28, 2011, the classification and creation of the allowance for losses on mortgage loans was made using figures as of the final day of each month and was presented to the Commission at the latest 30 days after the month classified, based on the percentages of allowance applicable to each type of portfolio, as indicated above.

Nonrevolving consumer credit portfolio:

As of the month of March 2011, the Institution, when classifying the nonrevolving consumer credit portfolio, determines the respective allowances for losses as of the classification date of the loans, by considering for such purpose the probability of default, the severity of the loss and the exposure to default, as follows

The total amount of allowances for loan losses on nonrevolving consumer portfolio will be equal to the allowances for each loan, as follows:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

Ri= Amount of allowances to be created for the nth credit.
PI_i = Probability of default on the nth credit.
SP_i = Severity of the loss on the nth credit.
EI_i = Exposure to default on the nth credit.

The classification and creation of the allowances for loan losses on nonrevolving consumer credit portfolio is made using figures as of the final day of each month and is presented to the Commission at the latest 30 days after the month classified, based on the applicable percentages of allowances, as indicated above.

Up to December 31, 2010, the Institution classified, created and recorded the allowances for loan losses on nonrevolving consumer loan portfolio, which did not include credit card operations, at the final day of each month, in accordance with the following procedure:

I. The total portfolio is stratified based on the number of cases of noncompliance reported in each billing period at the classification date regarding the payments due established by the Institution, based on payment history data from at least 9, 13 or 18 periods prior to that date. For loans granted during the period and for which limited or no prior history is available, data available on the evaluation date is used.

II. Reserves are created by applying the reserve percentages detailed below and depending on whether billing periods are weekly, biweekly or monthly, to total unpaid loan balances. Nevertheless, the Institution does not include uncollected interest recorded in the consolidated balance sheets accrued by loans forming part of the non-performing loan portfolio. Uncollected interest accrued on the nonperforming portfolio is fully reserved when the respective loans are transferred.

Table applicable to loans billed weeks:

Number of billing periods that report default (weeks)	Probability of default	Percentage of severity of the loss	Percentages of allowances for loan losses
0	0.5%		0.5%
1	1.5%		1.5%
2	3%		3%
3	5%		5%
4	10%		10%
5	20%		20%
6	30%		30%
7	40%		40%
8	50%		50%
9	55%	100%	55%
10	60%		60%
11	65%		65%
12	70%		70%
13	75%		75%
14	80%		80%
15	85%		85%
16	90%		90%
17	95%		95%
18 or more	100%		100%

Table applicable to loans billed biweekly:

Number of billing periods that report default (half months)	Probability of default	Percentage of severity of the loss	Percentages of allowances for loan losses
0	0.5%		0.5%
1	3%		3%
2	10%		10%
3	25%		25%
4	45%		45%
5	55%		55%
6	65%	100%	65%
7	70%		70%
8	75%		75%
9	80%		80%
10	85%		85%
11	90%		90%
12	95%		95%
13 or more	100%		100%

Table applicable for loans with monthly billing:

Number of billing periods that report default (months)	Probability of default	Percentage of severity of the loss	Percentages of allowances for loan losses
0	0.5%		0.5%
1	10%		10%
2	45%		45%
3	65%		65%
4	75%	100%	75%
5	80%		80%
6	85%		85%
7	90%		90%
8	95%		95%
9 or more	100%		100%

In order to determine the risk level, the following table is used, which is based on the percentages established in prior tables and the percentage ranges of applicable provisions:

Risk level	Reserve percentage ranges
A	0 to 0.99%
B	1 to 19.99%
C	20 to 59.99%
D	60 to 89.99%
E	90 to 100.00%

Consumer loan portfolio related to credit card transactions -

On August 12, 2009, the Commission issued a Ruling that amends the Provisions by modifying the consumer portfolio rating methodology applicable to credit cards so that the parameters used for the allowances for loan losses can reflect, based on the current environment, the expected 12-month loss on credit cards.

The Commission established two alternatives for recognizing the change in the allowance derived from the initial application of the new consumer portfolio rating methodology in regard to credit card transactions. The first alternative is to recognize the initial cumulative effect under "Retained earnings" in stockholders' equity as of a date no later than September 30, 2009; the second alternative is to amortize the total accumulated amount to earnings over 24 months.

To rate the consumer loan portfolio related to credit card transactions, the Institution considers the number of billing periods in default, the likelihood of default, the exposure at the time of default and the severity of the loss.

As of December 31, 2011 and 2010, the Institution rates, establishes, and records the allowances for loan losses related to the consumer loan portfolio for credit card transactions at the end of each month, as follows:

Description	
Balance payable	Amount payable as of the cutoff date on which the payment period in which the borrower has to pay the Institution begins.
Payment made	Sum of payments made by the borrower during the payment period.
Credit limit	Maximum authorized limit of the credit line as of the cutoff date on which the payment period begins.
Minimum payment due	Minimum amounts as of the cutoff date on which the payment period that the borrower must cover to comply with his contractual obligation begins.
Default	Event that occurs when the payment made by the borrower does not cover the minimum payment required by the Institution in the respective account statement. To estimate the number of defaults, institutions must apply the following table of equivalencies depending on the billing frequency:

Billing	Number of defaults
Monthly	1 monthly default = 1 default
Bi-weekly	1 bi-weekly default = 0.5 defaults
Weekly	1 weekly default = 0.25 defaults

The total allowance amount that must be established by the Institution for this portfolio is equal to the sum of the reserves for each loan, which are obtained as follows:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

Ri= Reserve amount that must be established for the i-th loan.

PIi= Likelihood of default of the i-th loan

SPi= Severity of the loss of the i-th loan.

EIi= Exposure to default of the i-th loan.

In order to estimate the reserves is necessary to calculate the Likelihood of Default, the Severity of the Loss and the Exposure to Default.

Notwithstanding the provisions of this methodology, the Institution must not create reserves for loans in which simultaneously the balance payable is equal to zero and the payment made is greater than zero. Credit card transactions in which simultaneously the balance payable is equal to or lower than zero and the payment made is zero will be considered inactive and the related reserves will be obtained as follows:

R_i = 2.68% * (Credit Limit – Recoverable Balance))

Where:

Recoverable balance = Amount that represents a right for the borrower, resulting from a payment or bonus as of the cutoff date on which the payment period begins.

For classification purposes, inactive card reserves will have a B-1 risk rating.

The percentage used to determine the allowances for each loan is the result of multiplying the likelihood of default by the severity of the loss.

The reserve amount will be the result of multiplying the percentage above by the exposure to default.

The rating and creation of the allowance for loan losses of the consumer portfolio relative to credit card operations are prepared using the amounts as of the last day of each month and are presented to the Commission no later than 30 days after the month classified, based on the allowance percentages applicable to each portfolio type, as discussed above.

Acquisition of loan portfolios

The contractual value of the portfolio acquired must be recognized under the loan portfolio line item as of the portfolio acquisition date based on the portfolio type classified by the originator; any difference in relation to the acquisition price is recorded as follows:

a) When the acquisition price is lower than the contractual value, in earnings under "other operating income" up to the amount of the provision for loan losses created as discussed above, and the excess as a deferred credit, which will be amortized as the respective collections are made, based on the percentage they represent of the total contractual value of the credit.

   When the acquisition price is greater than the contractual value, the difference is recognized as a deferred charge that will be amortized when the respective collection is made, in accordance with its percentage of the loan's contractual value;

b) When related to the acquisition of revolving loans, the difference will be directly recorded in earnings on the acquisition date.

Evidence of sustained loan payment:

Loans with a history of payment noncompliance that will be restructured are maintained in the loan stratum in effect prior to the restructuring, until evidence is obtained of sustained loan payment under the terms established by the Commission.

Additional portfolio reserves:

As of December 31, 2011 and 2010, the Institution has recorded additional portfolio reserves in over and above to the minimum requirements based on the standard model of the Commission and the reserves created in the restructuring process denominated "Commerce Fund" for commercial and mortgage portfolio, of $168 and $210, respectively. As of December 31, 2011 and 2010, the amounts of the portfolio reserves includes the reserves to cover the cost of the loan portfolio support program.

Portfolio restructured in UDIS:

The portfolio restructured in UDIS in the trusts is classified in conformity with the rules for commercial and mortgage loan portfolio classification, as applicable.

Other receivables, (net) - The Institution has a policy of reserving against earnings, those accounts receivable identified and not identified within 60 days following the initial recording, and/or those items which are known to be unrecoverable from the start.

Foreclosed assets, (net) - Assets acquired through judicial foreclosure are recorded on the date the approval ruling of the bid through which the foreclosure was determined is executed.

Property received in lieu of payment is recorded at the lower of net realizable value or cost on the date on which the related deed is executed or the date that delivery or transfer of the property is formalized.

The valuation methodology used for reserves created for foreclosed assets or goods received as payment establishes the quarterly creation of additional provisions to recognize the potential decrease in value of foreclosed assets, whether real property or movable goods, received through legal orders, out-of-court settlements or as payment, as well as collection rights and investments in securities received as foreclosed assets or as payment.

The allowance amount is recognized under "Other operating income" in earnings, in accordance with the procedure established by the Commission based on the time elapsed as of the foreclosure or payment in kind, by establishing a spread in terms of the deadline and applying a reserve percentage for movable property and real estate.

If realization problems are identified regarding the values of the foreclosed real estate, the Institution records additional reserves based on estimates prepared by its management.

If valuations made after the foreclosure or payment in kind result in the recognition of a decrease in value of the collection rights, values, movable property or real estate, the reserve percentages indicated in the provision may be applied to such adjusted value.

Property, furniture and fixtures, (net) - Property, installation expenses and leasehold improvements are recorded at acquisition cost. The assets that come from acquisition as of December 31, 2007 were adjusted for inflation by applying factors derived from the UDIS from the date of acquisition until such date. The related depreciation and amortization are recorded by applying a percentage determined based on their estimated economic useful lives or, in the case of leasehold improvements, based on the period for which contracts are executed with leaseholders, which is an average of five years, extendable for another similar period when requested by the leaseholder.

When property is available for sale, it is recorded at the lower of its carrying amount or net realizable value, estimated by the Institution's management.

Furniture and fixtures are recorded at their acquisition cost; this amount was restated at December 31, 2003 by applying UDI factors at that date. As of that date, the acquisition of furniture and fixtures was considered as a monetary item for which the restatement effect was recognized until December 31, 2007 as part of the monetary position result within the results of those years. The respective depreciation is recorded by applying a percentage determined according to the estimated economic useful life of these goods to their restated cost until the date of the most recent restatement or based on acquisitions made since January 1, 2004.

Long-term investment in shares - The investment in shares is represented by the investment in shares of associated companies whose earnings are not consolidated with those of the Institution. The permanent investments in shares of associated companies are recorded originally at their acquisition cost and were restated up to December 31, 2007 based on the factor derived from the UDIS at the close of such year. Beginning in 2008, the Institution recognizes the value of these types of investments using the equity method based on the most recent available financial statements, and any impairment is recognized based on the information provided by the management of the associated companies. The effect of valuation to book value is recorded in the consolidated statements of income under "Equity in results of associated companies".

Income tax - Income tax (ISR) and the Business Flat Tax (IETU) are recorded in earnings of the year in which they are incurred. Management determines, based on financial and tax projections, whether the Institution and its subsidiaries will incur ISR or IETU, and deferred taxes are recognized based on which tax system the entity is expected to primarily be subject to. The Institution determines the deferred tax on the temporary differences, tax losses and tax credits, from the initial recognition of the items and at the end of each period. The deferred tax derived from the temporary differences is recognized by using the assets and liabilities method, which compares the accounting and tax values of the assets and liabilities. This comparison produces deductible and taxable temporary differences, which along with tax losses and the tax credit from the undeducted allowances for loan losses, are then multiplied by the tax rate in effect when the temporary differences will reverse, or when the tax benefit carryforward is realized. The amounts for these three items constitute the deferred tax asset or liability recognized. As of December 31, 2011 and 2010, the Institution has not recognized any advance effect of employee statutory profit-sharing, because it calculates such obligation based in article 127, section III of the Federal Labor Law.

Institution management records a reserve for the deferred tax to recognize only the deferred tax asset for which there is a high probability of recovery short-term, considering for this treatment only the amount generated by the effect of the tax credit for the undeducted allowance for loan losses expected to reverse in accordance with the financial and tax projections prepared by management. Therefore, the effect of such tax credit is not fully recorded. The deferred tax is recorded either to earnings or stockholders' equity, depending on the classification of the item originating the deferred tax.

Other assets - Software, system developments and intangible assets are recorded originally at the face value disbursed, and adjusted for inflation through December 31, 2007, using the factor derived from the UDIS.

Amortization of software, system developments and intangible assets with definite lives is calculated using the straight-line method by applying the respective rates to the adjusted cost basis.

Furthermore, the heading of "Other assets (net)" includes financial instruments of the pension and retirement fund held in custody by Almacenadora Somex, S.A. (Almacenadora Somex) (a subsidiary of the Institution) as well as mortgage loans granted to employees with the fund's resources. Both investments and loans granted make up the fund to cover the obligations for the employee pension plan and seniority premiums.

The investments in securities acquired to cover the pension plan and seniority premium are recorded at market value.

For the purposes of presentation in the consolidated financial statements, if the investment in securities acquired to cover the pension plan and seniority premium exceed the liability recognized, such excess will be presented under the heading of "Other assets (net)". If it is less, such balance will be presented by decreasing the heading of "Sundry creditors and other payables". As of December 31, 2011 and 2010, the balance applicable to Almacenadora is presented under the heading of "Other assets (net)" and the balance applicable mainly to the Institution is presented by decreasing the heading of "Sundry creditors and other payables".

Impairment of long-lived assets in use - The Institution reviews the book value of long-lived assets in use when detecting any sign of impairment that could indicate that this book value might not be recoverable, by considering the higher of the present value of net future cash flows or the net sales price, in the event of its disposal. The impairment is recorded when the book value exceeds the higher of the aforementioned values. The impairment indicators considered for this purpose are, among others, operating losses or negative cash flows generated during the period, combined with a history or projection of losses, depreciation and amortization charged to earnings as revenue percentages, are significantly higher than those of prior years, the services rendered, competition and other economic and legal factors.

Provisions - Provisions are recognized when there is a present obligation derived from a past event, which will probably result in the use of economic resources, and which can be reasonably estimated.

Direct employee benefits - These are valued in proportion to the services rendered, considering the current wages, and the liability is recognized as it is accrued. It includes mainly employee profit sharing (PTU) payable and incentives (bonuses).

Labor obligations - In accordance with the Federal Labor Law, the Institution has obligations for severance benefits, pensions and seniority premiums payable to employees who cease rendering their services under certain circumstances; also, there are other obligations derived from the collective bargaining agreement. The Institution's policy is to record the liabilities for severance, seniority premiums, pensions and postretirement medical benefits as they are accrued based on actuarial calculations using the projected unit credit method, applying nominal interest rates, as established in Note 24 to the consolidated financial statements. Therefore, a liability is recognized representing the present value of estimated future cash flows required to settle the obligation for these benefits at the projected retirement dates of all the employees working in the Institution.

The Institution amortizes in future periods the actuarial gains and losses for the pension, seniority premium and postretirement medical benefits plans, in accordance with the terms of NIF D-3, *Employee Benefits*. In relation to severance payments, the actuarial gains and losses are recognized in earnings when they arise.

Interest on convertible subordinated debentures outstanding - Interest accrued on subordinated debentures outstanding is charged to income as accrued and is translated at the exchange rate in effect at the month-end closing.

Effects of restatement of stockholders' equity - This represents paid-in capital and other capital restated up to December 31, 2007 using the factor derived from the value of the UDIS. As of 2008, given that the Institution operates in a noninflationary environment, the effects of inflation of the period for contributed and earned capital are not recognized.

Financial margin - The financial margin of the Institution is composed of the difference between total interest income less interest expense.

Interest income is composed of the yields generated by the loan portfolio, based on the terms established in the contracts executed with the borrowers, the negotiated interest rates, the application of interest collected in advance, and the premiums or interest on deposits in financial entities, bank loans, margin accounts, investments in securities, sale and repurchase agreements and securities loans, as well as debt placement premiums, commissions charged on initial loan grants, and net equity instrument dividends.

Interest expense is composed of premiums, discounts and interest on deposits in the Institution, bank loans, sale and repurchase agreements and securities loans, and subordinated debentures, as well as debt placement discount and issuance expenses. The amortization of costs and expenses related to initial loan granting is also included under interest expense.

Both interest income and expense are periodically adjusted based on market conditions and the economic environment.

As of December 31, 2011, 2010 and 2009, the main items comprising the financial margin are:

	2011		
	Appraised amount		
	Mexican pesos	Million of USD dollars	Total
Interest income:			
Interest and yield on loan portfolio	$ 22,453	$ 1,096	$ 23,549
Interest and yield on loan portfolio related to credit card transactions	6,590	-	6,590
Interest and yield on securities	11,396	171	11,567
Interest on funds available	2,601	21	2,622
Interest and premium on sale and repurchase agreements and securities loans	1,789	-	1,789
Interest on margin accounts	176	-	176
Commissions collected on loan originations	592	-	592
Total interest income	45,597	1,288	46,885
Interest expense:			
Interest from demand deposits	(1,497)	(6)	(1,503)
Interest from time deposits	(5,586)	(26)	(5,612)
Interest on bank and other loans	(667)	(114)	(781)
Interest from issued credit instruments	(887)	(6)	(893)
Interest and Premium on sale and repurchase agreements and securities loans	(9,383)	-	(9,383)
Total interest expense	(18,020)	(152)	(18,172)
Financial margin	$ 27,577	$ 1,136	$ 28,713

	2010		
	Valued amount		
	Pesos	US Dollars	Total
Interest income			
Interest and yield on loan portfolio	$ 16,789	534	$ 17,323
Interest and yield on loan portfolio related to credit card transactions	7,122	-	7,122
Interest and yield on securities	10,242	287	10,529
Interest on funds available	2,763	30	2,793
Interest and premium on sale and repurchase agreements and securities loans	1,066	-	1,066
Interest on margin accounts	175	5	180
Commissions collected on loan originations	613	-	613
Total interest income	38,770	856	39,626
Interest expense:			
Interest from demand deposits	(922)	(7)	(929)
Interest from time deposits	(4,576)	(32)	(4,608)
Interest on bank and other loans	(612)	(28)	(640)
Interest from issued credit instruments	(236)	-	(236)
Interest and Premium on sale and repurchase agreements and securities loans	(6,923)	-	(6,923)
Interesest on subordinated debendtures outstanding	-	(75)	(75)
Total interest expense	(13,269)	(142)	(13,411)
Financial margin	$ 25,501	714	$ 26,215

	2009		
	Valued amount		
	Pesos	US Dollars	Total
Interest income			
Interest and yield on loan portfolio	$ 17,026	876	$ 17,902
Interest and yield on loan portfolio related to credit card transactions	10,591	-	10,591
Interest and yield on securities	11,043	446	11,489
Interest on funds available	2,840	307	3,147
Interest and premium on sale and repurchase agreements and securities loans	1,953	-	1,953
Interest on margin accounts	251	-	251
Commissions collected on loan originations	575	26	601
Total interest income	44,279	1,655	45,934
Interest expense:			
Interest from demand deposits	(780)	(7)	(787)
Interest from time deposits	(7,660)	(37)	(7,697)
Interest from issued credit instruments	(125)	-	(125)
Interest on bank and other loans	(1,267)	(13)	(1,280)
Interest and Premium on sale and repurchase agreements and securities loans	(8,755)	-	(8,755)
Interesest on subordinated debendtures outstanding	-	(128)	(128)
Total interest expense	(18,587)	(185)	(18,772)
Financial margin	$ 25,692	1,470	$ 27,162

Net gain on financial assets and liabilities - As of December 31, 2011, 2010 and 2009, the main items comprising the Net gain on financial assets and liabilities are as follows

	2011	2010	2009
Valuation result			
Foreign exchange	$ (36)	$ 31	$ 77
Derivatives	(3,124)	5,509	3,688
Sale and repurchase agreements	(61)	(1,023)	561
Shares	(1,318)	571	1,231
Debt instruments	(16)	208	(592)
Securities loans	130	(109)	(20)
	(4,425)	5,187	4,945
Purchase-sale result			
Foreign exchange	1,134	877	(232)
Derivatives	4,601	(5,208)	(3,780)
Sale and repurchase agreements	288	94	192
Shares	(531)	2,415	5,931
Debt instruments	(233)	589	210
	5,259	(1,233)	2,321
Total	$ 834	$ 3,954	$ 7,266

Earnings per share - Basic earnings per share is calculated by dividing the net majority income from continuing operations (excluding extraordinary items) by the weighted average number of shares outstanding in each period, thus giving a retroactive effect to shares issued due to the capitalization of additional paid-in capital or retained earnings. For the years ended December 31, 2011, 2010 and 2009, the average number of paid-in, outstanding weighted shares was 78,291,498,726; the basic per share profit from continuing operations was $0.174984601 pesos, $0.159046237 pesos (face value) and $0.142820281 pesos (face value), respectively.

Comprehensive income - Comprehensive income presented in the accompanying consolidated statements of changes in stockholders' equity is the result of transactions other than those carried out by the Institution's stockholders during the period and consists of net income for the year plus the effects of creation and cancellation of provisions and reserves applied to stockholders' equity accounts, the effect from the valuation of available for sale securities, the effect of the valuation of cash flow hedge instruments, and the initial effect from the first application of the change in consumer portfolio classification methodology for credit card transactions, the credit portfolio granted to federal entities, municipalities and their decentralized agencies, together with the housing mortgage and non-revolving consumer loan portfolio, which in conformity with the established accounting criteria and special authorizations granted by the Commission, were recorded directly stockholders' equity net of the respective income tax

Statement of cash flows - The consolidated statement of cash flows presents the Institution's ability to generate cash flows and how it uses such cash flows to cover its needs.

The consolidated statement of cash flows, together with the rest of the consolidated financial statements, provides information that helps to:

- Assess changes in the assets and liabilities of the Institution and in its financial structure.
- Assess the amounts and dates of collection and payments to adapt to the circumstances and the opportunities to generate and/or apply Funds available.

Memorandum accounts- (see Note 32) -

– *Contingent assets and liabilities:*

This records the amount of economic penalties imposed by the Commission or any other administrative or court authority, until the time that the obligation to pay these penalties is fulfilled, after a motion for reconsideration was filed.

This also records the line of risk exposure due to participation in the Extended Use Electronic Payment System.

– *Credit commitments:*

This item represents the amounts of unused letters of credit granted by the Institution, which are considered irrevocable commercial credit.

Items under this account are subject to classification.

– *Uncollected interest accrued by the nonperforming credit portfolio:*

Accrued interest is recorded when a current portfolio loan is transferred to the nonperforming portfolio. Loan interest accrued following this transfer is recorded in a memoranda account.

– *Other record accounts:*

This account is used to record, among other items, credit portfolio amounts based on their excepted, unrated risk level.

– *Assets in trust or mandate:*

Different management trusts are kept to independently account for assets received. Mandates include the declared value of the assets subject to mandate contracts entered into by the Institution.

– *Assets in custody or under administration:*

This account includes the activity of third-party assets and securities received in custody or to be managed by the Institution.

– *Collateral received:*

The balance is composed of all collateral received in sale and repurchase agreements in which the Institution is the buying party, as well as collateral received in a securities loan transaction where the Institution is the lender.

– *Collateral received and sold or pledged in guarantee:*

The balance is composed of all collateral received in sale and repurchase agreements in which the Institution is the buying party that in turn is sold by the Institution as a selling party. This balance also includes the obligation of the borrower (or lender) to return to the lender (or borrower) the assets subject to the loan transaction carried out by the Institution.

5. Funds available

As of December 31, 2011 and 2010 funds available were as follows:

			2011		2010
Central Bank account, net	(1)	$	31,437	$	31,415
Time deposits	(2)		1,226		1,242
"Call money" transactions granted	(3)		3,401		19,109
Guarantee deposits ("Over The Counter" margin accounts - OTC)			18,264		8,852
Cash			12,706		12,721
Foreign correspondents and Mexican banks, net			1,401		3,509
Foreign currency purchase-sale transactions (settled in 24-48 hours)			16,427		25,293
Total funds available		$	84,862	$	102,141

(1) As of December 31, 2011 and 2010, Central Bank account includes regulatory monetary deposits made by the Institution of $31,320 in both years. As the term of this Regulatory Monetary Deposit is indefinite, Central Bank will timely notify the date and procedure to withdraw the respective balances. Interest on the deposits is payable every 28 days at the rate established in the regulations issued by Central Bank.

(2) As of December 31, 2011, the deposits mainly include $43 related to deposits that the Institution holds in Banco Santander, (New York) and $1,046 with a foreign financial entity, at a term of 7 days and a rate of 4.9% and 0.45%, respectively.

As of December 31, 2010, the deposits mainly include $923 related to deposits that the Institution holds in Banco Santander, S.A. (Spain) at a term of 29 and 13 days and a rate of between 5.05% and 0.43%, respectively.

(3) "Call money" transactions represent interbank loan transactions agreed for periods equal to or less than 4 business days; as of December 31, 2011 and 2010, these transactions are as follows:

	2 0 1 1			
Counterparty	Days	Rate		Balance
(Mexican pesos)				
(Domestic bank)	3	4.50%	$	1,867
(Foreign currency)				
(Foreign financial institution)	4	0.11%		1,534
			$	3,401

Counterparty	2 0 1 0 Days	Rate		Balance
(Mexican pesos)				
(Domestic bank)	3	4.50%	$	7,500
(Foreign currency)				
(Foreign financial institution)	3	0.18%		11,609
			$	19,109

Foreign exchange receivable and deliverable on purchases and sales to be settled in 24 and 48 hours as of December 31, 2011 and 2010, consists of the following:

	2011 Foreign currency (Millions of USD dollars) Foreign currency		Mexican Pesos
Purchase of foreign exchange receivable in 24 and 48 hours USD dollar	2,112	$	29,451
Sale of foreign exchange to be settled in 24 and 48 hours USD dollar	(934)		(13,024)
	1,178	$	16,427

	2010 Foreign currency (Millions of USD dollars) Foreign currency		Mexican Pesos
Purchase of foreign exchange receivable in 24 and 48 hours USD dollar	4,534	$	55,994
Sale of foreign exchange to be settled in 24 and 48 hours USD dollar	(2,486)		(30,701)
	2,048	$	25,293

	2009 Foreign currency (Millions of USD dollars) Foreign currency		Mexican Pesos
Purchase of foreign exchange receivable in 24 and 48 hours USD dollar	676	$	8,833
Sale of foreign exchange to be settled in 24 and 48 hours USD dollar	(384)		(5,012)
	292	$	3,821

When the foreign exchange deliverable or receivable on the sales and purchases are recorded under the heading of "Funds available", the settlement accounts of the counter value of these transactions are recorded net in the balance sheet under the headings of “Other receivable, (net)” and “Creditors from settlement of transactions”.

6. Margin accounts

As of December 31, 2011 and 2010 margin accounts for collateral submitted on derivative transactions in organized markets are as follows:

	Type of collateral	2011	2010
Mexder, Mercado Mexicano de Derivados, S.A. de C.V.	Cash	$ 7,569	$ 7,593
Chicago Mercantile Exchange	Cash	265	216
Banco Santander, S.A. (Spain)	Cash	76	3
		$ 7,910	$ 7,812

Guarantee deposits cover transactions in rate futures, futures based on the Mexican Stock Exchange Prices and Quotations Index IPC, USD dollar and Mexican peso futures and option futures.

7. Investment in securities

Trading securities- As of December 31, 2011 and 2010 trading securities were as follows:

	Acquisition cost	Accrued interest
Debt instruments:		
Government securities-		
Federal Treasury securities (CETES)	$ 44,294	$
United Mexican States Bonds (UMS)	277	
Brazilian Government Bonds	59	
United Mexican States Bonds (UMS)	13	-
US Treasury Bills (TBILLS)	-	-
US Government Treasury Notes (TNOTE)	-	-
Federal Government Development Bonds (BONDES)	923	-
M y M10 Bonds	34,043	
Saving Protection Bonds (BPAT'S)	41,389	
Federal Government Development Bonds in UDIS (UDIBONDS)	13,503	-
Private bank-issued securities-		
Promissory note with yield payable at maturity (PRLV)	-	-
Unsecured Bonds	1,981	
Commercial paper	30	-
Private securities:		
Unsecured Bonds	919	
Convertible debt securities	950	
Capital market instruments:		
Shares listed in stock exchanges	9,870	-
Investments in investment funds	23	-
Value date transactions (not settled):		
Government securities -		
Treasury Bills (CETES)	407	-
Federal Government Development Bonds (BONDES)	-	-
Bonds M and M10	6,149	-
Federal Government Development Bonds in UDIS (UDIBONDS)	413	-
Private bank-issued securities		
Unsecured Bonds	-	-
Total trading securities	$ 155,243	$

At December 31, 2011 and 2010, the investment in CETES includes the amount of $14,124 and $23,066, respectively, which refers to the guarantee provided for securities loan transactions in which the lender is Bank of Mexico and other institutions. At December 31, 2011 and 2010, the liability portion of $15,478 and $21,299, respectively, is recorded under the “Collateral sold or pledged as guarantee” balance sheet heading and composed as follows:

	2011		2010	
	Loan term in days	Amount	Loan term in days	Amount
Asset guarantee:				
Central Bank-				
CETES	3	$ 14,124	3	$ 6,523
BONDES	-	-	3	3,799
		14,124		10,322
Other-				
M Bonds	-	-	43	5,753
UDIBONDS	-	-	64	5,922
CETES	-	-	90	676
Bank promissory note	-	-	97	393
		-		12,744
		$ 14,124		$ 23,066
Liability loan				
Central Bank-				
CETES	3	$ 4,497	3	$ 3,970
M Bonds	3	8,046	3	6,154
UDIBONDS	3	1,094	-	-
		13,637		10,124
Other-				
M Bonds	-	-	46	5,783
UDIBONDS	-	-	69	4,824
Shares listed in a stock market	21	1,841	56	568
		1,841		11,175
		$ 15,478		$ 21,299

As of December 31, 2011 and 2010 the trading securities position includes the following securities, that are under sale and repurchase agreements, at market value:

	2011	2010
Government securities -		
Federal Government Development Bonds (BONDES)	$ 920	$ 124
M and M10 Bonds	32,582	26,817
Savings Protection Bonds (BPATS)	26,551	20,804
Federal Treasury securities (CETES)	29,228	22,127
Federal Government Development Bonds in UDIS (UDIBONDS)	13,501	9,283
Subtotal	102,782	79,155
Bank securities -		
Unsecured Bonds	599	16
Promissory notes with yield payable upon maturity (PRLVs)	-	1,520
Subtotal	599	1,536
Private securities -		
Unsecured Bonds	459	4,661
Subtotal	459	4,661
Total	$ 103,840	$ 85,352

This position is considered restricted within trading securities.

As of December 2011, positions greater than 5% of the Institution's net capital in debt securities with a sole issuer (other than government securities) are as follows:

Issuer	Date of maturity	% Rate	Restated value
US71656MAF68	28/sep/2015	6.63	$ 10
US70645KAJ88	15/dec/2014	7.38	31
US706451BF73	15/dec/2015	5.75	1,808
MX2PPE050004	16/jul/2015	9.91	3,974
			$ 5,823

As of December 31 2010, positions greater than 5% of the Institution's net capital in debt securities with a sole issuer (other than government securities) are as follows:

Issuer	Date of maturity	% Rate	Restated value
US71656MAF68	28/sep/2015	6.63	$ 31
PEM 0001 150716	16/jul/2015	9.91	4,526
PEMEX 09-3	31/jan/2013	5.28	50
PEMEX 10-3	12/may/2014	5.32	503
US706451BF73	15/dec/2015	5.75	1,089
			$ 6,199

As discussed in Note 4, in December 2011, Management transferred financial instruments from the category of "Trading securities" to that of "Securities available for sale" in order to align the management strategy with the dynamics of the Institution's current operation. This transaction was authorized by the Commission through document numbers 113-1/23632/2011 and 113-1/51801/2012, which were received on December 20, 2011 and January 5, 2012, respectively.

The Institution transferred securities with an amortized cost basis of $10,688 and a market value of $11,580 from this category to that of "Securities available-for-sale", as explained below :

Issuer	Number of securities	Average interest rate	Fair value at November 30, 2011
Mexican Pesos:			
PEMEX	33,607,671	5.54%	$ 4,003
Segregable Bonds	422,239,039	5.44%	3,378
			7,381
Foreign currency			
UMS	116,916	2.45%	2,402
PEMEX	111,588	1.56%	1,797
			4,199
			$ 11,580

Exchange offer for Hipotecaria Su Casita SOFOL unsecured bonds

During 2010, the Institution reclassified $63 for the overdue positions valued at market of the Sociedad Hipotecaria Su Casita, S.A de C.V. (SOFOL) "Su Casita" from the heading of "Investment in securities" to "Other receivables, (net)". Such positions were guaranteed for 65% of the value of issuance by Sociedad Hipotecaria Federal, S.N.C., which it settled on December 1, 2010. For the remaining balance, the Institution recognized the respective reserve for $63 in earnings under the heading "Other operation income".

In April 2011 and after receiving authorization from the Commission, Su Casita announced a national public offering for the voluntary acquisition and reciprocal subscription of long-term unsecured bonds under trading board codes CASITA 06, CASITA 06-2, CASITA 07, CASITA 07-2 y CASITA 07-3. Similarly, the outstanding balance of short-term unsecured bonds was offered under trading board codes CASITA 01810, CASITA 01910, CASITA 02010, CASITA 02110,CASITA 02210, CASITA 02310 and CASITA 02410 (the "Exchange Offering").

At the June 2011 close, the Institution cancelled the account receivable of $63 and the respective reserve, which was recognized during 2010, so as to record new certificates derived from the restructuring process. Accordingly, 693 certificates with a market value $22 were recorded under the heading of "Trading securities", while a further 2,252 certificates with a market value of $71 were recorded under the heading of "Securities available for sale". The new certificates are valid for a period of 2,556 days as of their issuance date. This issuance has been rated as having a high counterpart risk with a level of „CC (mex)' for long-term certificates and „C (mex)' for short-term certificates.

At December 31, 2011, management has not recorded impairment losses in results of the year.

Exchange of Unsecured Bonds for convertible debt securities –

In December 2009, Cementos Mexicanos, S.A.B. de C.V. (CEMEX) made a public offering in the Mexican Stock Exchange aimed at the holders of unsecured bonds issued in Mexico by CEMEX. The Institution exchanged 10,510,900 unsecured bonds of the CEMEX 08, CEMEX 06, CEMEX 06-03 and CEMEX 07-2 Series into 118,100 debt securities convertible into common stock. There is a ten year conversion term with quarterly payment of coupons at 10% per year, provided the conversion is not made in an advanced or compulsory manner.

As of December 31, 2011 and 2010, the market value of these debt securities was $881 and $955, respectively, and they have generated a (loss) gain for the years ended December 31, 2011, 2010 and 2009 of $(74), $(133) and $132, respectively, that is recorded under "Net gain on financial assets and liabilities " in earnings.

Securities available for sale - As of December 31, 2011 and 2010 securities available for sale are comprised as follows:

	2011			
	Acquisition Cost	**Accrued Interest**	**Unrealized gain (loss)**	**Total**
Debt instruments:				
Government securities-				
M, M3 and M5 Bonds	$ 22,327	$ 38	$ 734	$ 2
United Mexican States Bonds (UMS)	2,438	40	(34)	
BPAT'S	8,533	29	6	
UDIBONDS	4,313	4	23	
Federal Government Development Bonds (BONDES)	17,104	37	(13)	1
Private bank securities -				
Bank unsecured bonds	68	-	6	
Private unsecured bonds	5,679	155	(50)	
Capital market instruments-				
Shares listed in stock exchanges	-	-	-	-
Total securities available for sale	$ 60,462	$ 303	$ 672	$ 6

As of December 31, 2011 and 2010, of the Government securities related to M Bonds, M10 Bonds, BONDES, UDIBONDS, UMS and Private unsecured bonds, the amounts of $19,340 y $29,608, respectively, have been repurchased, for which reason they are considered as a restricted position.

Sale of MasterCard, Inc. and Visa Inc. position

In March 2011, the Institution sold 73,733 class "B" shares of MasterCard and 485,396 class "C" shares of Visa, which were maintained as securities available-for-sale. The sales price per share was US$ 243.4 and US$ 71.6, respectively. A profit of $367 was generated by these transactions, which was recorded under "Net gain on financial assets and liabilities " in earnings.

Securities held to maturity - As of December 31, 2011 and 2010 securities held to maturity were as follows:

	2011	2010
Government securities-		
Special CETES - program of credit support and additional benefits to the States and Municipalities	$ 2,151	$ 2,060
Special CETES - support program for housing loan debtors	3,083	2,932
Total securities held to maturity	5,234	4,992
Less-		
Reserve for Special CETES	(373)	(373)
Total securities held to maturity, net	$ 4,861	$ 4,619

As mentioned on March 30, 2000, the Board of Directors of Banca Serfin (Entity merged with the Institution) approved the creation of a $1,887 million (face value) reserve with respect to the balance of long-term UDI-denominated Special CETES (Reserve for Special CETES) recorded by Banca Serfin in March 2000. This reserve was applied to retained earnings at that date, based on the authorization granted by the Commission through official letter No. 601-II-424, of April 10, 2000. According to this authorization, Banca Serfin should proportionally release or cancel the reserves based on Banca Serfin's collections through the UDIS restructured portfolio trusts.

As a result of the collection in the UDIS restructured portfolio trust, Central Bank paid Banca Serfin denominated Special CETES UDIS in 2010. According to the provisions established by the official document mentioned above, Banca Serfin released reserves for $54, respectively, against consolidated income of the year, recorded in "Other operating income" account. As of December 31, 2011 and 2010, the amount of this reserve is $373, respectively.

8. Sale and repurchase agreements

When the Institution acts as purchaser:

	December 2011		
	Debtors in repurchase agreements	Collateral received and sold for repurchase agreements	Position-net
Government securities-			
Federal Government Development Bonds (BONDES)	$ 19,729	$ (19,258)	$ 471
Treasury Bills (CETES)	310	(5)	305
Subtotal	20,039	(19,263)	776
Private Bank securities-			
Bank unsecured bonds	4,438	(711)	3,727
Bank promissory note	99	-	99
Subtotal	4,537	(711)	3,826
Other			
Unsecured bonds	459	(459)	-
Subtotal	459	(459)	-
Total	$ 25,035	$ (20,433)	$ 4,602

	December 2010		
	Debtors in repurchase agreements	Collateral received and sold for repurchase agreements	Position-net
Government securities-			
Federal Government Development Bonds (BONDES)	$ 9,518	$ (1,525)	$ 7,993
Federal Treasury securities (CETES)	60	(60)	-
Subtotal	9,578	(1,585)	7,993
Bank securities-			
Bank unsecured bonds	1,241	(810)	431
Bank promissory note	3,220	(810)	2,410
Subtotal	4,461	(1,620)	2,841
Total	$ 14,039	$ (3,205)	$ 10,834

As of December 31, 2011 and 2010, premiums collected and paid on sale and repurchase agreements are $1,781 and $1,053, respectively.

As of December 31, 2011 and 2010, the repurchase transactions performed by the Institution, acting as purchaser, were agreed at terms ranging between 3 and 35 days.

When the Institution acts as seller:

	2011	2010
Government securities-		
Federal Government Development Bonds (BONDES)	$ 20,421	$ 3,672
Federal Treasury securities (CETES)	28,893	22,108
M and M10 Bonds	35,439	36,218
Savings Protection Bonds (BPATS)	13,284	37,273
Federal Government Development Bonds in UDIS (UDIBONDS)	17,840	8,846
United Mexican States Bonds (UMS)	2,301	-
Subtotal	118,178	108,117
Bank securities-		
Bank unsecured bonds	599	12
Promissory Note with Yield Payable upon Maturity (PRLV)	-	1,520
Subtotal	599	1,532
Private securities-		
Unsecured bonds	4,124	4,605
Subtotal	4,124	4,605
Total	$ 122,901	$ 114,254

As of December 31, 2011 and 2010, premiums collected and paid on sale and repurchase agreements are $8,530 and $6,870, respectively.

As of December 31, 2011 and 2010, the repurchase transactions performed by the Institution, acting as seller, were agreed at terms ranging between 3 and 35 days.

9. Derivatives

As of December 31, the position of financial derivatives instruments is as follows:

Asset position	2011 Nominal amount	2011 Asset position	2010 Nominal amount	2010 Asset position
Futures-				
Foreign currency futures	$ 1,586	$ 48	$ 370	$ -
Interest rate futures	6,149	26	32,098	91
Index futures	3,789	64	1,292	7
Forwards-				
Foreign currency forwards	64,984	4,245	202,657	4,799
Interest rate forwards	1,600	35	2,270	99
Index forwards	4,848	117	6,534	453
Options-				
Foreign currency options	24,661	629	23,148	424
Interest rates options	123,025	1,865	102,049	1,590
Index options	10,256	824	11,962	1,393
Securities options	10,603	925	35,178	7,548
Swaps-				
Interest rate swaps (IRS)	1,411,802	49,123	1,449,296	62,211
Exchange rate swaps valued in Mexican pesos (CCS)	256,319	27,182	186,193	17,913
Total trading	1,919,622	85,083	2,053,047	96,528
Swaps-				
Cash flow hedge swaps	28,535	842	36,808	1,216
Fair value hedge swaps	3,869	55	3,581	36
Fair value hedge CCS	-	-	333	35
Total hedge	32,404	897	40,722	1,287
Total position	$ 1,952,026	$ 85,980	$ 2,093,769	$ 97,815

Liability position	2011 Nominal amount	2011 Asset position	2010 Nominal amount	2010 Asset position
Futures-				
Foreign currency futures	$ 373	$ 16	$ 3,519	$ 46
Interest rate futures	1,945,481	3,894	2,125,035	2,626
Index futures	4,645	111	16,355	396
Forwards-				
Foreign currency forwards	98,406	5,714	184,849	4,442
Interest rate forwards	1,740	35	-	-
Index forwards	8,210	224	9,916	617

	2011		2010	
	Nominal amount	Asset position	Nominal amount	Asset position
Options-				
Foreign currency options	25,163	663	26,542	468
Interest rates options	280,322	4,472	161,165	3,680
Index options	12,535	714	11,121	1,178
Securities options	7,080	851	32,729	3,757
Swaps-				
Interest rate swaps (IRS)	1,376,177	43,655	1,506,865	54,410
Exchange rate swaps valued in Mexican pesos (CCS)	237,631	27,647	173,698	19,400
Total trading	3,997,763	87,996	4,251,794	91,020
Swaps-				
Cash flow hedge swaps	20,572	2,354	-	-
Fair value hedge swaps	2,832	147	1,314	28
Total hedge	23,404	2,501	1,314	28
Total position	$ 4,021,167	$ 90,497	$ 4,253,108	$ 91,048

The unrealized valuation effect of the trading derivative instruments is reflected in the consolidated statements of income under "Net gain on financial assets and liabilities". As of December 31, 2011 and 2010, the (loss) gains$(3,124) y $5,509, respectively.

Derivatives and the underlying assets are as follows:

Futures	Forwards	Options	Swaps	CCS
DEUA	Bonds-GOBFED	Equity-AMXL	CETES	EURIBOR
ES	Equity-GDAX	Equity-COMPARC	EURIBOR	LIBOR
IPC	Equity-IBEX	Equity-CX.N	LIBOR	TIIE
NQ	Equity-IPC	Equity-EWZ	TIIE	
TIIE28	Equity-IRT	Equity-FXI		
TY	Equity-KOF	Equity-GFNORTEO		
M	Equity-NDX	Equity-GMEXICOB		
	Equity-SOTXX50E	Equity-IPC		
	Equity-SP	Equity-NKY		
	Equity-CXN	Equity-WALMEXV		
	Fx-BRL	Equity-SP		
	Fx-EUR	Equity-EURSTOX		
	Fx-USD	Fx-EUR		
	Fx-NOK	Fx-USD		
		Libor		
		TIIE28		
		Fira		

The guarantees and/or colateral received and delivered for the derivative financing transactions “Over-the-Counter (OTC)” as of December 31, 2011 y 2010, are comprised as follows:

	Delivered		
Heading	**Type of collateral**	**2011**	**2010**
Funds available			
Foreign Financial Entity	Cash	$ 15,003	$ 7,30
Mexican Financial Entity	Cash	3,261	1,55
		$ 18,264	$ 8,85
Trading securities			
Foreign Financial Entity	Government bonds	$ 1,514	$ 1,56
		$ 1,514	$ 1,56

	Received		
Heading	**Type of collateral**	**2011**	**2010**
Sundry creditors and other accounts payable			
Foreign Financial Entity	Cash	$ 2,234	$ 4,46
Mexican Financial Entities	Cash	1,108	4
Other Banks	Cash	-	1,51
		$ 3,342	$ 6,02

Upon executing transactions with OTC derivatives, the Institution agrees to deliver and/or receive colateral to cover any exposure to market risk and the credit risk of such transactions. Such colateral is contractually agreed to with each of the counterparties.

Currently, debt securities, are posted as collateral for transactions with domestic finance companies; cash deposits are used for transactions with foreign financial entities and institutional customers.

Management of derivative financial instrument usage policies

The policies of the Institution allow the use of derivatives for hedging and/or trading purposes.

The main objectives of these products are covering risks and maximizing profitability.

The instruments used are:

Forwards
Futures
Options and swaps.

According to the portfolios, implemented strategies can be of a hedge or trading nature.

Trading markets:

Listed
OTC

Trading markets are listed and OTC, in which eligible counterparties may be domestic and foreign with internal authorizations.

The designation of calculation agents is determined in the legal documentation executed with the counterparties. Prices published by authorized price suppliers are used to value the instruments.

The main terms or conditions of the contracts are based on the International Swap Dealers Association (ISDA) or a local outline agreement.

The specific policies on margins, collateral and lines of credit are detailed in the internal manuals of the Institution.

Authorization levels and processes

Pursuant to internal regulations, all products and services marketed by the Institution are approved by the Local Committee of New Products (CLNP) and the Global Committee of New Products (CGNP). Products or services whose original authorization is amended or increased require the approval of the CLNP and, depending on their significance, of the CGNP as well.

All of the areas involved in the operation of the product or service, depending on their nature, as well as those responsible for their accounting, legal documentation, tax treatment, risk assessment. participate in the Committee. The authorizations of the Committees must be unanimous as there are no authorizations granted by a majority of members. In addition to the Committees' approval, certain products require the authorization of local authorities; therefore, the approvals of the Committees are conditional upon the authorization required by competent authorities, as applicable.

Finally, all approvals are presented to the Comprehensive Risk Management Committee (CAIR) for authorization

Independient reviews

The Institution is subject to the supervision and oversight of the Commission, Central Bank and Bank of Spain, which are exercised through follow-up processes, inspection visits, information and documentation requirements and submission of reports.

Likewise, periodic reviews are performed by Internal and External Auditors.

Generic description of valuation techniques

The financial derivatives are valued at fair value, in accordance with the accounting regulations established by Criterion B-5, Derivative financial instruments and hedge transactions, Criterion A-2, Application of specific standards, of the Sole Circular issued for Credit Institutions by the Commission, and the specific standards detailed in MFRS C-10, Financial derivative instruments and hedge transactions.

Valuation methodology

1. For trading purposes:

    a. Organized markets:

        The valuation is made using the closing price of the respective market and the prices are provided by a price supplier.

    b. "Over-the-Counter" markets (OTC):

        i. Derivative financial instruments with optionality.-

            In most cases, a generalized form of the Black and Scholes model is used, which assumes that the underlying asset follows a lognormal distribution. For exotic products or when the payment depends on the trajectory of a market variable, Monte Carlo simulations are used for valuation purposes. In this case, the assumption is that the logarithms of the variables involved follow a multivariate normal distribution.

        ii. Derivative financial instruments without optionality-

            The valuation technique is to obtain the present value of future estimated flows

In all cases, the Institution values its positions and records the value obtained. However, in certain cases a different calculation agent is established, which could be the same counterparty or a third party.

2. For hedging purposes:

In its commercial banking activity, the Institution has attempted to cover the evolution of the financial margin of its structural portfolios exposed to adverse shifts in interest rates. The Assets and Liabilities Committee (ALCO) the body responsible for managing long-term assets and liabilities, has been building the portfolio with which the Institution obtains such coverage.

A transaction is classified as an accounting hedge when the following conditions are met:

a. The hedging relationship is designated and documented at the beginning in an individual file, setting its objective and strategy.

b. The hedge is effective for purposes of offsetting variances in fair value or cash flows attributable to the hedged risk, consistently with the initially documented risk management.

Management of the Institution uses swaps for derivative hedging transactions.

Derivatives for hedging purposes are valued at market value and the effect is recognized in accordance with the type of accounting hedge, as follows:

a. For fair value hedges, the hedged risk of the primary position and the derivative hedging instrument are valued at market, recording the net effect in earnings.

b. For cash flow hedges, the derivative hedging instrument is valued at market. The effective portion of the hedge is recorded in stockholders' equity under comprehensive income and the ineffective portion is recorded in earnings.

The Institution suspends hedge accounting when the derivative has matured, has been sold, cancelled or exercised, when it does not reach a sufficiently high effectiveness level to offset the changes in the fair value or cash flows of the hedged item, or when the hedging designation is cancelled.

It must be shown that the hedge effectively complies with the objective for which the derivatives were contracted. This effectiveness requirement assumes that the hedge must comply with a maximum deviation range of 80% to 125% in regard to the initial objective.

The effectiveness of the hedges must be proven by applying two tests:

a. Prospective test: shows that in the future the hedge will remain within the maximum range.

b. Retrospective test: reviews whether the hedge has remained within the maximum range from its establishment to date.

In the case of Fair Value Hedges, during the quarter ended in December 2011, the average Retrospective Efficiency level was 102%, while the Prospective Efficiency level was 106%. Cash flow hedges are prospectively and retrospectively efficient and are located within the maximum permitted departure range.

3. Reference variables

The most relevant reference variables are:

Exchange rates
Interest rates
Shares
Baskets and share indexes.

4. Valuation frequency

Derivative financial instruments for trading purposes are valued daily; those for hedging purposes are valued monthly.

Management of internal and external liquidity sources that may be used for requirements related to financial instruments -

Resources are obtained through the Domestic and International Treasury areas.

Changes in the exposure to identified risks, contingencies, and known or expected events of derivative financial instruments -

As of December 31, 2011 and 2010, the Institution does not have any situations or contingencies, such as changes in the value of the underlying assets or reference values, which may mean that the use of the derivatives may differ from their original use, significantly modify their scheme or imply a full or partial loss of coverage that may require the Issuer to assume new obligations, commitments, or cash flow variances that affect its liquidity (for margin calls); or contingencies or events that are known or expected by management of the Institution, which may affect future reports.

During 2011, the number of matured derivative financial instruments and closed positions was as follows (unaudited):

Description	Maturities	Closed positions
Caps and Floors	734	17
Equity Forward	247	48
OTC Eq	9,469	144
OTC Fx	2,125	203
Swaptions	42	-
Fx Forward	5,781	990
IRS	1,996	7,737
CCS	124	32
Caps and Floors	35	-

During 2010, the number of matured derivative financial instruments and closed positions was as follows (unaudited):

Description	Maturities	Closed positions
Caps and Floors	660	9
Equity Forward	289	186
OTC Eq	7,373	27
OTC Fx	1,422	128
Swaptions	24	-
Fx Forward	4,084	39
IRS	3,151	4,145
CCS	106	22

The number of margin calls made during 2011 and 2010 was that necessary to cover both contributions in organized markets and those required in collateral agreements.

During the 2011 neither the Institution or any of its counterparties defaulted.

Impairment of derivative financial instruments -

As of December 31, 2011 and 2010, there is no indication of impairment in credit risk (counterparty) that would require a modification in the book value of the financial assets related to the rights established in the derivative financial instruments.

Derivative financial instrument transactions for hedging purposes

As of December 31, 2011 and 2010, the Institution presents swap (Interest Rate and Cross Currency) hedging transactions which are intended to hedge the financial margin with cash flow hedges and fair value hedges throughout the hedge period.

Quantitative information

Fair value hedges

At December 31, 2011 and 2010, applicable hedges are equal to a notional amount of $2,832 and $1,647, (face value), respectively. The hedge item is commercial portfolio.

As of December 31, 2011, the positions of derivatives held as fair value hedges are as follows:

Instrument	Face value in millions		Instrument being hedged
Swap IRS	2,832	Mexican pesos	Commercial portfolio

As of December 31, 2010, the hedging derivative positions (fair value) are as follows:

Instrument	Face value in millions		Instrument being hedged
Swap IRS	1,314	Mexican pesos	Commercial portfolio
CCS	27	USD dollars	Commercial portfolio

The fair value hedges carried out by the Institution are extended in certain cases up to the year 2018.

The net accrued loss as of December 2011 and 2010, which represents the ineffectiveness of the fair value hedges, is $(12) y $(6), respectively.

For the years ended December 31, 2011, 2010 and 2009, the valuation effect of the hedged items for fair value hedging purposes recorded in the consolidated statements of income in the account “Net gain on financial assets and liabilities" is $119, $(12) and $7, respectively.

For the years ended December 31, 2011, 2010 and 2009, the effect of the valuation for the period of derivative financial instruments for fair value hedging purposes recorded in the consolidated statements of income under “Net gain on financial assets and liabilities” is $(120), $9 and $24, respectively.

Cash flow hedges

During 2011, the Institution structured cash flow hedges on the commercial portfolio as follows:

Instrument	Face value in millions		Instrument being hedged
Swap CCS	974	USD dollars	LIBOR variable rate
Swap CCS	230	Euros	EURIBOR variable rate

During 2010, the Institution structured cash flow hedges on the commercial portfolio as follows:

Instrument	Face value in millions		Instrument being hedged
Swap CCS	290	USD dollars	LIBOR variable rate

During 2011, the Institution structured cash flow hedges on UDIBONOS as follows:

Instrument	Face value in millions		Instrument being hedged
Swap CCS	825	UDIS	UDIBONDS

During 2010, Institution increased the cash flow hedges amount on certain securities classified as "available for sale", which bear interests at a variable rate with derivatives called IRS swaps for a nominal amount of $4,130.

As of December 31, 2011, the positions in derivatives with cash flow hedging purposes are as follows:

Instrument	Face value in millions		Hedged item
Swap IRS	12,690	Mexican pesos	BPAT'S and D Bonds
Swap IRS	15,845	Mexican pesos	Monetary Regulation Deposit
Swap CCS	1,241	USD dollars	Commercial portfolio
Swap CCS	180	Euro	Commercial portfolio
Swap CCS	825	UDIS	UDIBONDS

As of December 31, 2010, the positions in derivatives with cash flow hedging purposes are as follows:

Instrument	Face value In millions		Hedged item
Swap IRS	20,963	Mexican pesos	BPATS and D Bonds
Swap IRS	15,845	Mexican pesos	Monetary Regulation Deposit
Swap CCS	290	USD dollars	Commercial portfolio

As of December 31, 2011, the amount of $646 derived from the valuation of hedge swaps canceled in prior years was reclassified from stockholders' equity to results. Of this amount, $406 refers to the valuation accrual of swaps covering BPAT'S Bonds and D BONDS, while the amount of $240 involves the valuation accrual of swaps used to cover the Monetary Regulation Deposit.

As of December 31, 2011 and 2010, the Institution maintains a balance under the heading of "Result from the valuation of cash flow hedge instruments" of $1,188 and $1,619, which refers to the remnant of the accumulated gain of the effective part of the hedging derivative that was recognized in stockholders' equity as part of comprehensive income during the period of time that the hedges were efficient. Such balance is being amortized based on the original term of the forecast transaction in accordance with the amortized cost of the hedged item being hedged. The term of such amortization matures between 2013 and 2015.

The cash flow hedges performed by the Institution are extended in certain cases up to the year 2014 for securities classified as "available for sale", and for the Monetary Regulation Deposit and up to the year 2022 for the commercial credits denominated in USD dollars.

Management of the Institution states that the effectiveness of the hedges of hedged items to IRS Swaps and Cross Currency Swaps is significant.

Each of these hedge positions is presented in the balance sheet under "Derivatives", recognizing the realized results of the derivative financial instruments as well as the hedged item, and presenting both effects under the same line item in the consolidated statements of income.

The Institution's management estimates that cash flows which are hedged as forecasted transactions that will affect earnings will occur during the period from January 2011 to October 2016.

The effective part of the cash flow hedges recognized in stockholders' equity as part of comprehensive income is adjusted to the lower value in absolute terms of the gain or loss from the derivative and the cumulative change in the fair value of the cash flow hedges from the hedged item. For the years ended December 31, 2011, 2010 and 2009 due the cash flow hedges have been efficient the Institution have not recognized in earnings for the periods ended in the years previously mentioned any impact for the inefficient part of the cash flow hedges based on the accounting criteria issued by the Commission.

The Institution's management believes that the derivative financial instruments for fair value and cash flow hedging purposes discussed above fairly hedge the financial margin and profits against changes in market variables such as interest and exchange rates for up to the amounts hedged.

Formal hedge documentation -

Once cash flow and fair value hedges are structured, the Institution prepares an individual file for each containing the following documentation:

– The strategy and objective of the entity's risk management, as well as the justification to carry out the hedging operation.

– The specific risk or risks to be hedged.

– Hedge structure identifying the derivative financial instruments contracted for hedging purposes and the item generating the hedged risk.

– Definition of the elements composing the hedge, its objective and a reference to the effectiveness valuation method.

– Contracts for the hedged item and hedging instrument, as well as confirmation from the counterparty.

– Periodic hedge effectiveness tests at the prospective level regarding its estimated future evolution and at the retrospective level, concerning its past behavior. These tests are applied at least at the end of each quarter, according to the valuation method defined when creating the hedge files.

Sensitivity analysis -

- *Risk identification*

  The sensitivity of derivative financial instruments is calculated based on the market value variance in accordance with certain base scenario variances. There are different sensitivities based on such variances, as follows:

  - *Sensitivity to equity risk factors (delta EQ)*.**-** In this case the value of the base scenario of the equity risk factors is disrupted by the relative 1%, i.e., the value is multiplied by 1.01 or 0.99, depending on whether the value will be increased or decreased.

  - *Sensitivity to foreign exchange risk factors (delta FX)*. **-** As above, the value of the base scenario is multiplied by 1.01 or 0.99, but only in foreign exchange risk factors.

  - *Sensitivity to volatility risk factors (VEGA)*.- Unlike the two items above, there is an absolute 1% variance, i.e., 0.01 is added to or subtracted from the value of the base scenario of volatility risk factors, depending on the intended disruption.

  - *Sensitivity to interest rate factors (Rho)*.- In this case the disruption is equal to ten basis points on interest rate curves, i.e., 0.001 is added to or subtracted from the base scenario. This disruption can be applied to one point of the curve or to complete curves.

    Any of these sensitivities will be represented as follows:

    Sensitivity 1 = V(x+h) - V(x) where:

    V(x) is the unit value of an instrument.
    V(x+h) is the unit value of an instrument after a positive disruption.

The risks that may generate losses on transactions with derivative financial instruments due to changes in market conditions are interest rate, exchange rate and stock market activity. A sensitivity analysis shows that consumption in these risks is not relevant.

The following chart shows total sensitivity consumption at December 31, 2011:

Sensitivity Analysis (unaudited)			
	(Amaount in mexican pesos)		
Total rate sensitivity	**Mexican pesos**	**Other currencies**	
Sensitivity to 1 basis point	5,506,089	76,881	
	EQ	**FX**	**IR**
Vega per risk factor	4,382,337	1,046,363	5,508,602
	EQ	**FX**	
Delta per risk factor (EQ and FX)	7,013,979	178,362,027	

Stress Test -

- ***Probable Scenario*: This scenario was defined based on movements of a standard deviation of the risk factors which affect instrument validation .
    - The risk factors of interest rate (IR), volatilities (VOL) and Exchange rate (FX) increased by a standard deviation, and
    - The stock market (EQ) risk factors decreased by a standard deviation.
- ***Possible Scenario*: In this scenario the risk factors move by 25%.
    - The risk factors IR, FX, VOL are multiplied by 1.25, i.e., they increase by 25%.
    - The EQ risk factors are multiplied by 0.75, i.e., they decrease by 25%.
- ***Remote Scenario*: In this scenario the risk factors move by 50%.
    - The risk factors IR, FX, VOL are multiplied by 1.50, i.e., they increase by 50%.
    - The EQ risk factors are multiplied by 0.5, i.e., they decrease by 50%.

Impact in earnings

The results for such scenarios are as follows, showing the impact in earnings if they took place:

Risk profile	**Stress test (all factors)**
Probable escenario	90
Possible escenario	2,039
Remote escenario	1,112

Advance maturity of Lehman Brothers-

Lehman Brothers

On September 18 and 24, 2008, advance maturities were performed for OTC derivatives transactions held with Lehman Brothers, Inc. (Lehman), because the counterparty was declared bankrupt under US law. The market value at the unwind date of such derivatives was determined by the management of the Institution at $143, which was recorded as “Other receivables, (net)” as stipulated in the contract executed with the counterparty.

In October 2011, the Institution received a payment of $32 (USD $2,400,000) from Lehman Brothers International Europe London for a part of the transaction that resulted in the early maturity during the month of September 2008, which was applied in earnings under the heading of "Other income".

10. Loan portfolio

The detail of the loans granted by economic sector as of December 31, is as follows:

	2011	2010
Federal Government loans	$ 33,380	$ 15,841
Manufacturing industry	49,172	35,712
Retail	114,024	62,777
Other activities and services	38,253	48,025
Commercial	27,084	23,221
Communications and transportation	10,003	6,432
Construction	30,455	26,615
Tourism	6,090	5,184
Farming and cattle-raising	4,808	3,353
Mining	682	557
	280,571	211,876
	313,951	227,717
Interest collected in advance	(229)	(119)
Unaccrued financial burden from financial leasing transactions	(49)	(42)
	$ 313,673	$ 227,556

During 2011, the average placement rate was 12.14% and 3.15% for loans denominated in Mexican pesos and US dollars, respectively. During 2010, this rate was 13.05% and 2.61% for loans denominated in Mexican pesos and US dollars, respectively.

At December 31, 2011 and 2010, the valuation of the portfolio hedged based on derivative financial operations was $122 and $8, respectively.

Risk diversification-

According to the general risk diversification provisions applicable to credit institutions in the performance of debit and credit transactions, published in the Federal Official Gazette on April 30, 2003, as of December 31, 2011 and 2010, the Institution has the following credit risk transactions:

– Financing granted to debtors or groups of individuals or entities representing a joint risk, the individual amount of which exceeds 10% of the Institution's basic capital (of the month immediately preceding the reporting date) is composed by 1 group that represent the total amount of $10,364 and $8,340, which is equal to 15.15% and 12.07% respectively, of the Institution's basic capital.

– Loans granted to the main debtors or groups of individuals representing a joint risk for the aggregate amount of $18,919 and $15,653 represent 17.64% and 25.65% respectively, of the Institution's basic capital.

Loans to related parties - At December 31, 2011 and 2010, loans have been granted to related parties per article 73 of the Law on Credit Institutions amounting to $63,105 and $36,941, respectively, which were approved by the Board of Directors. As of December 31, 2011 and 2010 these amounts include a loan granted to Santander Consumo, S.A. de C.V. SOFOM, E.R. (the SOFOM) for $34.936 and $27,990, respectively, as well as a loan of $18,548 granted to Santander Hipotecario at December 31, 2011,which were eliminated from the balance sheet on consolidation.

Policy and methods used to identify distressed commercial loans - Commercial loans are identified as distressed in regard to the individual portfolio rating, by considering quantitative elements when they are unsatisfactory and there are significant weaknesses in cash flow, liquidity, leverage, and/or profitability that may jeopardize the company's ability to continue as a going concern or when it has stopped operating. In general, they refer to borrowers whose portfolio rating is "D" or "E".

Policy and procedures to identify credit risk concentration - Concentration risk is an essential element of risk management. The Institution continuously monitors the degree of concentration of credit risk portfolios by economic group. This monitoring starts from the admission study stage with the application of a questionnaire to the partners of the borrowing group to create a list of companies and assess the exposure of the economic group by both credit and market risk.

Credit lines unused by customers - As of December 31, 2011 and 2010, unused credit lines were authorized to customers for $112,672 and $185,901, respectively.

Federal Government loans - As of December 31, loans granted to the Federal Government agencies, including those of the support programs and agreements, were as follows:

	2011	2010
Additional Benefit Program for:		
Mortgage debtors	$ -	$ 139
Early termination of the housing support programs	484	543
Loans derived from credit support programs	484	682
Guarantees for Final Recovery Remnants of FOVI credits	434	463
Other loans granted to government agencies:		
Simple loans	29,188	9,923
General loans	1,076	2,313
Unsecured loans	1,653	1,693
Discounted portfolio loans	545	767
	32,462	14,696
Total government loans	$ 33,380	$ 15,841

Portfolio by loan type and currency - As of December 31, the loans granted by type and currency are as follows:

	2 0 1 1			
	Valued amount			
Loan type	Mexican pesos	USD dollars	UDIS	Total
Performing loan portfolio:				
Commercial loans				
Commercial or business activity	$ 120,040	$ 42,377	$ 2	$ 162,419
Loans to financial entities	1,975	-	-	1,975
Loans to government entities	22,525	10,850	3	33,378
Consumer loans	49,342	-	-	49,342
Mortgage loans	58,224	1,187	1,832	61,243
	252,106	54,414	1,837	308,357
Nonperforming loan portfolio				
Commercial loans				
Commercial or business activity	1,783	143	-	1,926
Consumer loans	2	-	-	2
Mortgage loans	1,270	-	-	1,270
Commercial loans	1,723	162	233	2,118
	4,778	305	233	5,316
	$ 256,884	$ 54,719	$ 2,070	$ 313,673

Loan type	2 0 1 0 Valued amount Mexican Pesos	USD dollars	UDIS	Total
Performing loan portfolio:				
Commercial loans				
Commercial or business activity	$ 110,439	$ 18,465	$ 2	$ 128,906
Loans to financial entities	4,712	7	-	4,719
Loans to government entities	12,420	3,417	4	15,841
Consumer loans	40,136	-	-	40,136
Mortgage loans	33,152	-	984	34,136
	200,859	21,889	990	223,738
Nonperforming loan portfolio				
Commercial loans				
Commercial or business activity	1,613	118	-	1,731
Consumer loans	1,479	-	-	1,479
Mortgage loans	507	-	101	608
	3,599	118	101	3,818
	$ 204,458	$ 22,007	$ 1,091	$ 227,556

As of December 31, 2011 and 2010, the loan portfolio of the Institution is unrestricted.

The acquisition of the mortgage business GE Capital México (currently Santander Hipotecario S.A de C.V., SOFOM ER) -

As discussed in Note 1, in December 2010, the Institution executed an agreement to acquire the mortgage business of GE Capital México. These transactions included the acquisition of the business with a mortgage loan portfolio of $21,926.

GE Capital México maintained absolute control over the business until the closing date on April 29, 2011.

On the above date, the Institution executed an agreement to acquire GE Consumo México, S.A. de C.V., SOFOM ENR ("GE Consumo"), GE Holding México, S.A. de C.V. ("GE Holding"), GE Money Servicios Administrativos de Monterrey, S. de R.L. de C.V. ("Gemsa") and PMS Servicios Administrativos, S. de R.L. de C.V. (PMS) by providing the funding of $21,009 received by GE Consumo from its parent company, together with the payment of $2,042 for the value of the entities' stockholders' equity, as presented in the pro forma financial statements at April 29, 2011, which considered a 9% discount on the equity value.

In May, June and December 2011, the Institution's Management analyzed the fair values of the assets and liabilities acquired through this transaction, which generated goodwill of $1,589. The most significant adjustments made when recording this acquisition were the $2,052 reduction of the value of the credit portfolio, together with the $247 reduction of the value of foreclosed assets, thereby generating a deferred tax asset effect of $710.

Credit portfolio acquisition -

As discussed in Note 1, to enable it to manage regional customer relations locally, in January, February and April 2011, the Financial Group acquired the loans of Mexican companies or which have a certified Mexican holding company from its foreign related parties. The face value of the loans acquired during January and February 2011 was $14,365, while loans of $4,029 were acquired in April of that year and recorded under the heading of "Performing loan portfolio".

The amount of $14,062 was paid to acquire these loans in January and February, thereby generating a difference of $301 as regards their face value. Of this amount, Management recorded $112 in the results of the year under the heading of "Other operating income" to reflect the provision for loan losses created at the acquisition date. The surplus of $191 was recorded as a deferred credit which will be applied as the loans in question are collected according to Bulletin B-6, "Credit portfolio" issued by the Commission.

With regard to the loans acquired in April 2011 for a purchase price of $4,048, Management recorded a deferred charge of $19, which reflects the difference between the portfolio acquisition price and the contractual value of the loans in question, which will be applied during the remaining useful life of these loans.

The payment made to acquire these loans reflected the market values determined by third parties.

Below is a breakdown of commercial loans, identified as distressed or non-distressed and performing or non-performing, as of December, 2011:

Portfolio	Non distressed		Distresssed	
	Performing	Nonperforming	Performing	Nonpe
Business or commercial activity	$ 162,317	$ 1,151	$ 102	$
Loans to financial entities	1,975	-	-	
Loans to government entities	33,378	2	-	
	$ 197,670	$ 1,153	$ 102	$

Below is a breakdown of commercial loans, identified as distressed or non-distressed and performing or non-performing, as of December 31, 2010:

Portfolio	Non distressed		Distresssed	
	Performing	Nonperforming	Performing	Nonpe
Business or commercial activity	$ 128,710	$ 912	$ 196	$
Loans to financial entities	4,719	-	-	
Loans to government entities	15,841	-	-	
	$ 149,270	$ 912	$ 196	$

The restructured and renewed portfolio as of December 31, 2011 is as follows:

Restructured portfolio	Performing	Nonperforming	Total
Business or commercial activity	$ 1,819	$ 1,235	$ 3,054
Loans to government entities	2,151	-	2,151
Consumer loans	951	75	1,026
Mortgage loans	248	70	318
	$ 5,169	$ 1,380	$ 6,549

The restructured and renewed portfolio as of December 31, 2010 is as follows:

Restructured portfolio	Performing	Nonperforming	Total
Business or commercial activity	$ 671	$ 1,166	$ 1,837
Consumer loans	280	36	316
Mortgage loans	69	22	91
	$ 1,020	$ 1,224	$ 2,244

As of December 31, 2011, the Institution had the following collateral, which was received after the restructuring of certain loans:

Nature of collateral	Restructured portfolio		
	Performing	Nonperforming	Total
Real property	$ 292	$ 538	$ 830
Personal guarantees	1,310	315	1,625
Securities	2,134	382	2,516
Federal Government	21	-	21
	$ 3,757	$ 1,235	$ 4,992

As of December 31, 2010, the Institution had the following collateral, which was received after the restructuring of certain loans:

Nature of collateral	Restructured portfolio					
	Performing		Nonperforming		Total	
Real property	$	97	$	587	$	684
Personal guarantees		337		135		472
Securities		2		319		321
	$	436	$	1,041	$	1,477

As of December 31, 2011, aging of nonperforming portfolio is as follows:

Portfolio	Period							
	From 1 to 180		From 181 to 365		From 365 to 2 years		T	
Business or commercial activity	$	1,129	$	202	$	595	$	
Government entities		2		-		-		
Consumer loans		1,255		12		3		
Mortgage loans		1,634		424		60		
	$	4,020	$	638	$	658	$	

As of December 31, 2010, aging of nonperforming portfolio is as follows:

Portfolio	Period							
	From 1 to 180		From 181 to 365		From 365 to 2 years		T	
Business or commercial activity	$	1,329	$	154	$	248	$	
Consumer loans		1,454		21		4		
Mortgage loans		410		186		12		
	$	3,193	$	361	$	264	$	

For the year ended December 31, interest generated on the loan porfolio of the Institution is as follows:

Interest	2011		2010		2009	
Business or commercial activity	$	11,511	$	8,907	$	9,445
Finance companies		231		296		457
Government entities		1,240		560		814
Consumer loans		5,195		4,258		3,801
Mortgage loans		5,372		3,302		3,048
		23,549		17,323		17,565
Credit card portfolio		6,590		7,122		10,924
Total	$	30,139	$	24,445	$	28,489

11. UDIS restructured portfolio

As of December 31, the Institution's UDIS-restructured loan portfolio (net of reserves) was recorded in trusts, as follows:

2 0 1 1			2 0 1 0		
UDIS	Mexican pesos		UDIS	Mexican pesos	
739,199	$	3	899,267	$	4

Early Elimination of the Debtors Support Programs

The contract to early eliminate the debtors support programs (the "Contract") was signed on July 15, 2010, whereby the banks deemed it advisable to early terminate the following programs, which were created between 1995 and 1998 derived from the debt restructurings, as follows:

a. Housing Loan Debtors Support Program (Support Program);
b. Support Program for the Building of Housing in the process of construction in their personal loan stage (Support Program); and the
c. Agreement of Benefits for Housing Loan Debtors (Discount Program)

The banks reached agreement with the Mexican Treasury and the Commission. This agreement was handled through the Mexican Bankers' Association (ABM) and establishes that to ensure the proper application of the early termination agreement scheme, the banks will be subject to the supervision and oversight of the Commission, and will adhere to the observations and corrections indicated by such Commission, for which purpose they must provide any and all information requested from them in relation to the performance of the agreement.

The early termination scheme covered the loans restructured or granted in UDIS under the Debtors Support Programs, the loans denominated in Mexican pesos which are entitled to receive the Discount Program benefits. Additionally, it covers loans which, as of December 31, 2010 (cutoff date) are current, as well as past-due loans which as of the same date were restructured, as well as those loans which in order to be current received a reduction, discount or rebate, regardless of the amount, provided that there is evidence of payment compliance.

On July 26, 2010, the Commission published, in the Federal Official Gazette, the "General provisions applicable to Credit Institutions in the early termination of mortgage programs", which establish the rules for accounting, reporting and audit requirements for the operation of the Contract, as well as the special rules for the proper restructuring process of the loans which can apply the benefits of the Mortgage Programs and the Agreement.

As established above, the Institution complied with the Contract, which went into effect on July 15, 2010.

As of December 31, 2011, the total payment obligation of the Federal Government for Commercial Credits is $484.

Each monthly installment will include a financial cost (the "Annual Charges") from the day immediately following the Cutoff Date until the close of the month immediately before the payment date, using for January 2011, the rate resulting from the arithmetical average of the annual rates of return calculated on the discount rate of the 91 day CETES issued in December 2010, and for the subsequent months the future interest rates of the 91 day CETES of the immediately preceding month, published by the company Proveedor Integral de Precios, S.A., on the business day immediately following that of the Cutoff Date, or as the case may be, that of the closest previous month contained in such publication, carried to a 28 day term yield curve, by dividing the resulting rate by 360 and multiplying the result so obtained by the number of days elapsed during the period in which it is accrued, and capitalized monthly.

These payment obligations will be subject to the other provisions contained in the Contract and the "Liquidation Agreement".

In June 2011 and the start of the terms established by the Agreement, Management determined the correct application and execution of the Agreement to ensure the early settlement of Housing Loan Debtor Support Programs.

Federal government payment obligation resettled to annual payments over a five-year period; as of December 31, 2011, outstanding payments are as follows:

Annuity	Payment Date	Amount	
Second	June 1, 2012	$	118
Third	June 3, 2013	$	128
Fourth	June 2, 2014	$	123
Fifth	June 1, 2015	$	115

After determining payable annuities, on September 29, the 2011, Management calculated the adjusted amount of the first annuity payable on December 1, 2011 by considering that the default index is inapplicable to this initial year. Under the Agreement, if the portfolio exceeds this default index, the Institution loses the Support Benefit payable by the Federal Government.

The adjusted amount of the annuity payable on December 1, 2011 was $127. On December 1, 2011, Management received the adjusted annuity amount.

The maximum amount that the Institution will have to absorb from loan debtors which, given their characteristics, were not included in the Early Settlement Scheme under the Agreement, if these loans become current and whereby debtors would be entitled to receive Discount Program benefits, would be $32.

The remnant and maturity dates of these SPECIAL CETES which, as they were not repurchased by the Federal Government, are maintained by the Institution in its balance sheet as of December 31, 2011, are as follows:

Issuance	Trust	Non-securities	Maturity date	Price in pesos		Millions of pesos	
B4-270701	423-2	15,292,752	01-Jul-2027	$	81.73206	$	1,250
B4-170713	421-5	9,155,840	13-Jul-2017	$	81.73206		748
B4-220707	422-9	12,762,386	07-Jul-2022	$	81.73206		1,042
B4-170720	424-6	86,723	20-Jul-2017	$	81.73206		7
B4-220804	431-2	440,294	04-Ago-2022	$	74.83231		33
BC-170720	424-6	2,875	20-Jul-2017	$	26.73866		1
BC-220804	431-2	71,442	04-Ago-2022	$	26.73866		2
						$	3,083

During January 2011, the amount related to the repurchase of the Special CETES, Special CETES "C" and Special CETES "V" was $506.

12. Allowance for loan losses

As discussed in Note 1, on October 25, 2010 and October 5, 2011, the Commission issued rulings to amend the "General Provisions Applicable to Credit Institutions", which modify the methodology is used to rate the nonrevolving consumer loan portfolio, the housing mortgage loan portfolio and the portfolio of States and Municipalities, in order to change the model currently used to create provisional reserves from the incurred loss model to the expected loss model. These amendments took effect on March 1 and in September 2011, respectively.

The Commission required the recognition of the initial accrued financial effect derived from the application of rating methodologies to nonrevolving consumer loan portfolios, housing mortgage portfolios and the portfolio of States and Municipalities in stockholders' equity, under the heading of "Retained earnings", no later than March 31 for non-revolving consumer and mortgage loan portfolio and at September 30, 2011 for the portfolio of States and Municipalities.

The initial accrued effect of applying the modified rating methodology led to the creation of an allowance for loan losses of $432, net of deferred tax, under the heading of "Retained earnings" within stockholders' equity, for the nonrevolving consumer loan portfolio and the housing mortgage loan portfolio, together with the amount of $173, net of deferred tax, for the portfolio of States and Municipalities.

On May 17, 2010, the Commission issued a ruling that amends the "General provisions applicable to credit institutions", which modifies the classification methodology of the commercial credit portfolio of banks by allowing them to reassess the risk inherent to the credits that were restructured, renewed or assigned, by considering the value of their related guarantees.

As of December 31, the allowance for loan losses was $11,191 and $10,254, respectively, assigned as follows:

2011	Performing Portfolio	Non-performing portfolio	Assigned allowance
Commercial and financial entities portfolio	$ 2,218	$ 952	$ 3,170
Mortgage loans	598	405	1,003
Credit cards and consumer loans	6,178	840	7,018
Total Portfolio	$ 8,994	$ 2,197	$ 11,191

2010	Performing Portfolio	Non-performing portfolio	Assigned allowance
Commercial and financial entities portfolio	$ 1,623	$ 960	$ 2,583
Mortgage loans	316	291	607
Credit cards and consumer loans	5,585	1,479	7,064
Total Portfolio	$ 7,524	$ 2,730	$ 10,254

As of December 31, 2011 and 2010, the Institution maintained an allowance for loan losses equivalent to 211% and 269% of the non-performing portfolio, respectively.

The allowance for loan losses resulting from the loan portfolio classification as of December 31, 2011 and 2010, recorded in the same year, together with the additional allowances required and those established for the UDIS trusts, were classified as follows:

	2 0 1 1		
Degree of Credit Risk	Classification of the portfolio by degree of risk	Amount of allowance recorded	Cla of th by
A	$ 275,060	$ 3,560	$
B	51,959	3,327	
C	5,943	1,922	
D	1,907	1,347	
E	822	867	
Base classification portfolio	335,691	11,023	
Portfolio excluded (includes IPAB and government agencies with federal government guarantee, among others)			
Total portafolio	5,394	-	
	341,085	11,023	
Less-			
Guarantees and credit openings	(27,134)	-	
Unaccrued financial burden	(49)	-	
Interest collected in advance on factoring operations	(229)	-	
Loan portfolio, net	$ 313,673	11,023	$
Reserves resulting from the mortgage portfolio restructuring process		76	
Additional reserves		92	
Total allowance for loan losses		$ 11,191	

The Institution maintains additional reserves, which include the cost of loan portfolio support programs.

The portfolio classified with “D” and “E”risk is identified as distressed portfolio.

Below is the activity of the allowances for loan losses for the years ended December 31:

	2011	2010
Opening balances	$ 10,254	$ 11,368
Provisions (applications) with a charge (credit) to-		
Portfolio reserve of Santander Hipotecario based on its fair value valuation	2,514	-
Earnings	6,556	8,425
Charge to capital due to methodology change (Consumer, Mortgage, States and Municipalities)	864	-
Portfolio acquisition reserves	-	18
Recoveries credited in results from retained earnings	(76)	(62)
Applications and reductions	(8,972)	(9,324)
Exchange result	-	41
Support program	(10)	(212)
Others	61	-
Closing balances	$ 11,191	$ 10,254

Release of SOFOM credit reserves -

In conformity with the requirements issued by the Commission, during the third and fourth quarters of 2011, the SOFOM implemented an exhaustive program to review and clear inactive accounts so as to determine the number of accounts to be reactivated or left as deactivated, while also identifying the amount of reserves related to the latter.

As a result of this program, 1,282,522 accounts were cleared; however, given account reactivation difficulties, inactive accounts were canceled and credit reserves subsequently reduced by the amount of $1,267, which was applied to results of the year.

13. Other receivables, (net)

As of December 31, the other receivables, (net) are composed as:

	2011	2010
Debtors due to liquidation of operations	$ 5,396	$ 10,833
Other debtors	3,925	2,382
Employee loans	2,408	2,228
Recoverable taxes	2,165	4,499
Other accounts receivable	95	18
	13,989	19,960
Allowance for doubtful accounts	(634)	(561)
Total	$ 13,355	$ 19,399

As of December 31, transaction liquidation debtors are as follows:

	2011	2010
Debt instruments	$ 973	$ 3,633
Shares	131	239
Foreign currency	3,804	6,427
Others	488	534
Total	$ 5,396	$ 10,833

14. Foreclosed assets, (net)

As of December 31, foreclosed assets were as follows:

	2011	2010
Foreclosed real estate	$ 680	$ 448
Real estate under promise-to-sell agreements	46	22
	726	470
Less- Allowance for losses on foreclosed assets	(473)	(307)
Total	$ 253	$ 163

The movements of the allowance for losses on foreclosed assets are summarized below (at face values) for the years ended December 31:

	2011	2010
Opening balance	$ 307	$ 222
Foreclosed assets reserve of Santander Hipotecario based on its fair value valuation	247	-
Results	48	132
Release of reserves for sale of foreclosed assets	(129)	(47)
Closing balance	$ 473	$ 307

15. Property, furniture and fixtures, (net)

As of December 31, property, furniture and fixtures were as follows:

	2011	2010
Properties for office use	$ 3,292	$ 3,316
Fixtures	3,947	3,586
Computers	236	203
Office furniture	854	813
Communication equipment	88	90
Peripheral computer equipment	346	318
Vehicles	116	98
Other	28	28
	8,907	8,452
Less-		
Accumulated depreciation and amortization	(3,303)	(2,971)
Total	$ 5,604	$ 5,481

The annual depreciation and amortization rates were as follows:

	Percentage
Properties for office use	2% to 5%
Office furniture	10%
Computers	25%
Peripheral computer equipment	25%
Vehicles	20%
Communication equipment	20%
Fixtures	10%
Other	10% and 20%

16. Long-term investment in shares

As of December 31, long-term investments in shares were as follows:

Institution	Shareholding percentage 2011	Shareholding percentage 2010	2011	2010
Trans Unión de México, S.A. de C.V.	16.60%	16.60%	$ 64	$ 50
Controladora Prosa, S.A. de C.V.	19.73%	19.73%	57	46
Asigna, Cámara de Compensación y Liquidación	2.22%	2.22%	9	7
Other investments	Sundry	Sundry	9	6
Total			$ 139	$ 109

As of December 31, equity held in the results of associated companies is as follows:

Institution	2011	2010	2009
Servicio Panamericano de Protección, S.A. de C.V.	$ -	$ (20)	$ 44
Asigna, Cámara de Compensación y Liquidación	2	1	1
Controladora Prosa, S.A. de C.V.	11	9	12
Trans Unión de México, S.A. de C.V.	54	36	32
Other investments	2	1	-
	$ 69	$ 27	$ 89

During November 2010, the Institution sold the equity held in Servicio Panamericano de Protección, S.A. de C.V. (Serpaprosa). The selling price was $191, resulting in a loss of $73 that was recorded in the consolidated statement of income under the heading of "Other operating income".

17. Other assets, (net)

As of December 31, 2011 and 2010, the goodwill, deferred charges and intangibles were as follows:

	2011	2010
Intangibles:		
Intangible assets (1)	$ -	$ 126
Goodwill (2)	1,589	2
Prepaid expenses	279	222
Software and technological developments	3,461	2,846
	5,329	3,196
Less – Accumulated amortization of other assets	(1,614)	(1,114)
	3,715	2,082
Other assets		
Investments of the pension plan and seniority premiums	8	9
Provisions for employee benefits of Almacenadora Somex	(6)	(7)
	2	2
Guarantee deposits	49	45
	51	47
	$ 3,766	$ 2,129

Amortization rates are as follows:

	Annual amortization rates
Software expenses	33%

Software is amortized over a three-year term from the date acquired. Licenses are amortized over a 3.3-year term from their date of use.

(1) As a result of the purchase of shares and assets, a definite-life intangible asset was generated, which the Institution determined at $159 ($149 face value) presented under the heading "Other assets (net)", which is being amortized over 10 years as of March 2006. As of December 31, 2011, impairment of $30 was recognized in earnings under the heading "Other operating income".

(2) Includes the goodwill generated by the mortgage business acquired from GE for $1,589, which primarily resulted from the market value of the acquired portfolio and foreclosed assets. The Institution is currently concluding an analysis to identify and quantify intangible assets generated by the acquisition, if applicable, according to NIF B-7. Likewise, in conformity with this Standard, the Institution has a one-year deadline as of the acquisition date to identify and recognize intangible assets resulting from the business acquisition.

18. Foreign currency position

At December 31, 2011 and 2010, foreign currency assets and liabilities of the Institution were as follows:

	Millions of US dollars	
	2011	2010
Funds available	2,239	3,358
Margin accounts	24	18
Investments in securities	355	475
Derivatives (net)	(3,534)	(2,410)
Loan portfolio	4,000	1,765

	Millions of US dollars 2011	2010
Other receivable (net)	36	48
Deposits	(1,466)	(1,720)
Interbank and other loans	(911)	(717)
Sundry creditors and other payables	(385)	(702)
Sale and repurchase agreements (net)	(265)	-
Asset position	93	115
Mexican peso equivalent	$ 1,297	$ 1,420

As of December 31, 2011 and 2010, the "Fix" (48-hour) exchange rate used was $13.9476 and $12.3496 per USD dollar, respectively.

As of January 25, 2011, the unaudited foreign currency position (unaudited) was similar to that in effect at year-end, and the "Fix" exchange rate was $13.1319 per USD dollar.

Central Bank sets the ceilings for foreign currency liabilities and the liquidity ratio that the Institution obtains directly or through its foreign agencies, branches or affiliates, which must be determined daily for such liabilities to enable the Institution to structure their contingency plans and promote longer term funding within a reasonable time frame.

The Institution performs a large number of foreign currency transactions. Given that the parities of other currencies against the Mexican peso are linked to the USD dollar, the overall foreign currency position is consolidated into USD dollars at each month-end closing.

19. Deposits

The instruments used by the Institution to obtain funding from their customers are recorded in this line item and consist of the following:

Demand and time deposits and bank bonds - This caption represents customers' cash deposits.

The 2011 and 2010 year-end funding rates were as follows:

	2011		
Accounts	Year-end rates Mexican pesos	Foreign currency	Yea N
Demand deposits-			
Checking accounts	From 0.00% to 4.67%	-	Fron 3.
Time deposits -			
Fixed-term deposits	From 0.15% to 4.09%	From 0.10% to 0.35%	From 0
Deposits certificates (money market)	From 1.21% to 2.87%	-	From 1.

As of December 31, time deposits consisted of the following:

	2011	2010
Notes with interest payable at maturity	$ 115,376	$ 107,402
Fixed-term deposits	17,779	6,732
Foreign currency time deposits	4,417	5,808
	$ 137,572	$ 119,942

As of December 31, 2011, maturities of promissory notes with interest payable upon maturity denominated in Mexican pesos fluctuate between 1 and 737 days and the annual closing rates were within 0.00% to 10.72%.

As of December 31, 2010, maturities of promissory notes with interest payable upon maturity denominated in Mexican pesos fluctuate between 1 and 371 days and the annual closing rates were within 0.15% to 2.04%.

As of December 31, 2011 and 2010, the Institution has underwritten and settled unsecured bonds and structured bank bonds with a market value of $22,485 and $6,159, respectively. Note that the amounts, terms and rates for the issuances of the unsecured bonds and structured bank bonds are shown in Note 20 "Issuance program".

20. Issuance program

On April 19, 2007, the Board of Directors of the Institution authorized an issuance program for up to USD$4,000,000,000 or its Mexican pesos equivalent. In December 2007, the Commission authorized the issuance of 42,000 million "Bank unsecured bonds", "Bank Fixed-Term Deposit Certificates", "Promissory Notes with Returns Payable at Maturity" and "Structured Bank Bonds" denominated in Mexican pesos, UDIS, Euros or US dollars for up to 30 years (the General Program). The Board of Directors authorized this program during its August 2008 meeting. The Commission acknowledged the Institution's program to issue "Private Bank Bonds" (unsecured private placement bonds) for the amount of $10,000 million). In October 2010, the Board of Directors renewed its April 2007 authorization of the issuance program for amount of up to US$ 4 billion.

As the General Program was not updated in January 2011, it was canceled. However, as the Institution currently has placements in effect, a new 10-year program was presented to the Commission to issue "Bank unsecured bonds" and "Bank Fixed-Term Deposit Certificates" in Mexican pesos (unsecured public placement bonds) for the amount of $20,000 million. Furthermore, the Institution is also working to obtain the Commission's authorization of a program to issue "Structured securities" in Mexican pesos (Structured Bank Instruments) for the amount of $10,000 million Mexican pesos. As of December 31, 2011, the Institution has made placements of $5,990 million under the General Program, $4,309 million in unsecured private placement bonds and $11,400 unsecured public placement bonds.

As of December 31, the balance of the issues performed by the Institution under the aforementioned program is as follows:

Instrument	2011	2010	Term	Rate
Unsecured Bonds	$ 20	$ 62	16/apr/2013	Guaranteed rate subject to IPC yield
Unsecured Bonds	4	4	15/jul/2013	Guaranteed rate subject to IPC yield
Unsecured Bonds	5,000	5,000	18/apr/2013	TIIE Rate + 12bps
Unsecured Bonds	1,700	-	9/mar/2021	8.91%
Unsecured Bonds	3,700	-	16/apr/2013	TIIE Rate + 15bps
Unsecured Bonds	5,000	-	27/jan/2014	TIIE Rate + 20bps
Unsecured Bonds	730	-	27/jan/2014	TIIE Rate + 20bps
Unsecured Bonds	2,800	-	21/sep/2016	TIIE Rate + 50bps
Unsecured Bonds	1,300	-	21/sep/2016	TIIE Rate + 50bps

Instrument	2011	2010	Term	Rate
Structured bank bonds	76	76	23/may/2013	IPC S&P 500 and Dow Jones Euro Stoxx 50
Structured bank bonds	105	105	25/jun/2013	IPC Dow Jones Euro Stoxx and Nikkei 225
Structured bank bonds	749	749	30/jul/2013	IPC Dow Jones Euro Stoxx and Nikkei 225
Structured bank bonds	10	-	11/jul/2014	TIIE Rate
Structured bank bonds	92	-	29/may/2014	TIIE Rate
Structured bank bonds	100	-	5/jan/2012	1.00%
Structured bank bonds	28	-	5/jan/2012	6.00%
Structured bank bonds	70	-	26/jan/2012	3%
Structured bank bonds	-	168	28/jan/2011	3% Rate
	21,484	6,159		
Add -				
Unpaid accrued interest	192	78		
Total issuance	$ 21,676	$ 6,237		

21. Bank and other loans

As of December 31, bank loans were as follows:

	2011		
	Mexican Pesos	Foreign currency	Tot
Demand loans-			
Received "call money" transactions	$ -	$ 2,371	$
Total demand loans	-	2,371	
Short-term portion-			
Central Bank	-	-	-
Loans undertaken by foreign branches	23	1	
Loans from development banking institutions	-	8,041	
Loans from public fiduciary funds	3,359	108	
Loans from other agencies	3,130	494	
Short-term portion-	-	-	-
Total short-term loans	6,512	8,644	
Long-term portion-			
Loans undertaken by foreign branches	-	122	
Loans from development banking institutions	835	56	
Loans from public fiduciary funds	958	56	
Loans from other agencies	-	-	-
Total long-term loans	1,793	234	
Total bank and other loans	$ 8,305	$ 11,249	$

Loans with national banks (not including accrued interest) - As of December 31, 2011 and 2010, call money transactions performed by Treasury are used to cover liquidity and position leveling needs, which accrue interest at 4.50% in Mexican pesos and 0.35% in USD dollars, respectively.

Loans with foreign banks (not including accrued interest) - As of December 31, 2011 and 2010, the transactions with foreign institutions accrue interest at 1.50%.

Loans with Development Bank Institutions - Loans are granted by Nacional Financiera, S.N.C. (NAFIN) and Banco de Comercio Exterior, S.N.C. (BANCOMEXT), which represent a direct obligation for the Institution with these entities. Accordingly, the Institution grants their customers loans for financial support in Mexican pesos and USD dollars.

Loans granted by NAFIN represent financial support in Mexican pesos and USD dollars earmarked for the industrial, commercial and service sectors, earmarked for industrial development.

The deposits of the foreign branch are valued at placement value plus interest earned, which is calculated using the straight line method, distributing the difference between the placement value and the face value of the certificate throughout the life of the instrument.

Lines of credit for discounts and loans, granted in Mexican pesos and USD dollars by the development funds mentioned above, operate under the authorizations of the internal risk units of the Institution. The financial conditions are set under fixed and variable rate programs, both in USD dollars and Mexican pesos, and the term is based on the specific program or transaction determined for each project.

Loans from public fiduciary organizations - Certain Federal Government agencies support discount and credit transactions for different sectors, such as the Banking Fund for Housing Operation and Financing (FOVI), Agricultural Trusts (FIRA).

22. Comparative maturities of principal assets and liabilities

The maturities of the significant assets and liabilities held as of December 31, 2011 were as follows:

	6 months	Up to 1 year	1 5 ye
Assets:			
Funds available (1)	$ 84,862	$ -	$ -
Margin accounts	7,910	-	-
Trading securities	80,219	23,068	
Securities available for sale	7,412	7,395	
Securities held to maturity	-	-	
Debtors under sale and repurchase agreements	4,602	-	-
Derivatives	8,482	3,726	
Performing loan portfolio (2)	96,229	50,795	
Other receivables, (net)	9,617	83	
Total assets	$ 299,333	$ 85,067	$ [illegible]
Liabilities:			
Demand deposits	$ 178,071	$ -	$ -
Time deposits	129,098	7,024	
Credit instruments issued	394	-	
Bank and other loans	15,702	1,779	
Creditors under sale and repurchase agreements	122,901	-	-
Collateral sold or pledged as guarantee	15,478	-	-
Derivatives	9,886	5,600	
Creditors from settlement of transactions	28,580	-	-
Sundry creditors and other payables	30,097	1,262	
Total liabilities	$ 530,207	$ 15,665	$
Assets less liabilities	$ (230,874)	$ 69,402	$

(1) The heading of funds available includes Monetary Regulation deposits with Central Bank. Such deposits of December 31 2011, are $31,320 and cannot be disposed.

(2) The heading of current loan portfolio includes the consumer and credit card portfolio, which is recoverable depending on the individual credit circumstances.

23. Related-party transactions and balances

Transactions are carried out among the companies of the Institution, such as investment, deposits, rendering of services, etc., most of which generate income for one entity and an expense for another. Transactions and balances among consolidating companies were eliminated, while those of unconsolidated entities remain in effect.

As of December 31, 2011 and 2010, the Institution's main receivable and payable balances with related parties are as follows:

	2011	2010
Receivable-		
Funds available (1)	$ 5,930	$ 3,602
Debtors under sale and repurchase agreements (2)	$ 1,125	$ 1,378
Derivatives (asset) (3)	$ 23,697	$ 26,434
Performing loan portfolio (4)	$ 1,528	$ 569
Other receivables, (net) (5)	$ 885	$ 1,240
Payable-		
Demand deposits (6)	$ 7,482	$ 426
Credit instruments issued (7)	$ 955	$ 928
Creditors under sale and repurchase agreements (8)	$ 49,989	$ 28,344
Bank and other loans (9)	$ 21	$ 6,161
Derivatives (liability) (3)	$ 28,490	$ 27,250
Sundry creditors and other payables (10)	$ 308	$ 6,512

As of December 2011 and 2010, the most significant transactions carried out by the Institution with related and affiliated companies (at face values) were as follows:

	2011	2010	2009
Revenues-			
Interest	$ 108	$ 572	$ 845
Commissions	$ 3,499	$ 2,821	$ 2,435
Result from derivative financial instrument transactions	$ 120,584	$ 107,423	$ 89,952
Expenses-			
Interest	$ 2,713	$ 2,290	$ 2,946
Administrative expenses	$ 218	$ 298	$ 147
Result from derivative financial instrument transactions	$ 124,556	$ 108,194	$ 84,493
Technical assistance	$ 1,298	$ 1,104	$ 1,669

(1) As of December 31, 2011, transactions with related companies reported under Funds available, as discussed in Note 5, mainly include:

- Time deposits with Banco Santander (New York) of $43 at 7 day term and 4.9% rate.

- Collateral on transactions with derivative financial instruments traded with Benelux, S.A. N.V. of $4,891; with Abbey Nacional Treasury Services plc (Londres) of $722 and with Banco Santander, S.A. (España) of $213.

(2) As of December 31, 2011, the transactions with related companies reported in debtors from repurchase agreements are:

	Amount	Term	Rate
Debtors under sale and repurchase agreements- Casa de Bolsa Santander, S.A. de C.V.	$ 1,125	3-28 days	3.70%-4.63%

(3) As of December 31, 2011, asset and liability transactions with derivative financial instruments are as follows:

	Asset	Liability
Banco Santander, S.A. (Spain)	$ 11,850	$ 11,722
Santander Benelux, S.A., N.V.	11,604	16,409
Abbey National Treasury Services plc (London).	243	359
	$ 23,697	$ 28,490

(4) As of December 2010, the companies: Produban Servicios Informáticos Generales, S.L. (Produban Spain), Santander Capital Structuring, S.A. de C.V. (SCS) y Promociones y Servicios Polanco, S.A. de C.V. (Polanco), received a loan from the Banco Santander (México), S.A. for $643, $751 y $134, respectively, at the rates of 3.20% to Produban España, 5.31% and 5.62% to SCS and 7.30% to Polanco.

(5) As of December 31, 2011, other receivables, (net) are as follows:

- Commissions receivable from Seguros Santander, S.A. of $497 for the placement of insurance policies through Institution’s branches.
- Transactions not settled for $136 to Casa de Bolsa Santander, S.A. de C.V.
- Commissions receivable of $132 from Gestión Santander, S.A. de C.V.
- Administrative services of $87 receivable from Gestión Santander, S.A. de C.V

(6) As of December 31, 2011, time deposits are as follows:

Company	Instrument	Amount	Term	Rate
Grupo Financiero Santander, S.A.B. de C.V.	PRLV	$ 6,438	3-15	4.38%-4.50%
ISBAN México, S.A. de C.V.	PRLV	501	32	4.30%
ISBAN México, S.A. de C.V.	PRLV	140	3	4.10%
ISBAN México, S.A. de C.V.	Promissory note in USD dollars	121	1	0.15%
Promociones y Servicios Polanco, S.A. de C.V.	Promissory note in USD dollars and Mexican pesos	107	several	several
Others	PRLV	175	-	several
		$ 7,482		

(7) As of December 31, 2011, Seguros Santander, S.A. holds an investment in securities issued by the Institution. The characteristics of this investment are as follows:

Series		Amount	Term	Rate
BSANT 1-08	$	87	1,826	2.96%
BSANT 2-08		100	1,821	0.99%
BSANT 3-08		768	999-1,160	0.99%
	$	955		

(8) As of December 31, 2011, transactions with related companies reported in creditors from repurchase agreements are:

Company		Amount	Term	Rate
Casa de Bolsa Santander, S.A. de C.V.	$	49,485	3-36	4.38%-4.50%
Grupo Financiero Santander, S.A.B. de C.V.		299	3	4.00%
Other		205	3	Several
	$	49,989		

(9) As of December 31, 2011, "Other accounts payable" is mainly composed of the following:

Letters of credit handled by Banco Santander, S.A. (Spain)	$	271
Guarantees delivered for transactions with financial derivatives to Banco Santander, S.A. (Spain)		30
Other		7
	$	308

The Institution executed professional service contracts with ISBAN Mexico, S.A. de C.V. (Isban), Ingeniería de Software Bancario, S.L. Spain (Isban Spain), Produban Mexico, S.A. de C.V. (Produban) and Produban Servicios Informaticos Generales, S.L. (Produban Spain) which provide systems development and operation services, among others. Similarly, the Institution acquired software developed by Isban, Isban Spain, Produban and Produban Spain for $697 and $746 in 2011 and 2010, respectively.

Management believes that transactions with related parties are performed according to the prices and payment amounts that would be utilized with or between independent parties for comparable transactions.

24. Labor benefits

Under Mexican Labor Law, the Institution is liable for severance payments and seniority premiums to employees terminated under certain circumstances; there are also other obligations derived from the collective bargaining agreement.

Each year, the Institution records the net periodic cost to create a fund that covers the net projected obligation from seniority premiums and pensions, medical expenses and severance payments as it accrues based on actuarial calculations prepared by independent actuaries, which are based on the projected unit credit method and the parameters established by the Commission. Therefore, the liability is accrued at the present value of future cash flows required to settle the obligation from benefits projected to the estimated retirement date of the Institution's employees.

Based on the current collective bargaining agreements and individual employment contracts, the Institution has a liability for postretirement benefits that requires the full payment of certain medical expenses of such employees and their family members upon retirement based on the respective contracts. The Institution has a defined contribution pension plan, whereby such institutions agree to pay pre-established cash amounts to a given investment fund, in which the worker benefits consist of the sum of such contributions, plus or minus the gains or losses from the management of such funds of those workers who adhered to the new plan, which was optional for them. During 2011, 2010 and 2009, the amount recognized by the Institution as an expense for the defined contribution plan was $143, $192 and $184, respectively.

As of December 31, 2011 and 2010, approximately 2.88% and 3.31% (unaudited) of the Institution's employees, respectively, were still enrolled in the defined benefit pension plan while the rest of the employees had enrolled in the defined contribution pension plan. As of December 31, 2011 and 2010, the investment fund of the defined contribution pension plan was $3,872 and $3,827, respectively.

At December 31, 2011 and 2010, approximately 73.92% and 69.08% (unaudited) of the workers employed by the Institution and enrolled in the defined contribution plan have been included in the new Retirement Medical Coverage subaccount system.

As of December 31, 2011, the Institution amortizes variances based on the estimate of 11.28 years for the pension plan for retirees, 12.75 years for post-retirement medical services and 15.07 years for seniority premiums, based on the average remaining years of service of the Institution's.

As of December 31, balances and activity reflected in employee benefits from defined benefit plans of entities that comprise the Institution, which include pension plans, seniority premiums, medical expenses and severance payments, were as follows:

	2011	2010
Projected benefit obligation	$ (6,278)	$ (5,807)
Plan assets	3,880	3,836
Funded status	(2,398)	(1,971)
Unamortized:		
Transition liability	58	116
Unrecognized actuarial losses	1,901	1,466
Net projected liability	$ (439)	$ (389)

As of December 31, 2011, the net projected liability for severance payments at the end of the employment relationship for reasons other than restructuring is $320.

As of December 31, 2011 and 2010, the obligations for acquired benefits are $4,578 and $4,295, respectively.

Net periodic cost consists of the following:

	2011	2010	2009
Service cost for the year	$ 151	$ 133	$ 170
Amortization of transition liability	59	58	58
Financial cost	498	446	432
Less- expected return on plan assets	(341)	(335)	(246)
Actuarial losses	79	39	69
Immediate recognition of actuarial losses for the year	93	61	79
Effects due to personnel downsizing	5	4	7
Net periodic cost	$ 544	$ 406	$ 569

The economic assumptions used were as follows:

	2011	2010
Discount rate	9.50%	9.00%
Expected rate of return of assets	9.50%	9.00%
Rate of wage increases	5.00%	5.00%

In July 2001, the Company executed a collective lifetime payment insurance operation agreement for certain retirees with Principal Mexico Compañía de Seguros, S.A. de C.V. (Principal). Such agreement establishes that with the payment of the single premium by the Institution, Principal commits to paying insured retirees a lifetime payment until the death of the last insured retiree.

Under such agreement, the Institution's net worth would not be affected in the future by these insured persons, since the risk was transferred to Principal. However, in order to record the Institution's legal obligation to its retirees in the consolidated balance sheets, the Institution records the projected benefit obligation of the insured retirees surrendered to Principal under the heading of "Employee retirement obligations", and a long-term account receivable with Principal, which is recorded under the heading of "Other assets (net)" for the funds that it transferred thereto. The amount of the projected benefits obligation was calculated by the Institution's external actuaries at the close of the year, based on the estimates used in the actuarial study for labor liabilities and the remaining personnel. As of December 31, 2011 and 2010, such liability is $1,001 and $1,021, respectively, and is recorded separately under the heading of "Sundry creditors and other payables", which for presentation purposes is eliminated against the equivalent balance under the heading of "Other assets (net)".

The reserves for employee benefits net of the contributions to the fund, with the exception of the Almacenadora Somex, are presented in the consolidated balance sheets under "Sundry creditors and other payables".

The changes in net projected obligations were as follows:

	2011	2010
Opening balance (face value)	$ (389)	$ (357)
Payment of benefits	161	155
Provision for the year	(544)	(406)
Contributions for the year	333	219
Net projected liability	$ (439)	$ (389)

Fund movements were as follows:

	2011	2010
Opening balance	$ 3,836	$ 3,390
Contributions	333	219
Actual fund yield	70	546
Payments made	(342)	(302)
Transfer to defined contribution plan	(17)	(17)
Closing balance	$ 3,880	$ 3,836

As of December 31, 2011, the entities of the Institution which had assets related to the defined benefit plan are the Institution and Almacenadora Somex. Such assets were invested as follows:

		Amount	%
Fixed income-			
Government securities	$	2,486	64%
Other types of securities		375	10%
Variable income		1,019	26%
	$	3,880	100%
Expected return	$	341	
Actual return	$	70	

As of December 31, 2011, there is no fund created for severance payments at the end of the employment relationship for reasons other than restructuring.

Changes in the present value of the defined benefits obligation:

		2011		2010
Present value of the defined benefits obligation as of January 1, 2011 and 2010	$	5,807	$	5,028
Labor cost of the current service		151		133
Financial cost		499		446
Actual payment of benefits during the year		(502)		(457)
Elimination of obligations		(17)		(17)
Actuarial loss on the obligation		340		674
Present value of the defined benefits obligation as of December 31, 2011 and 2010	$	6,278	$	5,807

25. Creditors from settlement of transactions

As of December 31, creditors from settlement of transactions are as follows:

		2011		2010
Debt securities	$	7,940	$	3,814
Indexed shares		21		192
Foreign exchange		20,239		31,759
Option contracts		374		539
Others		6		1
	$	28,580	$	36,305

26. Sundry creditors and other payables

As of December 31, sundry creditors and other payables were as follows:

		2011		2010
Employee retirement obligation provision	$	(3,872)	$	(3,827)
Funds		4,313		4,218
Net		441		391
Provisions and other creditors		10,708		9,237
Cashier and certificates checks		712		713
Letters of credit and drafts payable		1,510		1,210
Value added tax payable		466		342
Other obligations		185		265
Creditor bank compensation		-		5,690
Declared dividends (1)		14,009		3,095
Guarantee deposits from margin calls		3,339		6,028
	$	31,370	$	26,971

The line item provision for sundry obligations includes reserves for tax, labor and legal contingencies established by the Institution at year-end.

Target Related Stock Plan - The management of the Institution has executed the agreement known as the "Target-Related Stock Plan" (the Plan), which was approved locally by the Audit Committee and Corporate Practices, and by the Board of Directors, and the Stockholders' General Meeting. The Plan consists of the free delivery of shares (or "Performance Shares"), which is conditioned upon the continued employment of the eligible officers in the Institution for the time established for the respective cycle and reaching targets related to a) the total return for the shareholder (RTA), according to the behavior of the share quotation of the Parent Company and b) the profit per share (BPA).

The Plan consists of five cycles where a maximum number of shares representing the capital of the Parent Company were assigned from the year 2009 until 2013, subject to reaching the aforementioned targets.

As of December 31, 2011 and 2010, the Institution has charge to earnings for this item in the amount of $83 and $76, retrospectively.

Equity benefits plan - On April 27, 2009, the Board of Directors of Banco Santander, S.A. (Spain) approved a supplementary Program to the Pension Plan (the Program), which will be part of the benefits included in the total compensation of the participating directors. This Program is exclusively for a reduced sector (designated by the Human Resources Department of Banco Santander, S.A. (Spain)) of 17 directors of the Institution.

The Program consists of an Institution contribution based on fixed remuneration (salary, yearend bonus and vacation premium), where the percentage is variable and is based on the employee's seniority. The accumulated balance may be provided at the end of the employment relationship subject to the provisions of the Program.

The first contribution to this Program was made during the year 2009.

At the close of December 2011 and 20010, the Institution recognized an expense of $7and $8, respectively, in earnings.

27. Income taxes

In 2011, the Institution is subject to income tax (ISR) and business flat tax (IETU).

ISR is calculated considering certain effects of inflation, such as depreciation calculated according to values at constant prices. In addition, the effect of inflation on certain monetary assets and liabilities is accrued or deducted for the purpose of determining taxable income.

The corporate rate is 30% for the years 2010, 2011 and 2012, 29% for the year 2013 and 28% for 2014.

As a general rule, the IETU considers revenues, deductions and certain tax credits based on cash flows; however, for the services for which they pay and collect interest, the Institution and the SOFOM determine them through the intermediation margin based on what is earned. The IETU Law (LIETU) establishes that for the year 2011 and 2010, the tax will be incurred at the rate of 17.5%.

The current income tax payable in any given year is the higher of ISR and IETU.

Based on its financial projections and in accordance with INIF 8, Effects of the Business Flat Tax, management determined that it will pay mostly ISR, and will not pay IETU over the foreseeable future. Accordingly, the Institution recognizes deferred ISR.

The provision created in earnings for ISR is composed as follows:

	2011	2010	2009
Current expense:			
ISR	$ 4,125	$ 1,933	$ 4,650
Deferred benefit:			
ISR	$ (1,675)	$ 318	$ (3,421)

Reconciliation of the accounting-tax result- The principal items which affected the determination of the tax result of the Institution were the annual adjustment for inflation, the accounting-tax effect on the purchase and sale of shares, provisions, the result from market valuation, the difference between accounting and tax depreciation and amortization, and the deduction for bad debts taken by a subsidiary regarding the accounting increase of the allowance**.**

Penalty interest for purposes of Business Flat Tax (IETU) - In accordance with the Business Flat Tax Law, the Institution and the SOFOM and Santander Hipotecario must consider interest as taxable revenue for purposes of this tax as it is accrued, regardless of whether it is collected or not, which applies both to ordinary and penalty interest. However, for purposes of such tax, both entities, based on the advice received from external attorneys, did not consider the penalty interest as taxable revenue, arguing that it was unconstitutional to require taxpayers to accrue penalty interest that was earned but not collected. However, according to an analysis made by management, recognizing the penalty interest of the Institution and SOFOM as taxable income would not have affect the income tax provision.

Tax loss carryforwards and IETU tax liabilities - As of December 31, 2010, the Institution does not have IETU tax liabilities, but it does have ISR tax loss carryforwards that will be indexed until the year in which they are applied for a restated amount of:

Expiration	IETU Loan	Depreciable tax loss
2013	$ -	$ 43
2014	-	20
2017	-	2
2018	172	-
2019	206	-
2020	189	1
2021	-	1
Total	$ 567	$ 67

Based on the acquisition of Santander Hipotecario from GE Capital México, the former has restated tax loss carryforwards of $4,282 that are considered as an account receivable from GE Capital México, which guaranteed their recovery.

Employee statutory profit-sharing - The Institution entities determines employee statutory profit-sharing based on the guidelines established the article 127, section III of the Federal Labor Law, except for certain entities that determine it based on the provisions established by the Constitution in Mexico.

Deferred taxes- At December 31, deferred taxes are composed as follows:

		2011		2010
Deferred ISR asset:				
Preventive provisions for undeducted credit risks	$	9,664	$	10,817
Fixed assets and deferred charges		1,297		919
Accrued liabilities		1,059		929
Tax loss carryforwards (Shares)		590		1,025
Tax loss carryforwards (other)		99		-
Commissions and interest collected in advance		449		526
Tax deduction for loss on Comerci		273		273
Deferred ISR asset		13,431		14,489
Deferred ISR (liability):				
Surplus value of financial instruments	$	(1,631)	$	(3,556)
Labor obligations		(5)		(6)
Financial operations derived from exchange rate		(466)		(627)
Advance payments		(131)		(70)
Others		67		-
Deferred ISR (liability)		(2,166)		(4,259)
Less - Constituted reserve		(3,207)		(5,147)
Deferred taxes asset (net)	$	8,058	$	5,083

The Management of the Institution records a reserve for the deferred income tax asset in order to recognize the deferred tax asset that they believe will be recovered, considering for such purposes the effects of the tax credit for non-deductible allowances for loan losses that is expected to reverse, based on the financial and tax projections prepared by management. The recovery of such asset is dependent on the economic and operating conditions under which such projections were prepared. Deferred taxes are recorded in earnings or stockholders' equity as the corresponding account, depending on how the item underlying the anticipated deferred tax was recorded.

The reconciliation of the legal ISR rate and the effective rate expressed as a percentage of profit before ISR is:

	2011	2010	2009
Legal tax rate	30%	30%	28%
Effect of the portfolio credit	(11%)	(15%)	(13%)
Effect in shares	(2%)	(2%)	1%
Effects of tax inflation	(2%)	(1%)	(2%)
Differential by change in rate	-	-	(3%)
Nondeductible	-	3%	3%
Differential by change in rate	15%	15%	10%

Tax reviews and issues

a. On April 16, 2007, the Institution filed a proceeding for annulment against the ruling issued by the Tax Administration Service which, among other items, determined a tax liability of $109 for 2003 for income tax, inflation adjustments, surcharges and fines.

This proceeding was sent to the Seventh Regional Metropolitan Court of the Federal Tax Court for study and the respective ruling. On August 21, 2007, the Court issued notification regarding the admission of this lawsuit, together with the requirement that the Institution submit certain evidence, which has since been filed. Consequently, the Institution is currently waiting for the tax authorities to file their response to this proceeding.

On August 14, 2008, the Institution was notified of the agreement in which the defendant authority filed a motion for reconsideration against the admission decree.

On August 20, 2008, the response to the motion for reconsideration filed by the defendant authority was submitted, for which reason the Institution is waiting for the Chamber to issue its ruling accepting such response as filed.

On March 12, 2009, the Institution was notified of the interlocutory judgment declaring that the constitutional appeal filed by tax authorities was unfounded.

On March 19, 2009, the Institution’s expert appeared to accept his designation in this trial, having filed his report on April 15 of that year.

Accordingly, the file was turned over to the court clerk responsible for preparing the preliminary judgment as of October 25, 2010, where the agreement on the report submitted by the defendant authority’s expert is currently being prepared.

In this regard, on November 19, 2010, a document was filed to request a copy of the report prepared by the authority's expert witness. However, the Institution was informed that the expert witness has not yet submitted this report because additional documentation was requested.

The Institution is currently awaiting the presentation of an accounting report prepared by its expert witness and that of the tax authorities. A third expert witness will be appointed if there is any discrepancy between these two reports.

b. Through official notice 900-06-03-2010-4377 issued by the Central Administration for Audits of the Financial Sector, a tax liability was determined, for which a total of $4 was provisioned for income tax allegedly unpaid, together with restatement, surcharges and fines, all related to the year 2004.

On May 31, 2010 an action for annulment was filed against the ruling contained in such official notice, which was turned over to the Third Metropolitan Regional Court of the Federal Tax Court.

Through a ruling issued on August 2, 2010, the action for annulment was admitted and the evidence was taken as duly submitted.

The Institution was recently notified of the ruling whereby the Tax Court acknowledged that the defendant authority had responded to the proceeding for annulment by submitting evidence and extending the expert witness's report submitted by the Institution. Furthermore, through this ruling, the Tax Court requested that the expert witness appointed by the Institution formally accept this appointment, which occurred on August 2, 2011. As the Tax Court also established a deadline for submitting the respective report, the Institution requested an extension, which is currently pending approval. However, the Institution also filed an appeal against the admission of the information submitted by the defendant authority in addition to the expert witness's report submitted by the Institution, which is currently awaiting a ruling.

Other tax issues:

As of December 3 of 2010 and 2011, the Institution has the following balances for significant tax indicators

	2011	2010
Contributed capital account	$ 72,539	$ 68,922
Net tax retained earnings account	$ 12,567	$ 2,148

28. Preferential unsecured subordinate debentures freely convertible to shares

During 2004 and 2005, the Institution issued USD $300,000,000 in preferential unsecured subordinated debentures, freely convertible to shares by the holder with maturities in the years 2014 and 2015. These issues are private and the buyers of the entire issue were Banco Santander S.A. (Spain) and Bank of America Corporation. Based on the characteristics of this issue, they were classified as a liability.

These obligations are as follows:

Issue	Amount (Millions of USD dollars)	Maturity	Rate
1	$ 100	30/nov/2014	LIBOR + 1.1 PP
2	50	30/nov/2014	LIBOR + 1.1 PP
3	150	31/mar/2015	LIBOR + 1.2 PP
Total USD dollars	300		

On September 23, 2010, the Institution, with the prior authorization of Central Bank, made the advance payment of the total amount of the unsecured convertible debentures and the interest accrued as of that date, in accordance with the following:

a. Advance payment for USD $151,000,000, which refers to USD $150,000,000 in preferred, unsecured subordinated debentures, which can be converted into Series B shares of Banca Serfin (BSERFIN04), issued on November 30, 2004, through its branch located in Nassau, Bahamas, to their holders Banco Santander (Spain), S.A. and Bank of America Corporation. The amount paid to the holders includes principal and interest.

b. Advance payment for USD $152,000,000, which refers to USD $150,000,000 in preferred, unsecured subordinated debentures, which can be converted into Series B shares of Banco Santander Serfin (BSERFIN05D), issued on March 31, 2005, through its former branch located in Grand Cayman, B.W.I. to their holders Banco Santander (Spain), S.A. and Bank of America Corporation. The amount paid to the holders includes principal and interest.

29. Stockholders' equity

As of December 31, capital stock, at par value, was as follows:

	Number of shares 2011	Number of shares 2010	2011	2010
Fixed Capital-				
Series "F" Shares	65,643,213,565	65,643,213,565	$ 6,564	$ 6,564
Series "B" Shares	12,648,282,161	12,648,282,161	1,265	1,265
Total	78,291,495,726	78,291,495,726	$ 7,829	$ 7,829

After approving the consolidated financial statements, the Stockholders' Annual Ordinary General Meeting of February 25, 2011, reported a net profit for the 2010 business year of $12,884 (face value) and resolved the following:

a. The net profit obtained in the year by the Institution, at the individual level, for the amount of $933, equivalent to 10% of the result, to the account "Legal reserve".

b. The rest of the Institution's profit, individually for the amount of $8,394 should be applied to the "Retained earnings" account.

c. The net profit obtained in the year by its subsidiaries, for the amount of $3,557, to the account "Retained earnings" account.

Series "F" shares may only be acquired by Grupo Financiero Santander, S.A.B. de C.V. or, directly or indirectly, by Banco Santander, S.A. (Spain), except when such shares are transferred in guarantee or in ownership to the Bank Savings Protection Institute. These shares can only be sold with the prior authorization of the Mexican Treasury Department. No authorization shall be required from such Agency and corporate bylaws will not have to be amended when the transfer of shares is either in guarantee or ownership, to the Bank Savings Protection Institute.

Foreign corporations that exercise functions of authority may not participate under any circumstances in the capital of the Institution. National financial entities cannot do either, including those which form part of the Institution, except when they act as institutional investors, pursuant to article 19 of the Law on Financial Groups (LRAF).

If dividends are distributed without incurring the tax applicable to the Institution, such tax must be paid when the dividend is distributed. Therefore, the Institution must keep track of profits subject to each rate.

Capital reductions will incur taxation on the excess of the amount distributed against its tax value, as set forth in the Income Tax Law.

The Institution, are subject to the legal provision which requires that at least 10% of the net income of each year be separated and transferred to an equity reserve fund until the reserve equals paid common stock. For the SOFOM and the other subsidiaries, the legal provision establishes the constitution of a legal reserve of 5% of net income until the reserve equals 20% of capital stock. This reserve may not be distributed to the stockholders during the existence of the Institution, except in the form of stock dividends.

30. Preventive savings protection mechanism

On January 19, 1999, the Bank Savings Protection Law was approved and IPAB was created to establish a bank savings protection system in favor of individuals that perform any of the guaranteed transactions, and to regulate financial support granted to full service banking institutions in order to protect the interests of depositors.

IPAB's resources come from the mandatory contributions paid by financial institutions, according to the risk to which they are exposed. Such contributions are calculated based on the capitalization level of each Institution and other indicators set forth in IPAB's bylaws issued by its Board of Directors. These contributions must be equivalent to one-twelfth of four-thousandths of the monthly average of the daily balances of liabilities activities of the applicable month.

For 2011, 2010 and 2009, the amount of the fund contributions payable by the Institution, as determined by the IPAB, were $1,228, $982 and $1,146, respectively.

31. Contingencies

As of December 31, 2011 and 2010, the Institution was the defendant in various legal proceedings and claims arising in the ordinary course of business. While this situation represents contingent liabilities, according to the Institution's management and their legal, tax and labor lawyers, in the event of an unfavorable final decision, they do not expect any significant effect on the consolidated financial statements.

a. *IPAB hedges:*

As of December 31, 2011 and 2010, Grupo Financiero Serfin (which was merged with Grupo Financiero Santander Mexicano, S.A., currently Grupo Financiero Santander) was the defendant in various legal proceedings and claims arising in the ordinary course of business. While this situation represents contingent liabilities, according to management and its legal, tax and labor lawyers, in the event of an unfavorable final decision, they do not expect any significant adverse effect on the consolidated financial statements. This is because all or most of them are covered by the agreement to purchase shares of the capital stock of Grupo Financiero Serfin, S.A. and Subsidiaries (Grupo Financiero Serfin) entered into by the Institution and IPAB, as described below.

Grupo Financiero Serfin and/or its financial entities (Banca Serfin, merged with Banco Santander Mexicano, currently denominated Banco Santander (Mexico)), Operadora de Bolsa Serfin, merged with Casa de Bolsa Santander Mexicano, currently denominated Casa de Bolsa Santander, Almacenadora Serfin, Factoraje Serfin, merged with Factoring Santander, currently Factoraje Santander Serfin, subsequently merged with Banco Santander Mexicano, currently known as Banco Santander (Mexico)), and Seguros Serfin, formerly Seguros Serfin Lincoln, the absorbing company of Seguros Santander Mexicano, currently denominated Seguros Santander) filed before the agreement was executed (May 23, 2000) or occurring within a three-year period following this date, which result in a final adverse court decision from a Mexican authority or court, or a foreign court if the decision is ratified in Mexico, or a final arbitration judgment duly ratified and executed in Mexico.

According to Clause 11 of the above agreement, IPAB is liable before the buyer and designated buyer, accordingly, for any amount of taxes assessed on Grupo Financiero Serfin and/or its financial entities by the Mexican tax authorities, including contributions to the Mexican Social Security Institute (IMSS) and National Institute of the Workers' Housing Fund (INFONAVIT). This liability, however, will apply only to taxes, penalties, surcharges and tax restatements payable prior to the date of transfer of title to the shares of Grupo Financiero Serfin, or generated through that date, but paid on a later date.

Also, IPAB is therefore liable before the buyer and designated buyer for any amount resulting from labor claims related to a final adverse court decision issued against Grupo Financiero Serfin and/or its financial entities, or derived from any agreement executed before the respective arbitration panels, provided that such claims were filed prior to the date of transfer of ownership of the shares of Grupo Financiero Serfin.

The share purchase agreement also establishes that: a) the reserves established by Grupo Financiero Serfin and Banca Serfin for the respective amounts of $546 and $91 (face value), relative to legal and labor contingencies at the transfer date of the shares, as described in Exhibit G of the agreement, must be restated against Group Financiero Serfin's stockholders' equity for an amount equal to the result of applying the CETES rate to the reserves and b) the fees and expenses incurred in connection with services rendered to defend these entities from any legal, labor, arbitration or administrative claim, will be borne by IPAB. If this agreement is not fulfilled, IPAB will be released from any obligation to cover the above-mentioned contingencies.

If Grupo Financiero Serfin and/or its financial entities are required to transfer to IPAB any liabilities resulting in disputes due to administrative, legal or arbitration proceedings against Grupo Financiero Serfin and/or its financial entities, the Institution will have Grupo Financiero Serfin and/or its financial entities take all the necessary steps to transfer such liabilities to IPAB or to any legal vehicle or entity appointed by IPAB.

Neither Grupo Financiero Serfin nor its financial entities recorded any contingency reserve, in addition to that recorded prior to their acquisition by the Institution, in connection with any item generated from transactions performed prior to the transfer date of the shares of Grupo Financiero Serfin to the Institution, since IPAB will take the measures mentioned in the preceding paragraphs if any contingency should arise.

On September 30, 2010, the Institution signed an amendment agreement derived from the contract of purchase and sale of shares of Grupo Financiero Serfin, S.A. and subsidiaries (Grupo Financiero Serfin) entered into between Grupo Financiero Santander, S.A.B. de C.V. (the Institution) and the IPAB.

In accordance with this amendment agreement, the Institution reimbursed to the IPAB the amount of $905, which was recorded under the heading of "Sundry creditors and other accounts payable". This amount comes from the reserves contributed by the IPAB under the contract signed on May 23, 2000, as indicated in the preceding paragraphs.

Following the execution of an amendatory agreement, as of December 31, 2010, the Institution has recorded reserves of $40 for contingencies derived from the operation prior to the acquisition, which are recorded under the heading of "Sundry creditors and other accounts payable".

As a result of the amendment agreement to the contract of purchase and sale of shares dated September 30, 2010, it was agreed that the Institution could adjust the reserve created regardless of the nature of the contingency in question, on which basis the Institution will recover the Value Added Tax paid and will not pay the 5% fee for the reimbursement procedure. Based on such agreement, the reserve was adjusted during early November 2010 for $24, relative to the remnant of expenses disbursed in relation to different lawsuits. As of December 31, 2010, the Institution has recorded reserves of $40 for contingencies related to the operation before the acquisition by the Institution, as a result of the amendment agreement.

As of December 31, 2011 and 2010, the amount of the maximum contingencies related to the lawsuits that are covered by the IPAB), without considering those not determined, is $168 and $193, respectively.

b. *Fiduciary Area:*

As of December 31, 2011, the Institution has recorded a provision of $140 (face value), to cover the contingency derived from the fiduciary area in which the Institution acts as trustee.

The Institution's fiduciary division is currently analyzing internal documentation. The Institution's management believes that there will be no additional contingencies that could materially affect the Institution's consolidated financial statements or those of the Institution.

c. *Legal contingencies:*

At December 31, 2011 and 2010, as a result of its business activities (without considering contingencies derived from hedges with the IPAB), the Institution has had certain claims and lawsuits representing contingent liabilities filed against it. Notwithstanding, management and its internal and external legal, tax and labor advisers do not expect such proceedings to have a material effect on the consolidated financial statements in the event of an unfavorable outcome. As of December 31, 2011 and 2010, the Institution has recorded contingency reserves for the amounts of $1,184 and $1,192, respectively, that have been included under the "Sundry creditors and other accounts payable" account, which, based on the opinion of its internal and external legal advisers, management considers to be adequate.

d. *Santander Hipotecario:*

In December 2010, the Institution entered into a purchase agreement for the mortgage business operations of GE Capital Mexico. The Institution signed the share purchase sale agreement to acquire 100% of the common stock of: GE Consumo México, S.A. de C.V., SOFOM ENR (currently known as "Santander Hipotecario, S.A. de C.V. SOFOM ER"), GE Holding México, S.A. de C.V. (currently known as "Santander Holding Vivienda, S.A. de C.V."), GE Money Servicios Administrativos de Monterrey, S. de R.L. de C.V. (currently known as "Santander Servicios Corporativos, S.A. de C.V.") and PMS Servicios Administrativos, S. de R.L. de C.V. (currently known as "Santander Servicios Especializados, S.A. de C.V.". Article XII, "Compensation and related matters", of such agreement provides that as of the closing date (April 29, 2011) (the "Closing Date") GECC (the "Seller") must compensate the Institution for any loss, damages, or imposed or incurred loss mainly attributable to any contingency generated by and resulting from the assets acquired or the transactions executed before the Closing Date. The acquired assets, which are guaranteed by such agreement, include tax loss carryforwards as of the purchase date of $1,098, which as of December 31, 2011 are considered as an account receivable by management of the Santander Hipotecario, given that their recovery is guaranteed by the Seller.

This agreement also establishes a limit on such compensation in the event of loss, damages, or imposed or incurred loss attributable to any contingency generated as a result of the assets acquired or the transactions executed before the Closing Date of $25 billion Mexican pesos.

32. Memorandum accounts

Memorandum accounts do not form an integral part of the balance sheet; accordingly, the only memorandum accounts covered by the external audit are those used to record transactions which are directly related to balance sheet accounts, as follows: contingent assets and liabilities, credit commitments, collateral received, sold or given in guarantee, and uncollected accrued interest derived from the nonperforming credit portfolio.

Aside from the above memorandum accounts, the Institution also has the following:

a. ***Trust mandate transactions (unaudited)*** –

As of December 31, 2011 and 2010, the Institution administered the following trusts and mandates:

	2011	2010
Trusts-		
Administration	$ 125,400	$ 110,498
Guarantee	3,078	3,048
Investment	17,277	16,877
	145,755	130,423
Mandates	1,556	1,479
Total assets in trust or mandate	$ 147,311	$ 131,902

b. ***Assets in custody or under administration (unaudited)–***

As of December 31, the Institution has the following assets in custody and under administration:

	2011	2010
Bank securities	$ 23,501	$ 27,848
Capital Market	442,954	423,723
Collection documents	2,036	1,611
Credit operations	115,427	77,104
Government securities	784,877	566,658
Movable goods and real property	193,981	162,705
Obligations	83,916	76,390
Other received guarantees	648,508	813,292
Other securities	208,097	165,384
Promissory notes, deposit certificates and bills of exchange	388,698	345,620
Total assets in custody or under administration	$ 2,891,995	$ 2,660,335

As of December 31, 2011 and 2010, the revenues generated by this type of assets were $267 and $228 (audited), respectively.

c. ***Goods held in custody or administration (unaudited)*** -

As of December 31, 2011 and 2010, other record accounts have a balance of $394,788 and $278,268, respectively.

33. Other operating income

As of December 31, 2011 and 2010, other operating income is as follows:

	2011	2010	2009
Recovery of previously written-off loans	$ 1,507	$ 1,536	$ 1,277
Cancellation of liabilities and reserves	176	206	143
Profit from the sale of real property	13	16	25
Recovered taxes	85	-	85
Technical advisory services	202	189	181
Interest on personnel loans	110	106	123
Application of recoverable ISR balance due to restatement	-	57	126
Recovery of derivative early maturities	32	60	-
Write-offs and bankruptcies	(383)	(820)	(322)
Portfolio recovery legal expenses and costs	(452)	(632)	(496)
Provision for legal and tax contingencies	(242)	(412)	(396)
Reserve for derivative early maturities	-	(246)	-
Result from sale of permanent investments	-	(73)	-
IPAB (Indemnity) provisions and payments	(23)	(3)	(3)
Foreclosed assets reserve	(48)	(132)	(72)
Cancellation of reserves for long-term Special Cetes UDIS	-	54	40
Acquisition of discounted credit portfolio	112	-	-
Profit from sale of foreclosed assets	54	17	12
Others	34	131	(50)
Total	$ 1,177	$ 54	$ 673

34. Commitments

As of December 31, 2011 and 2010, the Institution has signed agreements for the provision of services (to be received) related to its operations, less than 24% and 24%, respectively, of operating expenses, which form part of its current spending.

35. Information by segments

As of December 31, 2011, 2010 and 2009, the Institution participate in different activities of the Financial System, provides integrated financial services to its clients, which include full service banking and credit operations, brokerage services and administration of investment funds. Performance evaluation and risk remeasurement in the different activities are based on the information provided by the business units of the Institution, rather than on the legal entities in which the results generated are recorded.

The principal data by business segment are as follows:

			20
	Segments		
	Commercial Bank[1]	Global Wholesale Banking[2]	As Manag
Financial margin	$ 21,509	$ 3,386	$
Provisions for loan losses	(6,106)	(67)	-
Financial margin after provision for loan losses	15,403	3,319	
Net commissions	8,280	1,164	
Net gain on financial assets and liabilities	913	(211)	
Other operating income	1,021	-	-
Administrative and promotional expenses	(14,867)	(1,889)	
Operating income	10,750	2,383	
Equity in the results of associated companies	-	-	-
Result before income taxes	10,750	2,383	
Incurred and deferred income taxes	(3,225)	(715)	
Income from continuing operations before income taxes	7,525	1,668	
Non-controlling equity	-	-	-
Net income	7,525	1,668	
Significant balance sheet data:			
Total loan portfolio	$ 214,552	$ 96,351	$ -
Customer deposits	$ 236,564	$ 37,045	$

(1) Includes Individuals, Small and Medium Businesses, Companies, Institutions and Local Corporate.
(2) Includes Global Corporate, Treasury and Investment Banking.
(3) Includes Fund Manager

			20
	Segments		
	Commercial Bank[1]	Global Wholesale Banking[2]	As Manag
Financial margin	$ 18,828	$ 3,186	$ -
Provisions for loan losses	(8,221)	(5)	-
Financial margin after provision for loan losses	10,607	3,181	-
Net commissions	7,419	887	
Net gain on financial assets and liabilities	510	2,047	-
Other operating income	45	-	-
Administrative and promotional expenses	(13,014)	(1,781)	
Operating income	5,567	4,334	
Equity in the results of associated companies	-	-	-
Current and deferred income taxes	(1,746)	(1,300)	
Income from continuing operations	3,821	3,034	
Discontinued operations	386	-	-
Non-controlling equity	-	-	-
Net income	4,207	3,034	
Significant balance sheet data:			
Total loan portfolio	$ 160,745	$ 62,171	$ -
Customer deposits	$ 213,672	$ 40,730	$ -

(1) Includes Individuals, Small and Medium Businesses, Companies, Institutions and Local Corporate.
(2) Includes Global Corporate, Treasury and Investment Banking.

	20		
	Segments		
	Commercial Bank[1]	Global Wholesale Banking[2]	As Manag
Financial margin	$ 21,154	$ 3,250	$ -
Provisions for loan losses	(14,527)	(9)	-
Financial margin after provision for loan losses	6,627	3,241	-
Net commissions	7,188	761	
Net gain on financial assets and liabilities	796	3,083	-
Other operating income	640	(2)	-
Administrative and promotional expenses	(12,283)	(1,668)	
Operating income	2,968	5,415	
Equity in the results of associated companies	-	-	-
Current and deferred income taxes	(831)	(1,508)	
Income from continuing operations	2,137	3,907	
Discontinued operations	34	-	-
Non-controlling equity	-	-	-
Net result	2,137	3,907	
Significant balance sheet data:			
Total loan portfolio	$ 139,861	$ 63,289	$ -
Customer deposits	$ 193,904	$ 41,009	$ -

(1) Includes Individuals, Small and Medium Businesses, Companies, Institutions and Local Corporate.
(2) Includes Global Corporate, Treasury and Investment Banking.

36. Comprehensive risk management

The Institution regards risk management as a competitive element of a strategic nature, whose ultimate goal is to maximize stockholder value. This risk management is defined, both conceptually and organizationally, as the comprehensive treatment of the different risks (market, liquidity, credit, counterparty, operating, legal and technology risks) assumed by the Institution in the normal course of business. The way in the Institution manages the risk inherent in its transactions is essential to understand and determine how its financial position will behave and create value in the long term.

In compliance with the prudent regulations for comprehensive risk management applicable to credit institutions, issued by the Commission, the Board of Directors agreed to set up the Institution's Comprehensive Risk Management Committee, based on the guidelines established in the aforementioned provisions. This Committee meets monthly and ensures that operations adhere to the objectives, policies and procedures approved by the Board of Directors for Comprehensive Risk Management.

The Comprehensive Risk Management Committee in turn delegates responsibilities to the Comprehensive Management Risk Unit to implement the procedures for the measurement, management and control of risks based on established policies. It also grants it powers to authorize established limits to be exceeded, in which case the Board of Directors must be informed of such departures.

Market Risk -

The Market Risk Management Department of the Comprehensive Risk Management Unit is responsible for recommending the market risk management policies to be implemented by the Institution, by establishing the parameters for measuring risks and delivering reports, analyses and evaluations to senior management, to the Comprehensive Risk Management Committee and to the Board of Directors.

The measurement of market risk quantifies the potential change in the value of the positions assumed as a result of changes in market risk factors.

Depending on the type of activities performed by the business units, debt securities and share certificates are recorded as trading securities, securities available for sale and/or securities held to maturity. In particular, after the item of securities available for sale, what underlies and identifies them as such is their permanent status, and they are handled as a structural part of the consolidated balance sheets. The Institution has established guidelines which must be applied for securities available for sale, as well as adequate controls to ensure their compliance.

When significant risks are identified, they are measured and assigned limits to ensure adequate control. The risk is measured from a global perspective through a combination of the methodology applied to trading portfolios and that applicable to the management of assets and liabilities.

Trading Portfolios-

To measure risks using a global approach, the Value at Risk (VaR) method is followed, which is defined as the statistical estimate of the potential loss of value of a specific position at a specific period of time and with a specific level of confidence. The VaR is a universal measure of the exposure level of the various risk portfolios. It helps compare the risk level assumed among different instruments and markets, expressed in the exposure level of each portfolio through a unique figure in economic units.

The VaR is calculated by historical simulation with a window of 521 business days (520 for percentage changes), and a one-day horizon. The calculation is made based on the series of losses and gains simulated by considering the 1% percentile using constant Mexican pesos and Mexican pesos decreasing exponentially with a decline factor that is reviewed annually, and the most conservative measurement is reported. The level of reliance is variable. A 99% level of reliance is assumed.

At the December 2011 close, the Value at Risk (unaudited) was:

	VaR (Thousands of Mexican Pesos)	%
Trading desks	241,898.56	0.33%
Market Making	49,315.66	0.07%
Propietary Trading	52,127.74	0.07%
Risk factor	241,898.56	0.33%
Interest rate	127,550.77	0.17%
Exchange rate	181,087.74	0.25%
Variable income	16,606.47	0.02%

The VaR applicable to the quarterly average of 2011 (unaudited) was::

	VaR (Thousands of Mexican Pesos)	%
Trading desks	229,010.61	0.31%
Market Making	60,999.80	0.08%
Propietary Trading	59,755.41	0.08%
Risk factor	229,010.61	0.31%
Interest rate	132,468.53	0.18%
Exchange rate	144,998.24	0.20%
Variable income	31,050.87	0.04%

* % VaR percentage of Net Capital

Furthermore, monthly simulations are performed of portfolio losses or gains through evaluations under different scenarios (Stress Tests). These estimates are generated in two ways:

- By applying percentage changes observed in a given period of the history, which covers significant market turbulence, to the risk factors.
- By applying changes that depend on the volatility of each to the risk factors

Back testing is performed monthly to compare the daily losses and gains that would have been generated if the same positions had been maintained, considering only the change in value due to market movements, against the calculation of the value at risk, which thus allows the models used to be calibrated. While such reports are prepared monthly, they include the tests performed on a daily basis.

Management of assets and liabilities -

The Institution's commercial banking activities generate significant balance sheet amounts. The Assets and Liabilities Committee (ALCO) is responsible for determining guidelines for managing risk for the financial margin, net worth and liquidity, which must be followed in the different commercial portfolios. Under this approach, Finance Senior Management is responsible for executing the strategies defined in the Assets and Liabilities Committee in order to modify the risk profile of the commercial balance sheet by following the policies established. Therefore, it is essential to adhere to information requirements for interest rate, exchange rate and liquidity risks.

As part of the financial Management performed by the Institution, the sensitivity of the financial margin (NIM) and net worth (MVE) of the different balance sheet headings is analyzed against interest rate variations. This sensitivity derives from the differences between the expiration and modification dates of interest rates generated in the different headings of assets and liabilities. The analysis is based on the classification of each heading sensitive to interest rates over time, depending on their dates of amortization, expiration or contractual amendment of the applicable interest rate.

	(Unaudited)							
	Sensitivity 1% NIM				Sensitivity 1% MVE			
	Oct-11	Nov-11	Dic-11	Average	Oct-11	Nov-11	Dic-11	Average
Balance MXP GAP	83%	86%	92%	87%	93%	83%	78%	85%
Balance USD GAP	43%	47%	23%	38%	24%	14%	47%	28%

Simulation techniques are used to measure the foreseeable valuation of the financial margin and net worth under different interest-rate scenarios, and the sensitivity of both to an extreme movement.

The Assets and Liabilities Committee adopts investment strategies and hedges to keep certain sensitivities within the target range.

Limits

Limits are used to control the global risk for the Institution, based on each of their portfolios and books. The limits structure is applied to control exposures and establish the total risk applied to the business units. These limits are established for the VaR, loss alert, maximum loss, volume equivalent of type of interest, delta equivalent of variable income, foreign currency open positions, sensitivity of the financial margin and sensitivity of net worth.

Liquidity risk

Liquidity risk is associated with the Institution's capacity to finance the commitments undertaken at reasonable market prices, and to carry out its business plans with stable financing sources. The influencing factors may be external (liquidity crisis) or internal due to excessive concentrations of expirations.

The Institution manages expirations of assets and liabilities, performing oversight of maximum profiles for time lags. This oversight is based on analyses of asset and liability expirations, both contractual and related to management. Please note that the Liquidity Risk is limited in terms of a Liquidity level accumulated over a one-month period and an established Liquidity Coefficient.

	(Unaudited)			
	Liquidity Coefficient			
	Oct-11	Nov-11	Dic-11	Promedio *
Balance Mexican pesos GAP	39%	36%	48%	41%
Balance USD dollars GAP	11%	18%	19%	16%

* Monthly average considering all the months of the year until the date of the reporting period.

Credit Risk

The management of the Institution's credit risk is developed differently for the different customer segments through the three phases of the credit process: admission, follow-up and recovery.

From a global standpoint, the management of credit risk in the Institution covers the identification, measurement, composition and valuation of aggregated risk and the profitability adjusted to such risk, whose purpose is to oversee the levels of risk concentration and adjust them to established limits and objectives.

The risks which receive individual treatment are identified and differentiated (risks with companies, financial institutions and entities) from those handled in standardized fashion (consumer and mortgage loans of private parties and loans to business and micro-companies).

In the case of risks to which an individual treatment is applied, the Institution has a solvency classification or "rating" system that calculates the probability of noncompliance, which enables it to measure the risk associated with each customer from the start of the respective transaction. The customer valuation obtained after analyzing the relevant risk factors in different areas is subsequently adjusted based on the specific characteristics of the transaction (guarantee, term, etc.).

Standardized risks, given their special characteristics (a large number of transactions involving relatively small amounts) require different handling that ensures effective treatment and efficient allocation of resources, for which automatic decision-making tools are used (expert and credit scoring systems).

The treatment of business loans is also complemented, in its follow-up stage, with the so-called "special oversight system", which determines the policy to be followed in handling risk with companies or groups classified in such category. Several special oversight situations or degrees are distinguished, from which different actions may arise. The special oversight rating is reached either by alert signals, systematic reviews or special initiatives promoted by the Risk Division or Internal Audit.

Recovery Units are a fundamental element in the management of irregular risks and are intended to minimize the final loss incurred by the Institution. These units perform specialized risk management activities based on the classification of a given risk as irregular (timely payment noncompliance).

The Institution has implemented a policy of selective growth of the risk and strict actions in the treatment of late payments and its provisions, based on the prudent criteria defined by the Institution.

Probability of Noncompliance and Expected Losses

According to the Comprehensive Risk Management guidelines detailed in the General Provisions Applicable to Credit Institutions, as part of their credit risk management, credit institutions must calculate the default probability. The system allows the default probability to be estimated for different credit portfolios:

a. The default probability (PD) of "No Retail" portfolios is determined by calibrating customer ratings at a given date based on the monthly default rates observed over a five-year period. These default rates are then adjusted to an established 10-year economic cycle. The standard default probabilities issued by the Basel Agreement are utilized for "Retail" portfolios.

b. Once the default probability has been determined, the "Loss Severity" (LGD) and "Exposure at Default" (EAD) parameters established by the Basel Agreement are utilized.

After obtaining the above factors, the Expected Loss (PE) is calculated by using the following formula:

Expected Loss = Default Probability x Loss Severity x Exposure at Default

i.e.: $PE = PD * LGD * EAD$

Counterparty Risk

The overall credit risk includes a concept whose peculiar nature requires specialized handling: Counterparty risk.

Counterparty risk is that which the Institution assumes with government, government agencies, financial institutions, corporations, companies and individuals in its treasury and correspondent banking activities. Its measurement and control of credit risk in financial instruments, counterparty risk, is handled by a special unit whose organizational structure is independent of the business units.

The control of counterparty risk is handled each day through the Kondor Global Risk (KGR) system, which ascertains the line of credit available with any counterparty, in any product and for any term.

The Credit Risk Equivalent (REC) is used to control counterpart lines). The REC is an estimate of the amount which the Institution might lose on current transactions with a given counterparty if the latter does not comply with its commitments, at any time up to the expiration date of the transactions. The REC considers the Current Credit Exposure, defined as the cost of replacing the transaction at market value, provided that such value is positive for the Institution, and is measured as the market value of the transaction (MTM). Furthermore, the REC incorporates the Potential Credit Exposure or Additional Potential Risk (RPA), which represents the possible evolution of the current credit exposure up to expiration, based on the characteristics of the transaction and possible variations in market factors. The calculation of the REC also considers the existence of counterparty credit risk mitigating factors, such as collateral agreements, netting agreements, among others. It was reported that the methodology is still efficient.

Apart from the Counterparty Risk, there is the risk of settlement, which arises in any transaction at its expiration date, given the possibility that the counterparty will not comply with its obligations to pay the Institution, once the Institution has satisfied its obligations by issuing the respective payment instructions.

Specifically, to control this risk the Financial Risk Senior Management daily supervises compliance with the credit risk limits by counterparty, by product, by term and other conditions established in the authorization for financial markets. It is also the area responsible for daily communicating the limits, consumptions and any other departure or excess incurred.

Furthermore, it monthly reports to the Comprehensive Risk Management Committee the limits of counterparty risk, the limits of issuer risk and current consumptions, as well as any excesses and transactions with unauthorized customers. By the same token, it reports the calculation of the expected loss for current operations in financial markets at the close of each month, and also presents different stress scenarios of the expected loss.

Counterpart Risk lines have been approved for the following sectors: Sovereign Mexican Risk and Local Development Banking, Foreign Financial Institutions, Mexican Financial Institutions, Corporate Offices, Company-SGC Banking, Institutional Banking, Major Enterprise Unit, Project Finance.

The equivalent credit risk of the Counterparty Risk Lines and Issuer Risk Lines of the Institution at the close of December 2011 is concentrated as follows: 92.05% in the segment of Sovereign Risk, Development Banking and Financial Institutions, 7.56% in the Corporate sector and 0.38% in the Companies sector.

The average quarterly REC of the Counterparty Risk and Issuer Risk lines of the Institution for the quarter October-December 2011 was USD$18,949 (unaudited) REC in the segment of Sovereign Risk, Development Banking and Financial Institutions, USD$1,592 (unaudited) REC in the Corporate sector and USD$79 (unaudited) REC in the Companies sector.

The Expected Loss of the Institution at the close of December 2011 is concentrated as follows: 14.51% in the segment Sovereign Risk, Development Banking and Financial Institutions, 81.09% in the Corporate sector, and 4.40% in the Companies sector.

The segments of Mexican Financial Institutions and Foreign Financial Institutions are very active counterparties with which the Institution has current positions for financial instruments with counterparty credit risk. Please note that the REC is mitigated by the existence of netting agreements (ISDA-CMOF) and, in certain cases, with collateral agreements (CSA-CGAR) or revaluation agreements with the counterparties.

Operating Risk

In terms of Operating Risk, the Institution has policies, procedures and methodologies to identify, control, mitigate, oversee and disclose Operating Risks.

Different categories and business lines have been established to identify and measure operating risks, in which operating incidences are grouped in accordance with the methodology applied. This methodology begins with the identification and documentation of processes, based on self-evaluation tools, and considers the development of historical databases and indicators of Operating Risk, for the purposes of the respective control, mitigation and disclosure.

Legal Risk

Legal risk is defined as the potential loss from noncompliance with applicable legal and administrative provisions, the issuance of adverse administrative and court rulings and the application of penalties in relation to the transactions performed by the Institution.

The following activities are performed in compliance with Comprehensive Risk Management guidelines: a) Establishment of policies and procedures to analyze legal validity and ensure the proper instrumentation of the legal acts performed, b) Estimate the amount of potential losses derived from unfavorable legal or administrative rulings and the possible application of penalties, c) Analyze legal acts governed by a legal system outside Mexico, d) Publication among managerial personnel and employees of legal and administrative provisions applicable to transactions, and e) Performance, at least annually, of internal legal audits.

Technological Risk

Technological risk is defined as the potential loss from damages, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel used in the provision of bank services with the customers of the Institution.

The Institution has realized a model to deal with Technological Risk, which is currently integrated into the service and support processes of the systems areas, in order to identify, oversee, control and report on the Systems Technology Risks to which the operation is exposed, and is intended to prioritize the establishment of control measures that will reduce the probability of risks becoming reality.

37. Capitalization ratio

As of December 31, 2011, in accordance with the capitalization requirements applicable to full service banks in effect, the Institution presents the following capitalization ratio, which exceeds the minimum level required by the authorities:

Net Capital / Required Capital	1.85
Basic Capital / Assets subject to Credit and Market Risk	14.53
Net Capital / Assets subject to Credit Risk	27.37
Net Capital / Assets subject to Credit, Market and Operating Risk	14.83

38. Ratings

As of December 31 2011, the Institution maintains the following classifications

	Standard & Poor's	Moody's	Fitch Ratings
Global level-			
Foreign currency:			
Long-term	BBB	Baa1	A-
Short-term	A-3	P-2	F-1
Mexican pesos:			
Long-term	BBB	A2	A*
Short-term	A-3	P-1	F-1
National level -			
Long-term	mxAAA	Aaa.mx	AAA.mx
Short-term	mxA1+	Mx-1	F1+mx
Financial strength	-	C	-
Issuer Default Rating	-	-	A-
Single	-	-	C
Base	-	-	1
Perspective	Estable	Estable	Estable

* This rating has a negative observation.

39. Alliance for the acquiring business in Mexico

On December 22, 2009, the Institution and Elavon Merchant Services Mexico (Elavon) entered into an agreement for the purchase and sale of rights denominated "Rights Purchase Agreement" (RPA) in which the Institution sells, transfers and assigns to Elavon, the rights to certain revenues generated by the Acquiring Business and the title to certain assets used in connection with the Acquiring Business. The objective of this agreement is that Elavon should carry out the administration of the Acquiring Business. Elavon is an acquirer at the global level, an affiliate of US Bank, and has similar alliances in Spain, the UK and Puerto Rico. The main contribution of Elavon Mexico is "know-how", its portfolio of products and services, multinational customers with presence in Mexico and any investments that the business may require.

Furthermore, in January 2010, the Institution and Elavon entered into a commercial alliance to share revenues and expenses jointly related to the acquiring business, which is detailed in the document "Alliance Agreement".

In January 2010, certain clauses and considerations included in the contract (RPA) were fulfilled, such as the payment of the selling price, and the approval of the authorities, which covered as of that date, for legal, tax and accounting purposes, the substantial transfer of all the rights and obligations with the consequent recognition in books of the revenue and profit derived from such transaction.

In the year 2010, the Institution recognized a profit of $386, net of tax effects, in earnings the heading of "Discontinued operations".

40. New accounting principles

NIF issued by the CINIF

With the aim of bringing Mexican regulations closer in line with international regulations, during 2011 the Mexican Board for the Research and Development of Financial Reporting Standards introduced the following NIF, Interpretations to Financial Reporting Standards (INIF) and improvements to the NIF, which go into effect as of January 1, 2012:

B-3, Comprehensive income statement
B-4, Statement of changes in stockholders' equity
C-6, Property, plant and equipment
Improvements to Financial Reporting Standards 2012

Some of the principal changes established in such provisions are as follows:

NIF B-3, Comprehensive income statement.- Establishes the option of presenting a) a single statement containing the headings which make up the net profit or loss, as well as the other comprehensive results (ORI) and the equity in the ORI of other entities, and being denominated as the comprehensive income statement or b) two statements: the income statement, which should include only the headings that comprise the net profit or loss and the statement of other comprehensive results, which should be based on the net profit or loss and presented directly after the ORI and the equity in the ORI of other entities. It also establishes that items should not be presented in segregated form as non-ordinary, either in the financial statement or in notes to the financial statements.

NIF B-4, Statement of changes in stockholders' equity.- Establishes general provisions for the presentation and structuring of the statement of changes in stockholders' equity, such as showing the retrospective adjustments for accounting changes and error corrections which affect the opening balances of each of the headings of stockholders' equity and presenting the comprehensive result in a single heading, detailing all the items which comprise it, as established in NIF B-3.

NIF C-6, Property, plant and equipment.- Establishes the obligation to depreciate components which are representative of an item of property, plant and equipment, apart from depreciating the rest of the item as if it were a single component.

Improvements to the NIF 2012.- The principal improvements which generate accounting changes that should be recognized retrospectively in years beginning as of January 1, 2012 are as follows:

Bulletin B-14, Income per share.- Establishes that the diluted income per share should be calculated and disclosed when the result from continued operations is a loss, regardless of whether a net profit is presented.

NIF C-1, Cash and cash equivalents.- Requires that restricted cash and cash equivalents be presented as short-term in the balance sheet, provided that such restriction runs out within the 12 months following the balance sheet date; if the restriction runs out at a subsequent date, such heading should be presented in long-term assets.

Bulletin C-11, Stockholders' equity.- Eliminates the rule of recording the donations received by an entity as part of contributed stockholders' equity, and they should now be recorded as revenue in the income statement, in accordance with NIF B-3, Income statement.

Bulletin C-15, Impairment in the value of long-lived assets and their disposal.- Eliminates: a) the restriction that an asset should not be in use in order to be classified as intended for sale and b) the reversal of losses from impairment of goodwill. It also establishes that losses from impairment in the value of long-lived assets should be presented in the income statement under the respective line items of costs and expenses, not as other revenues and expenses or as a special item.

*NIF D-3, Employee benefits.-*Requires that the PTU incurred and deferred be presented in the statement of income under the respective heading of costs and expenses, not the heading of other revenues and expenses.

Furthermore, improvements to the NIF 2012 were issued which do not generate accounting changes and mainly establish further disclosure requirements for key assumptions used in the estimates and in the valuation of assets and liabilities at fair value, which might originate significant adjustments in such values within the following accounting period.

As of the date of issuance of these financial statements, the Branch has not fully determined the effects of these criteria and standards on its financial information.

41. Reclassifications to the financial statements

The consolidated financial statements as of December 31, 2010 and 2009, have been reclassified to conform to the consolidated financial statements as of December 31, 2011.

These reclassifications are performed for the following headings: Margin accounts, Derivatives, Commission and fee income, Administrative and promotional expenses, Discontinued operations, Other income, Other expenses and Current income taxes.

42. Authorization of the financial statements by the Commission

The accompanying financial statements as of December 31, 2011 and 2010 are subject to examination by the Commission and could therefore be modified following this review.

43. Financial statements issuance authorization

These consolidated financial statements were approved by the Board of Directors and signed on its behalf by

Marcos A. Martínez Gavica Executive President - Chief Executive Officer	Pedro José Moreno Cantalejo Vicepresident of Administration and Finances
Emilio de Eusebio Saiz Deputy Managing Director of Intervention and Management Control	Jesús González del Real Executive Director of Accounting

Javier Pliego Alegría
Executive Director of Internal Audit

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ANNEX A

SUMMARY OF CERTAIN DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican financial institutions prepare their financial statements in accordance with the accounting practices established for financial institutions ("Mexican Banking GAAP") as prescribed by the Mexican National Banking and Securities Commission ("CNBV"). Mexican Banking GAAP encompasses circulars issued by the CNBV and Mexican Financial Reporting Standards ("Mexican GAAP" or "MFRS") promulgated by the *Consejo Mexicano de Normas de Información Financiera A.C.*, formerly *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* to the extent that the aforementioned circulars do not address or supersede the accounting to be followed.

Mexican Banking GAAP differs in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Such differences might be material to the financial information contained in this offering memorandum. A summary of certain differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of Banco Santander Mexico, the terms of this offering memorandum and the financial information contained herein. Potential investors should consult their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information contained herein.

This summary should not be taken as exhaustive inventory of all the differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in the Audited Consolidated Financial Statements, including the notes thereto.

Set forth below is a description of certain differences between Mexican Banking GAAP and U.S. GAAP.

Allowance for Loan Losses

The rules for the classification and rating of loan portfolios of Mexican banks and the creation of the related allowance for loan losses (the "Loan Classification and Rating Rules") set forth under the General Rules Applicable to Mexican Banks provide a methodology to classify commercial loans based on an evaluation of the borrower's ability to repay its loan (including country risk, financial risk, industry risk and payment history) and an evaluation of the related collateral and guarantees.

Based on this methodology, a specific percentage established by the CNBV is applied to each category of the loan portfolio.

For revolving consumer credit card loans, mortgage loans, other non-revolving consumer loans and credits granted to Mexican states and municipalities, the Loan Classification and Rating Rules consider the type of credit, the estimated probability of default of the borrowers, the severity of the loss associated with the value and nature of the credit's collateral and the exposure to default.

Our allowance for loan losses is held in a separate account on our balance sheet, and all write-offs of uncollectible loans are charged against this account. Mexican banks are required to obtain authorization from their board of directors in order to write-off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

Under U.S. GAAP, an estimated loss should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated.

For larger non-homogeneous loans, a specific allowance for loan losses is calculated when it is determined that it is probable that the bank will not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms. Estimated losses on impaired loans that are individually assessed are required to be measured at the present value of expected future cash flows discounted at the loan's effective rate, the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent.

To calculate the allowance for loan losses required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical loss trends. These ratios are determined by loan type to obtain loss estimates for homogeneous groups of clients. Such historical loss ratios are updated to incorporate the most recent data reflective of current economic conditions, in conjunction with industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information. These updated ratios serve as the basis for estimating the allowance for loan losses for such smaller-balance impaired loans and non-impaired loans.

Under Mexican Banking GAAP, loans may be charged-off when collection efforts have been exhausted or when they have been fully provisioned. On the other hand, for U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

Non-accrual Loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when certain loans become past due based on the number of past due periods as established by the CNBV.

Under U.S. GAAP, the accrual of interest is generally discontinued when, in the opinion of management, it is expected that the borrower will not be able to fully pay its principal and interest. Any accrued but uncollected interest is reversed against interest income at that time.

Investment in Securities

Mexican Banking GAAP

Under Mexican Banking GAAP, investment in securities is divided into the following categories:

- Trading securities are defined as those in which management invests to obtain gains from short-term price fluctuations. The unrealized gains or losses resulting from the mark-to-market of these investments are recognized in the statement of income for the period.
- Available-for-sale securities are those in which management invests to obtain medium-term earnings before its maturity. The unrealized gains or losses resulting from the mark-to-market of these investments, net of deferred taxes and inflation, is recognized in shareholders' equity as part of the "comprehensive income."
- Held-to-maturity securities are those in which management invests with the positive intent and the ability of holding them, until maturity and are recorded at amortized cost.
- Mexican Banking GAAP prohibits "held-to maturity" classification for those securities that, during the current year or two previous years, were sold or reclassified to another category if originally they were posted as a part of this classification.

Mexican Banking GAAP allows the transfer of securities classified as "held to maturity" to the securities "available for sale" classification, provided that the financial entity does not have the intention or the ability to hold them to maturity. Reclassifications of the category of securities held to maturity, or of trading securities to that of available-for-sale are allowed under extraordinary circumstances (for example, a lack of market liquidity, or when there is no active market for the securities, among others), which should be assessed and, as the case may be, validated through the express authorization of the CNBV.

Under Mexican Banking GAAP, interest income on investments in debt securities is recognized based on the "effective interest method."

For Mexican Banking GAAP purposes, any foreign currency effects on available for sale debt securities are reported in earnings. However, under U.S. GAAP, the entire change in the fair value of foreign-currency-denominated available for sale debt securities should be reported in shareholders' equity.

According to Mexican Banking GAAP, an investment in securities is impaired and impaired losses are recognized only if there is objective evidence of impairment as the result of one or more events that occurred after initial recognition of the asset. In assessing the objective evidence of impairment, an entity considers factors such as financial difficulties of issuers or breach of contracts (i.e., default or delinquency in interest or principal). Impairment loss will be measured by the difference between the fair value and the book value of the investment. If the conditions that led to an impairment loss of debt securities to be classified as held to maturity or available for sale improve sufficiently, then those losses can be reversed.

U.S. GAAP

- Debt securities must be classified, according to management's intent and ability to hold the security, within one of the following categories: held-to-maturity, trading or available-for-sale.
- Trading securities are those that are actively bought and sold. Such securities are recorded at fair value, with resulting unrealized gains and losses recognized in the statement of income.
- Securities which management has the intent and ability to hold to maturity are classified as held-to-maturity, a classification allowed only for debt securities including preferred stock with required redemption dates. Held-to-maturity securities are carried at amortized cost.
- All other debt securities and equity securities that are not classified as trading securities or held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value with the resulting unrealized gains and losses recorded net of applicable deferred taxes as other comprehensive income, a separate component of shareholders' equity until realized at which time the gain or loss is recorded as income.

U.S. GAAP has specific criteria limiting reclassifications of securities within the held-to-maturity classification. If any sales are made from the held-to-maturity portfolio other than in certain specific circumstances, then all held-to-maturity securities are deemed to be tainted and are consequently classified as available-for-sale.

For individual securities classified as either held-to-maturity or available-for-sale, U.S. GAAP requires that companies determine whether a decline in fair value below the amortized cost basis is other than temporary. If the decline is other than temporary, the cost basis of the individual security should be written down to fair value as a new cost basis and the amount of the write-down should be included in earnings as a realized loss. The new cost basis should not be changed for subsequent recoveries in fair value. A recovery in fair value should not be recorded in earnings until the security is sold.

If an "other-than-temporary" impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss.

If an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be separated into both of the following:

- The amount of the total other-than-temporary impairment related to the credit loss shall be recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes.

- The previous amortized cost basis less the other-than-temporary impairment recognized in earnings shall become the new amortized cost basis of the investment. That new amortized cost basis shall not be adjusted for subsequent recoveries in fair value. However, the amortized cost basis shall be adjusted for accretion and amortization.

For debt securities for which other-than-temporary impairments were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted as interest income. An entity shall continue to estimate the present value of cash flows expected to be collected over the life of the debt security. For debt securities, if upon subsequent evaluation, there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, such changes shall be accounted for as a prospective adjustment to the accretable yield. Subsequent increases and decreases (if not an other-than-temporary impairment) in the fair value of available-for-sale securities shall be included in other comprehensive income.

Fair Value

Under Mexican Banking GAAP, fair value is determined by independent third party price vendors.

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

U.S. GAAP also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy 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 that are observable, either directly or indirectly, but do not qualify as Level 1 inputs. (i.e., quoted prices for similar assets or liabilities); and

- 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).

Sale and Repurchase Agreements

Under Mexican Banking GAAP, through September 2008, securities sold under sale and repurchase agreements and securities purchased under sale and repurchase agreements were accounted for as sales or purchases of securities, respectively.

- For securities sold under sale and repurchase agreements, the Bank recorded (i) an account receivable for the fair value at the reporting date of the securities to be received, and (ii) an account payable for the present value of the amount in cash to be paid.

- For securities purchased under resale agreements, the Bank recorded (i) an account receivable for the present value of the amount in cash to be paid, and (ii) an account payable for fair value at the reporting date of the securities to be sold.

Since October 2008, under Mexican Banking GAAP, securities sold under sale and repurchase agreements and securities purchased under sale and repurchase agreements are accounted for as sales of securities with related off-balance sheet forward repurchase commitments, or purchases of securities with related off-balance sheet forward resale commitments, if the risks and rewards are substantially transferred. If the conditions to qualify as a sale are not met, the transactions are treated as secured financing or lending.

Under U.S. GAAP, sale and repurchase agreements are transfer transactions subject to specific provisions and conditions that must be met in order for a transaction to qualify as a sale rather than a secured borrowing. In most cases, banks in the U.S. enter into sale and repurchase agreements that qualify as secured borrowings.

Transfer of Credit Card Portfolio

Under Mexican Banking GAAP, the transfer of the credit card portfolio (together, among other things, with the transfer of certain labor obligations) was accounted for as a sale of individual assets, rather than a sale of a business.

Under U.S. GAAP, a transfer of net assets between entities under common control should be accounted for at the transferor's carrying amount in a manner similar to that of a pooling of interests. Accordingly, the excess of the cash proceeds received over the carrying value of the credit card loans should be treated as an adjustment to equity (i.e., deemed dividend).

Employee Retirement Obligations

Under Mexican Banking GAAP, through December 31, 2007, companies were required to account for an additional liability and the corresponding intangible assets and separate equity component when an unfunded accumulated benefit obligation existed. Starting January 1, 2008 accounting for labor obligations was amended. The most important changes were the reduction to a maximum five-year period to amortize prior year items, the effects of the salary growth in the calculation of the Obligation for Defined Benefits (formerly known as Obligations for Projected Benefits), the elimination of the accounting treatment for the additional liability and its corresponding intangible asset and the separate equity component. Companies are required to present the full funded status only within the footnotes.

Under U.S. GAAP, an employer is required to accrue a liability and recognize an expense during the period in which the employee earns paid absences. In addition, under U.S. GAAP, entities are required to (i) fully recognize, as an asset or liability, the overfunded or underfunded status of defined pension and other postretirement benefit plans; (ii) recognize changes in the funded status through other comprehensive income in the year in which the changes occur; (iii) measure the funded status of defined pension and other postretirement benefit plans as of the date of the company's fiscal year-end; and (iv) provide enhanced disclosures. In addition, a company must now measure the fair value of its plan assets and benefit obligations as of the date of its year-end balance sheet.

Accounting for the Effects of Inflation

Through December 31, 2007, MFRS required that the comprehensive effects of price level changes due to inflation be recorded in the basic financial statements for all non-monetary and monetary items.

Non-monetary assets and shareholders' equity were generally restated for inflation by applying a price index (INPC or UDIS). Mexican Banking GAAP also required the determination of an inflationary gain or loss arising from a company's net monetary asset or liability position and the adjustment or restatement of statement of income amounts for the year in constant pesos of purchasing power as of the date of the most recent balance sheet presented, as well as the presentation of financial statement amounts from prior years in constant pesos of purchasing power as of the date of the most recent balance sheet presented.

As of January 1, 2008, Mexican Banking GAAP establishes new standards for recognizing the effects of inflation in an entity's financial statements. Mexican Banking GAAP provides criteria for distinguishing between inflationary and non-inflationary environments and provides guidelines to cease or start recognizing the effects of inflation in financial statements when the cumulative increases to the general price index in a three-year period exceeds 26% in the countries where the company and subsidiaries operate. Restatement of financial statements for earlier periods presented is not permitted by Mexican Banking GAAP.

Under U.S. GAAP, companies are generally required to prepare financial statements using historical costs that are not subsequently adjusted for inflation except in cases when an economic environment becomes highly inflationary, which is characterized by, among other things, cumulative three-year inflation of greater than 100%.

Deferred Income Tax

Under Mexican Banking GAAP, deferred tax assets and liabilities are recognized for all temporary differences between the carrying amounts of existing assets and liabilities as of the balance sheet date and their respective tax bases. Mexican Banking GAAP is similar to U.S. GAAP with respect to accounting for current and deferred income taxes, except that Mexican Banking GAAP establishes that a valuation allowance shall be recorded when specifically mandated or authorized by the CNBV, and otherwise to reduce the balance of deferred tax assets to an amount that is highly probable of realization.

Under U.S. GAAP, deferred income taxes are accounted for under the balance sheet method. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as the recognition of operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recognized to reduce the balance of deferred tax assets to an amount that more likely than not will be realized. The effect on the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. U.S. GAAP requires separate presentation of current and non-current income tax assets or liabilities, depending on the classification of the asset or liability to which the deferred tax item relates.

U.S. GAAP also prescribes 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.

Capitalized Costs

Under Mexican Banking GAAP, prior to MFRS C-8, "Intangible Assets," all expenses incurred in a project in the pre-operating or development stages are capitalized. Upon adoption of MFRS C-8, research costs and pre-operating costs should be expensed as a period cost, unless they can be classified as development costs, which should be capitalized. Under U.S. GAAP, such research and pre-operating expenses are expensed as incurred.

For U.S. GAAP purposes, computer software costs incurred in the preliminary project stage should be expensed as incurred. Once the capitalization criteria under U.S. GAAP has been met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software, payroll and payroll related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent of the time spent directly on the project), and interest costs incurred when developing computer software for internal use should be capitalized. Generally, training costs and data conversion costs should be expensed as incurred.

Guarantees

U.S. GAAP requires that an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee. For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

Consolidation

Through December 31, 2007, Mexican Banking GAAP required consolidation of all subsidiaries over which a company exercises control. Control over another company is considered to exist when more than 50% of a company's outstanding shares, with voting rights, are held directly or indirectly through a subsidiary, unless the holder can demonstrate that control to govern the company has been yielded.

Starting January 1, 2009, Mexican Banking GAAP incorporates the concept of special purpose entities and how to identify and consolidate those, potential voting rights and possible impact over control and establishes the basis for reporting and accounting in the case of losing control in a subsidiary.

Under U.S. GAAP, when a company has a controlling financial interest in an entity (either through a majority voting interest or through the existence of other control factors), such entity's financial statements should be consolidated, irrespective of whether the activities of the subsidiary are non-homogeneous with those of the parent.

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Offering Memorandum

November 22, 2012