Syndicated Debt Issuance

July 2011

Syndicated Debt Issuance

Background

In 2010, the Federal Government introduced the debt syndication scheme as a new complementary mechanism to place debt in the primary domestic market.
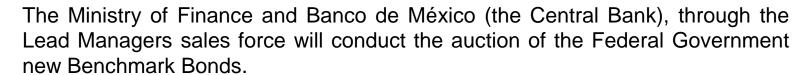
This process is designed to place an important initial outstanding amount of new benchmark bonds within a broad investor base, ensuring liquidity in the secondary market. It also guarantees new benchmark bonds to be eligible for inclusion in global fixed income indices in which Mexican securities participate.

Federal Government Syndicated Debt Issuances

Date	Security	Issued Amount
Feb 2010	10-year M Bond	25 Billion pesos
Mar 2010	30-year Udibono	15 Billion pesos (3.5 Billion udis)
Jul 2010	5-year M Bond	25 Billion pesos
Feb 2011	10-year M Bond	25 Billion pesos
Mar 2011	10-year Udibono	16 Billion pesos (3.5 Billion udis)

Syndicated Debt Issuance

Introduction

Although the current syndicated issuance method has been successful, it is considered that an auction mechanism will improve the price discovery process while maintaining an adequate distribution of the security in a broad investor base.

The Ministry of Finance and Banco de México (the Central Bank), through the Lead Managers sales force will conduct the auction of the Federal Government new Benchmark Bonds.

All credit institutions acting as Market-Makers in the period in which the auction takes place will act as Lead Managers.

Syndicated Debt Issuance

Lead Managers

Investors who want to participate in the next syndicated issuance must contact the following Lead Managers in order to be able to submit their bids.

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

Banco Nacional de México, S.A.,
Institución de Banca Múltiple,
Grupo Financiero Banamex.

ING Bank (México), S.A.,
Institución de Banca Múltiple,
ING Baring Grupo Financiero (México).

BBVA Bancomer S.A.,
Institución de Banca Múltiple,
Grupo Financiero BBVA Bancomer

HSBC, México, S.A.,
Institución de Banca Múltiple,
Grupo Financiero HSBC.

Bank of America México S.A.
Institución de Banca Múltiple
Grupo Financiero Bank of America.

Banco JP Morgan, S.A.,
Institución de Banca Múltiple,
JP Morgan Grupo Financiero.

Deutsche Bank México, S.A.,
Institución de Banca Múltiple
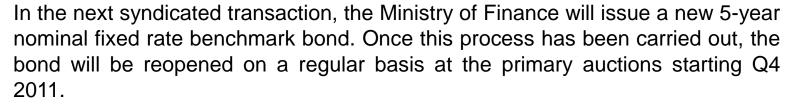
Syndicated Debt Issuance

Auction Characteristics

❑ Three days prior to the auction day (T-3), the Central Bank will publish the auction announcement through its website. The announcement will contain the characteristics of the security to be placed, the date and time for the submission of bids, the maximum amount to be placed in the transaction and the settlement date.

❑ The auction will be a single rate auction.

❑ At the auction day (T) and at the time the period of submission of bids begins (10:00 am), the Ministry of Finance and the Central Bank will announce the maximum yield to be accepted and the maximum amount to be allocated to each investor as a percentage (%) of the maximum amount to be placed in the transaction.

❑ The period for the submission of bids will be open for one hour.

❑ Investors will be able to submit bids through one or several Lead Managers.

❑ The bids should be at a yield equal to or less than the maximum yield to be accepted. The yield must be expressed in any increase of a basis point. The bids should be submitted in millions pesos.

❑ Investors that do not exceed the maximum allocation amount will be allocated from the lowest yield (several bids can be accepted). When necessary, bids at the highest accepted yield will be pro rated. The single rate of the auction will be the last allocated bid.

Syndicated Debt Issuance

New Benchmark

In the next syndicated transaction, the Ministry of Finance will issue a new 5-year nominal fixed rate benchmark bond. Once this process has been carried out, the bond will be reopened on a regular basis at the primary auctions starting Q4 2011.

Security Description

	United Mexican States
Security Type:	Nominal Fixed Rate Federal Government Development Bonds
Financial Agent:	Banco de México
Security Series:	M 160616
Coupon rate:	6.25%
Coupon frequency:	Semi-annually (June/December)
Coupon basis:	Act/360
Maturity Date:	June 16th, 2016
Face Value	100 MXN

Syndicated Debt Issuance

Timeline

The syndicated issuance will be carried out according to the following schedule:

Date	United Mexican States
July 13th, 2011	Conference Call with Investors
T-3	Transaction Announcement
T	Auction
T	Pricing and Announcement of Results
T+2	Settlement

"T" is a date to be announced

Syndicated Debt Issuance

1. Lead Managers submit bids.

2. Each bid has an investor ID number, a requested amount and a yield.

3. The book is built with all the bids of the Lead Managers.

Example

Maximum amount to be placed: 10 billion pesos
Maximum yield to be accepted: 7.66%
Maximum amount to be allocated to each investor: 7% or 700 million pesos

Lead Manager 1			Lead Manager 2			Lead Manager 3		
ID	Yield	Requested Amount	ID	Yield	Requested Amount	ID	Yield	Requested Amount
15	7.62	950,000,000	18	7.66	200,000,000	1	7.59	670,000,000
1	7.60	50,000,000	17	7.61	300,000,000	12	7.65	470,000,000
11	7.63	550,000,000	16	7.59	300,000,000	18	7.59	375,000,000
19	7.64	2,000,000,000	2	7.61	600,000,000	4	7.59	500,000,000
7	7.62	450,000,000	5	7.65	900,000,000	1	7.66	200,000,000
14	7.62	1,500,000,000	13	7.63	800,000,000	9	7.60	800,000,000
7	7.65	200,000,000	6	7.61	2,000,000,000	14	7.62	200,000,000
10	7.64	650,000,000	10	7.65	700,000,000	9	7.60	200,000,000
8	7.59	577,000,000	4	7.61	265,800,000	19	7.65	50,000,000
3	7.66	730,000,000	16	7.64	2,000,000,000	16	7.64	300,000,000

Syndicated Debt Issuance

Example

ID	Yield	Requested Amount	Accumulated Amount per Investor	Adjusted Requested Amount
1	7.59	670,000,000	**670,000,000**	**670,000,000**
1	7.60	50,000,000	**720,000,000**	**30,000,000**
1	7.66	200,000,000	920,000,000	0
2	7.61	600,000,000	600,000,000	600,000,000
3	7.66	730,000,000	730,000,000	700,000,000
4	7.59	500,000,000	500,000,000	500,000,000
4	7.61	265,800,000	765,800,000	200,000,000
5	7.65	900,000,000	900,000,000	700,000,000
6	7.61	2,000,000,000	2,000,000,000	700,000,000
7	7.62	450,000,000	450,000,000	450,000,000
7	7.65	200,000,000	650,000,000	200,000,000
8	7.59	577,000,000	577,000,000	577,000,000
9	**7.60**	800,000,000	**800,000,000**	**560,000,000**
9	**7.60**	200,000,000	**1,000,000,000**	**140,000,000**
10	7.64	650,000,000	650,000,000	650,000,000
10	7.65	700,000,000	1,350,000,000	50,000,000
11	7.63	550,000,000	550,000,000	550,000,000
12	7.65	470,000,000	470,000,000	470,000,000
13	7.63	800,000,000	800,000,000	700,000,000
14	7.62	1,500,000,000	1,500,000,000	617,647,059
14	7.62	200,000,000	1,700,000,000	82,352,941
15	7.62	950,000,000	950,000,000	700,000,000
16	7.59	300,000,000	300,000,000	300,000,000
16	7.64	300,000,000	600,000,000	52,173,913
16	7.64	2,000,000,000	2,600,000,000	347,826,087
17	7.61	300,000,000	300,000,000	300,000,000
18	7.59	375,000,000	375,000,000	375,000,000
18	7.66	200,000,000	575,000,000	200,000,000
19	7.64	2,000,000,000	2,000,000,000	700,000,000
19	7.65	50,000,000	2,050,000,000	0
Total		**19,487,800,000**		**12,122,000,000**

In the case of the investor with ID number 1, the maximum amount to be allocated is covered with the first bid and part of the second one. The third bid won't be considered.
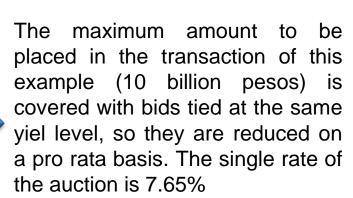
The maximum amount to be allocated to investor with ID number 9 is covered with bids tied at the same yield level, so they are reduced on a pro rata basis.

Syndicated Debt Issuance

Example

ID	Yield	Adjusted Requested Amount	Accumulated Amount	Allocated Amount
1	7.59	670,000,000	670,000,000	670,000,000
4	7.59	500,000,000	1,170,000,000	500,000,000
8	7.59	577,000,000	1,747,000,000	577,000,000
16	7.59	300,000,000	2,047,000,000	300,000,000
18	7.59	375,000,000	2,422,000,000	375,000,000
1	7.60	30,000,000	2,452,000,000	30,000,000
9	7.60	560,000,000	3,012,000,000	560,000,000
9	7.60	140,000,000	3,152,000,000	140,000,000
2	7.61	600,000,000	3,752,000,000	600,000,000
4	7.61	200,000,000	3,952,000,000	200,000,000
6	7.61	700,000,000	4,652,000,000	700,000,000
17	7.61	300,000,000	4,952,000,000	300,000,000
7	7.62	450,000,000	5,402,000,000	450,000,000
14	7.62	617,647,059	6,019,647,059	617,647,059
14	7.62	82,352,941	6,102,000,000	82,352,941
15	7.62	700,000,000	6,802,000,000	700,000,000
11	7.63	550,000,000	7,352,000,000	550,000,000
13	7.63	700,000,000	8,052,000,000	700,000,000
10	7.64	650,000,000	8,702,000,000	650,000,000
16	7.64	52,173,913	8,754,173,913	52,173,913
16	7.64	347,826,087	9,102,000,000	347,826,087
19	7.64	700,000,000	**9,802,000,000**	700,000,000
5	**7.65**	**700,000,000**	**10,502,000,000**	**97,605,634**
7	**7.65**	**200,000,000**	10,702,000,000	**27,887,324**
10	**7.65**	**50,000,000**	10,752,000,000	**6,971,831**
12	**7.65**	**470,000,000**	11,222,000,000	**65,535,211**
3	7.66	700,000,000	11,922,000,000	
18	7.66	200,000,000	12,122,000,000	
Total		**12,122,000,000**		**10,000,000,000**

The maximum amount to be placed in the transaction of this example (10 billion pesos) is covered with bids tied at the same yiel level, so they are reduced on a pro rata basis. The single rate of the auction is 7.65%

Syndicated Debt Issuance

Final Remarks

- ❑ The syndicated auction mechanism will improve the price discovery process while maintaining an adequate distribution of the security in a broad investor base.

- ❑ The auction mechanism will be enhanced by using the sales force from all the Lead Managers (Market-Makers).

- ❑ The auction mechanism will create better price dynamics for new benchmark bonds improving the liquidity in the secondary market.

- ❑ The syndicated auction process will contribute to further develop the local debt market in Mexico.