BBVA Bancomer

BBVA Bancomer, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer,
acting through its Texas Agency
U.S. $1,000,000,000 5.125% Subordinated Preferred Capital Notes Due 2033

We, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, a multi-purpose bank incorporated in accordance with the laws of the United Mexican States, or Mexico, acting through our Texas Agency, are offering **U.S. $1,000,000,000 5.125% subordinated preferred capital notes due 2033** (the "Notes"). The Notes will mature on January 18, 2033 (the "Maturity Date"), unless previously redeemed. **WE MAY REDEEM THE NOTES, IN WHOLE OR IN PART, SUBJECT TO ANY REGULATORY REQUIREMENTS, AT OUR OPTION ON JANUARY 18, 2028 (THE "OPTIONAL CALL DATE") ONLY. WE MAY ALSO REDEEM THE NOTES, IN WHOLE BUT NOT IN PART, SUBJECT TO ANY REGULATORY REQUIREMENTS, AT ANY TIME IF THERE ARE SPECIFIED CHANGES IN (1) THE MEXICAN OR UNITED STATES LAWS AFFECTING THE WITHHOLDING TAX APPLICABLE TO PAYMENTS UNDER THE NOTES OR (2) THE MEXICAN LAWS THAT RESULT IN A SPECIAL EVENT (AS DEFINED IN THIS OFFERING MEMORANDUM) OR (3) THE APPLICABLE TAX LAWS THAT RESULT IN INTEREST ON THE NOTES NOT BEING DEDUCTIBLE BY US IN WHOLE OR IN PART FOR MEXICAN INCOME TAX PURPOSES. SEE "DESCRIPTION OF THE NOTES—REDEMPTION—WITHHOLDING TAX REDEMPTION" AND "DESCRIPTION OF THE NOTES—REDEMPTION—SPECIAL EVENT REDEMPTION."**

PRINCIPAL AND INTEREST ON THE NOTES WILL BE DEFERRED AND WILL NOT BE PAID UNDER CERTAIN CIRCUMSTANCES. IF A TRIGGER EVENT (AS DEFINED IN THIS OFFERING MEMORANDUM) OCCURS, THE PRINCIPAL AMOUNT OF THE NOTES WILL BE WRITTEN-DOWN AS DESCRIBED IN THIS OFFERING MEMORANDUM, WITHOUT THE POSSIBILITY OF ANY FUTURE WRITE UP OR REINSTATEMENT OF SUCH PRINCIPAL, AND HOLDERS OF NOTES WILL AUTOMATICALLY BE DEEMED TO HAVE IRREVOCABLY WAIVED THEIR RIGHT TO CLAIM OR RECEIVE REPAYMENT OF ANY WRITTEN-DOWN PRINCIPAL AMOUNT OF THE NOTES, AND ANY UNPAID INTEREST WITH RESPECT THERETO, AS FURTHER DESCRIBED IN THIS OFFERING MEMORANDUM. SEE "DESCRIPTION OF THE NOTES—WRITE DOWN." IF A MEXICAN REGULATORY EVENT (AS DEFINED IN THIS OFFERING MEMORANDUM) OCCURS, WE WILL SUSPEND PAYMENT OF INTEREST ON THE NOTES OR PAYMENT OF PRINCIPAL AT MATURITY UNTIL THE END OF THE RELATED SUSPENSION PERIOD (AS DEFINED IN THIS OFFERING MEMORANDUM), SUBJECT TO THE OCCURRENCE OF A WRITE-DOWN IN THE EVENT THAT DURING SUCH A SUSPENSION PERIOD A TRIGGER EVENT SHALL HAVE OCCURRED. SEE "DESCRIPTION OF THE NOTES—TREATMENT OF INTEREST AND PRINCIPAL DURING A SUSPENSION PERIOD."

The Notes are denominated in U.S. dollars and, subject to deferral during any Suspension Period and to one or more Write-Downs, will bear interest from (and including) January 17, 2018 (the "Issue Date") up to (but excluding) the Optional Call Date at a fixed rate per annum equal to 5.125%, payable semi-annually in arrears on January 17 and July 17 of each year and on the Maturity Date (each an "Interest Payment Date"), commencing on July 17, 2018. Subject to deferral during any Suspension Period and to one or more Write-Downs, the Notes will bear interest from (and including) the Optional Call Date to, but excluding, the Maturity Date, at a fixed rate per annum equal to the sum of (i) the then-prevailing Treasury Yield plus (ii) 265 basis points, payable semi-annually in arrears on each Interest Payment Date, commencing on July 17, 2028. See "Description of the Notes—Principal and Interest."

The Notes will be issued by our Texas Agency but will be our unsecured subordinated general obligations, not different from our other subordinated unsecured obligations. In the event of our liquidation under Mexican law, the Notes will rank (i) junior to all of our present and future senior indebtedness, (ii) *pari passu* with all of our other present or future subordinated unsecured preferred indebtedness, and (iii) senior only to all our subordinated unsecured non-preferred indebtedness and all classes of our capital stock, as described in this offering memorandum. See "Description of the Notes—Subordination." Payment of principal on the Notes may be accelerated only in the case of certain events involving our bankruptcy, liquidation or dissolution. **THE NOTES WILL BE UNSECURED AND WILL NOT BE INSURED OR GUARANTEED BY ANY OF OUR SUBSIDIARIES OR AFFILIATES, INCLUDING OUR PARENT COMPANY, OR BY THE THE SAVINGS PROTECTION AGENCY (*INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO*, OR IPAB) OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO ANY OF OUR DEBT SECURITIES, SHARES OR ANY OF OUR EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF OUR SUBSIDIARIES OR AFFILIATES.**

Application has been made to the Irish Stock Exchange, or ISE, for the approval of this document as Listing Particulars. Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. There is no assurance that the Notes will be listed and admitted to trading on the Global Exchange Market of the ISE.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 21.
Issue Price: 99.505%
plus accrued interest, if any, from and including January 17, 2018, or the Issue Date

THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS EXCLUSIVELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE MEXICAN BANKING AND SECURITIES COMMISSION (*COMISIÓN NACIONAL BANCARIA Y DE VALORES,* OR THE "CNBV"). WE HAVE NOT AND WILL NOT REGISTER THE NOTES WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) MAINTAINED BY THE CNBV AND THEREFORE WE MAY NOT PUBLICLY OFFER THE NOTES OR SELL THE NOTES, NOR CAN THEY BE THE SUBJECT OF BROKERAGE ACTIVITIES

IN MEXICO, EXCEPT THAT WE MAY PRIVATELY OFFER AND PLACE THE NOTES IN MEXICO TO INSTITUTIONAL AND QUALIFIED INVESTORS. AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*), WE WILL NOTIFY AND FILE CERTAIN DOCUMENTATION WITH THE CNBV REGARDING THE OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED TO THE CNBV TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATION PURPOSES ONLY, AND THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT OF SUCH NOTICE BY, THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES, DOES NOT ADDRESS LEGAL, TAX OR OTHER CONSEQUENCES NOR DOES IT 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 ACQUISITION OF THE NOTES BY AN INVESTOR, INCLUDING ANY INVESTOR OF MEXICAN RESIDENCY, WILL BE MADE UNDER SUCH INVESTOR'S OWN RESPONSIBILITY.

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

The Notes are not intended to be sold and should not be sold to retail clients in the European Economic Area (the "EEA"), as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (as amended or replaced from time to time) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "UK Financial Conduct Authority–Restrictions on marketing and sales to retail investors in the European Economic Area" on page iv of this offering memorandum for further information.

This offering memorandum has been prepared on the basis that any offer of the Notes in any member state of the EEA ("Member State") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Member State of Notes which are the subject of the offering contemplated in this Offering Memorandum may only do so in circumstances in which no obligation arises for the Issuer or any of 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 the Issuer or the initial purchasers to publish or supplement a prospectus for such offer. Neither we nor the initial purchasers have authorized, nor do they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the initial purchasers, which constitute the final placement of the Notes contemplated in this offering memorandum.

The expression Prospectus Directive means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Member State concerned.

We have not and will not register the Notes under the United States Securities Act of 1933, as amended (the "Securities Act") or any securities laws of any state or any other jurisdiction. The Notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers ("QIBs") in reliance on the exemption from registration provided by Rule 144A ("Rule 144A") under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or any state securities laws. See "Transfer Restrictions."

Neither the CNBV, nor the U.S. Securities and Exchange Commission (the "SEC"), nor any state or foreign securities commission has approved or disapproved of the Notes or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

THE INDENTURE AND THE NOTES WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR A CAPITAL RATIOS EVENT OR A MEXICAN REGULATORY EVENT (LEADING TO A SUSPENSION PERIOD) HAS OCCURRED IS BASED UPON A DETERMINATION BY THE APPLICABLE MEXICAN REGULATOR, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). WHETHER A WITHHOLDING TAX EVENT OR A TAX EVENT HAS OCCURRED IS BASED UPON A DETERMINATION IN ACCORDANCE WITH MEXICAN LAW (OR OTHER APPLICABLE LAW IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A JURISDICTION OTHER THAN MEXICO), AS AMENDED FROM TIME TO TIME, EVIDENCED BY AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM AND, IF REQUIRED, A CERTIFICATION BY US. WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY US, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE RANKING AND SUBORDINATION OF THE NOTES, WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, MEXICAN LAW (AS AMENDED FROM TIME TO TIME). WE WILL WAIVE ANY RIGHTS WE MAY HAVE UNDER THE LAW OF THE STATE OF NEW YORK NOT TO GIVE EFFECT TO ANY SUCH DETERMINATION TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW. ANY PROCEEDINGS IN RESPECT OF OUR *LIQUIDACIÓN OR RESOLUCIÓN* WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AND ANY MERGER OR CONSOLIDATION SHALL BE SUBJECT TO APPLICABLE APPROVALS UNDER THE MEXICAN BANKING LAW AND ANY OTHER APPLICABLE MEXICAN LAWS, AS AMENDED FROM TIME TO TIME.

The Notes will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, including Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme, on or about January 17, 2018.

Joint Bookrunners

BBVA **BNP PARIBAS** **BofA Merrill Lynch** **J.P. Morgan**

The date of these Listing Particulars is January 17, 2018.

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BANCO DE MÉXICO HAS AUTHORIZED THE ISSUANCE OF THE NOTES AND THE INDENTURE WILL BE EXECUTED BY AN OFFICER OF THE CNBV, AS REQUIRED UNDER APPLICABLE MEXICAN LAW. AUTHORIZATION OF THE ISSUANCE OF THE NOTES BY *BANCO DE MÉXICO* DOES NOT ADDRESS THE LEGAL, TAX OR OTHER CONSEQUENCES TO THE HOLDERS OF THE NOTES, NOR DOES IT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES OR OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY, OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN, OR THE TRANSLATION OF THE TERMS OF APPLICABLE MEXICAN LAW AND REGULATION, INCLUDING ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW (*LEY DE INSTITUCIONES DE CRÉDITO*), RELEVANT PROVISIONS OF CIRCULAR 3/2012 ISSUED BY *BANCO DE MÉXICO* AND THE GENERAL RULES APPLICABLE TO MEXICAN BANKS ISSUED BY THE CNBV (*DISPOSICIONES DE CARÁCTER GENERAL APLICABLES A LAS INSTITUCIONES DE BANCA MÚLTIPLE*).

We are responsible for the information contained in this offering memorandum. We have not, and the initial purchasers have not, authorized anyone to provide you with other information and we take no responsibility for other information that others may give you. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document. You should not assume that the information contained in this offering memorandum is accurate at any date other than the date on the front of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of securities.

Unless otherwise specified or the context otherwise requires, references in this offering memorandum to "the Bank," "Bancomer," "BBVA Bancomer," "we," "us" and "our" are references to BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and its subsidiaries. References to "the Texas Agency" are to the Texas Agency of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer. References to "the Issuer" are to the Bank acting through the Agency.

In connection with the issuance of the Notes, BNP Paribas Securities Corp. (the "Stabilizing Manager"), or persons acting on their 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 their behalf will undertake 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 the earlier. Any stabilization action will be undertaken by the Stabilizing Manager or persons acting on their behalf in accordance with applicable laws and regulations.

We, having made all reasonable inquiries, confirm that this offering memorandum contains all information with regard to us, our subsidiaries and the Notes that is material in the context of the issue and offering of the Notes, that the information contained in this offering memorandum is true and accurate and is not misleading as of the date of this offering memorandum, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which would make this offering memorandum or any of such information or the expression of any such opinions or intentions materially misleading. We, having taken all reasonable care to ensure that such is the case, confirm that the information contained in this offering memorandum is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. We accept responsibility for the information contained in this offering memorandum. We accept responsibility for accurately reproducing the information and as far as we are aware and are able to ascertain from information published by *Banco de México*, the CNBV or the Mexican Banking Association (*Asociación de Bancos de México, A.C.*), no facts have been omitted which would render such reproduced information inaccurate or misleading.

We are relying upon an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the Notes, you will be deemed to have made the acknowledgements, representations and agreements and the restrictions described above and as further described under "Transfer Restrictions" in this offering memorandum. We are not, and the initial purchasers are not, 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 for an indefinite period of time.

We have submitted this offering memorandum solely to a limited number of QIBs in the United States and to investors outside the United States so that 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 and for the listing of the Notes on the Official List of the Irish Stock Exchange and admission to trading on the Global Exchange Market of the Irish Stock Exchange. We have not authorized the use of this offering memorandum for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. This offering memorandum may be distributed and its contents disclosed only to those prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you are deemed to have agreed to these restrictions. By purchasing the Notes, you will be deemed to have made the acknowledgements, representations and agreements and the restrictions described above and as further described under "Transfer Restrictions" in this offering memorandum.

This offering memorandum is based on information provided by us and by other sources that we believe are reliable, but no assurance can be given by the initial purchasers as to the accuracy or completeness of such information. The initial purchasers assume no responsibility for the accuracy or completeness of the information contained herein (financial, legal or otherwise). In making an investment decision, prospective investors must rely on their own examinations of us and the terms of this offering and the Notes, including the risks involved. Moreover, the contents of this offering memorandum are not to be construed as legal, business or tax advice.

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 and 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. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this offering memorandum and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such 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 sales.

THE NOTES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND THE APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES, PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM. YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. SEE "RISK FACTORS" FOR A DESCRIPTION OF SPECIFIED FACTORS RELATING TO AN INVESTMENT IN THE NOTES. NEITHER WE, THE INITIAL PURCHASERS, NOR ANY OF OUR OR THEIR RESPECTIVE REPRESENTATIVES IS MAKING ANY REPRESENTATION TO YOU REGARDING THE LEGALITY OF AN INVESTMENT BY YOU UNDER APPROPRIATE LEGAL INVESTMENT OR SIMILAR LAWS. YOU SHOULD CONSULT WITH YOUR OWN ADVISORS AS TO LEGAL, TAX, BUSINESS, FINANCIAL AND RELATED ASPECTS OF A PURCHASE OF THE NOTES.

The Notes are not deposits with us and are not insured by the United States Federal Deposit Insurance Corporation or any other United States governmental agency or any Mexican governmental agency, including, without limitation, the IPAB, and are not guaranteed or secured, in any manner, by any entity that is part of Grupo Financiero BBVA Bancomer (including its holding company).

We reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the full amount of the Notes offered hereby.

The Notes may not be purchased, held or disposed of by (1)(i) any pension, profit-sharing or other employee benefit plan subject to the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) any plan or arrangement subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), (iii) any entity whose underlying assets are deemed to be the assets of any such employee benefit plan, plan or arrangement or (iv) any employee benefit plan or arrangement subject to provisions under any other federal, state, local, non-U.S. or other laws or regulations that are substantially similar to the provisions of ERISA or Section 4975 of the Code or (2) any person acting on behalf of or with the assets of any such employee benefit plan, plan, arrangement or entity, unless such purchase, holding and disposition is (a) covered by the exemptive relief provided by (i) Prohibited Transaction Class Exemption ("PTCE") 96-23, 95-60, 91-38, 90-1 or 84-14, (ii) Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or (iii) another applicable statutory or administrative exemption and

(b) not a violation of any applicable federal, state, local or non-US law that is substantially similar to ERISA or Section 4975 of the Code. Prospective purchasers must carefully consider the restrictions on purchase set forth in "Transfer Restrictions" and "Certain ERISA Considerations." For information regarding restrictions on acquisition of the Notes, see "Description of the Notes—Restrictions Applicable to Mexican Financial Institutions."

UK Financial Conduct Authority—Restrictions on marketing and sales to retail investors in the European Economic Area

The Notes described in this offering memorandum are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority (the "FCA") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 which took effect from October 1, 2015 (the "PI Instrument"). Under the rules set out in the PI Instrument (as amended or replaced from time to time, the "PI Rules"); (i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Notes, must not be sold to retail clients in the EEA; and (ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.

The initial purchasers are subject to, and required to comply with, the PI Rules, or, if not subject to the PI Rules, they will comply with them as if they were subject to the PI Rules. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the initial purchasers, you represent, warrant, agree with and undertake to the Issuer and each of the initial purchasers that:

(1) you are not a retail client in the EEA (as defined in the PI Rules);

(2) whether or not you are subject to the PI Rules, you will not (a) sell or offer the Notes (or any beneficial interests therein) to retail clients in the EEA or (b) communicate (including the distribution of this offering memorandum or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules), in any such case other than (i) in relation to any sale or offer to sell the Notes (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell the Notes (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (x) you have conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Notes (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Notes (or such beneficial interests therein) and (y) you have at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("MiFID") to the extent it applies to you or, to the extent MiFID does not apply to you, in a manner which would be in compliance with MiFID if it were to apply to you; and

(3) you will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the initial purchasers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

For the avoidance of doubt, the restrictions described above do not affect the distribution of the Notes in jurisdictions outside of the EEA, such as in the United States provided that any distribution into the EEA complies with the PI Rules.

NOTICE TO PROSPECTIVE INVESTORS IN CHILE

The Notes will not be registered under the *Ley de Mercado de Valores* No. 18,045 (Chilean Securities Market Law), as amended, with the *Superintendencia de Valores y Seguros* ("Chilean Securities and Insurance Commission," or the "SVS"), and, accordingly, may not be offered or sold to persons in Chile except in circumstances that do not constitute a public offering under Chilean law.

Los valores que se emitan no serán registrados en la Superintendencia de Valores y Seguros de conformidad a la ley de Mercado de Valores No.18,045, por lo que de acuerdo a ello, no podrán ser ofrecidos a personas en Chile excepto en circunstancias que no constituyan una oferta pública de valores de acuerdo a ley Chilena.

AVAILABLE 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.bancomer.com, and at the BMV's website, www.bmv.com.mx. The addresses of our website and our blog are included in this offering memorandum as active textual references only. The information on our website and our blog is not a part of, and is not incorporated by reference into, this offering memorandum.

We will issue the Notes under an indenture (the "Indenture"), to be dated as of January 17, 2018, among us and The Bank of New York Mellon, as trustee, paying agent, transfer agent and registrar (the "Trustee"). To permit compliance with Rule 144A under the Securities Act in connection with resales of Notes, we will be required under the Indenture, upon the request of a holder of Rule 144A notes or Regulation S notes (during the restricted period, as defined in the legend included under "Notice to Investors"), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request we are neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

The Indenture further requires that we furnish to the Trustee (as defined herein) all notices of meetings of the holders of the Notes and other reports and communications that are generally made available to holders of the Notes. At our request, the Trustee will be required under the Indenture to give these notices, reports and communications received by it from us to all record holders of the Notes promptly upon receipt. See "Description of the Notes."

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, including a review of our operations, and our annual audited consolidated financial statements and our unaudited quarterly consolidated financial statements, each prepared in conformity with Mexican Banking GAAP (as defined herein). We will also make available for inspection at the corporate trust office of the Trustee our unaudited quarterly consolidated financial statements prepared in accordance with Mexican Banking GAAP. Information is also available for inspection at the office of The Bank of New York Mellon SA/NV, Dublin Branch (the "Listing Agent").

Application has been made to the Irish Stock Exchange, or ISE, for the approval of this document as Listing Particulars. Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. This offering memorandum forms, in all material respects, the listing particulars for admission to the Irish Stock Exchange. We will be required to comply with any undertakings given by us from time to time to the Irish Stock Exchange in connection with the Notes, and to furnish to it all such information as the rules of the Irish Stock Exchange may require in connection with the listing of the Notes.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are a multi-purpose bank (*institución de banca múltiple*) incorporated in accordance with the laws of Mexico with limited liability (*sociedad anónima*). Most of our directors and officers, as well as the experts named in this offering memorandum, reside outside of the United States, and substantially all of their assets and our assets are located outside of the United States. As a result, it may not be possible for you to effect service of process within the United States upon these persons or to enforce against them or against us in United States courts judgments predicated upon the civil liability provisions of the U.S. federal securities laws. We have been advised by our internal counsel 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 U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws.

We have been advised by Texas counsel that a money judgment rendered in Mexico for amounts due under the Indenture or the Notes (other than a judgment for taxes, fines or other penalties) that has become final, conclusive and enforceable under the judicial system of Mexico would generally be enforceable against the Issuer in a Texas court if such judgment meets the requirements of the Uniform Foreign Country Money-Judgment Recognition Act as then in effect in the State of Texas and the judgment creditor complies with the applicable procedures for recognition. However, a Texas court is not permitted to recognize a foreign money judgment that (i) was rendered under a judicial system that does not provide impartial tribunal or procedures compatible with due process of law, (ii) if the Mexican court did not have personal jurisdiction over the Issuer, or (iii) if the Mexican court did not have subject matter jurisdiction over the matter. Moreover, a Texas court may determine not to recognize a foreign money judgment if (a) the Issuer did not receive notice of the Mexican court proceeding in sufficient time to enable an adequate defense, (b) the judgment was obtained by fraud that deprived the Issuer of an adequate opportunity to present its case, (c) the cause of action or defense in such judgment is repugnant to the public policy of Texas, (d) the judgment conflicts with another final and conclusive judgment, (e) the proceeding in the Mexican court was contrary to a settlement agreement concerning the dispute, (f) personal jurisdiction was based only on personal service and the Mexican court was a seriously inconvenient forum, (g) the judgment was rendered in circumstances that raise substantial doubt about the integrity of the Mexican court with respect to the judgment, (h) the specific proceeding in the Mexican court leading to the judgment was not compatible with due process of law or (i) a Mexican court would not recognize a comparable judgment rendered by a Texas court. A Texas court would ordinarily only render or enforce a judgment for money relating to the Indenture or the Notes in U.S. dollars.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to, the following: (1) statements regarding our future results of operations and financial condition, (2) statements of plans, objectives or goals, including those related to our operations, and (3) statements of assumptions underlying such statements. Words such as "believe," "anticipate," "should," "estimate," "forecast," "expect," "may," "intend" and "plan" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

You should not place undue reliance on forward-looking statements, which are based on current expectations. Forward-looking statements involve inherent risks and uncertainties, both general and specific, and there are risks that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements. These factors include, among others, the following:

- changes in overall political, social and economic conditions in Mexico, including exchange rates and interest rates, and globally, particularly in the United States;
- competition in the banking industry in Mexico;
- profitability of our businesses;
- changes in exchange rates, market interest rates or the rate of inflation;
- credit and other risks of lending, such as increases in default of borrowers;
- limitations on our access to sources of financing on competitive terms;
- failure to meet capital or other requirements;
- limitations on our ability to freely determine interest rates;
- changes in reserve or capital requirements, changes in the laws or regulations applicable thereto, or the interpretation of how such reserve or capital requirements are to be calculated;
- our inability to hedge against market risks, including but not limited, to interest rate and exchange rate movements;
- changes in requirements to make contributions to or for the receipt of support from programs organized by the Mexican Government;
- inability to timely and duly enforce our claims on collateral provided by borrowers;
- changes in our or Mexico's domestic and international credit ratings;
- changes in regulations relating to the products we offer or otherwise;
- changes in capital markets in general that may affect policies or attitudes towards investing in Mexico or securities issued by companies in Mexico;
- the ability of our customers to meet their payment obligations;

- any failure or weakness in our operating controls or procedures or our risk management policies;
- changes in consumer spending and saving habits;
- a deterioration of labor relations with our employees;
- our ability to implement new technologies and to safeguard against cyber-attacks and other breaches of our information technology systems;
- any adverse administrative or legal proceedings against us;
- any failure to detect money laundering or other illegal or improper activities;
- the impact of acquisitions and divestitures;
- restrictions on foreign currency convertibility and remittance outside of Mexico;
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives or monetary or fiscal policy in Mexico; and
- the other factors discussed under "Risk Factors" in this offering memorandum.

Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated, expected or intended, as described in this offering memorandum. All forward-looking statements and risk factors included in this offering memorandum are made as of the date on the front cover of this offering memorandum, based on information available to us as of such date, and we do not have any intention nor do we assume any obligation to update these forward-looking statements.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Accounting Principles

Our audited consolidated financial statements as of December 31, 2014, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016 (our "Audited Financial Statements"), and our unaudited condensed consolidated interim financial statements as of September 30, 2017 and for the three- and nine-month periods ended September 30, 2016 and 2017 (our "Unaudited Financial Statements" and together with our Audited Financial Statements, our "Financial Statements") contained in this offering memorandum have been prepared in accordance with the accounting principles and regulations prescribed by the CNBV for banks, as amended, or Mexican Banking GAAP.

Mexican Banking GAAP differs in certain respects from Mexican Financial Reporting Standards, which we refer to as Mexican GAAP or MFRS, as published by the Mexican Board for the Research and Development of Financial Reporting Standards, or CINIF (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera*). Mexican Banking GAAP also differs in certain respects from generally accepted accounting principles in the United States of America, or U.S. GAAP, and the guidelines of the U.S. Securities and Exchange Commission applicable to banking institutions in the United States and from the International Reporting Standards ("IFRS"). See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP" and "Annex B—Significant Differences Between Mexican Banking GAAP and IFRS." No reconciliation of any of our Financial Statements to U.S. GAAP or IFRS has been prepared for the purposes of this offering memorandum. Any such reconciliation would likely result in material differences. See "Risk Factors—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 and IFRS."

Effective January 2008, we adopted the guidelines of MFRS B-10 "Recognition of the Effects of Inflation," which provide that the effects of inflation will only be required to be recorded in our financial statements in an inflationary environment where cumulative inflation over the three preceding years is equal to or greater than 26%. Because the economic environment in the three preceding years did not qualify as inflationary, as defined in the MFRS B-10, we did not use inflationary accounting to prepare our Financial Statements. For a description of the methodology used to adjust the financial statements to reflect the effects of inflation, see note 4 to our Audited Financial Statements included elsewhere in this offering memorandum.

Unless otherwise specified, in accordance with Mexican Banking GAAP, our Audited Financial Statements and the other financial information with respect to us contained in this offering memorandum are presented in consolidated form. We consolidate entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. Our investments in affiliates are accounted for under the equity method. See note 13 to our Audited Financial Statements included elsewhere in this offering memorandum.

Our financial information should be read together with the Financial Statements, the corresponding notes thereto, and the applicable reports of the independent auditors, each of which are included in this offering memorandum.

Reclassifications

Financial statements as of and for the years ended December 31, 2016 and 2015

On November 9, 2015, various amendments to the accounting criteria for credit institutions were published in the Federal Official Gazette of Mexico. The purpose of these amendments was to adjust the accounting criteria for the operations of credit institutions, in order to ensure reliable financial reporting. These amendments came into effect on January 1, 2016 and we adopted them on January 1, 2016. Accordingly, our balance sheet as of December 31, 2016 was prepared on a different basis than the two immediately preceding years. As a result of these amendments, we reclassified certain line items for presentational purposes in our balance sheet as of December 31, 2015 for inclusion in our audited consolidated financial statements as of and for the year ended December 31, 2016. However, we deem these reclassifying adjustments to be immaterial for the financial statements as of and for the year ended

December 31, 2015 and 2014, taken as a whole. Accordingly, we were not required to, and did not, reclassify our financial statements as of and for the years ended December 31, 2015 and 2014 in respect of these changes. The reclassifications of certain line items in the balance sheet as of December 31, 2015 to ensure consistency and comparability with the balance sheet as of December 31, 2016 is quantified in Note 3 to our audited consolidated financial statements as of and for the years ended December 31, 2016 and 2015.

Financial statements as of and for the years ended December 31, 2015 and 2014

As of December 31, 2014, we presented in our consolidated balance sheet the line item "Assigned securities to be settled" as a sub-line item of "liabilities" in the amount of Ps. 5,157 thousand. In accordance with NIF B-1, *Accounting changes and error corrections*, in order to improve the clarity of the financial information, we reclassified "Assigned securities to be settled" under the heading, "Investment in securities" under "Trading securities" in the amount of Ps. 5,157 thousand, to make the presentation of such amount consistent with that presented as of December 31, 2015. However, we deem this reclassifying adjustment to be immaterial to the financial statements as of and for the year ended December 31, 2014, taken as a whole. The reclassification of this line item in the consolidated balance sheet as of December 31, 2014 to ensure consistency and comparability with 2015 is disclosed in Note 3 to our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2014.

Currencies

In this offering memorandum, references to "pesos" or "Ps." are to Mexican pesos, and references to "U.S. dollars" or "U.S. $" are to United States dollars.

This offering memorandum contains translations of peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated peso amounts into U.S. dollars at the exchange rate of Ps. 18.1590 to U.S. $1.00, which was the rate on September 30, 2017, as published by *Banco de México*, in the Federal Official Gazette (*Diario Oficial de la Federación*) on October 2, 2017. On September 30, 2017, the noon buying rate for cable transfers in New York reported by the Board of Governors of the Federal Reserve System was Ps. 18.1480 to U.S. $1.00. On October 2, 2017, the rate published by *Banco de México* in the Federal Official Gazette was Ps. 18.1590 to U.S. $1.00. See "Exchange Rates and Currency" for information regarding rates of exchange between the peso and U.S. dollar for the periods specified therein.

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 (1) the total principal amount of loans outstanding as of the date presented, (2) amounts attributable to "*accrued interest*, but unpaid" (3) "*rediscounted loans*" and (4) the "*UDI Trusts*" (as explained below). 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 CNBV rules. "*Rediscounted loans*" are peso- and U.S. 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 they are paid or becoming non-performing in accordance with CNBV's rules. As is mandated by the CNBV, total performing loans include the off-balance sheet portfolio trusts, or the UDI Trusts, which are trusts holding our loans converted into UDIs that are 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 in 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 are liable for all future losses, if any, on the loans in the UDI Trusts. See notes 3, 10 and 11 to our Financial Statements included elsewhere in this offering memorandum.

The terms "*total non-performing loans*" and "*total non-performing loan portfolio*" include past-due principal and past-due interest. For a description of our policies regarding the classification of loans as non-performing, see "Selected Statistical Information—Non-Performing Loan Portfolio." 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*" are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income, except in the case of certain provisions associated with loans and foreclosed assets and other loan losses that were charged to stockholders' equity (net of deferred taxes). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations."

References in this offering memorandum to "*allowance*" are to the aggregate loan loss allowance or reserves 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" and "*net total loan portfolio*" 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, except that the data for the loan portfolio presented under "Selected Statistical Information" does not include amounts attributable to accrued interest, which represented less than 1% of our total loan portfolio as of December 31, 2016. 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.

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

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

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

- "*Capital Ratios*" refers to each of the ratios of (i)(a) the Total Net Capital (*capital neto*), (b) Capital Fundamental or (c) Tier 1 Capital to (ii) risk- weighted assets calculated in accordance with the methodology established from time to time by the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*, or the SHCP) or the CNBV, as the case may be, pursuant to the Rules for Capitalization and the Mexican Capitalization Requirements.

- "*General Rules Applicable to Mexican Banks*" means the General Rules Applicable to Mexican Banks (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) published by the CNBV in the Federal Official Gazette on December 2, 2005, as such regulations have been amended and may be further amended from time to time.

- "*Rules for Capitalization*" means as of August 29, 2017, the provisions regulating the capitalization of banks included in the General Rules Applicable to Mexican Banks issued by the CNBV, as such regulations may be amended or superseded.

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

Other Definitions

The following additional definitions are used in this offering memorandum:

- "Mexican Stock Exchange" means the Bolsa Mexicana de Valores, S.A.B. de C.V.

- "*Repurchase Agreement*" means a Mexican law governed repurchase and resale agreement (*reporto*) pursuant to which a party agrees to a temporary purchase or sale of securities in exchange for (1) a specified premium to be paid or received, and (2) the obligation to resell or repurchase the underlying security. Repurchase agreements may or may not be secured.

- "*Sofom*" means multi-purpose financial entities, or *sociedades financieras de objeto múltiple*.

Rounding Adjustments

Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetical aggregation of the figures preceding them.

Market Share and Ranking Information

Unless otherwise indicated, the market share and ranking information included in this offering memorandum is derived from statistics of the CNBV or the Mexican Banking Association (*Asociación de Bancos de México, A.C.*), each as of September 30, 2017.

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OFFERING MEMORANDUM SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this offering memorandum. For a more complete understanding of us and the offering made herein, you should read the entire offering memorandum, including the risk factors and the Financial Statements appearing elsewhere in this offering memorandum.

The Bank

We are a leading multi-purpose bank with limited liability organized under Mexican law. As of September 30, 2017, we had total assets of Ps. 1,962,836 million, total deposits of Ps. 1,154,584 million, and our stockholders' equity was Ps. 174,841 million. For the year ended December 31, 2016, our net result was Ps. 33,311 million and for the first nine months of 2017, our net result was Ps. 29,343 million. As of September 30, 2017, based on total assets, loans and deposits, we were the largest bank in Mexico according to data from the CNBV.

We are the principal subsidiary of Grupo Financiero BBVA Bancomer S.A. de C.V., a Mexican financial services holding company ("GFBB"). GFBB is controlled and substantially all of its capital stock is beneficially owned by Banco Bilbao Vizcaya Argentaria, S.A., a leading Spanish bank ("BBVA"). As of September 30, 2017, we accounted for 92% of GFBB's total assets and 85% of GFBB's net result.

We are focused on distributing our banking products and services efficiently. As of September 30, 2017, we distributed our products and services in Mexico for all of our banking units through a nationwide network of 1,845 branches, including our agency located in Houston, Texas, 11,519 automatic wholly-owned teller machines ("ATMs") and 170,794 operating point of sale terminals (POS), as well as through mobile phone and internet banking. As of September 30, 2017, 91% of our banking transactions were completed by channels other than a teller window. We are present in all 32 states of Mexico.

Over the last three years, our commercial activity has grown at a higher average rate than Mexico's gross domestic product (GDP), which grew by 2.4% from 2014 to 2016 according to data from *Banco de México*. From 2014 to 2016, compounded annual growth for our total performing loan portfolio and for our total deposits (including demand and time deposits) was 12.7% and 14.5%, respectively. During this same period, our loan portfolio has grown while maintaining asset quality. Our performing loan portfolio grew in the first nine months of 2017 by 4.8% as compared to the previous period and grew 13.2% in 2016, 12.2% in 2015 and 12.7% in 2014; each as compared to the previous year. Total non-performing loans as a percentage of total loans were 2.2% in the first nine months of 2017; 2.2% in 2016; 2.4% in 2015, and 2.7% in 2014.

As of September 30, 2017, our performing commercial loan portfolio, which includes loans to corporations, enterprises and financial and governmental entities, represented 58% of our total performing loan portfolio, while our consumer loan portfolio represented 24% of our total performing loan portfolio and our mortgage loan portfolio represented the remaining 18%.

Our net result increased by 12% in the first nine months of 2017 as compared to the previous period, and increased 16.4% in 2016 and 15.6% in 2015 and decreased by 19.7% in 2014, each as compared to the previous year.

We operate through two main units:

- *Wholesale Banking*: serves medium-sized enterprises and government entities; as well as major corporations and institutional customers. Through this business unit we provide companies with bridge loans for the construction industry and credit for the distribution and purchase of vehicles. In addition, this business unit provides banking services for Mexican federal agencies, states and municipalities. It also provides lending, mergers and acquisitions, capital markets (equity and fixed income), cash management and e-banking and money-market instruments to Mexico's major corporates and institutional customers.

- *Business Development (Retail Banking)*: We refer to this segment as Business Development (Retail Banking) since the majority of our business for this segment is in the retail sector with customers utilizing a single product such as a deposit account or mortgage and provides us with the best opportunity to offer these customers additional products and further develop our overall business. In 2015, we restructured our internal structural operations to allow for a simpler and more efficient management of our products and clients. In order to achieve this, we merged two areas: Digital Banking and Business Development with Payment Methods (Retail Banking) to create the new banking unit called Business Development (Retail Banking). This Business Development (Retail Banking) unit serves individuals in the following classifications: high net-worth, upper affluent, affluent, upper mass and lower mass, as well as micro and small enterprises. This unit is focused on providing banking services and products such as: debit and credit cards, automobile loans, residential mortgage loans, consumer and payroll loans through our network of retail branches, ATMs and digital channels.

The Mexican financial market is highly competitive. As of September 30, 2017, the banking market in Mexico was composed of 48 banks. Considering this market, we hold the leading position in the following business lines:

	As of September 30, 2017[1]	
	Market Share	**Rank**
Total assets	22.8%	1
Total deposits	23.3%	1
Total loans	23.3%	1
Number of branches	14.6%	1
Wholesale loans	21.0%	1
Corporate loans	21.0%	1
Consumer loans	27.8%	1
Mortgage loans	27.1%	1

(1) Source: CNBV.

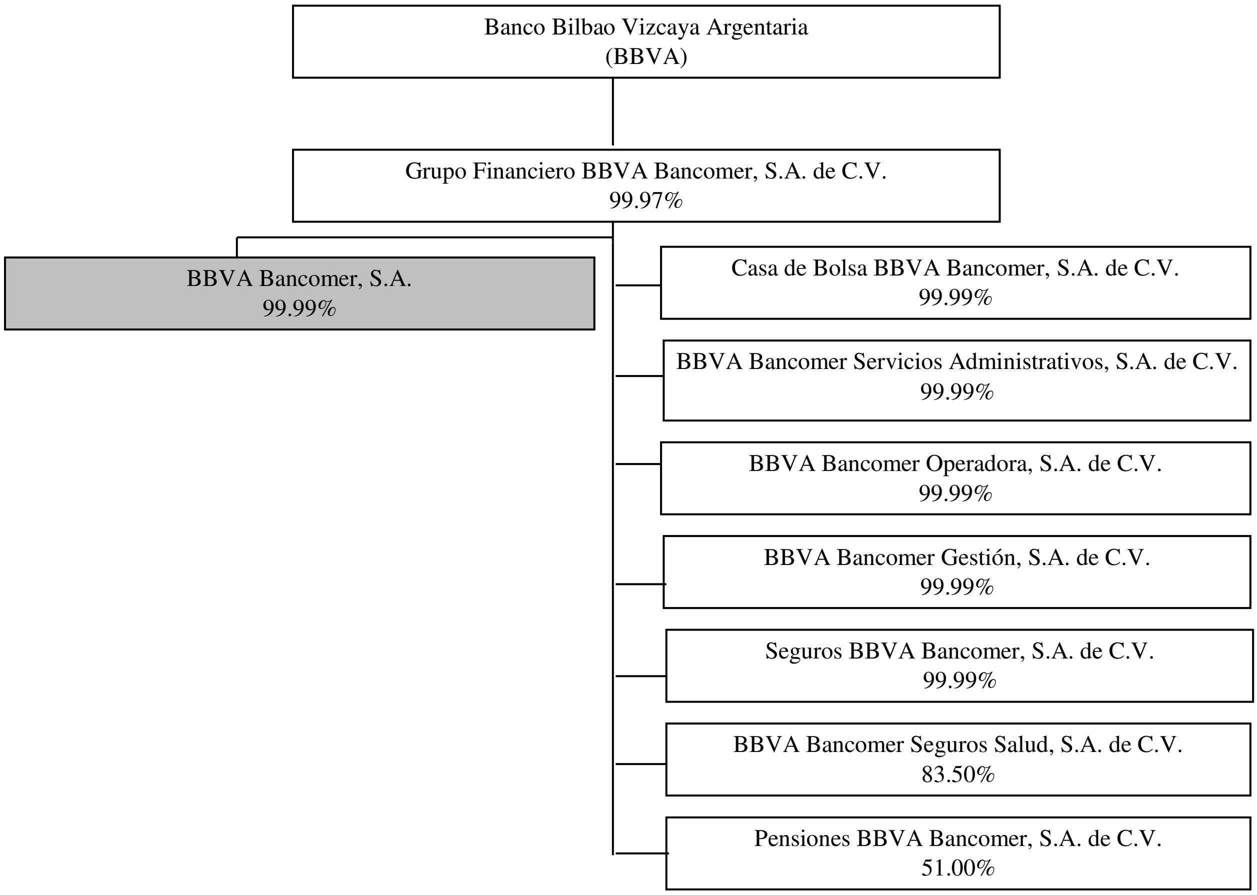
Organizational Structure

We are the principal subsidiary of GFBB, a Mexican financial services holding company.

In addition to our own products and services, we distribute and earn fee income and commissions from a wide range of financial and related products and services in Mexico for GFBB and other affiliates that are not subsidiaries of ours, including:

- Bank assurance products on behalf of Seguros BBVA Bancomer, S.A. de C.V.;
- Mutual funds on behalf of BBVA Bancomer Gestión, S.A. de C.V.;
- Brokerage services on behalf of Casa de Bolsa BBVA Bancomer, S.A. de C.V.;
- Pension fund management on behalf of Pensiones BBVA Bancomer, S.A. de C.V.; and
- Health services insurance products on behalf of BBVA Bancomer Seguros Salud, S.A. de C.V.

The following chart presents our current holding organizational structure and that of GFBB, including principal subsidiaries and affiliates, as well as respective ownership interests as of the date of this offering memorandum:



Our headquarters are located at Paseo de la Reforma No. 510, Colonia Juárez, Mexico City, Mexico, C.P. 06600. Our telephone number is +52 (55) 5621-3434.

Our History

General

We trace our origins back to *Banco de Comercio, S.A.*, which was founded in 1932 in Mexico City. In 1977, various institutions comprising the Banco de Comercio Group were consolidated into a multi-purpose bank under the name of "Bancomer." The merger enabled us to maintain our strong ties with local communities throughout Mexico and begin offering the services of a national banking network.

Bancomer was nationalized by the Mexican Government in 1982 along with nearly all other commercial banks in Mexico. As part of the subsequent privatization process, in 1991, a core group of Mexican investors led by Eugenio Garza Lagüera incorporated Grupo Financiero Bancomer ("GFB"), to acquire 56% of Bancomer's outstanding capital stock directly from the Mexican Government.

GFB subsequently increased its ownership of Bancomer through acquisitions and, in 1993, the Mexican Government exchanged its remaining stake in Bancomer for shares of GFB's capital stock, which gave GFB control of nearly 100% of Bancomer's outstanding capital.

We are a Mexican company authorized to exist and operate as a foreign-owned subsidiary bank. Our capital is 100% owned by GFBB, a foreign-owned subsidiary holding company, whose capital is, in turn, 99.97% owned by BBVA.

BBVA's Investment in GFB

In 2000, BBVA acquired operating control of Grupo Financiero Bancomer, S.A. de C.V., which was renamed Grupo Financiero BBVA Bancomer, S.A. de C.V. as a result of a merger of Grupo Financiero BBV-Probursa, S.A. de C.V. ("BBV-Probursa"), an indirect subsidiary of BBVA and the parent of Banco Bilbao Vizcaya Mexico, S.A. ("BBV-Mexico"). In July 2000, BBVA obtained an 30% interest in the outstanding capital of GFB. As a result of a series of transactions effected between January 2002 and March 2004, BBVA acquired 99.9% of the capital stock of GFB.

Following BBVA's initial investment in GFB in 2000, we grew as a result of our September 2000 merger with Banco Promex, S.A. ("Promex"), an insolvent bank that had been acquired by the Mexican Government, and, to a lesser extent, the transfer of a substantial portion of the traditional banking business of BBV-Mexico to us in 2001. As part of that transfer, certain of our assets and activities, including our ATM network, were transferred to BBV-Mexico. Subsequently, we were renamed BBVA Bancomer, S.A., Institución de Banca Múltiple and BBV-Mexico was renamed BBVA Bancomer Servicios, S.A., Institución de Banca Múltiple, or BBVA Bancomer Servicios.

On August 1, 2009, we entered into a merger agreement through which BBVA Bancomer Servicios was merged into us, resulting in one financial institution. As a result of this merger, we now wholly own and carry out all of the former business activities of BBVA Bancomer Servicios, including trust and ATM services.

On January 9, 2013, we completed the sale of Afore Bancomer, S.A. de C.V. to Afore XXI Banorte. The total amount of this transaction was U.S. $1,734 million.

On February 22, 2013, our parent GFBB purchased 20.61% of the shares of Seguros BBVA Bancomer from BBVA in order for GFBB to increase its shareholding in Seguros BBVA Bancomer to 99.99%.

On June 6, 2016, we completed the sale of our subsidiary Bancomer Transfer Services Inc. ("BTS") for Ps. 1,249 million.

In January 2017, our shareholders approved the merger of Hipotecaria Nacional S.A. de C.V. Sociedad Financiera de Objeto Múltiple Entidad Regulada Grupo Financiero BBVA Bancomer, (Entidad Financiera de Objeto Multiple), BETESE S.A. de C.V., the holding company, and Desitel Tecnología y Sistemas S.A. de C.V., the services provider, into us, which took effect in February 2017.

Strategy

Our business model, which focuses on increasing our profitability in accordance with our risk criteria, while also promoting long-term growth, has enabled us to remain the leader in the Mexican banking industry. Our business model is customer-centric and based on our classification system of our customer base. It allows us to cater to the entire customer pyramid irrespective of income, while offering innovative, specialized and customized products and services for each banking segment.

In 2015, the BBVA Group launched a strategic plan with a new focus ("To bring the age of opportunity to everyone") and seven strategic priorities. These strategic priorities are:

- Enhance customer experience;
- Drive digital sales including through the internet, our website and mobile devices and applications;
- Optimize profitability through capital allocation;
- Optimize efficiencies;
- Maintain a skilled and experienced workforce;
- Focus on social responsibilities; and
- Continually seeking to improve risk management policies.

In 2017, we adopted the BBVA Group's new mission "Creating Opportunities" and are applying it in all areas of the bank by focusing on enhanced customer experience and on technological innovations as described below.

Enhance customer experience

We understand that our customers are the core of our business. Our objective is to offer the best experience to our customers by providing them with the differentiated products and services they need within each of our segments.

Since 2015, we have been implementing a franchise model called "Experiencia Única" (Unique Experience). This model seeks to standardize our customers' interactions with us from the moment they enter a branch or access our online services. As a part of Experiencia Única, we generate an internal certification model that allows for continuous improvement of our service, and we have implemented this successfully across our branch network.

We also use the Net Promoting Score ("NPS") methodology, a metric that we believe is capable of predicting growth based on customer satisfaction and willingness to recommend our services. NPS detects opportunities by allowing us to identify the causes of satisfaction and dissatisfaction among our customers and prioritize critical areas requiring improvement. We measure quality inside our branches and seek to increase the quality of our service and thus improve customer satisfaction by categorizing our retail branches, based on the quality of service provided as measured by the results of customer surveys.

Our business model is based on specific customer segmentation, which entails offering specialized products and services to customers within each segment. We have divided our customer base into different segments according to their profiles; on one hand we cater to enterprises dividing them into the following segments: Corporate, Medium-sized businesses, Government entities, Small businesses and Micro-businesses; on the other hand for individuals we cater to high net-worth customers or *Privada*, upper affluent customers or *Patrimonial*, affluent customers or *Personal*, upper mass customers or *Bancario*, and lower mass customers or *Express*.

Drive digital sales including through the internet, our website and mobile devices and applications

Easy access to information through the internet and on mobile platforms has disrupted our industry and generated changes in our customers' needs and behaviors. Customer demand for faster service and customization has led us to boost digital sales through a series of initiatives since the launch of our strategic plan. One of these initiatives is to offer "do-it-yourself" solutions by providing advanced and modern ATMs in each branch.

Since 2015, we have focused on encouraging interaction with our customers through digital channels. We launched several digital products and solutions for all customer segments, increasing our offering of digital products from six in December 31, 2014 to 54 as of the date of this offering memorandum. As of September 30, 2017, we had 4.9 million digital customers who used at least one digital platform (mobile or web) in the prior quarter and 3.89 million mobile customers, compared to 2.20 million mobile customers as of September 30, 2016.

"One-click" is one of the best examples of our initiatives used to boost digital sales, because it provides the segments of private individuals and small businesses with access to consumer loans through digital and remote channels such as Bancomer.com, ATMs and Bancomer Móvil, a mobile banking application that allows the customers to check their balances and transfers, make money transfers to BBVA Bancomer and other bank accounts, pay bills and services, receive personalized credit offers, and check the health of the personal finances with the so-called "Checkup" function, which permits individuals to assess the state of their personal finances by displaying metrics such as their liabilities, savings, available funds, and credit capacity. For the nine months ended September 30, 2017, the number of consumer loans we granted through digital channels represented 36.7% of total loans, compared to 39.8% for the year ended December 31, 2016 and 15.7% for the year ended December 31, 2015. For the nine months ended September 30, 2017, our digital sales represented 11.1% of total sales, compared to 5.83% for the nine months ended September 30, 2016.

Optimize profitability through capital allocation

In order to achieve this objective, we attempt to make our processes more efficient and utilize internal tools and metrics that allow a more efficient use of our capital, while complying with the requirements of local and global regulators. Our objective is to maximize return on capital steadily over time. We aim to do so through: (i) the use of suitable management-oriented metrics which incorporate the customers' needs and seek to maximize the overall profitability of certain client relationships, (ii) efficient allocation of resources, (iii) the assessment of our business model in different economic scenarios, (iv) the continuation of our universal banking model which is focused on diversification in terms of geography, customers and products and which has contributed to our steady growth over time.

Optimize efficiencies

We seek to streamline our operations through the use of new technologies, product development, customer service quality metrics and methodologies, which allow us to simplify the banking experience for our customers. We believe that our new distribution model and focus on customer segmentation will also allow us to increase productivity in each of our banking units.

The improvements in our efficiency have already resulted in increased sales at our branches. Through an increase in our loan portfolios and deposits, we have been able to sustain growth while adhering to risk controls. We believe these improvements will help us achieve long-term profitability and increased recurring income and profits.

We believe we have one of the most competitive efficiency ratios as compared to our peers in the Mexican financial system according to the Mexican banking authority, CNBV, and we seek to improve efficiencies through specialized training of our personnel and increased use of automated data and related systems as well as external suppliers when it is more cost-effective to do so. As of September 30, 2017, our efficiency ratio was 39.2%, which represented an improvement of 2.0 percentage points as compared to 41.1% as of September 30, 2016. As of December 31, 2016 our efficiency ratio was 43.5%, compared to 44.0% as of December 31, 2015 and 46.4% as of December 31, 2014.

As of September 30, 2017, according to public filings with the CNBV we had the largest branch network in Mexico, consisting of 1,845 branches strategically located in all Mexican states including 1,808 commercial branches, 23 affluent branches and 13 business branches. Each of our branches reports to one of seven regional divisions in Mexico. We have one branch located in Houston, Texas.

Our digital channels have been critical to the recent improvement of our efficiency ratio. The increase in the number and types of digital channels we offer has led to a decrease in the number of transactions made through teller windows. During the first nine months of 2017, our customers made 2,222 million transactions through digital channels, compared to 4,192 million transactions in 2016 and 2,283 million transactions in 2015.

We also expanded our points of sale to more than 33,144 stores and establishments, which include retail stores, pharmacies, gas stations and supermarkets, such as OXXO, Farmacias Benavides, Chedraui and WalMart, among others. This network allows our customers to complete transactions more flexibly with a wider variety of locations and increased hours throughout the week.

We operate a call center and telephone banking service that we refer to as "*Línea Bancomer*," which provides our customers with access to a telephone service to conduct certain basic banking transactions, including obtaining account balances and transferring funds. Our call center also allows us to perform telemarketing activities to offer credit cards and bank insurance products (provided by Seguros Bancomer, S.A. de C.V., a subsidiary of GFBB) to our customers, as well as services such as the payment of bills and automatic debits to checking accounts.

Maintain a skilled and experienced workforce

We believe that people are the key to the success of our business and we seek to create a workforce dedicated to the needs of our customers. We have recently reorganized our human resources division into our talent and culture division in order to enhance our focus on our employees development. We are currently reorganizing our Human Resources Division and transforming it into what we refer to as the Talent and Culture Division This cultural transformation is based on the following five-dimension model, which seeks to positively impact the people who form our organization:

- Promoting shared values;
- Seeking employee satisfaction;
- Managing talent and developing leaders;
- Improving performance; and
- Alignment of our global strategy with our holding company.

Recognizing the importance of recruiting talent has led us to, among other things, implement young talent internship programs that target different age groups, with a wide range of university degrees to enrich our teams and add new talent with diverse skills. We also have two BBVA Campus Training Centers that provide workshops and training on subjects such as anti-money laundering, protection of personal data and codes of conduct. In addition, we promote equal opportunities incentives and have adopted initiatives to include people with disabilities as part of our team.

Focus on social responsibilities

We also sponsor financial education programs intended to raise awareness of the practical advantages and positive impact of responsible use of financial services and products. We are also fully committed to supporting the development of Mexico's educational system, especially through Fundación Bancomer, which primarily supports education in Mexico through various social and development projects. We assign 1.0% of our annual net result to Fundación Bancomer.

The foundation's most significant project includes a scholarship program called *Por los que se quedan* ("For those left behind") that grants scholarships to children from families that have been dispersed as a result of immigration. As of September 30, 2017, this program has reached 22 states and 167 municipalities in Mexico. Since its inception in 2006, *Por los que se quedan* has granted a total of 80,583 scholarships and the mentorship of 1,956 volunteers from our branches every year, totaling Ps. 1,854,690,000.

We also focus on increasing financial education in Mexico through our program Educación Financiera: "*Adelante con tu futuro*," which provides participants with guidance on banking products and services. We hold various workshops that educate participants on savings, credit cards and mortgage loans. We have held these workshops at our retail branches, through mobile classrooms and electronic channels such as our website. Since we launched this project in 2008, we have provided financial education courses to more than 3,219,800 participants.

Continually seeking to improve risk management policies

Another relevant part of our strategy is continually assessing and updating our risk management policy, which we believe contributes to our profit growth and controlled risk. We consider risk management to be a central part of our strategy, acting as a key differentiator from our competitors and as a tool for future growth and profitability.

We have been using internal credit risk models and have developed advanced risk modeling tools that accurately measure credit risk. For example, our internal model for provisioning for losses on our credit card portfolio has been certified by *Banco de España*, Spain's central bank, and the CNBV. Our risk indicators, such as the "risk premium" which is equal to the allowance for loan losses divided by average loan portfolio, have also been very stable. The risk premium was 3.3% in the first nine months of 2017, 3.4% in 2016, 3.4% in 2015, and 3.4% in 2014.

We seek to control credit risk, asset quality and costs in all stages of the credit cycle (origination, follow-up and recovery) through the implementation of advanced tools and methodologies. We have been able to generate segmented and specialized credit behavior scorings that enable us to offer specialized products and prices. We have a clear objective to effectively manage operational risk through structures based on tracking and reliable management of processes. In addition, we have introduced extensive internal risk management and control systems that involve all personnel and areas of the institution. Such programs focus on measuring, tracking and preventing potential risks and preventing money laundering and financing of terrorist activities.

Market Information

The following table provides information with respect to us and selected leading banks in Mexico as of September 30, 2017 reported by us to the CNBV or by the CNBV with respect to each additional bank. This comparison is for illustrative purposes only.

	BBVA Bancomer	Banamex	Banorte	Santander	HSBC
	(millions of Ps., except for percentage)				
Total loans	1,071,033	627,271	602,929	613,263	287,7
Total deposits	1,154,584	685,279	637,124	699,279	334,2
Market share (total loans)	23.3%	13.7%	13.2%	13.4%	6.3
Total assets	1,962,725	1,144,714	1,043,406	1,212,150	633,7
Total loans/total assets	54.6%	54.8%	57.8%	50.6%	45.4
Total loans/total deposits[(1) (2)]	92.8%	91.5%	94.6%	87.7%	86.1
Equity	174,841	161,762	89,887	117,245	56,1
Net result[(3)]	33,311	10,571	15,044	15,750	1,1
Return on assets (ROA)	1.9%	1.3%	1.7%	1.4%	0.3
Return on equity (ROE)	22.1%	9.2%	19.0%	15.7%	3.8
Cost of funding[(4)]	1.98%	1.96%	2.85%	3.91%	2.94
Non-performing loan ratio[(5)]	2.2%	0.8%	1.8%	1.5%	2.9
LTM efficiency ratio[(6)]	41.9%	69.9%	44.3%	51.4%	64.2
Branches	1,845	1,496	1,144	1,224	9

(1) Total deposits (*Capitación Tradicional*) is defined by the CNBV as the sum of time deposits, demand deposits, credit notes issued and resources from dormant or inactive accounts.
(2) Deposits include demand deposits and term deposits ("*depósitos de exigibilidad inmediata*" and "*depósitos a plazo,*" respectively, from its original Spanish source).
(3) Audited financial statements as publically filed, as of December 31, 2016.
(4) Calculated as the weighted average cost of time and demand deposits, as reported by *Banco de México*.
(5) Refers to "delinquency index" as defined by the regulator ("*IMOR ajustado*" from its original Spanish source).
(6) Calculated as the sum of 2016 figures plus nine months accumulated as of September 30, 2017 minus nine months accumulated figures as of September 30, 2016.

THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes, see "Description of the Notes."

Issuer	BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, acting through its Texas Agency.
Notes	**U.S.$1,000,000,000 5.125% SUBORDINATED PREFERRED CAPITAL NOTES DUE JANUARY 18, 2033, WHICH WE REFER TO AS THE "NOTES."**
Principal Amount	U.S. $1,000,000,000.
Interest and Principal........................	Subject to deferral during any Suspension Period (as defined below), an earlier redemption date and to one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from (and including) January 17, 2018 (the "Issue Date"), to (but excluding) January 18, 2028 ("Optional Call Date"), at a fixed rate per annum equal to 5.125%, payable semi-annually in arrears on January 17 and July 17 of each year and on the Maturity Date (as defined below) (each an "Interest Payment Date"), commencing on July 17, 2018. Subject to deferral during any Suspension Period, an earlier redemption date and to one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount from time to time outstanding from (and including) the Optional Call Date to (but excluding) January 18, 2033 (the "Maturity Date"), at a fixed rate per annum equal to the sum of (a) the then-prevailing Treasury Yield (as defined below) and (b) 265 basis points payable semi-annually in arrears on each Interest Payment Date, commencing on July 17, 2028. Upon the occurrence of a Write-Down, any holder of Notes will be deemed to have irrevocably waived its right to claim or receive the Written-Down Principal (as defined below) of the Notes or any interest with respect thereto (or Additional Amounts), including any and all accrued and unpaid interest. 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. For purposes hereof, "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	99.505% of the principal amount, plus accrued and unpaid interest, if any, from and including January 17, 2018.
Issue Date	January 17, 2018.
Maturity Date	January 18, 2033.
Payment Upon Maturity	Subject to the occurrence of one or more Write-Downs, unless the Notes have been redeemed prior thereto or a Suspension Period (as described

	below) is in effect on the Maturity Date, the Notes will be repaid on the Maturity Date at their then Current Principal Amount outstanding, together with any accrued and unpaid interest thereon to (but excluding) the Maturity Date and any other amounts, including Additional Amounts (as defined below), due thereunder, in each case as provided in this offering memorandum.
	WE HAVE THE RIGHT TO AND WILL DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS) THE PAYMENT OF INTEREST DUE ON THE NOTES AND DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS) THE PAYMENT OF PRINCIPAL THEREOF FOR THE DURATION OF ANY SUSPENSION PERIOD, AS DESCRIBED BELOW. IN THE EVENT OF A DEFERRAL OF PAYMENT OF INTEREST ON THE NOTES, OR A DEFERRAL PAYMENT OF PRINCIPAL THEREOF, SUBJECT TO THE OCCURRENCE OF ONE OR MORE WRITE-DOWNS, SUCH INTEREST WILL BE PAYABLE (WITHOUT ANY INTEREST ON SUCH PREVIOUSLY ACCRUED INTEREST) ON THE DATE THAT IS TWELVE BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOOD ENDS. IF A SUSPENSION PERIOD EXISTS ON THE MATURITY DATE, OR ANY REDEMPTION DATE, PAYMENT OF PRINCIPAL WILL BE DEFERRED WITH INTEREST UNTIL THE DATE THAT IS TWELVE BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS. IF A WRITE-DOWN OCCURS, THE WRITTEN-DOWN PRINCIPAL, AND ANY INTEREST ACCRUED AND NOT YET PAID WITH RESPECT THERETO DURING ANY SUSPENSION PERIOD, WILL BE CANCELLED.
Current Principal Amount	"Current Principal Amount" means in respect of each Note, at any time, the outstanding principal amount of such Note, being the Original Principal Amount of such Note as such amount may be reduced, on one or more occasions, as a result of a Write-Down or a redemption of the Notes, as the case may be.
Original Principal Amount	"Original Principal Amount" means, in respect of each Note, the amount of the denomination of such Note on the Issue Date.
Indenture	The Notes will be issued under the Indenture, dated as of January 17, 2018 among us and the Trustee, and countersigned by the CNBV.
Unsecured; Not Guaranteed	**THE NOTES WILL BE UNSECURED AND WILL NOT BE INSURED OR GUARANTEED BY ANY OF OUR SUBSIDIARIES OR AFFILIATES, INCLUDING OUR PARENT COMPANY, OR BY THE IPAB OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO ANY OF OUR DEBT SECURITIES, SHARES OR ANY OF OUR EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF OUR SUBSIDIARIES OR AFFILIATES.**
Trigger Event	**A TRIGGER EVENT WILL BE DEEMED TO HAVE OCCURRED IF: (I) THE CNBV PUBLISHES A DETERMINATION, IN ITS OFFICIAL PUBLICATION OF CAPITALIZATION LEVELS FOR MEXICAN BANKS, THAT OUR FUNDAMENTAL CAPITAL RATIO ("FUNDAMENTAL CAPITAL RATIO"), AS CALCULATED PURSUANT TO THE APPLICABLE MEXICAN**

	CAPITALIZATION REQUIREMENTS, IS EQUAL TO OR BELOW 4.5% (FOUR POINT FIVE PERCENT); (II) BOTH (A) THE CNBV HAS NOTIFIED US THAT IT HAS MADE A DETERMINATION, PURSUANT TO ARTICLE 29 BIS OF THE MEXICAN BANKING LAW, THAT A CAUSE FOR REVOCATION OF OUR LICENSE HAS OCCURRED RESULTING FROM (X) OUR ASSETS BEING INSUFFICIENT TO SATISFY OUR LIABILITIES, (Y) OUR NON COMPLIANCE WITH CORRECTIVE MEASURES IMPOSED BY THE CNBV PURSUANT TO THE MEXICAN BANKING LAW, OR (Z) OUR NON COMPLIANCE WITH THE CAPITALIZATION REQUIREMENTS SET FORTH IN THE MEXICAN CAPITALIZATION REQUIREMENTS AND (B) WE HAVE NOT CURED SUCH CAUSE FOR REVOCATION, BY (A) COMPLYING WITH SUCH CORRECTIVE MEASURES, OR (B)(1) SUBMITTING A CAPITAL RESTORATION PLAN TO, AND RECEIVING APPROVAL OF SUCH PLAN BY, THE CNBV, (2) NOT BEING CLASSIFIED IN CLASS III, IV, OR V, AND (3) TRANSFERRING AT LEAST 75% (SEVENTY FIVE PERCENT) OF OUR SHARES TO AN IRREVOCABLE TRUST OR (C) REMEDYING ANY CAPITAL DEFICIENCY, IN EACH CASE, ON OR BEFORE THE THIRD OR SEVENTH BUSINESS DAY IN MEXICO, AS APPLICABLE, FOLLOWING THE DATE ON WHICH THE CNBV NOTIFIES US OF SUCH DETERMINATION; OR (III) THE BANKING STABILITY COMMITTEE, WHICH IS A COMMITTEE FORMED BY THE CNBV, THE MINISTRY OF FINANCE AND PUBLIC CREDIT (*SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO*), *BANCO DE MÉXICO* AND THE *INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO* OF MEXICO, DETERMINES PURSUANT TO ARTICLE 29 BIS 6 OF THE MEXICAN BANKING LAW THAT, UNDER ARTICLE 148, SECTION II, PARAGRAPHS (A) AND (B) OF THE MEXICAN BANKING LAW, FINANCIAL ASSISTANCE IS REQUIRED BY US TO AVOID REVOCATION OF OUR LICENSE BECAUSE OUR ASSETS ARE INSUFFICIENT TO SATISFY OUR LIABILITIES, OR FOR ITS FAILURE TO COMPLY WITH CORRECTIVE MEASURES, TO COMPLY WITH CAPITALIZATION REQUIREMENTS OR TO SATISFY CERTAIN LIABILITIES WHEN DUE, AS A MEANS TO MAINTAIN THE SOLVENCY OF THE MEXICAN FINANCIAL SYSTEM OR TO AVOID RISKS AFFECTING THE MEXICAN PAYMENTS SYSTEM AND SUCH DETERMINATION IS EITHER MADE PUBLIC OR NOTIFIED TO US (FOR THE AVOIDANCE OF DOUBT, PURSUANT TO ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS, A TRIGGER EVENT SHALL OCCUR IF FINANCIAL ASSISTANCE OR OTHER LOANS SHALL BE GRANTED TO US PURSUANT TO ARTICLE 148, SECTION II, PARAGRAPHS (A) AND (B) OF THE MEXICAN BANKING LAW).
Write-Down..	**IF A TRIGGER EVENT OCCURS, THE FOLLOWING WRITE-DOWNS (EACH, A "WRITE-DOWN") SHALL BE DEEMED TO HAVE OCCURRED ON THE WRITE-DOWN DATE, AUTOMATICALLY AND WITHOUT ANY ADDITIONAL ACTION BY US, THE TRUSTEE OR THE HOLDERS OF THE NOTES:**

(I) THE CURRENT PRINCIPAL AMOUNT OF THE NOTES WILL AUTOMATICALLY BE REDUCED BY ONE OR MORE WRITE-DOWNS BY EACH APPLICABLE WRITE-DOWN AMOUNT AND SUCH WRITE-DOWN SHALL NOT CONSTITUTE AN EVENT OF DEFAULT; AND

(II) ANY HOLDER OF NOTES WILL AUTOMATICALLY BE DEEMED TO HAVE IRREVOCABLY WAIVED ITS RIGHT TO CLAIM OR RECEIVE, AND WILL NOT HAVE ANY RIGHTS AGAINST US OR THE TRUSTEE WITH RESPECT TO, REPAYMENT OF, THE WRITTEN-DOWN PRINCIPAL OF THE NOTES OR ANY INTEREST WITH RESPECT THERETO (OR ADDITIONAL AMOUNTS PAYABLE IN CONNECTION THEREWITH), INCLUDING ANY AND ALL ACCRUED AND UNPAID INTEREST WITH RESPECT TO SUCH WRITTEN-DOWN PRINCIPAL AS OF THE WRITE-DOWN DATE, IRRESPECTIVE OF WHETHER SUCH AMOUNTS HAVE BECOME DUE AND PAYABLE PRIOR TO THE DATE ON WHICH THE TRIGGER EVENT SHALL HAVE OCCURRED.

WE SHALL PROVIDE NOTICE TO HOLDERS VIA THE APPLICABLE CLEARING SYSTEM AS WELL AS WRITTEN NOTICE TO THE TRUSTEE (A "WRITE-DOWN NOTICE") THAT A TRIGGER EVENT HAS OCCURRED NOT LATER THAN THE NEXT BUSINESS DAY SUCCEEDING SUCH TRIGGER EVENT. ANY WRITE-DOWN NOTICE TO THE TRUSTEE MUST BE IN WRITING AND ACCOMPANIED BY A CERTIFICATE SIGNED BY TWO OFFICERS OF OURS STATING THAT A TRIGGER EVENT HAS OCCURRED AND SETTING OUT THE METHOD OF CALCULATION OF THE RELEVANT WRITE-DOWN AMOUNT.

"WRITE-DOWN AMOUNT" MEANS AN (I) AMOUNT OF THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES THAT WOULD BE SUFFICIENT, TOGETHER WITH ANY CONCURRENT PRO RATA WRITE DOWN OF ANY OTHER LOSS-ABSORBING INSTRUMENTS ISSUED BY US AND THEN OUTSTANDING, TO RETURN OUR FUNDAMENTAL CAPITAL RATIO TO THE LEVELS OF THEN-APPLICABLE FUNDAMENTAL CAPITAL RATIO REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IX, B) OF ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THE OFFERING MEMORANDUM IS, INCLUDING THE CAPITAL CONSERVATION BUFFER OF 2.5%, 7% (SEVEN PERCENT) PLUS THE AMOUNT REQUIRED TO RESTORE ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT AND ANY SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT TO THE MINIMUM AMOUNTS REQUIRED UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS ON SUCH WRITE-DOWN DATE, OR (II) IF ANY WRITE-DOWN OF THE CURRENT PRINCIPAL AMOUNT, TOGETHER WITH ANY CONCURRENT PRO RATA WRITE DOWN OF ANY OTHER LOSS-ABSORBING INSTRUMENTS ISSUED BY US AND THEN OUTSTANDING, WOULD BE INSUFFICIENT TO RETURN OUR FUNDAMENTAL CAPITAL RATIO TO THE AFOREMENTIONED AMOUNT DESCRIBED IN CLAUSE (I)

ABOVE, THEN THE AMOUNT NECESSARY TO REDUCE THE CURRENT PRINCIPAL AMOUNT OF EACH OUTSTANDING NOTE TO ZERO.

"WRITE-DOWN DATE" MEANS THE DATE ON WHICH A WRITE-DOWN WILL BE DEEMED TO TAKE EFFECT, WHICH SHALL BE THE BUSINESS DAY NEXT SUCCEEDING THE DATE OF THE TRIGGER EVENT.

"WRITTEN-DOWN PRINCIPAL" MEANS THE AMOUNT BY WHICH THE PRINCIPAL OF ANY NOTE HAS BEEN WRITTEN DOWN BY ANY ONE OR MORE WRITE-DOWNS.

AS REQUIRED UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS, A FULL WRITE-DOWN (WHEREBY THE PRINCIPAL AMOUNT OF THE NOTES HAS BEEN WRITTEN DOWN TO ZERO) SHALL BE COMPLETED BEFORE ANY PUBLIC FUNDS ARE CONTRIBUTED OR ANY PUBLIC ASSISTANCE IS PROVIDED TO US IN THE TERMS OF ARTICLE 148, SECTION II, SUBSECTIONS (A) AND (B) OF THE MEXICAN BANKING LAW, INCLUDING, AMONG OTHERS IN THE FORM OF (I) SUBSCRIPTION OF SHARES, (II) GRANTING OF LOANS (III) PAYMENT OF OUR LIABILITIES, (IV) GRANTING OF GUARANTIES AND (V) THE TRANSFER OF ASSETS AND LIABILITIES.

Subordination .... The Notes constitute subordinated preferred indebtedness ("Subordinated Preferred Indebtedness"), and (i) will be subordinate and junior in right of payment and in liquidation to all of our present and future senior indebtedness ("Senior Indebtedness"), (ii) will rank *pari passu* without preference among themselves and with all of our present and future other unsecured subordinated preferred indebtedness and (iii) will be senior to subordinated non-preferred indebtedness and all classes of our equity or capital stock.

Redemption .... **WE MAY NOT REDEEM THE NOTES, IN WHOLE OR IN PART, OTHER THAN AS DESCRIBED BELOW UNDER "OPTIONAL REDEMPTION," "WITHHOLDING TAX REDEMPTION" AND "SPECIAL EVENT REDEMPTION."**

Optional Redemption .... **WE HAVE THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES ON THE OPTIONAL CALL DATE ONLY, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) OR IN PART, AT PAR PLUS ACCRUED AND UNPAID INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION.**

WE MAY REDEEM THE NOTES ONLY IF (I) WE ARE THEN IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, WE MAINTAIN EACH OF OUR CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE:

(X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), AND (Z) 7% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*) PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR WE ISSUE SECURITIES THAT REPLACE THE NOTES SUCH THAT WE REMAIN IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) WE HAVE OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE; *PROVIDED*, *HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, OR A SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED, THEN WE SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR OPTIONAL REDEMPTION.

IN THE EVENT OF SUCH AN OPTIONAL REDEMPTION, WE ARE REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. OUR OBLIGATION TO OBTAIN *BANCO DE MÉXICO'S* AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.

Withholding Tax Redemption .... **WE HAVE THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME PRIOR TO THE MATURITY DATE, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION, UPON THE OCCURRENCE OF A WITHHOLDING TAX EVENT (AS DEFINED BELOW) AFFECTING THE NOTES (A "WITHHOLDING TAX REDEMPTION"); *PROVIDED*, *HOWEVER*, THAT IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, (I) WE SHALL BE IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE WITHHOLDING TAX REDEMPTION, WE MAINTAIN EACH OF OUR CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE: (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), AND (Z) 7% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*) PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR WE ISSUE SECURITIES THAT**

	REPLACE THE NOTES SUCH THAT WE REMAIN IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) WE HAVE OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE; *PROVIDED*, *HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, OR A SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED, THEN WE SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR WITHHOLDING TAX REDEMPTION. **IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, WE ARE REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. OUR OBLIGATION TO OBTAIN *BANCO DE MÉXICO'S* AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.**
Special Event Redemption	**WE HAVE THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME PRIOR TO THE MATURITY DATE, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION, UPON THE OCCURRENCE OF A SPECIAL EVENT (AS DEFINED BELOW) AFFECTING THE NOTES) (A "SPECIAL EVENT REDEMPTION"); *PROVIDED*, *HOWEVER*, IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION WITH RESPECT TO THE NOTES, (I) WE SHALL BE IN COMPLIANCE WITH APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, WE MAINTAIN EACH OF OUR CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE: (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), AND (Z) 7% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*) PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR WE ISSUE SECURITIES THAT REPLACE THE NOTES SUCH THAT WE REMAIN IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) WE HAVE OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE; *PROVIDED*, *HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, OR A**

	SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED, THEN WE SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR SPECIAL EVENT REDEMPTION. **IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION, WE ARE REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. OUR OBLIGATION TO OBTAIN *BANCO DE MÉXICO'S* AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.**
Suspension Period..............................	**A SUSPENSION PERIOD WILL COMMENCE AND WE WILL DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS) THE PAYMENT OF INTEREST AND PRINCIPAL DUE THEREON UPON THE OCCURRENCE OF ONE OF THE FOLLOWING EVENTS:** **(1) ANY OF THE FOLLOWING CAPITAL RATIOS APPLICABLE TO US DECLINES BELOW THE MINIMUM PERCENTAGE REQUIRED, FROM TIME TO TIME, BY THE MEXICAN CAPITALIZATION REQUIREMENTS WHICH AS OF THE DATE OF THE OFFERING MEMORANDUM ARE: (A) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (B) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), OR (C) 7% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS, IN EACH CASE, ANY APPLICABLE CAPITAL SUPPLEMENT (CURRENTLY, A SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT FOR GRADE IV BANKS OF 1.50% AND ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT APPLICABLE TO US, BOTH TO BE CREATED BY US IN FOUR ANNUAL STEPS COMMENCING DECEMBER 31, 2016) (A "CAPITAL RATIOS EVENT"); OR** **(2) THE CNBV INSTITUTES ANY PREVENTIVE OR CORRECTIVE MEASURE AGAINST US PURSUANT TO EITHER ARTICLE 121 OR ARTICLE 122 OF THE MEXICAN BANKING LAW OR ANY SUCCESSOR PROVISIONS (INCLUDING THE CORRESPONDING RULES SET FORTH UNDER THE GENERAL RULES APPLICABLE TO MEXICAN BANKS) THAT REQUIRES DEFERRING OR CANCELING PAYMENTS OF INTEREST AND PRINCIPAL OTHERWISE DUE ON THE NOTES IF WE ARE CLASSIFIED AS CLASS III (OR EQUIVALENT CLASSIFICATION UNDER ANY SUCCESSOR PROVISIONS) OR BELOW UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS (A "MEXICAN REGULATORY EVENT").** **NEITHER THE OCCURRENCE NOR THE CONTINUANCE OF A SUSPENSION PERIOD SHALL GIVE RISE TO AN EVENT OF DEFAULT UNDER THE INDENTURE OR THE NOTES.** **SUBJECT TO THE OCCURRENCE OF ONE OR MORE WRITE-DOWNS, A SUSPENSION PERIOD SHALL TERMINATE AND THE PAYMENT OF INTEREST DUE ON THE NOTES AND**

PAYMENT OF PRINCIPAL THEREOF WILL RESUME (1) IF SUCH SUSPENSION PERIOD WAS TRIGGERED BY THE CAPITAL RATIOS EVENT, WHEN THE CAPITAL RATIOS EVENT HAS TERMINATED, OR (2) IF SUCH SUSPENSION PERIOD WAS TRIGGERED BY A MEXICAN REGULATORY EVENT, WHEN THE MEXICAN REGULATORY EVENT HAS TERMINATED.

UNLESS ALL PAYABLE ACCRUED INTEREST AND ANY ADDITIONAL AMOUNTS ON THE NOTES HAVE BEEN PAID OR BEEN CANCELLED PURSUANT TO ONE OR MORE WRITE-DOWNS, FOLLOWING TERMINATION OF SUCH SUSPENSION PERIOD, WE SHALL NOT (I) DECLARE OR PAY ANY DIVIDENDS OR DISTRIBUTIONS ON, OR REDEEM, PURCHASE, ACQUIRE OR MAKE A LIQUIDATION PAYMENT WITH RESPECT TO, ANY OF OUR CAPITAL STOCK (WHICH INCLUDES COMMON AND PREFERRED STOCK); (II) MAKE ANY PAYMENT OF PREMIUM, IF ANY, OR INTEREST ON OR REPAY, REPURCHASE OR REDEEM ANY OF OUR DEBT SECURITIES THAT RANK *PARI PASSU* WITH OR JUNIOR IN RIGHT OF PAYMENT AND IN LIQUIDATION TO THE NOTES; (III) TO THE EXTENT ANY SUCH GUARANTY IS PERMITTED UNDER APPLICABLE LAW, MAKE ANY GUARANTY PAYMENTS WITH RESPECT TO ANY GUARANTY BY US OF THE DEBT SECURITIES OF ANY OF OUR SUBSIDIARIES IF SUCH GUARANTY RANKS *PARI PASSU* WITH OR JUNIOR IN RIGHT OF PAYMENT AND IN LIQUIDATION TO THE NOTES, OR (IV) TAKE ANY ACTION IN VIOLATION OF ANY OTHER ORDER BY CNBV, *BANCO DE MÉXICO*, MINISTRY OF FINANCE AND PUBLIC CREDIT OR ANY OTHER RELEVANT MEXICAN AUTHORITY; *PROVIDED, HOWEVER*, THAT THE FOREGOING SHALL NOT APPLY TO THE EXTENT THAT WE OBTAIN PRIOR REGULATORY CONSENT FOR ANY ACTION THAT WOULD OTHERWISE BE PROHIBITED.

Deferral of Interest and Deferral of Principal Payments During a Suspension Period..........................

WE HAVE THE RIGHT TO AND WILL DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS) THE PAYMENT OF INTEREST DUE ON THE NOTES AND DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS) THE PAYMENT OF PRINCIPAL THEREOF FOR THE DURATION OF ANY SUSPENSION PERIOD. IN THE EVENT OF A DEFERRAL OF PAYMENT OF INTEREST ON THE NOTES OR DEFERRAL OF PAYMENT OF PRINCIPAL THEREOF, WE WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. PAYMENTS OF INTEREST DUE ON THE NOTES WILL BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE DEFERRED DURING A SUSPENSION PERIOD AND SUBJECT TO THE OCCURRENCE OF ONE OR MORE WRITE-DOWNS, HOLDERS OF THE NOTES WILL HAVE THE RIGHT TO RECEIVE FOLLOWING THE TERMINATION OF THE SUSPENSION PERIOD ALL INTEREST ACCRUED PRIOR TO AND DURING A SUSPENSION PERIOD, BUT NOT PAID AS A RESULT OF SUCH SUSPENSION PERIOD IN EFFECT ON THE RELEVANT

	INTEREST PAYMENT DATE(S) ON WHICH SUCH PAYMENTS WOULD HAVE BEEN PAYABLE, AND THESE INTEREST PAYMENTS WILL BE PAYABLE (WITHOUT ANY INTEREST ON SUCH PREVIOUSLY ACCRUED INTEREST) ON THE DATE THAT IS 12 BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS, EXCEPT TO THE EXTENT SUCH PRINCIPAL IS CANCELLED PURSUANT TO ONE OR MORE WRITE-DOWNS. IF A SUSPENSION PERIOD EXISTS ON THE MATURITY DATE OR ANY REDEMPTION DATE, OR THE MATURITY DATE OR SUCH REDEMPTION DATE IS ON A DATE THAT IS LESS THAN TWELVE BUSINESS DAYS AFTER A SUSPENSION PERIOD ENDS, PAYMENT OF PRINCIPAL WILL BE DEFERRED WITH INTEREST UNTIL THE DATE THAT IS 12 BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS, EXCEPT TO THE EXTENT SUCH PRINCIPAL IS CANCELLED PURSUANT TO ONE OR MORE WRITE-DOWNS. WHEN A SUSPENSION PERIOD IS NO LONGER IN EFFECT, WE WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. IF A WRITE-DOWN OCCURS, THE WRITTEN-DOWN PRINCIPAL, AND ANY INTEREST ACCRUED WITH RESPECT THERETO DURING ANY SUSPENSION PERIOD, WILL BE CANCELLED.
Events of Default; No Acceleration Except in Case of Certain Events Involving, Liquidation or Dissolution	An "Event of Default" is defined in the Indenture as (i) a default in the payment of interest or Additional Amounts, if applicable, due and payable in respect of any of the Notes, unless such payment of interest or Additional Amounts is deferred as a result of a Suspension Period, and such default continues for a period of 30 calendar days; (ii) a default in the timely payment of the principal of the Notes, when the same shall become due and payable, other than during a Suspension Period; (iii) a payment by us, during a Suspension Period, of dividends or other distributions in respect of our capital stock; or (iv) certain events involving our liquidation (including *liquidación or resolución*), or dissolution. **For the avoidance of doubt, the occurrence of one or more Write-Downs shall not constitute an Event of Default.** Upon the occurrence of an Event of Default, holders of the Notes may have limited enforcement remedies, as described in this offering memorandum. The payment of the principal, interest and other amounts due on or with respect to the Notes may be accelerated only upon the occurrence of an Event of Default described in (iv) above (a "Liquidation Event of Default"). There is no right of acceleration of the payment of principal of the Notes upon the occurrence of any of the other Events of Default noted above, including a default in the payment of principal or interest. In addition, holders of the Notes may have no enforcement remedies for an Event of Default upon the occurrence of a Trigger Event and related Write-Down.
Voting Rights	None

Use of Proceeds	We intend to use the net proceeds of the issuance of the Notes to strengthen our regulatory capital ratios and for general corporate purposes.
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, imposed or levied by or on behalf of Mexico, the United States, or any other jurisdiction through which payments are made (each a "Relevant Jurisdiction") or any authority or agency therein or thereof having power to tax (collectively, "Relevant Tax") unless the withholding or deduction of such Relevant Tax is required by law. In that event, subject to certain exceptions and limitations as described in "Description of the Notes—Payment of Additional Amounts," we will pay as further distributions of interest and principal such additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders or beneficial owners of the Notes or their nominees 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, to the extent described in this offering memorandum in "Description of the Notes—Payment of Additional Amounts." We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify the holders for any such taxes paid by the holders.
Listing	Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE.
Governing Law	**THE INDENTURE AND THE NOTES WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR A CAPITAL RATIOS EVENT OR A MEXICAN REGULATORY EVENT (LEADING TO A SUSPENSION PERIOD) HAS OCCURRED IS BASED UPON A DETERMINATION BY THE APPLICABLE MEXICAN REGULATOR, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). WHETHER A WITHHOLDING TAX EVENT OR A TAX EVENT HAS OCCURRED IS BASED UPON A DETERMINATION IN ACCORDANCE WITH MEXICAN LAW (OR OTHER APPLICABLE LAW IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A JURISDICTION OTHER THAN MEXICO), AS AMENDED FROM TIME TO TIME, EVIDENCED BY AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM AND, IF REQUIRED, A CERTIFICATION BY US. WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY US, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE RANKING AND SUBORDINATION OF THE NOTES, WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, MEXICAN LAW (AS AMENDED FROM TIME TO TIME). WE WILL WAIVE ANY RIGHTS WE MAY HAVE UNDER THE LAW OF THE STATE OF NEW YORK NOT TO GIVE EFFECT TO ANY SUCH**

	DETERMINATION TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW. ANY PROCEEDINGS IN RESPECT OF OUR *LIQUIDACIÓN OR RESOLUCIÓN* WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AND ANY MERGER OR CONSOLIDATION SHALL BE SUBJECT TO APPLICABLE APPROVALS UNDER THE MEXICAN BANKING LAW AND ANY OTHER APPLICABLE MEXICAN LAWS, AS AMENDED FROM TIME TO TIME.
Form and Denomination	The Notes have been issued in minimum denominations of U.S. $200,000 and integral multiples of U.S. $1,000 in excess thereof and the Notes will initially be represented by global notes.
Securities Identification Numbers....	144A ISIN: US05533UAF57 144A CUSIP: 05533U AF5 Reg S ISIN: USP16259AM84 Reg S CUSIP: P16259 AM8

RISK FACTORS

An investment in the Notes involves risk. You should carefully consider the risks and uncertainties described below and the other information contained in this offering memorandum before making an investment in the Notes. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The risks described below are not the only ones facing us or Mexican banks and other corporations in Mexico. Additional risks and uncertainties not currently known to us or that we currently deem non-material may also materially and adversely affect our business and our ability to make payments on the Notes.

Risks Relating to our Business

We have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions.

The global economy has recently experienced a period of slowdown and volatility and has been adversely affected by a significant lack of liquidity, loss of confidence in the financial sector, disruptions in the credit markets, reduced business activity, rising unemployment and erosion of consumer confidence. The considerable decline in oil prices since 2014, the United Kingdom's referendum on membership in the European Union, and the U.S. presidential and congressional election in 2016 have had a significant impact on the worldwide economy and in Mexico. (For further information, see "—Developments in other countries, including the United States and the United Kingdom, may adversely affect us, including by adversely affecting the price of our debt securities."). The current U.S. governmental policies towards Mexico have created instability, uncertainty and may adversely affect the Mexican economy. The results of such policies, notably the possible renewal and renegotiation of the North America Free Trade Agreement, or NAFTA, between the U.S., Canada and Mexico, remain highly uncertain at this time. Any amendments to NAFTA in terms less favorable to Mexico with respect to global trade symmetry or which may otherwise undermine the ability to trade or prevent the progress towards a more competitive North America, or even the withdrawal by any party of NAFTA, could significantly affect the Mexican economy and the financial markets in Mexico. Further adverse changes affecting the European economy, and the Spanish economy more specifically, could adversely affect the BBVA Group and its ratings. Such events could affect the perception of our brand among clients, which could, in turn, have an impact on us.

The uncertainty of those policies and/or a worsening of other economic and political conditions worldwide could have the following effects:

- increased regulation of the financial industry, which may increase our costs of capital, require us to increase our capital reserves, affect the pricing of our products and services and limit our ability to pursue business opportunities or to grow our loan portfolio;

- the inability to estimate losses inherent in credit exposure or to make difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our customers to pay their leases and loans;

- inability of corporate and individual borrowers to timely or fully comply with their existing obligations;

- economic downturn or insufficient recovery of the economy generally and the financial markets, which may adversely impact our business, financial condition and results of operations;

- the derivatives markets and similar operations, including volatility affecting those operations, could adversely impact global financial systems and the solvency of its participants;

- the value of the portfolio of investment securities that we hold may be adversely affected; and

- our ability to raise capital and liquidity on favorable terms, or at all, whether due to increasing our cost of capital or forcing us to increase our rates charged to customers, may have a material adverse effect on us, as well as by extension on our margins, financial condition and results of operations.

Intensified competition may adversely affect us, including our operational margin.

The Mexican financial sector is highly competitive. Our main competitors are Banco Nacional de Mexico, S.A., or Banamex, a subsidiary of Citigroup, Inc., Banco Santander (México) S.A., a subsidiary of Banco Santander Central Hispano, S.A., HSBC Mexico, S.A., a subsidiary of HSBC, Banco Mercantil del Norte, S.A., or Banorte, and Scotiabank Inverlat, S.A., or Scotiabank, a subsidiary of The Bank of Nova Scotia.

Pursuant to the requirements of the NAFTA, and the Free Trade Agreement between Mexico and the European Union (*Tratado de Libre Comercio entre los Estados Unidos Mexicanos y la Comunidad Europea y sus Estados Miembros*), and the Free Trade Agreement between Mexico and Japan (*Acuerdo para el fortalecimiento de la Asociación Económica entre los Estados Unidos Mexicanos y el Japón*), non-Mexican financial institutions incorporated in the United States, Canada, member states of the European Union, Japan and other countries that have entered into a free trade agreement with Mexico are permitted to establish subsidiary financial groups, banks, broker-dealers and other financial entities in Mexico. According to the CNBV, as of September 30, 2017, Mexico's ten largest domestic banks, measured in terms of assets, held 84.8% of the total assets in the Mexican banking system. Five of these ten banks are foreign-owned. For information regarding current discussions on renegotiating NAFTA, see "—We have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions."

We expect consolidation to continue in the Mexican financial services industry and a stronger competition which may come through mergers and acquisitions or the entry of new players. The Ministry of Finance, or SHCP, has granted a number of banking licenses for the establishment and operation of several new banking institutions and is likely to continue granting banking licenses to new participants. Further, certain of our competitors, such as multiple purpose financial companies (*sociedades financieras de objeto múltiple)* ("Sofomes"), are not financial institutions and, therefore, are not subject to the supervision of regulatory authorities or to the extensive Mexican banking regulations to which we are subject, including the requirement to maintain certain levels of capital and reserves for loan losses. As a result, certain of our competitors may have advantages in conducting certain businesses and providing loans and other financial services. Moreover, competition is likely to increase as a result of the entrance of new participants into the financial services sector.

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 caused greater competition. As financial sector reform continues, foreign financial institutions, some with greater resources than us, 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 or that increased competition will not have a substantial adverse effect on us.

An increase in competition or a more aggressive competitive strategy adopted by our competitors could require us to lower certain interest rates or pay higher interest rates to depositors and creditors, in order to avoid losing clients to banks offering more attractive rates, which would increase our interest expense and could affect us.

The rules applicable to loan loss provisions have been modified throughout time.

In an effort to conform its regulations to the recommendations issued by the Basel Committee on Banking Supervision (the "Basel Committee"), since 2009, the Mexican Government has implemented new rules regarding the methodology that Mexican banks must use to classify loans and to determine loan loss provisions. The new regulatory framework shifted away from an accrued losses methodology to an expected losses methodology. This new methodology has been implemented in phases, as follows:

- in 2009, for credit card loans;

- in 2011, for consumer, mortgage and government loans;

• in 2013, for commercial loans;

• in 2014, for loans to financial institutions;

• In 2015, for revolving consumer loan portfolio.

Additionally, in 2015, the CNBV adjusted the rating methodology for non-revolving consumer and mortgage loan portfolios, which remains based on expected losses and incorporates new factors based on recent information on the industry's performance. In addition to taking into consideration the borrower's experience with the financial institution granting the loan, the most significant change introduced by the new methodology is that it considers information provided by credit information companies about the credit behavior of the borrower with other financial institutions. The new methodology for revolving consumer loan portfolios became effective on June 1, 2017.

In the future, the CNBV could modify the accounting rules applicable to loan loss allowances, and further modify the methodology to measure credit risk or the requirements for loans loss provisions of other portfolios. Any such modifications could require us to increase our allowance for loan losses and, therefore, adversely affect our results of operations and financial position.

Many of our loans to Mexican states and municipalities are secured by cash flows from the Mexican federal government.

Most of our loans to Mexican states and municipalities are secured by such entities' right to receive their corresponding allocation of *participaciones federales* (*participaciones* federales are the resources allocated to the federal states and municipalities in the terms established in the *Ley de Coordinación Fiscal* and the covenants in the *Sistema de Coordinación Fiscal* and through the administrative collaboration in federal tax matters). Any changes to Mexican laws and regulations regarding the use of *participaciones federales* as source of payment for these type of loans or defects in the perfection of such collateral, may require amendments to our credit facilities and may impact the credit risk of such facilities or the manner in which we conduct business with Mexican states and municipal governments, which in turn could affect our results of operations and financial position.

Furthermore, as *participaciones federales* are subject to the conditions of the Mexican economy and the federal government's tax collections, we cannot give any assurances that the *participaciones federales* will remain at their current funding level or that they will be sufficient for the timely performance of government loans. If *participaciones federales* are reduced as a result of changes to Mexican laws and regulations or for any other reason, our results of operations and financial condition could be adversely affected.

Defects in the perfection of our security interests or fraudulent transfers by borrowers may impair our ability to recover on our collateral. Accordingly, there can be no assurance that we will be able to realize the full value of our collateral, or timely realize the full value of our collateral, in connection with financings made to Mexican state and municipal governments. If we are not able to realize the full value of our collateral, our results of operations and financial condition could be adversely affected.

The future of government sector lending in Mexico is uncertain.

Our business is subject to a continuously evolving regulatory regime of financial service laws, regulations, administrative actions and policies in each Mexican state in which we operate and at federal level. In particular, due to certain high profile restructurings of Mexican state and municipal debt, in April 2016, the Mexican Congress approved certain amendments related to government sector lending. As a result, state and municipal governments are now subject to the Law of Financial Discipline for States and Municipalities (*Ley de Disciplina Financiera de las Entidades Federativas y los Municipios*), which seeks to organize and align budgetary and financial instruments of the states, municipalities and their agencies, to ensure sustainable management of local public finances. This law establishes general principles of financial discipline, including, among others, rules on the incurrence of indebtedness and a registry for such indebtedness, applicable to states and municipalities. Although we expect the measures will help to achieve healthier public finances and transparent investment of government debt, the implementation of these provisions will be gradual and the full benefits of the new standards may take between one to six years to materialize, therefore we cannot predict the impact they will have on our business.

Additionally, although state and municipal public debt is regulated by state law in Mexico, there are certain provisions and limitations set forth in the Mexican Federal Constitution and other federal laws (including in the Law of Financial Discipline for States and Municipalities), especially in connection with the use of *participaciones federales* as a source of payment or as a public funding investment. In the past, there have been inconsistencies between state and federal law with respect to these uses of *participaciones federales* which have been addressed by the Mexican Supreme Court. Some of these judgments have had an adverse effect on the manner in which government loans have been granted. We cannot ensure that future judicial interpretations or resolutions will not have an adverse effect on us, including the value of our government loan portfolio.

We are subject to consumer laws that may limit the activities of Mexican banks.

The Mexican National Commission for the Protection and Defense of Financial Service Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*) (the "CONDUSEF") has broad powers to regulate our activities and activities of other Mexican banks. Under recent changes approved by the Mexican Congress on January 10, 2014, CONDUSEF is entitled to:

• order amendments to our standard form commercial banking documentation (such as loan and account agreements), if CONDUSEF deems that provisions included in such agreements are detrimental to users;

• order the attachment of our assets for the benefit of our customers; and

• initiate class actions for the benefit of groups of customers.

CONDUSEF has broad and discretionary authority to take this and other similar actions, including the imposition of fines and publishing information that may be detrimental to our business and reputation. Actions taken by CONDUSEF against us, whether on an isolated or recurrent basis, may have a material impact on us.

We are subject to capital adequacy requirements. Any failure by us to maintain required Capital Ratios could result in administrative actions or sanctions which may affect our ability to fulfill our obligations, including losing our banking license.

In December 2010, the Basel Committee reached an agreement on comprehensive changes to the capital adequacy framework, known as Basel III. A revised version of Basel III was published in June 2011. The Basel III framework includes heightened capital standards reflecting increases in both the quality and quantity of the regulatory capital base and enhancements to the risk coverage of the capital framework. Basel III capital standards also include capital buffers that must be maintained above the minimum capital requirements in order to avoid the institution of corrective measures by the CNBV. These capital buffers include, on a fully phased-in basis, a 2.5% capital conservation buffer, a variable surcharge of up to 2.5% for certain global systemically important banks and a countercyclical buffer of up to 2.5% (during excessive credit growth periods) and a systemic entities buffer up to 3.5%, to be deployed at the discretion of national regulators. The Basel III capital standards are intended to be implemented at the national level subject to transitional arrangements, with the principal requirements being phased in from January 2013 to January 2019 and the remaining requirements fully effective in 2022. The CNBV issued amendments to the Mexican Capitalization Requirements, which became effective on January 1, 2013 and implemented Basel III in all material respects.

As a result of these amendments, in May 2016, as a Grade IV bank of systemic importance, we were required by CNBV to constitute a Systemically Important Bank Capital Supplement of 1.50% with Tier 1 Capital. Also, an initial Countercyclical Capital Supplement of 0.00% was imposed. These Capital Supplements are required to be implemented by us over a four-year period, to be constituted in four equal parts in December of each year, starting December 31, 2016. The CNBV reconfirmed our status as a level IV bank of systemic importance on April 3, 2017. Any amendments to Capital Requirements or their implementation could have a material adverse effect on our operating results, financial condition and prospects.

Currently, the minimum Capital Ratios required to be classified as Class I are**:** (i) 10.5% in the case of the Total Net Capital (*capital neto*), (ii) 8.5% in the case of Tier 1 Capital (*capital básico*) and (iii) 7.0% in the case of Fundamental Capital (*capital básico fundamental*), *plus*, in each case, any other applicable Capital Supplement.

In addition to the changes to the capital adequacy framework described above, the Basel Committee also published its global quantitative liquidity framework, comprising the Liquidity Coverage Ratio (the "LCR") and Net Stable Funding Ratio ("NSFR") metrics, with the objectives of (1) promoting the short-term resilience of banks' liquidity risk profiles by ensuring they have sufficient high-quality liquid assets to survive a significant stress scenario; and (2) promoting resilience over a longer term by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. The LCR was subsequently revised by the Basel Committee in January 2013, which included an amended definition of high-quality liquid assets and a revised timetable for the phase-in of the standard from 2015 to 2019, as well as some technical changes to some of the stress scenario assumptions. The final framework to be established in Mexico could differ from Basel III in certain respects. The LCR was implemented in December 2015. In October 2014, the Basel Committee published the final NSFR standard, which established a standard for banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. The first effective date of the NSFR under the Basel Committee standard is January 1, 2018. A proposed disclosure standard related to the NSFR was published in December 2014. During 2015, the CNBV and *Banco de México* modified general regulatory dispositions related to operational risk, counterparty risk, market risk, and credit risk.

The effective management of our capital position is important to our ability to operate our business, to continue to grow organically and to pursue our business strategy. However, as these changes to the regulatory capital framework and other changes are implemented, or as future changes are considered or adopted that limit our ability to manage our balance sheet and capital resources effectively or to access funding on commercially acceptable terms, we may experience a material adverse effect on our financial condition and regulatory capital position. In addition, the implementation and maintenance of enhanced liquidity risk management systems may result in significant costs, and more stringent requirements to hold liquid assets may materially affect our lending business as more funds may be required to acquire or maintain a liquidity buffer, thereby reducing future profitability.

Furthermore, we cannot predict the terms that will be included in implementing regulations in connection with requirements to be satisfied in respect of lending activities to certain sectors of the economy. However, if the SHCP determines, after an evaluation, that we have not complied with applicable requirements, we may be forced to lend to certain sectors of the economy or to certain persons that may not meet our credit quality standards, that we may not know or that are not acceptable credit risks, which in turn may impact our financial condition and results of operations and the quality of our assets. Moreover, if we were to fail any evaluation, publicity surrounding such failure may impact our reputation, which in turn may adversely impact our ability to conduct business in Mexico and our financial condition and results of operations.

Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation and regulations could result in significant loss of revenue, limit our ability to pursue business opportunities in which we might otherwise consider engaging, affect the value of assets that we hold, require us to increase our prices and therefore reduce demand for our products, impose additional costs on us or otherwise adversely affect our businesses. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect us.

We are subject to regulatory inspections, examinations, inquiries and audits that could result in intervention, sanctions and other penalties by our regulators and supervisors which could harm our reputation or have a material adverse effect on our results of operations, financial condition and prospects.

We are subject to comprehensive regulation and supervision by Mexican regulatory authorities and in respect of our Texas Agency, certain U.S. regulatory authorities. The Mexican regulatory authorities include *Banco de México*, the CNBV, the IPAB and the SHCP. See "The Mexican Financial Industry." These regulatory authorities have broad powers to adopt regulations and other requirements that affect all aspects of our capitalization, organization and operations, including changes to capital adequacy and reserve requirements, 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 and U.S. 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 licenses to operate our business (including our banking or broker-dealer licenses).

Furthermore, 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. As noted above, our business and operations are subject to increasingly significant rules and regulations that are required to conduct banking and financial services business. These apply to our business operations, affect our financial returns, include reserve and reporting requirements, and set forth conduct of business regulations.

The regulators seek to maintain the safety and soundness of Mexican financial institutions with the aim of strengthening the protection of customers and the financial system. The continuing supervision of financial institutions is conducted through a variety of regulatory tools, reports, visits to firms and regular meetings with management to discuss issues such as performance, risk management and strategy. In general, regulators in Mexico have a more outcome-focused approach that involves more proactive enforcement and more punitive penalties for infringement, including intervening in institutions and restricting dividends or bonuses to employees. As a result, we face significant high levels of supervisory scrutiny (resulting in increasing internal compliance costs and supervision fees) and in the event of a breach of our regulatory obligations we may face significant regulatory fines.

Some of the regulators focus primarily on consumer protection, including a focus on the design and operation of products, the behavior of customers and the operation of markets. Applicable regulations may prevent institutions such as ours from providing products to customers until changes are made to address the regulators' views on potential detriment to consumers. Regulations require us to be in compliance across all aspects of our business, including the training, authorization and supervision of personnel, systems, processes and documentation. If we fail to comply with the relevant regulations, we may face adverse impacts on our business from sanctions, fines or other actions imposed by the regulatory authorities, including the revocation of our authorization and the intervention in our operations.

Furthermore, customers of financial services institutions, including our customers, may seek redress if they have suffered loss as a result of an offered product, or through incorrect application of the terms and conditions of a particular product. Given the inherent unpredictability of litigation and judgments by the relevant authorities, it is possible that an adverse outcome in some matters could harm our reputation or have a material adverse effect on our results of operations, financial condition and prospects arising from any penalties imposed or compensation awarded, together with the costs of defending such an action, thereby reducing our profitability.

Mexican Government regulations may adversely affect us, including the value of our assets which may be impaired due to regulatory initiatives and procedures.

As a financial institution, we are subject to extensive regulation, including regulation by *Banco de México*, the CNBV and the SHCP, which materially affects our businesses. Statutes, regulations and policies to which we are subject, in particular those relating to the banking sector and financial institutions, may be changed at any time, and the interpretation and the application of those laws and regulations by regulators is also subject to change. On January 10, 2014 and June 17, 2016, amendments to several laws that regulate the Mexican financial system were published in the Federal Official Gazette, in particular the Mexican Banking Institutions Law (*Ley de Instituciones de Crédito*), which governs our business and operations. Pursuant to the amendments to the Mexican Banking Institutions Law, new regulations and guidelines could adversely affect our business or the results of our operations. See "The Mexican Financial Industry" for a discussion of the governmental authorities that regulate us.

Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation and regulations could result in significant loss of revenue, limit our ability to pursue certain business opportunities, affect the value of assets that we hold, require us to increase our prices and, therefore, reduce demand for our products, impose additional costs on us or otherwise adversely affect our businesses. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect us.

Changes in regulations may also cause us to face increased compliance costs and limitations on our ability to pursue certain business opportunities and provide certain products and services. Since certain of the banking laws and regulations, including the regulations implementing Basel III, have only recently been adopted in Mexico, the application of those laws and related regulations to the operations of financial institutions is still evolving. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on our business and results of operations.

We are subject to litigation and other legal, administrative and regulatory proceedings.

We are regularly party to litigation and other legal proceedings relating to claims resulting from our operations in the normal course of business. See "Business—Legal Proceedings." Litigation is subject to inherent uncertainties, and unfavorable rulings may occur. Furthermore, the current regulatory environment, which has resulted in an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material compliance costs and subject us to regulatory enforcement actions, fines and penalties. See Note 36 to our Audited Financial Statements.

We cannot assure you that these or other legal, administrative and regulatory proceedings will not materially and adversely affect our ability to conduct our business in the manner that we expect or otherwise adversely affect our results of operations and financial position should an unfavorable ruling occur.

Our business and activities occur in a heavily regulated sector. The Mexican banking regulators and other authorities, including antitrust and tax authorities, have increased their supervision and the frequency and amounts of fines and assessments have increased. Although we intend to defend our positions vigorously when procedures are brought or fines are imposed by authorities, there can be no assurance that we will be successful in such defense. Accordingly, we may in the future be required to pay fines and assessments that could be significant in amount, which could materially adversely affect us. There are several investigations, administrative proceedings, legal actions and claims pending against or related to us, in the ordinary course of business. In the opinion of our management, none of these investigations, proceedings, actions, and/or claims is expected to have a material adverse effect on us; however, we are unable to predict the outcome of any of these investigations, proceedings, actions and/or claims.

Current loan loss reserves requirements in Mexico differ from those in the United States and other countries.

Except for loans to the Mexican Government, *Banco de México*, IPAB and certain international organizations, we are required to classify each loan or type of loan according to an assessment of risk based on criteria set forth by Mexican banking regulations and to establish corresponding reserves. The criteria to establish reserves include both qualitative and quantitative factors. Mexican banking regulations relating to loan classification and determination of loan loss reserves are generally different and may be less stringent than those applicable to banks in the United States and certain other countries. Current rules approved by the CNBV allow banks to use additional objective and subjective factors in determining loan loss reserves. If the rules applicable in the United States were applicable in Mexico today, the level of our loan loss reserves may be required to be higher than the reserves currently recorded.

We believe our loan loss provision is adequate as of the date hereof to cover all known or knowable losses by our loan and credit portfolio. We may, however, be required or deem it necessary to increase our loan loss reserves in the future. Increasing loan loss reserves could adversely affect us, including of operations and financial position and our ability to pay amounts due on the Notes.

Liquidity and funding risks may materially and adversely affect us.

Some Mexican banks have suffered severe liquidity problems from time to time since December 1994, particularly in connection with refinancing short-term U.S. dollar liabilities in the international capital markets.

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 amounts we expect or are not renewed.

We cannot assure you that liquidity and funding 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 pay or refinance our projected liabilities, we cannot assure you that we will be able to repay our liabilities or refinance our liabilities on favorable terms.

Currency and interest rate risks may materially and adversely affect us.

We are exposed to currency risk any time that we hold an open position in a currency other than pesos and to interest rate risk to the extent we have an interest rate repricing gap or carry interest-earning securities having fixed real or nominal interest rates. Such currency and interest rate risks include, among others, the risk that our trading income may not be as strong as in prior periods and thus causes a decrease in our net result. Because of the substantial volatility in peso exchange rates and interest rates in Mexico since November 2016, the risks associated with such positions may be greater than in certain other countries. Our foreign currency liabilities are subject to regulation by *Banco de México* when determining limits to our regulatory capital and liquidity. Although we follow various risk management procedures in connection with our trading and treasury activities, we cannot assure that we will not experience losses with respect to these positions in the future, any of which could have an adverse effect on us.

As of September 30, 2017, the value at risk, or VaR, associated with our financial instruments sensitive to interest rates and foreign currency exchange rates was U.S. $8.1 million (Ps. 147 million) and U.S. $86 million (Ps. 1,566 million), respectively.

In recent years, interest rates in Mexico have been low by historical standards; however, there can be no assurance that such low rates will continue in the future. A sustained increase in interest rates would also raise our funding costs and may reduce our loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels may adversely affect the Mexican economy and the financial position and repayment ability of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to deterioration in our asset quality.

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, any devaluation 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 us.

Failure to successfully implement and continue to improve our credit risk management system could have a material adverse effect on us.

As a commercial bank, one of the main types of risks inherent in our business is credit risk. We may not be able to improve our credit risk management system so that it can function effectively. 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 a detailed analysis 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 resources or tools available to us, our employees may not be able to effectively implement them, which may increase our credit risk. As a result, 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 materially adversely affect us.

If we are unable to effectively control the level of non-performing or poor credit quality loans in our current loan portfolio and in new loans we extend in the future, or if our loan loss reserves are insufficient to cover actual loan losses, this may 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 and reduce the number of impaired non-performing loans in our loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our loan portfolio or factors beyond our control, such as the impact of macroeconomic trends, internal and external political events affecting Mexico or events affecting certain industries. In addition, while we believe our current loan loss reserve is adequate to cover all loan losses in our loan portfolio, our current loan loss reserves may prove to be inadequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our loan portfolio. As a result, if our credit quality deteriorates we may be required to increase our loan loss reserves, which may adversely affect us. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves are or 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, we could be materially adversely affected.

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 the risk of prepayment as result of the ability of a borrower or issuer to pay a debt obligation prior to maturity. Typically, in a declining interest rate environment, prepayment activity increases, reducing the weighted average lives of our earning assets and could have a material and adverse effect on us. We would also be required to amortize net premiums into income over a shorter period of time, which would lower the corresponding asset yield and net interest income.

Prepayment risk also might have a significant adverse impact on credit card and collateralized mortgage loans, since prepayments could shorten the weighted average life of these portfolios, which would negatively impact us. Prepayment risk is inherent to our commercial activity and an increase in prepayments could have a material adverse effect on us.

We are exposed to risks faced by other financial institutions, and in particular, financial institutions in the Eurozone.

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 financial 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. For example, the financial health of a number of European governments was shaken by the European sovereign debt crisis in 2011, contributing to volatility of financial and credit markets. Recently, economic conditions in the Eurozone economies have improved, reducing the default risks of some nations and of the financial system as a whole. In 2016, however, Brexit caused a sharp spike in volatility as it opened up the possibility of major nations withdrawing from the European Union. In 2017, recent electoral results in France and more favorable positive economic conditions in Europe have had a calming effect on the credit and financial markets. These liquidity concerns have had, and may continue to have, an adverse effect on interbank financial transactions in general and on us in particular, given that our ultimate parent, BBVA, is incorporated in Spain. 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 and 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 0.4% (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. 3,389 million in 2014, Ps. 4,049 million for the year ended December 31, 2015, Ps. 4,585 million in 2016, and Ps. 3,623 million in the first nine months of 2017. 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 of participants in the system that we may be required to make. Such extraordinary contributions would increase our expenses and could have a material adverse effect on us.

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

In order for us to grow, remain competitive, enter into new businesses, or meet regulatory capital adequacy requirements, we may require new capital in the future. Moreover, we may need to raise additional capital in the event of large losses in connection with any of our activities that result in a reduction of our stockholders' equity. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial position, results of operations and cash flows;
- any necessary government regulatory approvals;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and
- economic, political and other conditions in Mexico and elsewhere.

We may not be able to obtain additional capital in a timely manner or on acceptable terms or at all, which could affect us, including our ability to make payments on our debt securities, including the Notes.

Reductions in our credit ratings or those of any of our subsidiaries could increase our cost of borrowing funds and make our ability to raise new funds, attract deposits or renew maturing debt more difficult.

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our loan portfolio, the level and volatility of our earnings, our capital adequacy, the quality of management, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits, and our ability to access a broad array of wholesale funding sources. In addition, our ratings are affected by an assessment of Mexican sovereign risk generally. For further information about the Mexican sovereign risk, see "—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." Our lenders and counterparties in derivatives transactions are sensitive to the risk of a ratings downgrade. A downgrade in our credit ratings or those of our subsidiaries could increase the cost of refinancing our existing obligations, raising funds in the capital markets or of borrowing funds from private lenders.

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 and 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 outcome of derivatives disputes being decided through the Mexican judicial system is 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, which further increases the risks associated with these transactions and could have a material adverse effect on us.

The retail banking market is exposed to macroeconomic and other shocks that could negatively impact household income and consumer demand, 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 rapidly. Demand for the loan products we offer depends on economic conditions, including GDP growth rates, inflation, unemployment, the cost of energy and other necessities, the ability of consumer credit, interest rates, consumer confidence, retail trends and foreign currency exchange rates. These economic conditions are beyond our control. If economic conditions worsen, demand for our consumer goods will likely decline. A decline in demand for consumer goods would also reduce demand for our durable goods loans. A decline in demand for consumer goods would also likely reduce demand for our payroll loans, to the extent those loans are used to finance consumer purchases. As a result, our loan portfolio may become increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and, result in increased loan losses. In addition, Mexico was recently affected by a series of significant earthquakes that affected our customers. Due to the recent timing, we are not yet in a position to fully assess the financial effect of these natural disasters on our financial condition or results of operations, and to date we have not provided for any losses in respect of those events. 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 currency devaluation. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio in the future.

From 2013 to 2016 our performing loan portfolio increased by 11.8% in nominal terms, while GDP grew by 2.2% in that period. By September 30, 2017, the correlation continued as Mexico's GDP showed a slightly lower growth of 1.8% as compared to the same quarter in 2016, while our credit portfolio also grew at a slower pace, at an annual nominal growth rate of 8.5%.

Our continuing focus on individuals and small and medium-sized businesses could lead to higher levels of non-performing loans and subsequent charge-offs.

We are continuing to lend and provide other services to individuals and to small and medium-sized companies. As of September 30, 2017, small- and medium-size companies represented 7.2% of the total loan portfolio to firms as compared to the 7.0% as of September 30, 2016. As individuals and small and medium-sized companies are, more likely than large corporations and high-income individuals who have greater resources to be adversely affected by downturns in the Mexican economy, we may experience higher levels of non-performing loans, which could result in higher allowance for loan losses if there is a deterioration in the Mexican economy. There can be no assurance that the levels of non-performing loans and subsequent charge-offs will not be materially higher in the future.

We engage in transactions with our parent GFBB and its subsidiaries or affiliates that may not be on an arm's-length basis.

No assurance can be given that transactions between us and our parent GFBB or any of its or our subsidiaries or affiliates have been or will be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. For example, from time to time we enter into agreements, including service agreements, with our affiliates. We have entered into service agreements with our affiliates, including with (1) Servicios Corporativos Bancomer, S.A. de C.V. for the sale of certain banking products, (2) Seguros BBVA Bancomer, S.A. de C.V. for the sale of insurance policies and (3) Casa de Bolsa BBVA Bancomer, S.A. de C.V. for brokerage services.

Mexican law applicable to publicly traded 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 companies in our financial group are carried out on an arm's-length basis, including the requirement that our Board of Directors approve such transactions and that transactions with affiliates do not exceed certain thresholds.

We are likely to continue to engage in transactions with our parent and any of its and our subsidiaries or affiliates, and no assurance can be given that we will do so on an arm's-length basis. In addition, future conflicts of interest between us and GFBB or any of its or our subsidiaries or affiliates may arise, which conflicts are not required to be and may not be resolved in our favor. See "Related Party Transactions."

While in the past the CNBV has not disagreed with our determinations that the terms of these transactions are “substantially on market conditions,” we can provide no assurances that the CNBV will agree with any of our future determinations. There can be no assurance that future transactions involving GFBB or any of its subsidiaries or affiliates will not have an adverse effect on us.

Resources could be diverted, or our business or business opportunities could be diverted, to other entities within the financial group controlled by GFBB, or operations of other subsidiaries of GFBB may be transferred to us.

We are the principal subsidiary of GFBB. GFBB could, at any time, devote more resources or divert our business or business opportunities to other subsidiaries of GFBB that directly or indirectly compete with us, as well as transfer certain operations of other subsidiaries of GFBB to us, on grounds of capital efficiency, regulatory constraints or other criteria. Should our resources be diverted, or our business or business opportunities be diverted, to other subsidiaries of GFBB, or if unprofitable operations of other subsidiaries of GFBB are transferred to us, this may have an adverse effect on us.

Future mergers or acquisitions of other institutions could disrupt our operations.

In February 2017, Hipotecaria Nacional, BETESE and Desitel were merged into us and we may from time to time conduct further mergers or acquisitions. See “Summary—Our History—BBVA’s Investment in GFB.” Such mergers and acquisitions could lead to difficulties and delays in the integration of the banking or other operations of these entities that could affected our performance by diverting our management’s attention and human resources. In addition, future acquisitions may require us to operate in markets that are new to us and may subject us to regulatory arrangements in other countries with which we have not had prior experience. Such transactions and the possibility of a new merger, acquisition or other business combination involving us is likely to entail risks, including diversion of management attention and of human resources, unknown or unforeseen liabilities relating to the counterparty, difficulty in integrating and managing new or combined operations, labor unrest and loss of key personnel.

We are subject to actions taken by the Mexican Antitrust Commission in respect of the Mexican financial sector or our business.

On January 16, 2014, the Mexican Antitrust Commission formally began an investigation regarding the Mexican financial sector. As part of the financial reform that became effective as of January 2014, the Mexican Antitrust Commission was instructed by the Mexican Congress to investigate competition in the Mexican financial sector. On July 9, 2014, the Mexican Antitrust Commission published the full investigation work paper and its official report pursuant to which the plenary of the Mexican Antitrust Commission reported the background, considerations and general concepts of the Mexican financial sector used for the investigation, and issued 36 recommendations for the improvement of competition in such industry. Although such recommendations are not legally binding, the Mexican Antitrust Commission has authority to begin, at any time, a specific investigation targeting us. If we were to become a direct target of this or a similar investigation, we could incur potential liability, which could have a material adverse effect on us.

We are subject to the Mexican Federal Anticorruption Law in Public Contracting, the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.

In July 2016, as part of the historic constitutional reform which created the National Anticorruption System (*Sistema Nacional Anticorrupción*) (“SNA”), the Mexican Congress approved a group of laws that comprises the legal framework that will ensure the implementation of the public strategies and policies for fighting corruption and impunity. The objective of this reform is to achieve full coordination of efforts from the federal, state and municipal governments, and the government of Mexico City, in order to prevent, investigate and punish administrative violations and corrupt practices by public officers, companies and individuals.

For the operation of the SNA, the Mexican Congress approved the General Law on the National Anticorruption System (*Ley General del Sistema Nacional Anticorrupción*), the Federal Anticorruption Law on Public Contracts (*Ley Federal Anticorrupción en Contrataciones Públicas*), the General Law on Administrative Accountability (*Ley General de Responsabilidades Administrativas*) and the Organic Law of the Federal Tribunal of the Administrative Justice (*Ley Orgánica del Tribunal Federal de Justicia* Administrativa). In addition, it approved the Law on Auditing and Accountability of the Federation (*Ley de Fiscalización y Rendición de Cuentas de la Federación*), and amendments on internal controls of the federal executive branch to the Organic Law of the Public Administration (*Ley Orgánica de la Administración Pública Federal)*, to the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) and to the General Law for Governmental Accounting (*Ley General de Contabilidad Gubernamental*).

There can be no assurance that our internal control policies and procedures will protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and could have a material adverse effect on us.

Any deterioration of labor relations with our employees could adversely affect us.

We depend on intensive use of labor in our activities. As of September 30, 2017, approximately 32% of our employees were unionized, and we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage. In addition, their employment contracts are regulated by collective bargaining agreements. Any new collective bargaining agreements may have shorter terms than our previous agreements and, if we are not able to negotiate collective bargaining agreements on acceptable terms to us, we may be subject to a significant increase in labor costs, deterioration of employee relations, slowdowns or work stoppages, which could have a material adverse effect on us and on the market price of the Notes.

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

All of our main 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 and our risk management and internal control systems, as well as our timely response to changing market conditions. If we cannot maintain an effective data collection and management system, this could have a material adverse effect on us.

Furthermore, we are dependent on information systems in order to process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our customers with delays or errors, which could reduce demand for our services and products and could materially and adversely affect our financial position and results of operations. Our operational risk division is in charge of measuring, managing and mitigating the risks related to negligence, fraud or human error.

Cyber-attacks or other breaches of network or information technology security could have an adverse effect on us.

Our technologies, systems, networks, and those of our business partners may become the target of cyberattacks or information security breaches that could result in the unauthorized release, misuse or loss of confidential information, or other disruption of our business operations. Cyber-security risks for financial institutions have significantly increased because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our business is highly dependent on our technology infrastructure and that of our service providers, and we are not immune to attacks against our or their network or systems. Although we have not experienced any material loss related to cyber-attacks, there can be no assurance that we will not be the target of cyber-attacks in the future that could adversely affect our operations or financial condition. As cyber threats continue to evolve, we may be required to incur additional expenses to enhance our protective measures or to remediate any information security vulnerability.

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 will depend 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. In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base while still ensuring the security 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 materially adversely affect 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 and IFRS.

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 and Mexican Banking GAAP and IFRS, 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 Mexican Banking GAAP and IFRS, and how those differences might affect the financial information included in this offering memorandum. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP" and "Annex B—Significant Differences Between Mexican Banking GAAP and IFRS."

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 have a material adverse effect on us.

We are required to comply with applicable anti-money laundering and anti-terrorism financing laws and regulations in Mexico and abroad. These laws and regulations require us, among other things, to adopt and enforce "know your customer" policies and procedures, to monitor our customers' activity in order to detect and report suspicious activity and large transactions to the applicable regulatory authorities, to apply enhanced due diligence procedures to high risk customers and to keep customers' files and records for a certain period of time. 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. Recent rules have been adopted in Mexico restricting the ability of Mexican banks to receive currencies in physical form, in exchange for foreign exchange and other similar transactions. The relevant government agencies to which we report have the power and authority to impose fines and other penalties on us. See "Supervision and Regulation—Money Laundering Regulations."

While we have adopted policies and procedures, have implemented strong controls aimed at detecting and preventing the use of our banking network for money laundering or terrorism financing activities, and continually work on improving and strengthening those controls, there is a risk that we may be used by other parties to engage in money laundering (i) considering that we are the largest bank in Mexico, with a customer base of more than 20,000,000 clients and a presence throughout the country with more than 1800 branches, and (ii) taking into account that our main activity is retail banking.

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 our license. In addition, our business and reputation could suffer if our infrastructure is used for money laundering or illegal or improper purposes and some of our operations could be suspended by regulatory authorities. Any of these situations could have a materially adverse effect on our business, financial position or results of operations.

Further, if we are associated with, or even accused of being associated with, or become a party to, money laundering, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with us), any one of which could have a material adverse effect on us.

Risks Relating to Mexico and Other Markets

Economic, political and social developments in Mexico could affect Mexican economic policy and our business, financial condition and results of operations.

We are a Mexican bank and most of our operations and assets are located in Mexico. 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 U.S. dollar, price instability, inflation, changes in oil prices, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico over which we have no control.

The Mexican Government has exercised, and continues to exercise, significant influence over the Mexican economy and occasionally makes significant changes in policies, laws and regulations. The Mexican Government's actions to control inflation and other policies and regulations historically have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency fluctuations, capital controls and limits on imports. Mexican Government actions concerning the economy and regulation of certain industries, including the banking sector, could have a significant effect on Mexican private sector entities in general, and us in particular, and on market conditions, prices and returns on Mexican securities, including our securities.

We and the market price of our securities, including the Notes, may be adversely affected by changes in policies or regulations involving, among others:

- interest rates;
- exchange rates and exchange controls and restrictions on the movement of capital in or out of Mexico;
- reserve requirements;
- capital requirements;
- funding and lending limits;
- fees and commissions charged to customers;
- inflation;
- liquidity of the domestic capital and lending markets; and
- tax and regulatory policies.

The *Congreso de la Unión de los Estados Unidos Mexicanos*, or Mexican Congress, is currently politically divided, and no political party currently has a majority in the Mexican Congress. The lack of alignment between the Mexican Congress and the President could result in deadlock and prevent the timely implementation of political and economic reforms, which in turn could have a material adverse effect on Mexican economic policy. Mexico's next presidential and federal legislative election will be in July 2018. The Mexican presidential election will result in a change in administration, as presidential reelection is not permitted in Mexico. As a result, we cannot predict whether changes in Mexican governmental policy will result from the change in administration, particularly if a candidate from a party different from the *Partido Revolucionario Institucional*, or PRI, were to prevail in such election. We cannot predict whether potential changes in Mexican governmental and economic policy could adversely affect economic conditions in Mexico or the sector in which we operate and therefore the election could have an adverse effect on us.

We cannot predict the impact that political, economic and social conditions will have on the Mexican economy. Furthermore, we cannot provide any assurances that political, economic or social developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition, results of operations and prospects. Mexico has recently experienced periods of violence and crime due to the activities of organized crime. In response, the Mexican Government has implemented various measures to increase security and has strengthened its police and military forces. Despite these efforts, organized crime (especially drug-related crime) continues to exist and operate in Mexico. These activities, their possible escalation and the violence associated with them may have a negative impact on the Mexican economy or on our operations in the future. Please see, "—Violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy." The social and political situation in Mexico could adversely affect the Mexican economy, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

Adverse economic conditions in Mexico may have a material adverse effect on us.

Most of our operations are dependent upon the performance of the Mexican economy, mainly on matters such as peso-U.S. dollar parity, price volatility and 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 deterioration 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.

As a consequence of the global recession and economic slowdown during 2008, the Mexican economy entered into a recession. In 2009, Mexico's GDP experienced its most significant decrease in recent history. Employment was negatively impacted, with the unemployment rate reaching 4.0% in December 2009 from 4.7% in December 2008. The consumer confidence index in Mexico decreased to an eight-year low of 76.9 points in February 2009, with a corresponding impact on consumption. In 2010, GDP grew 5.1% and inflation was 4.2% on average. In 2011, GDP grew by 4.0% and inflation was 3.4% on average. During 2012, GDP grew 4.0% and inflation reached 4.1% on average. In 2013, GDP grew 1.4% and inflation was 3.8% on average. In 2014, GDP grew 2.3% and inflation reached 4.0% on average. In 2015, GDP grew 2.7% and inflation was 2.7% on average. In 2016, GDP grew 2.3% and inflation was 2.8% on average. During the first nine months of 2017, GDP grew by 1.9% and inflation was 5.3%.

Mexico also has, and is expected to continue to have, high real and nominal interest rates relative to the U.S. The interest rates on 28-day Mexican Government treasury securities (*Certificados de la Tesorería de la Federación*) ("*Cetes*"), averaged 4.29%, 3.81%, 3.02%, 2.99%, and 4.17% for the years ended December 31, 2012, 2013, 2014, 2015 and 2016 and 6.56% for the nine-month period ended September 30, 2017, respectively. Accordingly, if we incur peso denominated debt in the future, it could be at high interest rates.

A recession could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. Similarly, our loan portfolio could deteriorate as a result of higher delinquency rates. These factors could have a material adverse effect on us, and could result in a decrease in our loan portfolio, revenues and net result.

Depreciation or fluctuation of the peso to the U.S. dollar and other currencies can adversely affect us.

Severe devaluation or depreciation of the peso may limit our ability to transfer pesos or to convert pesos into U.S. dollars and other currencies and may have an adverse effect on our financial condition, results of operations and cash flows in future periods by, for example, increasing, in peso terms, the amount of our foreign currency-denominated liabilities, such as the Notes, and the rate of default among our borrowers.

In 2016, the peso depreciated by 20.5% against the U.S. dollar and in the first nine months of 2017, the peso appreciated by 8.6% against the U.S. dollar. The Mexican Government has implemented a series of measures to limit the volatility of the peso. However, we cannot assure you that such measures will be applied in the future or will be effective if applied 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 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 could enact restrictive exchange control policies in the future. There are no current restrictions to convert pesos into U.S. dollars. The exchange rate is determined only by supply and demand as a result of a floating regime. Devaluation or depreciation of the peso against the U.S. dollar may also materially adversely affect us.

Developments in other countries, including the United States and the United Kingdom, may adversely affect us, including by adversely affecting the prices of our debt securities, including the Notes.

Economic and market conditions in other countries may, to varying degrees, affect the market value of securities of Mexican companies. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican companies. For example, during the global credit crisis in 2008 the prices of both Mexican debt and equity securities decreased substantially as a result of the prolonged decrease in the United States securities markets. Most recently, credit issues in the United States related principally to the sale of sub-prime mortgages have resulted in significant fluctuations in the financial markets.

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 and increased economic activity between the two countries, which was highlighted during the 2008 to 2009 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, renegotiation 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 GDP of the United States contracted by 3.5% while Mexican GDP fell by 4.7%. This recession caused unemployment to increase from an average of 5.8% in 2008 to an average of 10.3% 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 28.9% depreciation of the peso from September 2008 to March 2009 and triggered a monetary policy response by *Banco de México* that resulted in low interest rates, which decreased to 4.5% in December 2009 from its December 2008 level of 8.3%. These changes in macroeconomic conditions in Mexico did not have a material impact on our business or operations. In addition, the possibility of normalization of monetary policy in the U.S. has caused an increase in the volatility of the peso/U.S. dollar exchange rate. The relative strength of the U.S. dollar against other currencies, including the peso, could impact manufacturing's contribution to growth, thus affecting economic activity in Mexico.

Additionally, economic conditions in Mexico may also be affected by the recent political developments in the United States, such as the election of Donald Trump as president in November 2016, as well as the Republican Party maintaining control of both the House of Representatives and Senate of the United States in the congressional election. The U.S. government's current policies have generated volatility in the global capital markets, especially in Mexico, and may create uncertainty regarding key policies, such as trade (potential protectionism and the future and renegotiation of NAFTA), immigration (anti-immigration rhetoric and a stated intention to build a wall on the border with Mexico) fiscal (recent changes to the tax code and stated intentions to increase infrastructure expenditures) and defense policy. In particular, there is uncertainty around the implications of a tax reform for the fiscal deficit and national debt. However, there can be no assurance as to what measures and reforms the U.S. administration will implement, and the impact of these measures or any others adopted by the U.S. administration cannot be predicted. We cannot assure you that any developments in the U.S. or elsewhere will not materially adversely affect us in the future.

Furthermore, on June 23, 2016, the United Kingdom held an in-or-out referendum on the United Kingdom's membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union, or Brexit. A process of negotiation will determine the future terms of the United Kingdom's relationship with the European Union. The potential impact of Brexit on our results of operations is unclear. Depending on the terms of Brexit, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by reduced growth and volatility. The uncertainty before, during and after the period of negotiation could also have a negative economic impact and increase volatility in the markets, particularly in the Eurozone. Such volatility and negative economic impact could, in turn, adversely affect the value and trading of the Notes.

During 2011 and 2012, the developments in the global economy, and particularly in Europe, increased the risk premiums in global credit markets, which in turn 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 was not materially affected by it. In 2013, the uncertainties regarding the recovery of the U.S. economy and the changes made to its monetary policy in the short- and medium-term resulted in increased volatility in the debt and foreign exchange markets, affecting all emerging markets, including Mexico. In 2014 and 2015, the U.S. economy showed signs of improvement with an annual GDP growth rate of 2.4% and 2.4%, respectively, which caused the Federal Reserve System to begin normalizing its monetary policy by ending its quantitative monetary stimulus, and increasing the U.S. Federal Reserve's reference rate by 25 basis points in December 2015. Such monetary policy normalization, together with a sharp decline in oil prices, resulted in increased volatility in the financial markets and increased uncertainty regarding the recovery of certain economic zones in Europe, China and most emerging markets. We cannot assure you that the events in Europe, the U.S. or elsewhere will not materially and adversely affect us in the future.

Changes in taxes and other fiscal assessments may adversely affect us.

The Mexican government from time to time enacts reforms to the tax and other assessment regimes to which we and our customers are subject. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. For example, on November 1, 2013 the Mexican Congress approved several tax reforms that became effective at the beginning of 2014. These reforms include changes to the Income Tax Law, Value Added Tax Law (*Ley del impuesto al Valor Agregado*) and the Mexican Federal Tax Code (*Código Fiscal de la Federación*). The tax reforms also repeal the Single Rate Corporate Tax Law (*Ley del Impuesto Empresarial a Tasa Única*) and the Tax Law on Cash Deposits (*Ley del Impuesto a los Depósitos en Efectivo*). The effects of these changes and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified and there can be no assurance that these reforms will not, once implemented, have an adverse effect on us. Furthermore, these changes may produce uncertainty in the financial system, increasing the cost of borrowing and have an adverse effect on us, including contributing to the increase in our non-performing credit portfolio.

Exposure to Mexican federal government debt could have a material adverse effect on us.

Like many other Mexican banks, we invest in debt securities of the Mexican government. As of September 30, 2017, 16.8% of our total assets, and 75.1% of our investment portfolio, was comprised of debt securities issued by the Mexican government (including those issued by *Banco de México*). Any failure by the Mexican government to make timely payments under the terms of these securities, or a significant decrease in their market value, could have a material adverse effect on us.

Violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy.

Mexico has experienced violence relating to illegal drug trafficking, particularly in Mexico's northern states near the U.S. border. This 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.

The perception of higher risk in other countries, especially in emerging economies, may materially adversely affect the Mexican economy and adversely affect the price of the Notes.

Emerging markets such as Mexico are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt business in Mexico and adversely affect the price of the Notes.

Moreover, financial turmoil in any important emerging market country may adversely affect prices in stock markets and prices for debt securities of issuers in other emerging market countries as investors move their money to more stable, developed markets. Any increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Mexico and adversely affect the Mexican economy in general, and the interest of investors in the Notes, in particular in Mexico. We cannot assure you that the value of the Notes will not be materially negatively affected by events in other emerging markets or the global economy in general.

Risks not contemplated in our insurance policies may materially adversely affect us.

We maintain insurance in amounts that we believe to be adequate to cover risks related to our operations including, among others, general banking liability insurance for our business, general professional liability for services we provide, general directors and officers liability for our directors and executives and general liability against fraudulent activity. However, it is possible that the terms and conditions of the insurance policies we have will not cover a specific event or incident or that our insurance will cover only part of the losses that we may incur.

If any uninsured events occur with respect to a significant portion of our operations, or we must pay high deductibles as part of that coverage, those events could have a material adverse effect on our financial conditions and results of operations. Additionally, if we are unable to renew our insurance policies from time to time or losses or other liabilities occur that are not covered by insurance or that exceed our insurance limits, we could be subject to significant unexpected additional costs which could materially adversely affect us.

Mexican financial authorities have been given broad authority in certain areas, including class action lawsuits, as a result of the Financial Reforms.

As part of the Financial Reforms, the Mexican Congress approved changes to the Mexican Law for the Protection and Defense of Financial Services Users, which gives the Mexican National Commission for the Defense of Financial Services Users (*Comisión Nacional para la Defensa de los Usuarios de Servicios Financieros*, or CONDUSEF) broad authority to oversee financial institutions. Pursuant to these changes, among other things, CONDUSEF (i) is entitled to initiate class action lawsuits against Mexican financial institutions, like us, in connection with events affecting groups of users of financial services; (ii) must maintain a new Bureau of Financial Entities (*Buró de Entidades Financieras*), which sets forth the material information for users of financial services; (iii) is empowered to require amendments to standard forms of commercial documentation (such as account and loan agreements we use) if it considers provisions to be detrimental to users; (iv) is permitted to issue resolutions as part of arbitration proceedings, for the benefit of customers, that would permit customers to attach assets of financial institutions prior to the completion of arbitration proceedings; and (v) is given broader authority to fine a financial institution that does not comply with an order issued by CONDUSEF. These new laws grant CONDUSEF, borrowers and other market participants the right to initiate class action lawsuits against us, thereby increasing our exposure to liability. Due to the potential scope and the lack of judicial precedents regarding these laws, we cannot predict the possible outcome of the financial oversight powers of CONDUSEF or any class actions initiated under these laws, including the extent of any liability we may face.

The Mexican Supreme Court of Justice has ruled that Mexican judges are entitled to reduce interest rates considered inequitable, at their sole discretion.

In June 2014, the Mexican Supreme Court of Justice issued a ruling of mandatory application, allowing federal judges to determine *ex officio* if an interest rate agreed in a promissory note is evidently excessive, thereby violating an individual's human rights, and consequently establishing a reduced interest rate. The elements a judge takes into account to determine if an interest rate is evidently excessive are (i) the type of relationship between the parties; (ii) the qualification of the persons intervening in the issuance of the promissory note and if the activity of the creditor is regulated; (iii) the purpose of the loan; (iv) the amount of the loan; (v) the term of the loan; (vi) the existence of guarantees or collateral for the payment of the loan; (vii) the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference; (viii) the variation of the national inflation index during the term of the loan; (ix) market conditions; and (x) other issues relevant to the judge. The mandatory and discretionary application of these criteria in the lawsuits affecting our loan portfolio could have a material adverse effect on the interest rates we charge and on our operating results.

Our corporate disclosures may be different or less substantial than those of issuers in other countries.

Issuers of securities in Mexico are required to make public disclosures that are different and that may be less substantial than disclosures required in countries with highly developed capital markets. 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—Significant Differences Between Mexican

Banking GAAP and U.S. GAAP" and "Annex B—Significant Differences Between Mexican Banking GAAP and IFRS."

Risks Relating to the Notes

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

The Notes constitute our subordinated preferred indebtedness (*obligaciones subordinadas preferentes*), will be subordinated and junior in right of payment and in liquidation to all of our senior indebtedness, and will rank pari passu without preference among themselves with all our other subordinated preferred indebtedness. No payment of principal (including redemption payments), premium, if any, or interest on the Notes may be made at any time when (i) any senior indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (ii) the maturity of any senior indebtedness has been accelerated because of a default.

By reason of the subordination of the Notes, in the case of certain events involving bankruptcy, liquidation or dissolution, although the Notes would become immediately due and payable at their principal amount together with accrued interest thereon, our assets would be available to pay such amounts only after all of our senior indebtedness have been paid in full. As of September 30, 2017, we had, on a consolidated basis, an aggregate of Ps. 50,570 million of senior long-term indebtedness outstanding. The Indenture will not limit our ability to incur additional senior indebtedness and subordinated preferred indebtedness from time to time. See "Description of the Notes—Subordination."

Interest and principal payments to be made by us under the Notes will be deferred if any of our Capital Ratios has declined below the Capital Ratios required under the Mexican Capitalization Requirements, or if a Mexican Regulatory Event has occurred and is continuing.

Under the Rules for Capitalization, capital securities issued by us will be taken into account when assessing our risk-weighted capital adequacy. In order for the subordinated notes to qualify as our capital, the Indenture provides that interest and principal payments will be deferred, on the correspondent payment dates, if any of our Capital Ratios declines below the minimum percentages required from time to time by the Mexican Capitalization Requirements or if any Mexican Regulatory Event has occurred and is continuing. For details regarding the minimum percentages or the events leading to a Mexican Regulatory Event, see "Description of the Notes—Treatment of Interest and Principal During a Suspension Period."

Payments of interest due on the Notes will be cumulative, so that in the event that payments of interest cease during a Suspension Period, holders of the Notes will have the right to receive any amount of unpaid interest at the end of such Suspension Period. See "Description of the Notes—Treatment of Interest and Principal During a Suspension Period." Notwithstanding the foregoing, there can be no guarantee that holders of the Notes will receive payments of interest in respect of the Notes that are deferred in connection with a Suspension Period. Any suspension of payments due to our failure to maintain Capital Ratios equal to or greater than the minimum percentage required under the Mexican Capitalization Requirements would have a material adverse effect on our ability to make scheduled payments under the Notes.

The U.S. federal income tax consequences of an investment in the Notes are uncertain. Holders are urged to read the more detailed discussion of the U.S. federal income tax treatment of the Notes under "Taxation—Certain United States Federal Income Tax Considerations."

No statutory, judicial or administrative authority directly addresses the characterization for U.S. federal income tax purposes of the Notes or instruments with a similar Write-Down feature. As a result, significant aspects of the U.S. federal income tax consequences of an investment in the Notes are not certain. However, the Notes are more likely than not to be treated as our equity (rather than debt) for U.S. federal income tax purposes, and we intend, absent a change in law, to so treat the Notes. Treatment of the Notes as debt for U.S. federal income tax purposes would significantly change the tax treatment of the Notes in ways that are potentially adverse to holders. See "Taxation—Certain United States Federal Income Tax Considerations—Possible Alternative Treatment of the Notes" below. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of an investment in the Notes.

The Notes may be written down to zero, causing holders of the Notes to irrevocably waive their rights to claim or receive repayment of the principal amount of the Notes.

If a Trigger Event occurs (including as a result of our Capitalization Ratio falling below 4.5%), interest on the Notes will cease to accrue and the outstanding principal amount of the Notes will be written down in an aggregate amount as described in "Description of the Notes—Trigger Event and Write Down" without the possibility of any future write-up or reinstatement of principal, and holders of the Notes will automatically be deemed to have irrevocably waived their right to claim or receive repayment of the written-down principal amount of the Notes then outstanding, and any unpaid interest and any additional amounts with respect thereto. Any such Write-Down will be irrevocable and holders would not receive any of our shares or the shares of our affiliates or be entitled to any subsequent write-up or any other form of compensation in the event of a Write-Down. As a result, holders would lose all or a portion, as the case may be, of their investment in the Notes and will have no right to repayment by us of the written-down amount. See "Description of the Notes—Write-Down."

If a Trigger Event occurs, it is expected that a Write-Down would take place before the determination of the treatment of our remaining indebtedness or other securities without similar write-down features. Our other indebtedness without similar write-down features, including indebtedness that is initially subordinated to the Notes, may remain outstanding after a Write-Down of the Notes.

The circumstances surrounding or triggering a Write-Down are unpredictable and may be caused by factors not fully within the Bank's control.

The occurrence of a Trigger Event and a resulting Write-Down, is inherently unpredictable and may depend on a number of factors, any of which may be outside of our control. The determination as to whether a Trigger Event has occurred will partially depend on the calculation of our Capitalization Ratio and whether such ratio has fallen below 4.5%. For further information, see "Description of the Notes—General Rules Applicable to Mexican Banks and their Application to Us." Fluctuations in our Capitalization Ratio may be caused by changes to Mexican Capitalization Requirements and applicable accounting rules, among other external factors. Further, the thresholds for a Trigger Event may be changed in the future.

Due to the uncertainty regarding whether a Trigger Event will occur in the future, it will be difficult to predict when, if at all, a Write-Down may occur. In addition, any disclosure that our Capitalization Ratio is moving towards the level which would cause the occurrence of a Trigger Event may have an adverse effect on the market price and liquidity of the Notes.

DTC may decide to suspend all clearance and settlement of transfers of the Notes by holders of the Notes after its receipt of a Write-Down Notice that causes the principal amount of the Notes to be reduced to zero, and any transfer of the Notes that is scheduled to settle after such suspension is expected to be rejected by DTC and will not be settled within DTC.

DTC may decide to suspend all clearance and settlement of transfers of the Notes by holders after its receipt of a Write-Down Notice that causes the principal amount of the Notes to be reduced to zero. We have agreed to provide a Write-Down Notice (as defined in the "Description of the Notes") to holders and to the Trustee via the applicable clearing system on the business day after the occurrence of the Trigger Event. However, the records of DTC will not be immediately updated to reflect the Trigger Event, and a period of time, which may exceed several days, may be required before the clearance and settlement of transfers of the Notes through DTC are suspended.

Due to such delay, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date after DTC commences such suspension fail to settle through DTC even though such transfers were initiated prior to the Trigger Event that caused the principal amount of the Notes to be reduced to zero. In such circumstances, transferors of such Notes would not receive any consideration through DTC in respect of such intended transfer because DTC will not settle such transfer after commencement of such suspension. Similarly, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date before DTC commences such suspension will be settled through DTC even though such transfers were initiated after the Trigger Event that caused the principal amount of the Notes to be reduced to zero. In such circumstances, transferees of the Notes may be required to pay consideration through DTC even though, upon the occurrence of such Trigger Event, no amounts under the Notes will thereafter become due, and such transferees will have no rights whatsoever under the Indenture or the Notes to take any action or enforce any rights or instruct the Trustee to take any action or enforce any rights whatsoever against us, regardless of whether they have received actual or constructive notice of such fact. The settlement of the Notes following a Trigger Event will be subject to procedures of DTC that are in place at such time.

If we do not satisfy our obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.

Payment of principal on the Notes may be accelerated only in specified instances involving our liquidation or dissolution. There is no right of acceleration in the case of a default in the performance of any of our covenants, including a default in the payment of principal or interest. See "Description of the Notes—Treatment of Interest and Principal During a Suspension Period" and "Description of the Notes—Events of Default, Notice and Waiver."

Even if the payment of principal on the Notes is accelerated due to our liquidation or dissolution, our assets will be available to pay those amounts only after:

- all of our senior obligations have been paid in full as described in "Description of the Notes—Subordination"; and
- we are actually declared bankrupt or are dissolved or put into liquidation for purposes of Mexican law.

As a result, recoveries on the Notes may be substantially limited.

The Notes are subject to redemption in the event of specified changes affecting the treatment of Notes under the Rules for Capitalization or changes affecting the tax treatment of the Notes.

Upon the occurrence and continuation of certain specified changes affecting the tax treatment of the Notes or treatment of the Notes as capital securities under the Rules for Capitalization, which may occur from time to time, as described under "Description of the Notes—Redemption—Withholding Tax Redemption" and "Description of the Notes—Redemption—Special Event 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) subject to any regulatory requirements, which may be amended from time to time.

The interest rate of the Notes will reset on the Optional Call Date, which can be expected to affect the interest payment on the Notes and the market value on the Notes.

Subject to deferral during any Suspension Period and to one or more Write-Downs, the Notes will bear interest on the Current Principal Amount from time to time outstanding from, and including, the Issue Date to, but excluding the Optional Call Date, at a fixed rate set forth on the cover of this offering memorandum. However, from, and including, the Optional Call Date, to, but excluding, the Maturity Date, the interest rate will reset to a rate, which will equal the sum of the then-prevailing Treasury Yield and the fixed spread determined at the pricing of this offering. This reset rate could be less than the initial interest rate and could affect the market value of the Notes. In addition, U.S. treasury securities have been trading at low prices, resulting, from time to time, in negative Treasury Yield. If the Treasury Yield continues to decline, the reset rate may be negative and the Indenture does not describe the consequences of negative interest rates.

The Notes are novel and complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors.

The Notes are novel and complex financial instruments that involve a high degree of risk. As a result, an investment in the Notes will involve risks that are not common and are incremental to those applicable in respect of debt securities. Each potential investor of the Notes must determine the suitability (either alone or with the help of a financial adviser) of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this offering memorandum;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio and expected income;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments, i.e., U.S. dollars, is different from the currency in which such potential investor's financial activities are principally denominated and the possibility that the entire principal amount of the Notes be paid in a different currency and could be lost;

- understand thoroughly the terms of the Notes, such as the provisions governing the Write-Down (including, in particular, the calculation of the fundamental capital ratio, as well as under what circumstances a Trigger Event will occur), and be familiar with the behavior of any relevant indices and financial markets; and

- be able to evaluate possible scenarios for economic, banking industry, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules. A potential investor should not invest in the Notes unless it has the knowledge and expertise (either alone or with a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the likelihood of a Write-Down and the value of the Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this offering memorandum.

Changes in law may adversely affect your rights under the Notes or may adversely affect us.

Changes in law after the date hereof may affect your rights as a holder of Notes as well as the market value of the Notes. Regulators may, from time to time, propose or consider amendments to laws or legislation and rule making which may affect our business, your rights as a holder of the Notes and the market value of the Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, or changes that could have a significant impact on the future legal entity structure, our management, and use of capital and requirements for our loss-absorbing capacity, which may have an adverse effect on an investment in the Notes.

Such legislative and regulatory uncertainty could also affect your ability to accurately value the Notes and therefore affect the trading price of the Notes given the extent and impact on the Notes that one or more regulatory or legislative changes could have on the Notes and changes in regulatory rules could increase likelihood of suspension or write-down.

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. 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. In July 2017, S&P revised its outlook of Mexico from "Negative" to "Stable," as well as its ratings of Mexican financial institutions including BBVA Bancomer from "Negative" to "Stable." In August 2017, Fitch Ratings revised its outlook of Mexico and several Mexican financial institutions, including BBVA Bancomer, from "Negative" to "Stable."

The non-payment of funds by any of our subsidiaries could have a material adverse effect on our ability to pay amounts due in respect of our debt, including the Notes.

Our cash flow and our ability to service debt depend in part on the cash flow and earnings of our subsidiaries and the payment of funds by those subsidiaries to us in the form of loans, interest, dividends or otherwise. The subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due under the terms of the Notes or to make any funds available for such purpose. Furthermore, claims of creditors of such subsidiaries, including trade creditors of such subsidiaries, will have priority over our creditors, including the holders of the Notes, with respect to the assets and cash flow of such subsidiaries. Any right we may have to receive assets of any of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of Notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors.

Our Capital Ratios are affected by business decisions made by us and our shareholders and, in making such decisions, these interests may not be aligned with those of the holders of Notes offered hereby.

The Notes being offered hereby have terms that are affected by the extent to which we are in compliance with Mexican Capitalization Requirements. See "Description of the Notes." Our Capital Ratios could be affected by a number of factors, including business decisions taken by us in coordination with our controlling shareholder, Grupo Financiero BBVA Bancomer. In this regard, our business strategy and operations may depend on the decisions of Grupo Financiero BBVA Bancomer or its parent BBVA (the "BBVA Group") relating to its overall business, including its Mexican operations carried on by us, as well as the overall management of our and the BBVA Group's consolidated capital position. We have no obligation to consider the interests of the holders of the Notes offered hereby (or any other series of our indebtedness that may be outstanding) in connection with overall strategic decisions of the BBVA Group, including in respect of capital management, regardless of whether they result in the occurrence of a Trigger Event or Suspension Period. In addition, holders will not have any claim against us or our shareholders relating to decisions that affect the business and operations of the BBVA Group, including its capital position, regardless of whether they result in the occurrence of any event that causes a suspension or cancellation of amounts due in respect of the Notes offered hereby. In addition, notwithstanding the applicability of any one or more of the conditions set out above that would result in amounts due in respect of the Notes not being paid or being paid only in part, there will be no restriction on our paying dividends on our ordinary shares or making pecuniary or other distributions to the holders of our ordinary shares, including our controlling shareholder, Grupo Financiero BBVA Bancomer, assuming that we are in compliance with Mexican Capitalization Requirements. Such decisions could cause holders of the Notes offered hereby to lose all or part of the value of their investment in the Notes.

There is no existing market for the Notes and one may not develop in the future; thus it may be difficult to resell your Notes.

Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE, although no assurance can be given that such listing will be accomplished. The Notes constitutes a separate and new issue of securities with no established trading market. In addition, in the event there are changes in the listing requirements, we may conclude that continued listing on the Irish Stock Exchange is unduly burdensome. See "General Information." No assurance can be given as to (1) the liquidity of any markets that may develop for the Notes, (2) whether an active public market for the Notes will develop, (3) your ability to sell your Notes (or beneficial interests therein) or (4) the price at which you will be able to sell your Notes, as the case may be. In addition, the Notes have not been registered under the Securities Act and will be subject to transfer restrictions. See "Transfer Restrictions."

We have not and will not register the Notes with the Mexican National Securities Registry maintained by the CNBV and therefore we may not publicly offer the Notes or sell the Notes, nor can they be the subject of brokerage activities in Mexico, except that we may privately offer and place the Notes in Mexico to institutional and qualified investors. Future trading prices of the Notes will depend on many factors including, among other things, prevailing interest rates, our operating results, and the market for similar securities. 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 the limits of the Securities Act. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. See "Plan of Distribution." In addition, trading or resale of the Notes (or beneficial interests therein) may be negatively affected by other factors described in this offering memorandum arising from this transaction or the market for securities of Mexican issuers generally.

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

We are organized under the laws of Mexico as a multi-purpose bank (*institución de banca multiple*) with limited liability (*socieadad anónima*). Most of 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. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of our Mexican internal 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.

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

Although our obligations to pay U.S. dollars outside Mexico are valid, under Article 8 of 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 such Article 8, an obligation that is payable in Mexico in a currency other than Mexican currency 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 *Banco de México* every business banking day in Mexico and published the following business banking day in the Federal Official Gazette. It is unclear, however, whether the applicable rate of exchange applied by the Mexican court to determine the Mexican Judgment Currency is the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions that purport to limit our liability to discharge our obligations as described above, or to give any party an additional course of action seeking indemnity or compensation for possible deficiencies arising or resulting from variations in rates of exchange, may not be enforceable in Mexico.

Under the Mexican Banking Law, in the event of the revocation of our license to operate as a bank and consequent liquidation, foreign currency-denominated liabilities would be converted into pesos at the prevailing rate of exchange on the date our license to operate as a bank is revoked.

If we were declared insolvent by the CNBV, we would be liquidated in a court procedure and the holders of the Notes may find it difficult to collect payment on the Notes.

Under the Mexican Banking Institutions Law, if the CNBV declares us insolvent, our authorization to organize and operate as a bank institution will be revoked and a liquidation procedure before a Federal Mexican court will commence, in which by statute the IPAB will be appointed as the receiver (*liquidador judicial*). The Bank would be in liquidation as of the date following the notification by CNBV of the revocation of the authorization to operate and organize as a bank institution and our payment obligations denominated in foreign currency, including the Notes (i) would be converted to pesos at the exchange rate prevailing at the time such revocation is deemed effective, other than secured debt, (ii) would cease accruing interest to the extent such debt is not secured, (iii) would be paid at the time claims of creditors are satisfied, (iv) would not be adjusted to consider any depreciation of the peso against the U.S. dollar occurring after the liquidation procedure begins. In addition, in the event of our liquidation, Mexican law provides preferential treatment for certain claims, such as those relating to labor, taxes and secured creditors.

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USE OF PROCEEDS

Our net proceeds from the issuance of the Notes, after deducting the initial purchasers' discounts and commissions and estimated offering expenses payable by us, are estimated to be approximately U.S. $991 million. We intend to use the net proceeds of the issuance of the Notes to strengthen our regulatory capital ratios and for general corporate purposes.

EXCHANGE RATES AND CURRENCY

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 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 table sets forth, for the periods indicated, the high, low, average and period-end exchange rates published by *Banco de México* in the Federal Official Gazette, expressed in pesos per U.S. dollar. The exchange rates shown below are in nominal pesos that have not been restated in constant currency units.

Period[1]	Low	High	Average[2]	Period-end
		(nominal Ps. per U.S. dollar)		
2013	11.98	13.44	12.77	13.07
2014	12.85	14.79	13.30	14.74
2015	14.56	17.38	15.88	17.25
2016	17.18	21.05	18.69	20.62
2017	17.49	21.91	18.91	19.66
January	20.73	21.91	21.39	20.79
February	19.70	20.78	20.29	20.00
March	18.71	19.94	19.30	18.80
April	18.49	19.11	18.79	18.96
May	18.42	19.14	18.76	18.69
June	17.88	18.62	18.13	18.06
July	17.49	18.36	17.83	17.86
August	17.62	17.97	17.80	17.81
September	17.64	18.20	17.81	18.20
October	18.21	19.22	18.82	19.15
November	18.52	19.23	18.92	18.62
December	18.64	19.79	19.18	19.66
2018				
January (through January 3, 2018)	19.37	19.49	19.43	19.37

(1) Source: *Banco de México.*
(2) Average of daily exchange rates for 2013, 2014, 2015, 2016, 2017, January, February, March, April, May, June, July, August, September, October, November and December 2017, and January 2018 (through January 3, 2018).

The exchange rate to purchase U.S. $1.00 published by *Banco de México* on September 30, 2017 was Ps. 18.1590 to U.S. $1.00 and on January 3, 2018 was Ps. 19.3717 to U.S. $1.00.

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 to 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 of indebtedness, including the Notes, would be adversely affected.

DIVIDENDS

We paid dividends of Ps. 15,450 million in 2016, Ps. 15,800 million for the year ended December 31, 2015 and Ps. 15,950 million in 2014, in each case from our retained earnings.

At the shareholders' meeting held on February 28, 2017, our shareholders approved the distribution of dividends up to an aggregate amount of Ps. 23,318 million from our retained earnings for the year ended December 31, 2016, and authorized each of the Chairman, Vice-president and the Secretary of our Board of Directors to, individually, take the following actions: (i) decide on the payment of dividends to shareholders on a *pro rata* basis; (ii) determine the amount of each dividend payment, which shall not exceed the total amount of distributable dividends authorized by our shareholders' meeting; (iii) announce the dividend payment dates, and (iv) determine the proportion or ratio of dividend payment for each of our outstanding shares.

The declaration, amount and payment of dividends is determined, subject to the limitations set forth below, by the affirmative vote of a majority of the holders of our common voting shares, substantially all of which are owned by GFBB, which, in turn is controlled by BBVA. We may not declare or pay dividends to GFBB unless we meet the capital ratio requirements under the Mexican Capitalization Requirements. See "Supervision and Regulation." At the shareholders' meeting held on February 28, 2017, we had reached this capitalization requirement, and were entitled to declare and pay dividends. Although no assurance can be given, we expect to continue to be in compliance with these capital ratio requirements during 2017.

Under Mexican law, we are required to allocate 10% of our net result (on an unconsolidated basis and after employee profit sharing and other deductions required by Mexican law) to a legal reserve fund, which is not available for distribution except as a stock dividend, until the amount of the legal reserve equals our paid-in capital stock. We may pay dividends only out of earnings (including retained earnings after all losses have been absorbed or paid up) and only after the allocation to the legal reserve fund. We must fund the reserve fund on a stand-alone basis for each company, rather than on a consolidated basis. The level of earnings available for the payment of dividends is determined under Mexican Banking GAAP. On September 30, 2017, we were in compliance with the regulations pertaining to our legal reserve. Our subsidiaries are required to allocate earnings to their respective legal reserve funds before paying dividends to us, and on February 28, 2017, they were also in compliance. As of September 30, 2017, we had set aside Ps. 6,901 million in legal reserves compared to paid-in capital stock of Ps. 24,143 million.

CAPITALIZATION

The following table sets forth, as of September 30, 2017, our actual capitalization and our capitalization as adjusted to give effect to the issuance on January 17, 2018 of the Notes and the use of proceeds therefrom.

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 Financial Statements and the notes thereto included elsewhere in this offering memorandum.

	As of September 30, 2017			
	Actual		As Adjusted	
	(millions of Ps.)	(millions of U.S. $)	(millions of Ps.)	(millions of U.S. $)
Long-term indebtedness				
Bank bonds	88,223	4,858	88,223	4,858
Subordinated preferred indebtedness	40,858	2,250	59,017	3,250
Subordinated non-preferred indebtedness	31,618	1,741	31,618	1,741
Total long-term indebtedness	160,699	8,850	178,858	9,850
Stockholders' equity				
Subscribed capital[1]	40,003	2,203	40,003	2,203
Earned capital	134,802	7,423	134,802	7,423
Total stockholders' equity	174,805	9,626	174,805	9,626
Total capitalization[2]	335,504	18,476	353,663	19,476

(1) As of September 30, 2017, our authorized capital stock consisted of 9,107,142,859 Series "F" shares and 8,749,999,999 Series "B" shares. Of these shares, 7,737,078,937 Series "F" shares and 7,433,664,076 Series "B" shares were issued and outstanding.

(2) Except as disclosed in this offering memorandum, there has been no material change in our capitalization since September 30, 2017.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information presented below should be read in conjunction with "Presentation of Certain Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," our Financial Statements and other financial information included elsewhere in this offering memorandum.

Reclassifications

Financial statements as of and for the years ended December 31, 2016 and 2015

On November 9, 2015, various amendments to the accounting criteria for credit institutions were published in the Federal Official Gazette of Mexico. The purpose of these amendments was to adjust the accounting criteria for the operations of credit institutions, in order to ensure reliable financial reporting. These amendments came into effect on January 1, 2016 and we adopted them on January 1, 2016. Accordingly, our balance sheet as of December 31, 2016 was prepared on a different basis than the two immediately preceding years. As a result of these amendments, we reclassified certain line items for presentational purposes in our balance sheet as of December 31, 2015 for inclusion in our audited consolidated financial statements as of and for the year ended December 31, 2016. However, we deem these reclassifying adjustments to be immaterial for the financial statements as of and for the year ended December 31, 2015 and 2014, taken as a whole. Accordingly, we were not required to, and did not, reclassify our financial statements as of and for the years ended December 31, 2015 and 2014 in respect of these changes. The reclassifications of certain line items in the balance sheet as of December 31, 2015 to ensure consistency and comparability with the balance sheet as of December 31, 2016 is quantified in Note 3 to our audited consolidated financial statements as of and for the years ended December 31, 2016 and 2015.

Financial statements as of and for the years ended December 31, 2015 and 2014

As of December 31, 2014, we presented in our consolidated balance sheet the line item "Assigned securities to be settled" as a sub-line item of "liabilities" in the amount of Ps. 5,157 thousand. In accordance with NIF B-1, *Accounting changes and error corrections*, in order to improve the clarity of the financial information, we reclassified "Assigned securities to be settled" under the heading, "Investment in securities" under "Trading securities" in the amount of Ps. 5,157 thousand, to make the presentation of such amount consistent with that presented as of December 31, 2015. However, we deem this reclassifying adjustment to be immaterial to the financial statements as of and for the year ended December 31, 2014, taken as a whole. The reclassification of this line item in the consolidated balance sheet as of December 31, 2014 to ensure consistency and comparability with 2015 is disclosed in Note 3 to our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2014.

Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain important respects from Mexican GAAP, U.S. GAAP and IFRS. See "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP" and "Annex B—Significant Differences Between Mexican Banking GAAP and IFRS."

Unless otherwise specified, in accordance with Mexican Banking GAAP, our Financial Statements and the other financial information presented below are presented in consolidated form. In accordance with Mexican Banking GAAP, we consolidate entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. See note 13 to our Audited Financial Statements included elsewhere in this offering memorandum.

Audited Financial Information

The selected annual financial information presented below has been derived from and should be read in conjunction with our Financial Statements included elsewhere in this offering memorandum. Such annual financial information, unless otherwise specified, is presented in nominal pesos.

	For the years ended December 31,					
	2012	2013	2014	2015	2016	2016(2)
	(millions of Ps.)					(millions of U.S. $)
Income Statement Data:						
Interest income	Ps. 102,506	Ps. 103,813	Ps. 111,081	Ps. 119,831	Ps. 137,879	U.S. $6,687
Interest expense	(32,950)	(29,469)	(27,126)	(28,022)	(34,775)	(1,687)
Financial margin	69,556	74,344	83,955	91,809	103,104	5,000
Allowance for loan losses	(22,260)	(23,699)	(25,526)	(28,482)	(32,383)	(1,571)
Financial margin adjusted for credit risks	47,296	50,645	58,429	63,327	70,721	3,429
Commissions and fees collected	26,918	28,451	30,204	33,243	36,238	1,757
Commissions and fees paid	(9,115)	(9,022)	(9,412)	(11,392)	(12,038)	(584)
Result from intermediation	3,626	3,016	3,291	3,262	3,562	173
Other operating income	1,331	(62)	475	854	1551	75
Administrative and promotion expenses	(41,806)	(43,136)	(50,534)	(51,959)	(57,743)	(2,800)
Result from operations	28,250	29,892	32,453	37,335	42,291	2,050
Equity in results of unconsolidated subsidiaries and associated companies	165	169	142	100	16	1
Result before taxes on income	28,415	30,061	32,595	37,435	42,307	2,051
Current income taxes	(6,088)	(5,265)	(9,279)	(13,516)	(10,974)	(532)
Deferred income taxes	(421)	(2,057)	1,430	4,695	1,106	54
Result before discontinued operations	21,906	22,739	24,746	28,614	32,439	1,573
Discontinued operations	1,291	8,085	-	-	872	42
Result before non-controlling interest	23,197	30,824	24,746	28,614	33,311	1,615
Non-controlling interest	(4)	1	(1)	(1)	-	-
Net result	Ps. 23,193	Ps. 30,825	Ps. 24,745	Ps. 28,613	Ps. 33,311	U.S. $1,615

	As of or for the Years ended December 31,					
	2012	2013	2014	2015	2016	2016[2]
	(millions of Ps. except for percentages)					(millions of U.S. $)
Balance Sheet Data:						
Total assets	Ps. 1,263,699	Ps. 1,371,883	Ps. 1,531,252	Ps. 1,696,133	Ps. 1,908,681	U.S. $ 92,567
Cash and cash equivalents...........	121,568	128,296	124,190	150,102	186,749	9,057
Margin Accounts	3,748	5,671	3,810	2,774	8,998	436
Investment in securities..................	347,058	383,388	411,539	414,285	401,350	19,465
Total loans................	663,854	721,574	809,383	904,568	1,022,460	49,587
Allowance for loan losses	(27,934)	(27,336)	(26,081)	(27,386)	(30,005)	(1,455)
Deferred taxes, net....	6,699	5,478	6,958	12,309	14,998	727
Other assets	148,706	154,812	201,453	239,481	304,131	14,750
Total funding.................	764,998	809,091	916,803	1,051,051	1,148,013	55,676
Deposits (excluding bank bonds)	615,088	655,342	726,559	861,035	955,634	46,347
Bank bonds	56,537	57,243	71,128	91,220	79,990	3,879
Subordinated debt.....	68,565	64,607	69,495	77,958	93,185	4,519
Interbank loans and loans from other entities	24,808	31,899	49,621	20,838	19,204	931
Other liabilities.........	381,432	437,011	480,476	499,905	601,686	29,181
Total liabilities................	1,146,430	1,246,102	1,397,279	1,550,956	1,749,699	84,857
Total stockholders' equity.........................	Ps. 117,269	Ps. 125,781	Ps. 133,973	Ps. 145,177	Ps. 158,982	U.S. $ 7,710
Profitability and Efficiency:						
Return on average total assets[3].......................	1.86%	2.34%	1.70%	1.77%	1.85%	-
Return on average stockholders' equity[3].	19.93%	25.37%	19.05%	20.50%	21.90%	-
Net interest margin[4]	5.60%	5.64%	5.78%	5.69%	5.72%	-
Efficiency ratio[5]...........	45.95%	44.57%	46.77%	44.44%	44.12%	-
Capitalization:						
Stockholders' equity as a percentage of total assets...........................	9.28%	9.17%	8.75%	8.56%	8.33%	-
Tier 1 Capital as a percentage of risk-weighted assets....	11.04%	11.92%	11.61%	11.85%	11.40%	-
Total capital as a percentage of risk-weighted assets....	15.84%	15.92%	15.22%	14.92%	13.73%	-
Credit Quality Data:						
Total performing loans ...	642,168	698,899	787,432	883,163	999,701	49,484
Total non-performing loans	21,686	22,675	21,951	21,405	22,759	1,104
Total loans......................	663,854	721,574	809,383	904,568	1,022,460	49,587
Loans graded "C1", "C2", "D" and "E"[6]...	73,374	64,343	64,676	65,439	72,245	3,504
Allowance for loan losses	(27,934)	(27,336)	(26,081)	(27,386)	(30,005)	(1,455)
Loan Recovery and Write-offs:						
Non-performing loans – average balance...........	20,684	22,181	22,313	21,678	22,082	1,071
Non-performing loans written-off..................	18,588	23,991	19,543	21,849	25,031	1,214
Recoveries in respect of non-performing loans..	(606)	(597)	(592)	(738)	(695)	(34)
Recovered amounts as a percentage of average non-performing loans..	2.93%	2.69%	2.65%	3.40%	3.17%	-

(1) Translated at the rate of Ps. 20.6194 per U.S. $1.00, the fixed exchange rate published by *Banco de México* in the Federal Official Gazette on December 31, 2016.
(2) See "Selected Statistical Information-Return on Average total assets and average stockholders' equity."
(3) Represents net income divided by average total assets. Average total assets are determined on annualized basis, based on the beginning and end of the period.
(4) Efficiency ratio is equal to total administrative and promotional expenses as a percentage of the aggregate of net interest income and non-interest income (commission and fees, *plus* trading income *plus* other operating income). For this purpose, net interest income and non-interest income are calculated before provision for loan losses.
(5) See "Selected Statistical Information—Grading of Loan Portfolio."

Unaudited Financial Information

The selected unaudited condensed consolidated interim financial information for the nine months ended September 30, 2017 and 2016 presented below has been derived from and should be read in conjunction with our Unaudited Financial Statements included elsewhere in this offering memorandum. Such interim financial information, unless otherwise specified, is presented in nominal pesos.

	For the nine months ended September 30,					
	2016		2017		2017 (1)	
	(millions of Ps.)				(millions of U.S. $)	
Income Statement Data:						
Interest income	Ps.	100,907	Ps.	123,026	U.S.	$ 6,775
Interest expense		(24,442)		(39,579)		(2,180)
Financial margin		76,465		83,447		4,595
Allowance for loan losses		(24,401)		(25,569)		(1,408)
Financial margin adjusted for credit risks		52,064		57,878		3,187
Commissions and fees collected		26,160		28,947		1,594
Commissions and fees paid		(8,519)		(9,890)		(545)
Result from intermediation		2,492		3,969		219
Other operating income		1,713		1,107		61
Administrative and promotion expenses		(40,543)		(42,147)		(2,321)
Result from operations		33,367		39,864		2,195
Equity in results of unconsolidated subsidiaries and associated companies		20		26		1
Result before income taxes		33,387		39,890		2,196
Current income taxes		(7,171)		(10,740)		(591)
Deferred income taxes		(797)		194		11
Result before discontinued operations		25,419		29,344		1,616
Discontinued operations		872		-		-
Result before non-controlling interest		26,291		29,344		1,616
Non-controlling interest		-		(1)		-
Net result	Ps.	26,291	Ps.	29,343	U.S.	$ 1,616

	As of December 31,		As of the Nine months Ended September 30,			
	2016		2017		2017(1)	
	(millions of Ps., except for percentages)				(millions of U.S. $ except for percentages)	
Balance Sheet Data:						
Total assets	Ps.	1,908,681	Ps.	1,962,836	U.S. $	108,091
Cash and cash equivalents		186,749		231,961		12,744
Margin Accounts		8,998		12,518		689
Investment in securities		401,350		416,531		22,938
Total loans		1,022,460		1,071,033		58,981
Allowance for loan losses		(30,005)		(32,133)		(1,770)
Deferred taxes, net		14,998		14,715		810
Other assets		304,131		248,211		13,669
Total funding		1,148,013		1,243,929		68,502
Deposits (excluding bank bonds)		955,634		1,066,361		58,724
Bank bonds		79,990		88,223		4,858
Subordinated debt		93,185		72,476		3,991
Interbank loans and loans from other entities		19,204		16,869		929

	As of December 31,		As of the Nine months Ended September 30,		
	2016		2017		2017[1]
	(millions of Ps., except for percentages)			(millions of U.S. $ except for percentages)	
Other liabilities		601,686		544,066		29,961
Total liabilities		1,749,699		1,787,995		98,463
Total stockholders' equity	Ps.	158,982	Ps.	174,841	U.S. $	9,628
Profitability and Efficiency:						
Return on average total assets[2]		1.85%		1.55%		1.55%
Return on average stockholders' equity[2]		21.90%		17.66%		17.66%
Net interest margin[3]		5.72%		4.40%		4.40%
Efficiency ratio[4]		43.61%		39.18%		39.18%
Capitalization:						
Stockholders' equity as a percentage of total assets		8.33%		8.91%		8.91%
Tier 1 Capital as a percentage of risk-weighted assets		11.40%		12.22%		12.22%
Total capital as a percentage of risk-weighted assets		13.73%		14.21%		14.21%
Credit Quality Data:						
Total performing loans		999,701		1,047,949		57,710
Total non-performing loans		22,759		23,084		1,271
Total loans		1,022,460		1,071,033		58,981
Loans graded "C," "D" and "E"		72,245		79,329		4,369
Allowance for loan losses		(30,005)		(32,133)		(1,770)
Loan Recovery and Write-offs:						
Non-performing loans – average balance		22,082		23,135		1,274
Non-performing loans written-off		25,031		19,812		1,091
Recoveries in respect of non-performing loans		(695)		(535)		(29)
Recovered amounts as a percentage of average non-performing loans		3.15%		2.31%		2.31%

(1) Translated at the rate of Ps. 18.1590 per U.S. $1.00, the fixed exchange rate published by *Banco de México* in the official Gazette of the Federation on September 30, 2017.

(2) Determined on an annualized basis, based on beginning- and end-of-period balances.

(3) Represents net income divided by average total assets. Average total assets are determined on an annualized basis, based on beginning- and end-of-period balances.

(4) Efficiency ratio is equal to total non-interest expense as a percentage of the aggregate of net interest income and non-interest income (commission and fees, *plus* trading income *plus* other operating income). For this purpose, net interest income and non-interest income are calculated before provision for loan losses.

Other Financial Data and Ratios

The selected financial data and ratios presented below have been derived from and should be read in conjunction with our Financial Statements, together with the notes thereto, and the other financial information included elsewhere in this offering memorandum.

	As of or for the Years Ended December 31,				
	2012	2013	2014	2015	2016
Credit Quality Ratios:					
Allowance for loan losses as a percentage of total loans	4.21%	3.79%	3.22%	3.03%	2.93%
Allowance for loan losses as a percentage of total non-performing loans	128.81%	120.56%	118.81%	127.94%	131.84%
Allowance for loan losses as a percentage of loans graded "C1", "C2", "D" and "E"	38.07 %	42.49%	40.33%	41.85%	41.53%
Total non-performing loans as a percentage of total loans	3.27%	3.14%	2.71%	2.37%	2.23%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of net total loans (net performing loans plus net non-performing loans)	0.95 %	0.65%	0.51%	0.67%	0.71%
Net non-performing loans (total non-performing loans less allowance for loan losses) as a percentage of stockholders' equity	5.33%	3.71%	3.08%	4.12%	4.56%
Provision for loan losses as a percentage of average total loans	4.08%	3.99%	3.49%	3.12%	2.98%
Charge-offs (net of recoveries) as a percentage of average total loans	3.05%	2.99%	2.77%	2.34%	2.36%

Loans graded "C1", "C2", "D" and "E" as a percentage of total loans[1]	11.05%	8.92%	7.99%	7.23%	7.07%

(1) See "Selected Statistical Information—Grading of Loan Portfolio."

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

The financial information presented in this section should be read in conjunction with our Financial Statements included elsewhere in this offering memorandum. Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in significant respects from Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS. For a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS, see "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP" and "Annex B—Significant Differences Between Mexican Banking GAAP and IFRS," respectively. 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 Certain Financial and Other Information."

Economic Environment

According to data from *Banco de México*, in 2014, the Mexican economy experienced a recovery and as a result Mexico's GDP increased by 2.3%. After a slow start to the year due in part to recently passed fiscal reforms, the economy grew at an average rate of 2.5% year-over-year in the second half of 2014. This growth rate was underpinned by the strength of exports (9.2% on average) and private investment (8.7% on average) in the last two quarters of the year.

In 2015, the Mexican economy grew by 2.7%, the highest growth rate since 2012. This expansion was mainly driven by the strength of domestic consumption that was supported by an all-time low inflation rate of 2.13%, the updates to the labor laws that incorporated previously not registered workers into the formal workforce and the increase in credit. The U.S. dollar-peso exchange rate depreciated significantly by 14.3% influenced by the decrease in oil prices and by the uncertainty as to any potential increases in the U.S. Federal Reserve rate. *Banco de México* raised its rate for the first time since 2008 to 3.25% in December 2015.

In 2016, the Mexican economy was adversely affected by several external factors such as low oil prices and Brexit, and most significantly, the U.S. presidential elections. The protectionist and anti-immigrant rhetoric, especially regarding Mexico, that characterized Donald Trump's candidacy became a source of major concern when he was nominated as the Republican candidate and then elected as president in November 2016. The uncertainty about the future of the commercial relationship with the United States led the U.S. dollar-peso exchange rate to reach an all-time high of Ps. 21.9076/U.S. dollar on January 11, 2017, prompting an increase in inflation during the second half of the year of 3.3% and a further tightening of monetary policy that led the reference rate to reach 5.75%, the highest rate since 2008. Economic growth has not reflected the effects of that uncertainty arising after the U.S election in November 2016, and the economy has instead grown by 2.0%.

During 2017, the outlook for the Mexican economy improved significantly compared to the beginning of the year. As the risks of disruption to the commercial relations with the U.S. have lingered, the economy has grown 1.6% year-over-year and on seasonally-adjusted terms, primarily due to consumption. The Mexican peso appreciated 4.3% in 2017, and inflation is expected to decrease to approximately 3.7% in 2018 according to National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*) estimates.

Effect of Tax Legislation

On November 1, 2013, the Mexican Congress approved several tax reforms that became effective as of January 1, 2014. These reforms included changes to the Income Tax Law (*Ley del Impuesto sobre la Renta*), Value Added Tax (*Ley del Impuesto al Valor Agregado*) and the Mexican Federal Tax Code (*Código Fiscal de la Federación*), and the repeal of the Single Rate Corporate Tax Law (*Ley del Impuesto Empresarial a Tasa Única*) and the Tax Law on Cash Deposits (*Ley del Impuesto a los Depósitos en Efectivo*).

During 2016 and 2017 the Income Tax Law rate applicable to the Bank was 30% and we cannot predict if changes are expected for the foreseeable future.

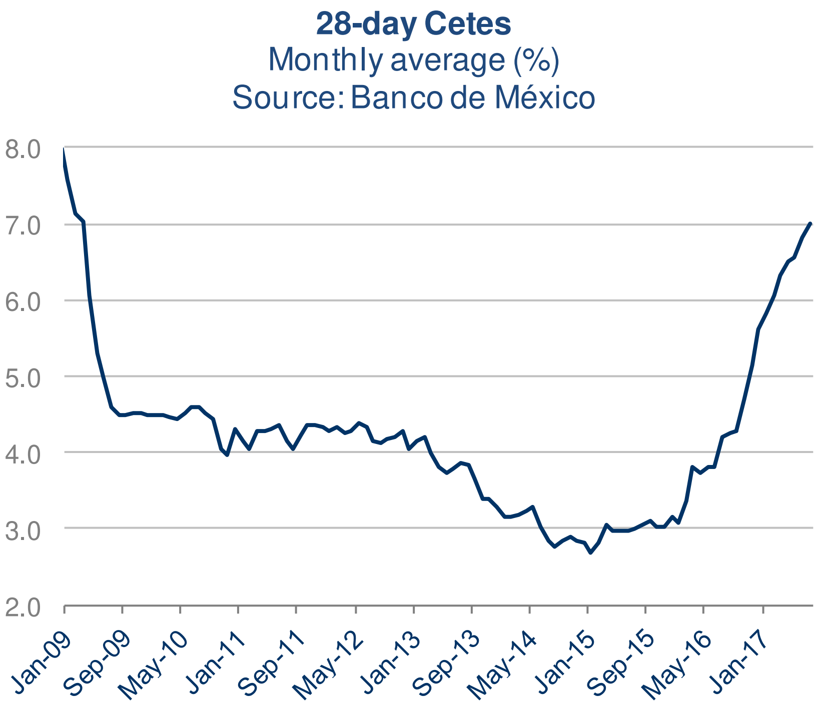
Based on financial projections and pursuant to INIF 8 (*Interpretación a las Normas de Investigación Financiera* 8, issued by the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información*

Financiera, or the CINIF) in the section entitled "Effects of the new flat rate business tax," we have determined that we will be subject to regular income tax and therefore only recognize deferred regular income tax.

Effects of Changes in Interest Rates

Interest rate fluctuations in Mexico have a significant effect on our interest income, interest expense and trading income. Changes in market interest rates may lead to temporary repricing gaps between our interest-earning assets and our interest-bearing liabilities. Most of our interest-earning assets and interest-bearing liabilities carry floating interest rates or are subject to frequent repricing. Upward or downward adjustments of the interest rates on our assets and liabilities generally occur approximately every 28 days. The repricing generally limits the effects of net exposures that regularly occur upon movements in interest rates. See "Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities." In addition, sustained high interest rate environments have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and in a deterioration of asset quality.

During the periods discussed below, the benchmark market interest rate in Mexico was the annual interest rate paid in connection with primary offerings of *Cetes*, which are Mexican Government peso-denominated treasury bills, with 28-day maturities.



- During 2014, the weakness of the Mexican economy prompted Banco de México to reduce the reference rate by 50 basis points to 3.0%, the lowest level since the reference rate was made the main instrument of monetary policy. As a result, short-term rates dropped to 2.7% and 2.8% in the case of 28-day *Cetes* and 91-day *Cetes*, respectively. For 2014, 28-day *Cetes* averaged 3.0% and 91-day *Cetes* averaged 3.1%.

- During 2015, inflation reached an all-time low of 2.3%, reflecting the absence of demand-side pressures and a sharp decline in telecommunication prices. With no pressures in the domestic front, *Banco de México* followed the 25 basis points rate increase of the Federal Reserve in December and raised the reference rate to 3.25%. This was *Banco de México*'s first rate increase since 2007. Short-term rates were steady for 2015, averaging 3.0% and 3.2% for 29-day *Cetes* and 91-day *Cetes*, respectively.

- During 2016, the volatility in the financial markets had a significant effect on the exchange rate and led *Banco de México* to preemptively increase the reference rate. After a 25 basis points rate increase in December 2015, global events including the decrease in oil prices, renewed concerns over the Chinese economy, Brexit and the outcome of the U.S. presidential and congressional elections, provoked sharp depreciation of the exchange rate and raised concerns about a potential passthrough of prices. In response, *Banco de México* raised interest rates by 250 basis points. As a consequence, yields on 28-day and 91-day *Cetes* increased to 5.8% and 6.0%, respectively, leading to averages of 4.17% and 5.11% for the year ended December 31, 2016.

- During 2017, *Banco de México* raised interest rates by 150 basis points to 7.25%. As inflation unexpectedly increased in November, *Banco de México* raised the reference rate an additional 25 basis points after a five-month monetary pause. After interest rates were raised, 28-day *Cetes* and 91-day *Cetes* reached 7.2%, and 7.3%, respectively. In December 2017, 28-day *Cetes* and 91-day *Cetes* averaged 6.69% and 6.88%, respectively.

Effects of Restructured Credits

Restructured loans remain classified as non-performing until at least three payments on such loans have been made. Loans restructured under Mexican Government support programs are classified as performing loans. See "Allowance for loan losses—Early termination of debtor support programs."

When we restructure credits, we reclassify current accrued interest, past-due principal and past-due interest as current principal. If the restructuring results in a sufficient improvement in the quality of a credit, we may also maintain a smaller allowance for loan loss with respect to such credit and use any excess allowance to reduce the amount of additional provisions on other credits.

The devaluation of the peso in late 1994 and the subsequent economic crisis in Mexico led to the introduction by the Mexican Government of debtor support programs that had significant effects on us. Substantially all of the outstanding debtor support programs were merged at the beginning of 1999 into a single industry-wide program known as *Punto Final*, which was adopted by the Mexican Government and the Mexican Banking Association in December 1998 and became effective on January 1, 1999.

On July 15, 2010, the Mexican Government and certain credit institutions (with the participation of the Mexican Banking Association) entered into an agreement for the early termination of certain debtor support programs (*"Convenio para extinguir anticipadamente los programas de apoyo para deudores,"* or the "Termination Agreement").

As a result of the international crisis in 2008-2010, the average income of Mexican households decreased by 12.3%. The National Household Income and Expenditure Survey (ENIGH) reported that the quarterly average household income fell from Ps. 39,823 (about U.S. $3,400) in 2008 to Ps. 34,936 (just over of U.S. $2,900) in 2010.

In addition, we and many others financial institutions in Mexico, created programs to support our respective retail portfolios, especially the mortgage portfolio, offering alternative payment arrangements to those customers with temporary liquidity problems. These programs, at that time, helped reduce such distressed borrowers' monthly payments by up to 50% for a period of time ranging from six months to four years.

With respect to revolving loans, in 2006 we began offering fixed payment plans and amortizing debt maturities that correspond to the repayment capacity of customers. Consumer credit, on the other hand, will have the balance rescheduled for up to 60 months.

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 allowances for loan losses, valuation of securities and derivatives, valuation of deferred income tax assets and employee retirement obligations. For a full description of our accounting policies, see note 4 to our Financial Statements included elsewhere in this offering memorandum.

Allowances 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 and the creation of related reserves, or the Loan Classification and Rating Rules, set forth under the General Rules Applicable to Mexican Banks, which require that the commercial, consumer and mortgage loan portfolios must be rated every month.

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 loan loss reserve, 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 reserves. The Loan Classification and Rating Rules allow us to use our own methodology following certain parameters to assign a risk rating to each borrower. The CNBV initially approved our methodology in June 2001, and reapproved it in December 2004, December 2006, December 2008 and December 2010. Although we have an internal methodology, since June 30, 2016 we have applied the CNBV methodology with respect to the reclassification of 100% of the aggregate balance of our commercial loans, including all loans with an outstanding balance equal to or greater than 14,000,000 UDIs, as of the classification date. Commercial loans should, at the same time, be classified by sector as Financial Entities, States and Municipalities and Investment Projects or by Sales Volume by Small, Medium or Large Corporations. Once we classify these commercial loans in accordance with the foregoing categories, we are expected to calculate the expected loss as a result of probability of default, loss severity and exposure at default, based on the parameters established by the CNBV in the applicable annexes of the Unique Bank Agreement. If our analysis of the classification of a commercial loan changes from period to period, we adjust the calculation of the amount of our loan loss reserve accordingly.

For individual loans, including mortgage and other consumer loans, the loan loss reserve is determined in accordance with a classification based solely on the non-performing status for such loans and prescribed loan loss rates for such classifications. The ratings for these types of loans are performed on a monthly basis.

The determination of the allowance for loan losses, particularly for commercial loans, requires management's judgment. The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. See "Selected Statistical Information—Grading of Loan Portfolio" and "Selected Statistical Information—Allowance for Loan Losses." Differences between the estimate of the loan loss reserve and the actual loss will be reflected in our financial statements at the time of charge-off.

We believe our loan loss provision is adequate as of the date hereof to cover all known or knowable losses by our loan and credit portfolio. Because of the changing conditions of our borrowers and the markets in which we operate, it is possible that significant adjustments to the loan loss reserve for changes in estimates of the collectability of loans will be made in the short term.

Securities and derivatives

The balance sheet reflects certain assets and liabilities related to our securities and derivatives portfolio 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. As market conditions change, such price vendors generally make adjustments to the fair value of securities and derivatives to reflect those conditions. Future sales of these securities will reflect the market conditions at the time and may differ significantly from the estimated fair market value reflected on the balance sheet, considering that these sales may be realized at a different date.

Deferred income tax assets

The bank has recognized deferred tax assets resulting from the temporal differences between the book value and tax value of assets and liabilities, thus applying the correspondent expected income tax rate applicable at the time of the recovery.

Based on management's projection's, the balance of deferred taxes coming from the allowance for loan losses reserve will be recovered in the short-medium term.

Employee retirement obligations

Our employee retirement obligations include employee pension plans, seniority premium benefits, life insurance payments and severance indemnities. The determination of our obligations and expenses is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. We evaluate our assumptions at least annually. Our assumptions depend on Mexico's economic circumstances.

Following the execution of the employer substitution contract, as of January 1, 2007 all the employees of Bancomer (except the General Director) were transferred to the payroll of BBVA Bancomer Operadora, S.A. de C.V. (formerly GFB Servicios, S.A. de C.V.), ("Operadora"), a GFBB subsidiary. These employees retained all acquired benefits and seniority, and only those not formerly receiving these benefits were incorporated into a variable compensation program.

In accordance with Mexican Banking GAAP, actual results that differ from our assumptions (actuarial gains or losses) are accumulated and amortized over future periods recognized immediately in the period when they arose, and, therefore, generally affect our recognized expenses and recorded obligations in these 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 employees' retirement obligations and our future expenses.

Results of Operations

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

The interim financial information presented in this section for the nine months ended September 30, 2017 and 2016 has been derived from and should be read in conjunction with our Unaudited Financial Statements and the notes thereto included elsewhere in this offering memorandum. Such interim financial information, unless otherwise specified, is presented in nominal pesos.

Net interest income

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

	For the Nine Months Ended September 30,	
	2017	2016
	(millions of Ps.)	
Interest Income:		
Interest and fees on loans	94,314	81,600
Interest on securities	9,082	4,627
Interest on cash and due from banks	2,867	1,982
Interest on repurchase agreements	14,470	10,620
Interest on margin accounts	254	86
Fees charged on initial loan	1,106	1,070
Other	933	922
Total interest income	**123,026**	**100,907**
Interest Expense:		
Interest on demand deposits	4,925	3,177
Interest on time deposits	7,548	4,868
Bank bonds	3,897	3,094
Interest on interbank loans and loans from other entities	1,122	769
Interest on subordinated debentures	3,564	2,868
Interest on repurchase agreements	17,263	9,004
Other	1,260	662
Total interest expense	**39,579**	**24,442**
Financial margin	**83,447**	**76,465**

Financial margin for the nine months ended September 30, 2017 totaled Ps. 83,447 million, an increase of 9.1% as compared to Ps. 76,465 million for the nine months ended September 30, 2016. This was mainly as a result of higher volumes of commercial activity, primarily loans to corporations and small and medium sized enterprises.

Interest income

Interest income was Ps. 123,026 million for the nine months ended September 30, 2017, compared to Ps. 100,907 million for the nine months ended September 30, 2016, an increase of Ps. 22,119 million, or 21.9%. This increase was primarily the result of higher volumes of credit in our commercial and consumer portfolios.

Interest and fees on loans was Ps. 94,314 million for the nine months ended September 30, 2017 compared to Ps. 81,600 million for the nine months ended September 30, 2016, an increase of Ps. 12,714 million, or 15.6%. This increase was primarily attributable to an increase in the average volume of loans during the nine months ended September 30, 2017, especially in our business and commercial and mortgage loan portfolios, which increased by 5.3% and 5.1%, respectively, as compared to the same period of 2016.

Interest on securities was Ps. 9,082 million for the nine months ended September 30, 2017 compared to Ps. 4,627 million for the nine months ended September 30, 2016, an increase of Ps. 4,455 million, or 96.3%. We largely attribute this increase to the positive effects of inflation on certain of our bond holdings.

Interest on repurchase agreements was Ps. 14,470 million for the nine months ended September 30, 2017 compared to Ps. 10,620 million for the nine months ended September 30, 2016, an increase of Ps. 3,850 million, or 36.3%, due to the increase of interest rates during 2017, as compared to the first nine months of 2016.

Interest expense

Interest expense was Ps. 39,579 million for the nine months ended September 30, 2017, compared to Ps. 24,442 million for the nine months ended September 30, 2016, an increase of Ps. 15,137 million, or 61.9%. This increase was primarily attributable to an increase in interest rates on payments of interest on repurchase agreements.

Interest on demand, time deposits and bank bonds was Ps. 16,369 million for the nine months ended September 30, 2017 compared to Ps. 11,139 million for the nine months ended September 30, 2016, an increase of Ps. 5,230 million, or 47.0%. This increase was primarily attributable to an increase in both the volume of our demand, time deposits and bank bonds and the interest rates applicable to this portfolio.

Allowance for loan losses

Allowance for loan losses charged against earnings was Ps. 25,569 million for the nine months ended September 30, 2017, compared to Ps. 24,401 million for the nine months ended September 30, 2016, an increase of Ps. 1,168 million, or 4.8%. This increase was primarily attributable to stricter controls, which included modifying our loan rating calculation primarily for consumer loans and mortgages, and better performance of our portfolios. As of the date hereof, we believe our aggregate allowance for loan losses is adequate to cover all known or knowable risks in our portfolios.

Non-interest income

The following table sets forth the components of our non-interest income:

	For the Nine Months Ended September 30,	
	2017	2016
	(millions of Ps.)	
Commissions and Fees:		
Account management	2,188	2,185
Cash management and fund transfers	2,198	2,212
Credit card	8,087	7,498
ATMs	626	602
Trust	291	250
Mutual fund management[(1)]	2,126	1,840

	For the Nine Months Ended September 30,	
	2017	2016
	(millions of Ps.)	
Insurance[1]	1,447	1,416
Other	2,094	1,638
Total Commissions and fees	**19,057**	**17,641**

(1) These are services provided through GFBB affiliates.

	For the Nine Months Ended September 30,	
	2017	2016
	(millions of Ps.)	
Trading Income:		
Valuation Result:		
Derivatives	(16,378)	4,378
Foreign Currency	16,833	(4,763)
Securities investments	4,319	(970)
Total valuation result	**4,774**	**(1,355)**
Purchase-sale result:		
Derivatives	(2,558)	63
Foreign Currency	3,222	2,697
Securities investments	(1,469)	1,087
Total purchase-sale result	**(805)**	**3,847**
Result from intermediation	**3,969**	**2,492**
Other operating income	**1,107**	**1,713**
Total non-interest income	**5,076**	**4,205**

Total non-interest income, including result from intermediation and other operating income, was Ps. 5,076 million for the nine months ended September 30, 2017 compared to Ps. 4,205 million for the nine months ended September 30, 2016, an increase of Ps. 871 million, or 20.7%. This increase was primarily attributable to higher fees and commissions and an increase in result from intermediation primarily due to trading of foreign currency and metals.

Total commissions and fees were Ps. 19,057 million for the nine months ended September 30, 2017, compared to Ps. 17,641 million for the nine months ended September 30, 2016, an increase of Ps. 1,415 million, or 8.0%. This increase was primarily attributable to increased commissions from an increase in volume of our credit card transactions at points of sale and of investment funds transactions.

Account management fees remained stable, from Ps. 2,188 million for the nine months ended September 30, 2017, compared to Ps. 2,185 million for the nine months ended September 30, 2016, an increase of Ps. 3 million, or 0.1%. Account management represented 11.5% of our total commissions and fees for the nine months ended September 30, 2017.

Cash management and fund transfers remained stable, from Ps. 2,198 million for the nine months ended September 30, 2017, compared to Ps. 2,212 million for the nine months ended September 30, 2016, a decrease of Ps. 14 million, or 0.6%.

Credit card fees, which include merchant voucher fees, were Ps. 8,087 million for the nine months ended September 30, 2017, compared to Ps. 7,498 million for the nine months ended September 30, 2016, an increase of Ps. 589 million, or 7.9%. This increase was due to a higher volume of credit card transactions. Credit card fees represented 42.4% of our total commissions and fees for the nine months ended September 30, 2017, as compared to 42.5% for the nine months ended September 30, 2016.

Total result from intermediation was Ps. 3,969 million for the nine months ended September 30, 2017, compared to Ps. 2,492 million for the nine months ended September 30, 2016, an increase of Ps. 1,477 million, or 59.3% as a result of our investment strategy and the positive valuation in foreign currency denominated securities due to the depreciation of the peso against the U.S. dollar.

Administrative and promotional expenses

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

	For the Nine Months Ended September 30,	
	2017	2016
	(millions of Ps.)	
Salaries and employee benefits	102	40
Administrative expenses	27,814	27,276
Rent, depreciation and amortization	7,780	7,301
Taxes other than income taxes	2,827	2,537
Contribution to IPAB	3,624	3,389
Total administrative and promotional expenses	**42,147**	**40,543**

Total administrative and promotional expenses were Ps. 42,147 million for the nine months ended September 30, 2017, compared to Ps. 40,543 million for the nine months ended September 30, 2016, an increase of Ps. 1,604 million, or 4.0%. This relatively small increase was the result of strict management and control of expenditures, due to our focus on decreasing administrative and operating expenses.

Salaries and employee benefits expenses were Ps. 102 million for the nine months ended September 30, 2017 compared to Ps. 40 million for the nine months ended September 30, 2016, an increase of Ps. 62 million.

Administrative expenses were Ps. 27,814 million for the nine months ended September 30, 2017, compared to Ps. 27,276 million for the nine months ended September 30, 2016, an increase of Ps. 538 million, or 2.0%. This relatively small increase was primarily the result of our strategic plan to reduce costs and maintain strict cost controls.

Rent, depreciation and amortization expenses were Ps. 7,780 million for the nine months ended September 30, 2017, compared to Ps. 7,301 million for the nine months ended September 30, 2016, an increase of Ps. 479 million, or 6.6%. This increase was primarily the result of an increase in rental rates denominated in U.S. dollars, as some of our corporate and branch locations in Mexico have rental contracts denominated in U.S. dollars.

Taxes other than income taxes were Ps. 2,827 million for the nine months ended September 30, 2017 compared to Ps. 2,537 million for the nine months ended September 30, 2016, an increase of Ps. 290 million, or 11.4%. This increase was primarily the result of an increase in VAT payments made by our subsidiaries in connection with an increase in expenses paid by us to our subsidiaries for certain employee services.

Expenses related to contributions to IPAB were Ps. 3,624 million for the nine months ended September 30, 2017, compared to Ps. 3,389 million for the nine months ended September 30, 2016, an increase of Ps. 235 million, or 6.9%. This increase was attributable to an increase of 11.5% in the volume of deposits in the first nine months of 2017 as compared to the same period of 2016.

Current and deferred income tax

Current and deferred income tax was Ps. 10,546 million for the nine months ended September 30, 2017, an increase of Ps. 2,578 million, or 32.4% as compared to the same period in the previous year due to a higher taxable base resulting from higher earnings before taxes.

Net result

Net result was Ps. 29,343 million for the nine months ended September 30, 2017, compared to Ps. 26,291 million for the nine months ended September 30, 2016, an increase of Ps. 3,052 million, or 12.0%, primarily due to increases in net interest income and in fees and commissions, as well as a focus on cost control.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

The annual financial information presented in this section for the years ended December 31, 2015 and 2016 has been derived from and should be read in conjunction with our Financial Statements and the notes thereto included elsewhere in this offering memorandum. Such annual financial information, unless stated differently, is presented in nominal pesos.

Net interest income

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

	For the Years Ended December 31,	
	2016	**2015**
	(millions of Ps.)	
Interest Income:		
Interest and fees on loans	111,004	95,457
Interest on securities	6,251	5,201
Interest on cash and due from Banks	2,743	2,694
Interest on repurchase agreements	15,120	13,630
Interest on margin accounts	173	86
Fees charged on initial loan	1,492	1,343
Other	1,098	1,420
Total interest income	**137,879**	**119,831**
Interest Expense:		
Interest on demand deposits	4,516	3,986
Interest on time deposits	7,286	5,725
Bank bonds	3,813	2,757
Interest on interbank loans and loans from other entities	1,058	844
Interest on subordinated debentures	3,996	3,198
Interest on repurchase agreements	12,900	10,745
Other	1,207	766
Total interest expense	**34,775**	**28,022**
Net interest income	**103,104**	**91,809**

Net interest income was Ps. 103,104 million for the year ended December 31, 2016, compared to Ps. 91,809 million for the year ended December 31, 2015, an increase of Ps. 11,295 million, or 12.3%. This increase was primarily attributable to higher volumes of credit and deposits for the year ended December 31, 2016, compared to the same period of 2015.

Interest income

Interest income was Ps. 137,879 million for the year ended December 31, 2016, compared to Ps. 119,831 million for the year ended December 31, 2015, an increase of Ps. 18,048 million, or 15.1%. This increase was primarily the result of an increase in interest and fees on loans of Ps. 16,196 million or 16.9% as explained below.

Interest and fees on loans was Ps. 111,004 million for the year ended December 31, 2016, compared to Ps. 95,457 million for the year ended December 31, 2015, an increase of Ps. 15,547 million, or 16.3%. This increase was primarily attributable to an increase in the average volume of loans during 2016, especially in our commercial and consumer loan portfolios as well as an increase in interest rates.

Interest on securities was Ps. 6,251 million for the year ended December 31, 2016, compared to Ps. 5,201 million for the year ended December 31, 2015, an increase of Ps. 1,050 million, or 20.2%. We largely attribute this increase to the effect of higher interest rates on certain of our bond holdings.

Interest on repurchase agreements was Ps. 15,120 million for the year ended December 31, 2016, compared to Ps. 13,630 million for the year ended December 31, 2015, an increase of Ps. 1,490 million, or 10.9%. This increase was primarily attributable to an increase in the volume of these instruments.

Interest expense

Interest expense was Ps. 34,775 million for the year ended December 31, 2016, compared to Ps. 28,022 million for the year ended December 31, 2015, an increase of Ps. 6,753 million, or 24.1%. This increase is primarily attributable to a 20.1% increase in interest on repurchase agreements and a 25.2% increase in interest on demand, time deposits and bank bonds.

Interest on demand, time deposits and bank bonds was Ps. 15,614 million for the year ended December 31, 2016, compared to Ps. 12,468 million for the year ended December 31, 2015, an increase of Ps. 3,146 million, or 25.2% due to increased volume of demand and time deposits as well as an increase in interest rates. In terms of year-end balances, time deposits as a percentage of total deposits increased from 20.7% in 2015 to 20.9% in 2016, while demand deposits increased from 79.1% in 2015 to 79.3% in 2016.

Allowance for loan losses

Allowance for loan losses charged against earnings were Ps. 32,383 million for the year ended December 31, 2016, compared to Ps. 28,482 million for the year ended December 31, 2015, an increase of Ps. 3,901 million, or 13.7%. This increase in loan loss provisions was primarily attributable to the expansion of our lending portfolio during 2016.

Non-interest income

The following table sets forth the components of our non-interest income:

	For the Years Ended December 31,	
	2016	2015
	(millions of Ps.)	
Commissions and Fees:		
Account management	2,944	3,048
Cash management and fund transfers	2,931	3,114
Credit card	10,283	9,528
ATMs	820	760
Pension fund management	0	0
Trust	340	292
Mutual fund management(1)	2,489	2,435
Insurance(1)	2,125	1,684
Other	2,268	990
Total commissions and fees	**24,200**	**21,851**

(1) These are services provided through GFBB affiliates.

	For the Years Ended December 31,	
	2016	2015
	(millions of Ps.)	
Trading Income:		
Valuation Result:		
Derivatives	10,196	3,664
Foreign currency	(6,720)	(2,674)
Securities investments	(3,880)	1,146
Total valuation result	**(404)**	**2,136**
Purchase-sale result:		
Derivatives	(259)	1,252
Foreign currency	3,642	2,745
Securities investments	583	(2,871)
Total purchase-sale result	**3,966**	**1,126**
Total trading income (loss), net	**3,562**	**3,262**
Other operating income (expense)	**1,551**	**854**
Total non-interest income	**5,113**	**4,116**

Non-interest income, including fees and commissions, trading income and other operating income, was Ps. 5,113 million for the year ended December 31, 2016, compared to Ps. 4,116 million for the year ended December 31, 2015, an increase of Ps. 997 million, or 24.2% due to an increase in other operating income which increased 81.6% due to the dissolution of trust No. 781 in our securitized portfolio, recognizing extraordinary income of Ps. 1,307 million.

Total commissions and fees were Ps. 24,200 million for the year ended December 31, 2016, compared to Ps. 21,851 million for the year ended December 31, 2015, an increase of Ps. 2,349 million, or 10.8%, due to an increase in credit card commissions as a result of a higher transaction volume and increased fees from our management of investment funds due to a higher average volume of assets under management.

Account management fees were Ps. 2,944 million for the year ended December 31, 2016, compared to Ps. 3,048 million for the year ended December 31, 2015, a decrease of Ps. 104 million, or 3.4%. This decrease was attributable to lower fees and commissions charged to our customers.

Cash management and fund transfer fees totaled Ps. 2,931 million for the year ended December 31, 2016, compared to Ps. 3,114 million for the year ended December 31, 2015, a decrease of Ps. 183 million, or 5.9%. This decrease was driven by a decrease in funds transfer fees caused by the termination of operations of our subsidiary BTS, whose principal activity was remittances or transfers by Mexicans living abroad.

Credit card fees were Ps. 10,283 million for the year ended December 31, 2016, compared to Ps. 9,528 million for the year ended December 31, 2015, an increase of Ps. 755 million, or 7.9%. This increase was primarily attributable to an increase in the volume of credit card transactions and an increase in annual fees.

Total trading income was Ps. 3,562 million for the year ended December 31, 2016, compared to Ps. 3,262 million for the year ended December 31, 2015, an increase of Ps. 300 million, or 9.2% due to higher interest rates.

Administrative and promotional expenses

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

	For the Years Ended December 31,	
	2016	**2015**
	(millions of Ps.)	
Salaries and employee benefits	54	187
Administrative and operational expenses	40,048	35,840
Rent, depreciation and amortization	9,631	8,423
Taxes other than income taxes	3,425	3,460
Contribution to IPAB	4,585	4,049
Total administrative and promotional expenses	**57,743**	**51,959**

Administrative and promotional expenses were Ps. 57,743 million for the year ended December 31, 2016, compared to Ps. 51,959 million for the year ended December 31, 2015, an increase of Ps. 5,784 million, or 11.1%. This increase was primarily attributable to higher administrative and operational expenses as a result of the implementation of our investment plan which was completed by the end of 2016.

Salaries and employee benefits expenses were Ps. 54 million for 2016, compared to Ps. 187 million for the year ended December 31, 2015, a decrease of Ps. 133 million, or 71%.

Administrative and operational expenses were Ps. 40,048 million for the year ended December 31, 2016, compared to Ps. 35,840 million for the year ended December 31, 2015, an increase of Ps. 4,208 million, or 11.7%. This increase was primarily the result of the implementation of our strategies to reduce and maintain cost controls.

Rent, depreciation and amortization expenses were Ps. 9,631 million for the year ended December 31, 2016, compared to Ps. 8,423 million for the year ended December 31, 2015, an increase of Ps. 1,208 million, or 14.3%. This increase was primarily the result of amortizations of our investment plans and an increase in the rents of certain branches.

Taxes other than income taxes were Ps. 3,425 million for the year ended December 31, 2016, compared to Ps. 3,460 million for the year ended December 31, 2015, a slight decrease of Ps. 35 million, or 1.0%.

Expenses related to contributions to IPAB were Ps. 4,585 million for the year ended December 31, 2016, compared to Ps. 4,049 million for the year ended December 31, 2015, an increase of Ps. 536 million, or 13.2%. This increase was attributable to an increase of 8.8% in the volume of deposits in 2016 as compared to 2015.

Current and deferred income tax

Current and deferred income tax was Ps. 9,868 million for the year ended December 31, 2016, an increase of Ps. 1,047 million, or 11.9% from Ps. 8,821 million for the year ended December 31, 2015. This increase was primarily as a result of an increase in income before taxes.

Net result

As a result of the factors described above, net result was Ps. 33,311 million for the year ended December 31, 2016, compared to Ps. 28,614 million for the year ended December 31, 2015, an increase of Ps. 4,697 million or 16.4%.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The annual financial information presented in this section for the years ended December 31, 2015 and 2014 has been derived from and should be read in conjunction with our Financial Statements and the notes thereto included elsewhere in this offering memorandum. Such annual financial information, unless stated differently, is presented in nominal pesos.

Net interest income

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

	For the Years Ended December 31,	
	2015	2014
	(millions of Ps.)	
Interest Income:		
Interest and fees on loans	95,457	85,892
Interest on securities	5,201	5,045
Interest on cash and due from Banks	2,694	2,930
Interest on repurchase agreements	13,630	14,201
Interest on margin accounts	86	178
Fees charged on initial loan	1,343	1,166
Other	1,420	1,669
Total interest income	**119,831**	**111,081**
Interest Expense:		
Interest on demand deposits	3,986	4,154
Interest on time deposits	5,725	4,209
Bank bonds	2,757	2,182
Interest on interbank loans and loans from other entities	844	947
Interest on subordinated debentures	3,198	2,977
Interest on repurchase agreements(2)	10,745	11,818
Other	766	838
Total interest expense	**28,022**	**27,126**
Net interest income	**91,809**	**83,955**

Net interest income in 2015 increased 9.4% as compared to 2014, mainly as a result of an increase in total interest income by Ps. 8,750 million, or 7.9% year-over-year.

Interest income

Interest income was Ps. 119,831 million for the year ended December 31, 2015, compared to Ps. 111,081 million for 2014, an increase of Ps. 8,750 million, or 7.9%. This increase was primarily the result of an increase in the average volume of loans.

Interest and fees on loans was Ps. 95,457 million for the year ended December 31, 2015, compared to Ps. 85,892 million for 2014, an increase of Ps. 9,565 million, or 11.1%. This increase was primarily attributable to an increase in the average volume of loans during 2015, especially in our consumer and credit card loan portfolios, resulting from a combination of a greater number of pre-approved loans disbursed and the execution of agreements with auto distributors for the origination of auto loans.

Interest on securities was Ps. 5,201 million for the year ended December 31, 2015, compared to Ps. 5,045 million for 2014, a decrease of Ps. 156 million, or 3.1%. This decrease is primarily attributable to a higher volatility in the markets and lower valuations given the historically low interest rates in Mexico during the period.

Interest on repurchase agreements was Ps. 13,630 million for the year ended December 31, 2015 compared to Ps. 14,201 million for 2014, a decrease of Ps. 571 million, or 4.0%. This decrease was primarily attributable to a decrease in the number of securities purchased under repurchase agreements.

Interest expense

Interest expense was Ps. 28,022 million for the year ended December 31, 2015, compared to Ps. 27,126 million for 2014, an increase of Ps. 896 million, or 3.3%. This increase was primarily attributable to a year-over-year increase of Ps. 1,923 million, or 18.2%, in interest on demand, time deposits and bank bonds.

Interest on time deposits was Ps. 5,725 million for the year ended December 31, 2015, compared to Ps. 4,209 million for 2014, an increase of Ps. 1,516 million, or 36.0%. In year-end balances, time deposits as a percentage of total deposits increased from 20.5% in 2014 to 20.9% in 2015, while demand deposits decreased from 79.5% in 2014 to 79.1% in 2015.

Allowance for loan losses

Allowance for loan losses charged against earnings were Ps. 28,482 million for the year ended December 31, 2015, compared to Ps. 25,526 million for 2014, an increase of Ps. 2,956 million, or 11.5%. This increase in loan loss provisions was primarily attributable to the expansion of our commercial and consumer loan portfolios.

Non-interest income

The following table sets forth the components of our non-interest income:

	For the Years Ended December 31,	
	2015	2014
	(millions of Ps.)	
Commissions and Fees:		
Account management	3,048	2,969
Cash management and fund transfers	3,114	2,907
Credit card	9,528	8,888
ATMs	760	699
Pension fund management	0	0
Trust	292	253
Mutual fund management[(1)]	2,435	2,472
Insurance[(1)]	1,684	1,460
Other	990	1,144
Total commissions and fees	**21,851**	**20,792**

	For the Years Ended December 31,	
	2015	2014
	(millions of Ps.)	
Trading Income:		
Valuation Result:		
Derivatives	3,664	(4,189)
Foreign currency	(2,674)	3,224
Securities investments	1,146	(1,888)
Total valuation result	**2,136**	**(2,853)**
Purchase-sale result:		
Derivatives	1,252	(877)
Foreign currency	2,745	1,859
Securities investments	(2,871)	5,162
Total purchase-sale result	**1,126**	**6,144**
Total trading income (loss), net	**3,262**	**3,291**

	For the Years Ended December 31,	
	2015	2014
	(millions of Ps.)	
Other operating income (expense)	**854**	**475**
Total non-interest income	**4,116**	**3,766**

(1) These services are provided through GFBB affiliates.

Non-interest income, including trading income and other operating income, was Ps. 4,116 million for the year ended December 31, 2015, compared to Ps. 3,766 million for 2014, an increase of Ps. 350 million, or 9.3%, due to an increase in the volume of these transactions.

Total commissions and fees were Ps. 21,851 million for the year ended December 31, 2015 compared to Ps. 20,792 million for 2014, an increase of Ps. 1,059 million, or 5.1%. This increase was primarily attributable to an increase in fees and commissions received from credit cards and cash management.

Account management fees were Ps. 3,048 million for the year ended December 31, 2015, compared to Ps. 2,969 million for 2014, an increase of Ps. 79 million, or 2.7%. This increase in account management fees was attributable to fees and commissions charged by all banks.

Cash management and funds transfer fees were Ps. 3,114 million for the year ended December 31, 2015, compared to Ps. 2,907 million for 2014, an increase of Ps. 207 million, or 7.1%. This increase was mainly attributable to higher volumes of cash transfers from Mexican workers in the United States to Mexico.

Credit card fees were Ps. 9,528 million for the year ended December 31, 2015, compared to Ps. 8,888 million for 2014, an increase of Ps. 640 million, or 7.2%. This increase in credit card fees collected during 2015 was primarily attributable to a higher number of transactions and higher volumes resulting from the origination of new credit cards.

Total trading income was Ps. 3,262 million for the year ended December 31, 2015, compared to Ps. 3,291 million for 2014, a decrease of Ps. 29 million, or 0.9%.

Administrative and promotional expenses

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

	For the Years Ended December 31,	
	2015	2014
	(millions of Ps.)	
Salaries and employee benefits	187	167
Administrative and operational expenses	35,840	36,194
Rent, depreciation and amortization	8,423	7,475
Taxes other than income taxes	3,460	3,309
Contribution to IPAB	4,049	3,389
Total administrative and promotional expenses	**51,969**	**50,534**

Administrative and promotional expenses were Ps. 51,959 million for the year ended December 31, 2015, compared to Ps. 50,534 million for 2014, an increase of Ps. 1,425 million, or 2.8%. This increase in administrative and promotional expenses was primarily the result of an increase in administrative and operational expenses.

Administrative and operational expenses were Ps. 35,840 million for the year ended December 31, 2015, compared to Ps. 36,194 million for 2014, a decrease of Ps. 354 million, or 1.0%. This decrease was attributable to the implementation of our internal cost-cutting strategies.

Salaries and employee benefits expenses were Ps. 187 million for the year ended December 31, 2015, compared to Ps. 167 million for 2014, an increase of Ps. 20 million, or 12%.

Rent, depreciation and amortization expenses were Ps. 8,423 million for the year ended December 31, 2015, compared to Ps. 7,475 million for 2014, an increase of Ps. 948 million, or 12.7%. This increase was primarily the result of an increase in overall rental rates due to inflation.

Taxes other than income taxes were Ps. 3,460 million for the year ended December 31, 2015, compared to Ps. 3,309 million for 2014, an increase of Ps. 151 million, or 4.6%, primarily explained by an increase in value-added tax mainly attributable to higher rental expenses, which are subject to value-added tax.

Expenses related to contributions to IPAB were Ps. 4,049 million for the year ended December 31, 2015, compared to Ps. 3,389 million for 2014, an increase of Ps. 660 million, or 19.5%. This increase was attributable to an increase in the volume of deposits in 2015 as compared to 2014.

Current and deferred income tax

Current income taxes were Ps. 8,821 million for the year ended December 31, 2015 compared to Ps. 7,849 million for 2014, an increase of Ps. 972 million. The increase is largely due to an increase in the deductible tax rate in 2015.

Net result

As a result of the factors described above, net result was Ps. 28,613 million for the year ended December 31, 2015, compared to Ps. 24,745 million for 2014, an increase of Ps. 3,868 million, or 15.6%.

Financial Position

The following discussion compares our consolidated financial position as of the nine months ended September 30, 2017 and the years ended December 31, 2016, 2015 and 2014. Unless otherwise specified, the information is presented in nominal pesos. Please refer to "Presentation of Certain Financial and Other Information" about the reclassification of certain balance sheet line items in 2015 and 2014.

Assets

As of September 30, 2017, we had total assets of Ps. 1,962,836 million, compared to Ps. 1,908,681 million as of December 31, 2016, representing an increase of 2.8%. This increase was attributable to a 4.8% increase in total performing loans, driven by higher commercial and mortgages loans, as well as a 24.2% increase in cash and cash equivalents.

As of December 31, 2016, we had total assets of Ps. 1,908,681 million, compared to Ps. 1,696,133 million as of December 31, 2015, representing an increase of 12.5%. This increase was primarily attributable to an increase in total performing loans of 13.2% due to the factors described below.

As of December 31, 2015, we had total assets of Ps. 1,696,133 million, compared to Ps. 1,531,252 million as of December 31, 2014, representing an increase of 10.8%. This increase was attributable to a 12.2% increase in total performing loans, in particular in commercial and consumer loans.

Total performing loans

As of September 30, 2017, we had total performing loans of Ps. 1,047,949 million, compared to Ps. 999,701 million as of December 31, 2016, an increase of 4.8%. This increase was primarily attributable to an increase in the volume of our commercial loan portfolio of Ps. 30,528 million or 5.3%. As of September 30, 2017, performing commercial loans represented 58% of total performing loans, performing consumer loans represented 24% of total performing loans, and performing residential mortgage loans represented 18% of total performing loans.

As of December 31, 2016, we had total performing loans of Ps. 999,701 million, compared to Ps. 883,163 million as of December 31, 2015, representing an increase of 13.2%. This increase was mainly attributable to an annual increase of Ps. 74,882 million, or 15.1% in commercial lending and an increase of 12.8% in the volume of our consumer loans. As of December 31, 2016, commercial loans represented 57.2% of total performing loans, consumer loans represented 24.6% of total performing loans and mortgages represented 18.2% of total performing loans.

As of December 31, 2015, we had total performing loans of Ps. 883,163 million, compared to Ps. 787,432 million as of December 31, 2014, representing an increase of 12.2%. This increase was mainly attributable to an increase in commercial lending of Ps. 62,784 million, or 14.4%. As of December 31, 2015, commercial loans represented 56.3% of total performing loans, consumer loans represented 24.7% of total performing loans and mortgages represented 19.0% of total performing loans.

Total non-performing loans

Our total non-performing loans remained stable, from Ps. 23,084 million as of September 30, 2017, compared to Ps. 22,759 million as of December 31, 2016, a slight increase of Ps. 325 million or 1.4%. This was a negligible increase consistent with the previous period for 2016. As of September 30, 2017, non-performing consumer loans represented 0.5% of our total loans, non-performing mortgage loans represented 0.6% of our total loans and non-performing commercial loans represented 0.3% of our total loans. As of September 30, 2017, Wholesale Banking non-performing loans and Business Development (Retail Banking) non-performing loans accounted for Ps. 6,445 million and Ps. 16,639 million of our total non-performing loans, respectively.

As of December 31, 2016, we had total non-performing loans of Ps. 22,759 million, compared to Ps. 21,405 million as of December 31, 2015, representing an increase of Ps. 1,354 million, or 6.3%. This increase was primarily attributable to our consumer loan portfolio, with non-performing loans increasing by 17.8%, while our commercial portfolio showed an increase of 11.7% and mortgage lending decreased by 7.6% compared to December 31, 2015. As of December 31, 2016, non-performing consumer loans represented 0.8% of our total loans, non-performing mortgage loans represented 0.9% of our total loans; and non-performing commercial loans represented 0.6% of our total loans. As of December 31, 2016, Wholesale Banking non-performing loans and Business Development (Retail Banking) non-perfoming loans accounted for Ps. 6,323 million and Ps. 16,436 million of our total non-performing loans, respectively.

As of December 31, 2015, we had total non-performing loans of Ps. 21,405 million, compared to Ps. 21,951 million as of December 31, 2014, representing a decrease of Ps. 546 million, or 2.5%. This decrease was attributable to our mortgage portfolio that decreased by Ps. 769 million, or 8.5%. As of December 31, 2015, non-performing consumer loans represented 0.9% of our total loans, non-performing mortgage loans represented 1.1% of our total loans; and non-performing commercial loans represented 0.7% of our total loans. As of December 31, 2015, Wholesale Banking non-performing loans and Business Development (Retail Banking) non-perfoming loans accounted for Ps. 5,659 million and Ps. 15,746 million of our total non-performing loans, respectively. As of December 31, 2014, Wholesale Banking non-performing loans and Business Development (Retail Banking) non-perfoming loans accounted for Ps. 5,382 million and Ps. 16,569 million of our total non-performing loans, respectively.

Liabilities

As of September 30, 2017, we had total liabilities of Ps. 1,787,995 million, compared to Ps. 1,749,699 million as of December 31, 2016, an increase of 2.2%. This increase was mainly attributable to an increase of 11.5% in deposits, primarily due to an increase in demand deposits by Ps. 73,371, or 9.7%, and an increase in time deposits by Ps. 37,322, or 18.9%.

As of December 31, 2016, we had total liabilities of Ps. 1,749,699 million compared to Ps. 1,550,956 million as of December 31, 2015, an increase of Ps. 198,743 million, or 12.8%. This increase was mainly attributable to an increase in demand deposits as well as an increase in derivatives, in each case as compared to the previous year.

As of December 31, 2015, we had total liabilities of Ps. 1,550,956 million compared to Ps. 1,397,279 million as of December 31, 2014, an increase of Ps. 153,677 million, or 10.9%. This increase was mainly attributable to a year-over-year increase in demand deposits.

Deposits (including bank bonds)

As of September 30, 2017, we had total deposits (including bank bonds and deposits in global accounts without movements) of Ps. 1,154,584 million, compared to Ps. 1,035,624 million as of December 31, 2016, an increase of Ps. 118,960 million, or 11.5%. This increase was mainly attributable to an increase in demand deposits of Ps. 73,371 million, or 9.7%, driven by our ongoing strategy to maintain a profitable funding mix. Time deposits increased Ps. 37,322 million, or 18.9% over the same period as a result of a tax incentive for capital repatriation, mainly for companies and corporations.

As of December 31, 2016, we had total deposits (including bank bonds and deposits in global accounts without movements) of Ps. 1,035,624 million, compared to Ps. 952,255 million as of December 31, 2015, an increase of Ps. 83,369 million, or 8.8%. This increase in deposits is a result of an increase in demand deposits of Ps. 76,150 million, or 11.2%, derived from our ongoing strategy to maintain a profitable funding mix. Time deposits increased Ps. 17,780 or 9.9%. As of December 31, 2016, we had Ps. 79,990 million in total bank bonds compared to Ps. 91,220 million as of December 31, 2015, a decrease of Ps. 11,230 million, or 12.3% due to bond maturities.

As of December 31, 2015, we had total deposits (including bank bonds and deposits in global accounts without movements) of Ps. 952,255 million, compared to Ps. 797,687 million as of December 31, 2014, an increase of Ps. 154,568 million, or 19.4%. This increase in deposits is a result of an increase in demand deposits of Ps. 100,558 million and an increase in time deposits of Ps. 31,417 million. This evolution reflects the continuous strategy to maintain a profitable funding mix and focus on lower-cost demand deposits. As of December 31, 2015, we had Ps. 91,220 million in total bank bonds compared to Ps. 71,128 million as of December 31, 2014, an increase of Ps. 20,092 million, or 28.2%.

Interbank loans and loans from other entities

As of September 30, 2017, we had interbank loans and loans from other entities of Ps. 16,869 million, compared to Ps. 19,204 million as of December 31, 2016, a decrease of 12.2%, or Ps. 2,335 million. This decrease was the primarily the result of a decrease in interbank loans and short term loans from other entities by Ps. 1,178 million during the first nine months of 2017. As of September 30, 2017, interbank loans and loans from other entities represented 0.9% of our total liabilities.

As of December 31, 2016, we had interbank loans and loans from other entities in Ps. 19,204 million, compared to Ps. 20,838 million as of December 31, 2015, a decrease of Ps. 1,634 million, or 7.8%. This decrease was the result of a decrease in interbank loans and loans from other entities short term, and in payables on demand deposits. As of December 31, 2015, interbank loans and loans from other entities represented 1.1% of our total liabilities.

As of December 31, 2015, we had interbank loans and loans from other entities in the amount of Ps. 20,838 million compared to Ps. 49,621 million as of December 31, 2014, a decrease of Ps. 28,783 million, or 58%. This decrease was the result of fewer (i) interbank loans, (ii) short-term loans from other entities and (iii) payable on demand loans. As of December 31, 2015, interbank loans and loans from other entities represented 1.3% of our total liabilities.

Subordinated debt

As of September 30, 2017, we had Ps. 72,476 million of subordinated debt, which represented 4.1% of our total liabilities. Our subordinated debt consists of the following:

On April 22, 2010, we issued in the international capital markets U.S. $ 1,000 million Non-Cumulative Fixed Rate Subordinated Non-Preferred Notes due 2020.

On March 10, 2011, we issued U.S. $ 1,250 million 6.50% Subordinated Preferred Notes Tier 2 due 2021 in the international capital markets.

On July 19, 2012, we issued U.S. $ 1,000 million 6.75% Subordinated Preferred Notes Tier 2 due 2022 in the international capital markets. On September 28, 2012, we issued an additional U.S. $ 500 6.75% Subordinated Preferred Notes Tier 2 due 2022, for an aggregate amount of U.S. $ 1,500 million in the international capital markets.

On November 6, 2014, we issued U.S. $ 200 million 5.35% Subordinated Preferred Notes Tier 2 due 2020 in the international capital markets.

Stockholders' equity

As of September 30, 2017, our stockholders' equity was Ps. 174,841 million, which is an increase of Ps. 15,859 million or 10.0% compared to Ps. 158,982 as of December 2016. This increase was mainly attributable to an increase in earnings as compared to the prior year and an increase in result from the valuation of securities available for sale during the nine months ended as of September 30, 2017. Stockholders' equity represented 8.9% of our total assets as of September 30, 2017.

As of December 31, 2016, our stockholders' equity was Ps. 158,982 million, compared to Ps. 145,177 million as of December 31, 2015, representing an increase of Ps. 13,805, or 9.5%. This increase was mainly the result of an increase of 13.1% in accrued net result. Stockholders' equity represented 8.3% of our total assets as of December 31, 2016.

As of December 31, 2015, our stockholders' equity was Ps. 145,177 million, compared to Ps. 133,973 million as of December 31, 2014, representing an increase of Ps. 11,204, or 8.4%. This increase was mainly the result of an increase of 14.8% in earnings as compared to the prior year. Stockholders' equity represented 8.6% of our total assets as of December 31, 2015.

Liquidity and Funding

The purpose of liquidity management is to ensure that we have funds available to meet our present and future financial obligations and to respond to business opportunities as they arise. Liquidity needs arise from withdrawals of deposits, repayments on maturity of borrowed funds, extensions of loans or other forms of credit and working capital needs.

We have several funding sources including (i) customer deposits, which are in the form of either checking accounts, both interest bearing and non-interest bearing, and *pagarés bancarios*, which are short-term promissory notes; (ii) repurchase agreements (see "Annex A—Significant differences between Mexican Banking GAAP and U.S. GAAP—Repurchase Agreements"); and (iii) senior and subordinated notes issuances, both in the local and international markets. Our policy is to price our assets based upon our highest cost source of funds both to ensure that loan pricing reflects our current liquidity conditions and to maximize net interest income.

Customer deposits, which totaled Ps. 1,063,158 million as of September 30, 2017 and Ps. 952,464 million as of December 31, 2016, are our most important funding source and are also our least expensive one. Our funding strategy focuses on increasing the sources of low-cost funding through marketing campaigns and improved customer service to grow the volume of deposits from our existing customers and expand our customer base. Pagarés bancarios can be issued in the domestic capital markets to manage our short-term funding structure.

We have an active asset and liability management strategy that allows us to manage our various funding sources in order to obtain a sound and balanced structure and minimize our costs. Non-matured deposits, which come from our large base of clients, are highly stable and strengthen our low cost and core deposits.

In order to carry out our asset and liability management strategy we have established a transfer pricing process for our funding sources, which incorporates the liquidity and risk associated with the funding source into its price. This strategy enables us to accurately measure the prices of loans and deposits, and provides us flexibility to respond to any climate, while also preserving our margins.

We complement our medium and long-term peso funding by issuing securities in the Mexican capital markets. Senior notes are issued through our "*Certificados Bursátiles*" program, which provides for the issuance of peso or UDI denominated notes with tenors of up to 35 years. In April 2016, we updated our "*Certificados Bursátiles*" program and registered it with the CNBV for a five-year period to issue in the Mexican market up to Ps. 60,000 million of "*certificados bursátiles*," "*certificados de depósito*" and "*pagarés con rendimiento liquidable al vencimiento*," denominated in both UDIs and pesos. As of September 30, 2017, we had Ps. 36,465 million of notes outstanding, of which Ps. 17,077 million were denominated in pesos and Ps. 19,388 million were denominated in UDIs. In order to maintain a healthy funding structure we hold liquid assets that can be used in the short term should we experience a stress scenario.

Foreign Currency Position

Our foreign-currency denominated assets, substantially all of which are dollar denominated, are funded from a number of sources. These sources include deposits of the same currency obtained from various sources, primarily through deposits of private banking customers, medium and large Mexican companies, primarily in the export sector, the placement of certificates of deposit in the Eurodollar market, interbank deposits, fixed-rate notes and subordinated debentures and asset securitizations. In the case of foreign trade transactions, we use trade financing facilities from Mexican development banks and foreign export-import banks. Foreign currency funding rates are generally based on the London Interbank Offered Rate, or LIBOR.

Banco de México 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 September 30, 2017, our foreign currency-denominated assets, including derivative transactions, totaled U.S. $19.2 billion (Ps. 349,408 million), representing 18% of our total assets. At that date, our foreign currency-denominated liabilities, including derivative transactions, totaled to U.S. $18.7 billion (Ps. 340,373 million), representing 19% of our total liabilities. As part of our asset liability management strategy, we monitor closely our exposure to foreign currencies to minimize the effect of exchange rate movements on our income.

As of September 30, 2017, we were also in compliance with the limit established for us by *Banco de México* for maturity-adjusted net foreign currency-denominated liabilities, which was Ps. 17,158 million. As of such date, our maturity-adjusted net foreign currency-denominated liabilities were Ps. 6,581 million). For a discussion of the components of Tier 1 and Tier 2 Capital, see "Supervision and Regulation."

For the years ended December 31, 2016, 2015 and 2014, we were in compliance with all regulatory requirements relating to the ratio of dollar-denominated liabilities to total liabilities.

Capital Expenditures

Capital expenditures have primarily consisted of expenditures for technology and systems. The purpose of our capital expenditures plan is to increase the development of new strategies and programs, enhance long-term productivity, significantly change our processes and develop new business models.

In 2016, we made investments in capital expenditures in the aggregate amount of Ps. 7,800 million, which primarily consisted of technology and infrastructure and Branch network. These expenditures were funded with cash generated from our operations and other sources of liquidity. We expect to have capital expenditures of Ps. 4,969 million for 2017 (including value-added taxes). We intend to fund such capital expenditures from internal resources.

Risk-Based Capital

Pursuant to the Mexican Capitalization Requirements, we are required to maintain specified levels of net capital on an unconsolidated basis as a percentage of risk-weighted assets and credit risk. The Rules for Capitalization and the Mexican Capitalization Requirements set forth the methodology to determine the net capital required relative to market risk and risk-weighted assets. See "Supervision and Regulation—Capitalization." Those regulations provide that (1) our investment in subsidiaries that are related to us in accordance with Article 73 of the Mexican Banking Law, (2) our investment in subsidiaries that do not operate in the financial sector, and (3) revaluation surpluses related to the investments referred to in (1) and (2) above, must be subtracted from the calculation of Tier 1 Capital. Article 122 of the Mexican Banking Law provides that if a bank does not comply with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements, (i) 10.5% in the case of the Total Net Capital (capital neto), (ii) 7.0% in the case of Capital Fundamental or (iii) 8.5% in the case of Tier 1 Capital, plus in each case, any other applicable Capital Supplement (currently, a Systemically Important Bank Capital Supplement for Grade IV Banks of 1.5%) and any other Countercyclical Capital Supplement applicable to the Bank), the bank must implement the corrective measures ordered by the CNBV. As of September 30, 2017 and December 31, 2016, our Capital Ratios were (i) 14.58% in the case of Total Net Capital, (ii) 12.05% in the case of Capital Fundamental and

(iii) 12.61% in the case if Tier 1 Capital, and (i) 13.73% in the case of Total Net Capital, (ii) 10.73% in the case of Capital Fundamental and (iii) 11.40% in the case of Tier 1 Capital, respectively. The table below presents our risk-weighted assets and Capital Ratios as of December 31, 2015, December 31, 2016 and September 30, 2017, determined, as required by regulations, on an unconsolidated basis.

	As of December 31,				As of September 30,	
	2015		2016		2017	
	(millions of Ps., except for percentages)					
Tier 1	Ps.	144,463	Ps.	158,728	Ps.	176,309
Tier 2		37,458		32,406		27,575
Total capital	Ps.	181,921	Ps.	191,134	Ps.	203,884
Risk-weighted assets:						
Credit risk		863,910		968,014		976,394
Market risk		288,065		344,713		345,052
Operational risk		67,425		79,479		76,941
Total risk weighted assets		1,219,400		1,392,207		1,398,387
Capital ratios (credit, market and operational risk)(1):						
Tier 1 Capital to risk-weighted assets		11.85%		11.40%		12.61%
Tier 2 Capital to risk-weighted assets		3.07%		2.33%		1.97%
Total capital to risk-weighted assets		14.92%		13.73%		14.58%

Source: *Banco de México*

(1) The difference between the capital ratios presented in this table and the capital ratios presented in note 27 to our Financial Statements included elsewhere in this offering memorandum is attributable to the fact that the capital ratios presented in this table are based on numbers furnished to the CNBV after the issuance of such financial statements.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to a number of off-balance sheet activities that contain credit, market and operational risk that are not reflected in our 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, and long-term contractual obligations under operating leases or service contracts. We record our off-balance sheet arrangements as memorandum accounts, which are described more fully in note 3 to our 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 having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. These loan commitments totaled Ps. 522,833 million as of September 30, 2017, Ps. 553,195 million as of December 31, 2016, Ps. 458,700 million as of December 31, 2015 and Ps. 384,121 million as of December 31, 2014.

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 and oral assurances. 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 cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is required when we deem it necessary.

SELECTED STATISTICAL INFORMATION

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

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 entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. Our investments in affiliates are accounted for under the equity method. See note 16 to our Financial Statements included elsewhere in this offering memorandum.

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.

Unless otherwise indicated, annual financial information for 2014, 2015 and 2016 is presented in nominal pesos.

Because Mexican tax law does not currently provide income tax exemptions for any investment securities, we do not hold any income tax-exempt investment 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, except that the loan portfolio data presented under this "Selected Statistical Information" does not include amounts attributable to accrued interest, which as of December 31, 2016 represented 0.7% of our total loan portfolio. 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 standards for the presentation of our financial statements. Throughout this section, where we refer to "commercial and corporate" loans we refer to "wholesale banking" loans as designated elsewhere in this offering memorandum. See "The Bank—Business Units—Wholesale Banking."

Average Balance Sheet and Interest Rate Data

Peso-denominated average balances and interest income

Average balances for our peso-denominated assets and liabilities have been calculated in the following manner. For each month, an average of the daily peso balances was determined. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months.

For our consolidated subsidiaries, average balances have been calculated on the basis of the average of month-end balances.

Foreign currency-denominated and UDI-denominated average balances and interest income

Average balances and interest income (expense) for our foreign currency-denominated and UDI-denominated assets and liabilities have been translated into pesos and calculated in the following manner. For each month, an average of the daily foreign currency or UDI balances and of the interest income (expense) was determined. Such daily average balances and interest income (expense) are converted into pesos using the closing exchange rate for the applicable month as published by *Banco de México* in the Federal Official Gazette. The average balance for each year presented below is the average of the 12 monthly balances so determined. Interest income (expense) for each year is the total of the income (expense) for the 12 months so determined.

For our consolidated subsidiaries, average balances have been calculated on the basis of the average of month-end balances.

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.

Average assets and interest rates

The table below presents the average balance of assets, interest income and average annual interest rate for the periods specified.

	For the Years Ended December 31,								
	2014[1]			2015[1]			2016		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest[2] Income	Average Interest Rate
	(millions of Ps., except percentages)								
Deposits in banks:									
Pesos	Ps. 65,507	Ps. 2,176	3.32%	Ps. 64,168	Ps. 2,920	4.55%	Ps. 58,234	Ps. 2,388	4.10%
UDIs	-	-	0.00%	-	-	0.00%	-	-	0.00%
Foreign currency	53,880	168	0.31%	39,916	244	0.61%	60,044	737	1.23%
Subtotal	119,387	2,344	1.96%	104,084	3,164	3.04%	118,278	3,125	2.64%
Government securities:									
Pesos	286,757	12,359	4.31%	268,111	12,004	4.48%	268,208	14,547	5.42%
UDIs	7,878	131	1.66%	8,567	480	5.60%	11,783	306	2.60%
Foreign currency	24,533	1,708	6.96%	30,901	897	2.90%	33,244	2,779	8.36%
Subtotal	319,168	14,198	4.45%	307,579	13,381	4.35%	313,235	17,632	5.63%
Investment in other fixed income securities:									
Pesos	23,889	1,621	6.79%	26,399	1,810	6.86%	23,088	1,834	7.94%
UDIs	4,807	220	4.58%	4,173	189	4.53%	2,812	76	2.70%
Foreign currency	13,172	583	4.43%	12,771	715	5.60%	13,090	436	3.33%
Subtotal	41,868	2,424	5.79%	43,343	2,714	6.26%	38,990	2,346	6.02%
Loans:[1]									
Pesos	670,924	82,736	12.33%	715,266	88,209	12.33%	801,860	106,109	13.23%
UDIs	10,902	905	8.30%	9,777	701	7.17%	7,979	611	7.66%
Foreign currency	120,225	5,046	4.20%	130,052	6,448	4.96%	148,106	8,297	5.60%
Subtotal	802,051	88,687	11.06%	855,095	95,358	11.15%	957,945	115,017	12.01%
Creditors from repurchase agreements:									
Pesos	7,576	269	3.55%	23,937	1,099	4.59%	18,947	695	3.67%
UDIs	-	-	0.00%	-	-	0.00%	-	-	0.00%
Foreign currency	-	-	0.00%	-	-	0.00%	-	-	0.00%
Subtotal	7,576	269	3.55%	23,937	1,099	4.59%	18,947	695	3.67%
Other interest-earning assets:									
Pesos	8,784	478	5.44%	9,319	524	5.62%	10,408	566	5.44%
UDIs	-	-	0.00%	-	-	0.00%	-	-	0.00%
Foreign currency	2	-	0.00%	2	-	0.00%	-	-	0.00%
Subtotal	8,786	478	5.44%	9,321	524	5.62%	10,408	566	5.44%
Total interest-earning assets:									
Pesos	1,063,437	99,639	9.37%	1,107,200	106,566	9.62%	1,180,745	126,139	10.68%
UDIs	23,587	1,256	5.32%	22,517	1,370	6.08%	22,574	993	4.40%
Foreign currency	211,812	7,505	3.54%	213,642	8,304	3.89%	254,484	12,249	4.81%
Subtotal	Ps. 1,298,836	Ps. 108,400	8.35%	Ps. 1,343,359	Ps. 116,240	8.65%	Ps. 1,457,803	Ps. 139,381	9.56%

(1) Please refer to "Presentation of Certain Financial and Other Information" about the reclassification of certain balance sheet line items as of December 31, 2014 and 2015.
(2) Interest income includes fees on loans of Ps. 1,474 million in 2014, Ps. 1,513 million for the year ended December 31, 2015 and Ps. 1,560 million in 2016, which have been included in interest income for the corresponding fiscal year. Fees on loans include origination fees and credit card annual fees.

	For the Years Ended December 31,								
	2014			2015			2016		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
	(millions of Ps., except percentages)								
Equity investment:									
Pesos	7,851	-	-	6,082	-	-	12,478	-	-
Foreign currency...	5,899	-	-	3,287	-	-	4,305	-	-
Subtotal	13,750	-	-	9,369	-	-	16,783	-	-
Cash due from banks:									
Pesos	39,406	-	-	37,454	-	-	44,112	-	-
Foreign currency...	3,885	-	-	4,068	-	-	6,716	-	-
Subtotal	43,291	-	-	41,522	-	-	50,828	-	-
Allowance for loan losses:									
Pesos	(24,257)	-	-	(25,157)	-	-	(27,411)	-	-
UDIs........	(1,319)	-	-	(1,027)	-	-	(918)	-	-
Foreign currency...	(1,102)	-	-	(847)	-	-	(853)	-	-
Subtotal	(26,678)	-	-	(27,031)	-	-	(29,182)	-	-
Premises and equipment:									
Pesos	28,461	-	-	33,234	-	-	40,805	-	-
Foreign currency...	3	-	-	3	-	-	2	-	-
Subtotal	28,464	-	-	33,237	-	-	40,807	-	-
Other non-interest—earning assets:									
Pesos	7,631	-	-	51,242	-	-	2,681	-	-
UDIs........	(1,473)	-	-	(1,227)	-	-	(1,110)	-	-
Foreign currency...	104,243	-	-	97,464	-	-	26,443	-	-
Subtotal	110,401	-	-	147,479	-	-	28,014	-	-
Total assets:									
Pesos	1,122,529	99,639	8.88%	1,210,055	106,566	8.81%	1,253,410	126,139	10.06
UDIs........	20,795	1,256	6.04%	20,263	1,370	6.76%	20,546	993	4.83%
Foreign currency...	324,740	7,505	2.31%	317,617	8,304	2.61%	291,097	12,249	4.21%
Subtotal	Ps. 1,468,064	Ps. 108,400	7.38%	Ps.1,547,935	Ps. 116,240	7.51%	Ps. 1,565,053	Ps. 139,381	8.91%

Average liabilities, stockholders' equity and interest rates

The table below presents the average balance of liabilities and stockholders' equity, interest expense and average annual interest rate for the periods specified.

	For the Years Ended December 31,								
	2014			2015			2016		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
	(millions of Ps., except percentages)								
Demand deposits (checking accounts):									
Pesos	Ps. 278,213	Ps. 3,408	1.22%	Ps. 271,838	Ps. 3,104	1.14%	Ps. 291,535	Ps. 3,951	1.36%
UDIs	-	-	0.00%	-	-	0.00%	-	-	0.00%
Foreign currency	49,631	25	0.05%	61,273	46	0.08%	89,020	37	0.04%
Subtotal	327,844	3,433	1.05%	333,111	3,150	0.95%	380,555	3,988	1.05%
Saving deposits:									
Pesos	168,758	1,205	0.71%	171,439	634	0.37%	198,215	1,043	0.53%
UDIs	-	-	0.00%	-	-	0.00%	-	-	0.00%
Foreign currency	1,247	-	0.00%	1,512	-	0.00%	2,214	-	0.00%
Subtotal	170,005	1,205	0.71%	172,951	634	0.37%	200,429	1,043	0.52%
Time deposits:									
Pesos	180,486	4,650	2.58%	218,264	6,316	2.89%	245,589	11,549	4.70%
UDIs	17,562	719	4.09%	17,692	741	4.19%	18,180	762	4.19%
Foreign currency	2,691	7	0.26%	3,271	139	4.25%	4,881	18	0.37%
Subtotal	200,739	5,376	2.68%	239,227	7,196	3.01%	268,650	12,329	4.59%
Short-term borrowings:									
Pesos	33,262	507	1.52%	12,971	386	2.98%	15,563	445	2.86%
UDIs	-	-	0.00%	-	-	0.00%	-	-	0.00%
Foreign currency	1,478	9	0.61%	1,524	3	0.20%	717	3	0.42%
Subtotal	34,740	516	1.49%	14,495	389	2.68%	16,280	448	2.75%
Long-term debt:									
Pesos	8,819	365	4.14%	10,018	386	3.85%	12,450	655	5.26%
UDIs	-	-	0.00%	-	-	0.00%	-	-	0.00%
Foreign currency	963	14	1.45%	910	19	2.09%	1,206	22	1.82%
Subtotal	9,782	379	3.87%	10,928	405	3.71%	13,656	677	4.96%
Subordinated Notes:									
Pesos	2,859	76	2.66%	2,851	179	6.28%	-	-	0.00%
UDIs	-	-	0.00%	-	-	0.00%	-	-	0.00%
Foreign currency	87,711	3,581	4.08%	95,086	3,474	3.65%	99,922	6,370	6.37%
Subtotal	90,570	3,657	4.04%	97,937	3,653	3.73%	99,922	6,370	6.37%
Debtors from repurchase agreements:									
Pesos	264,417	9,380	3.55%	264,026	8,614	3.26%	250,649	10,751	4.29%
UDIs	-	-	0.00%	-	-	0.00%	-	-	0.00%
Foreign currency	-	-	0.00%	-	-	0.00%	-	-	0.00%
Subtotal	264,417	9,380	3.55%	264,026	8,614	3.26%	250,649	10,751	4.29%
Total interest-bearing liabilities:									
Pesos	936,814	19,591	2.09%	951,407	19,619	2.06%	1,014,001	28,394	2.80%
UDIs	17,562	719	4.09%	17,692	741	4.19%	18,180	762	4.19%
Foreign currency	143,721	3,636	2.53%	163,576	3,681	2.25%	197,960	6,450	3.26%
Subtotal	1,098,097	23,946	2.18%	1,132,675	24,041	2.12%	1,230,141	35,606	2.89%
Non-interest-bearing liabilities:									
Pesos	45,856			116,727			80,016		
UDIs	3,233			2,572			2,364		
Foreign currency	179,798			152,797			92,699		
Subtotal	228,887			272,096			175,079		
Stockholders' equity:									
Pesos	140,110			142,127			159,393		
UDIs	-			-			-		
Foreign currency	970			1,037			440		
Subtotal	141,080			143,164			159,833		
Total liabilities and stockholders' equity									
Pesos	1,122,780	19,591	1.74%	1,210,261	19,619	1.62%	1,253,410	28,394	2.27%
UDIs	20,795	719	3.46%	20,264	741	3.66%	20,544	762	3.71%
Foreign currency	324,489	3,636	1.12%	317,410	3,681	1.16%	291,099	6,450	2.22%
Total	Ps. 1,468,064	Ps. 23,946	1.63%	Ps. 1,547,935	Ps. 24,041	1.55%	Ps. 1,565,053	Ps. 35,606	2.28%

Changes in Net Interest Income and Expense

The following tables allocate, by currency of denomination, changes in our net interest income between changes in volume and changes in rates for the year ended December 31, 2016, compared to 2015 and 2015 compared to 2014. Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average balances of interest-earning assets and average balances of interest-bearing liabilities. The variances caused by changes in both volume and rate have been allocated to volume.

Interest-earning assets

	2015/2014			2016/2015		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
			(millions of Ps.)			
Deposits in banks:						
Pesos	Ps. (61)	Ps. 805	Ps. 744	Ps. (243)	Ps. (289)	Ps. (532)
UDIs	-	-	-	-	-	-
Foreign currency	(85)	161	76	247	246	493
Subtotal	(146)	966	820	4	(43)	(39)
Government securities:						
Pesos	(835)	480	(355)	5	2,538	2,543
UDIs	39	310	349	84	(258)	(174)
Foreign currency	185	(996)	(811)	196	1,686	1,882
Subtotal	(611)	(206)	(817)	285	3,966	4,251
Fixed income securities:						
Pesos	172	17	189	(263)	287	24
UDIs	(29)	(2)	(31)	(37)	(76)	(113)
Foreign currency	(22)	154	132	11	(290)	(279)
Subtotal	121	169	290	(289)	(79)	(368)
Loans:(1)						
Pesos	5,468	5	5,473	11,459	6,441	17,900
UDIs	(81)	(123)	(204)	(138)	48	(90)
Foreign currency	487	915	1,402	1,011	838	1,849
FOBAPROA and IPAB Notes	-	-	-	-	-	-
Subtotal	5,874	797	6,671	12,332	7,327	19,659
Creditors from repurchase agreements:						
Pesos	751	79	830	(183)	(221)	(404)
UDIs	-		-	-	-	-
Foreign currency	-	-	-	-	-	-
Subtotal	751	79	830	(183)	(221)	(404)
Other interest—earning assets:						
Pesos	30	16	46	59	(17)	42
UDIs	-	-	-	-	-	-
Foreign currency	-	-	-	-	-	-
Subtotal	30	16	46	59	(17)	42
Total interest-earning assets:						
Pesos	5,525	1,402	6,927	10,834	8,739	19,573
UDIs	(71)	185	114	(91)	(286)	(377)
Foreign currency	565	234	799	1,465	2,480	3,945
Subtotal	Ps. 6,019	Ps. 1,821	Ps. 7,840	Ps. 12,208	Ps. 10,933	Ps. 23,141

(1) Interest income includes fees on loans of Ps. 1,474 million in 2014, Ps. 1,513 million for the year ended December 31, 2015 and Ps. 1,560 million in 2016, which have been included in interest income for the corresponding fiscal year. Fees on loans include origination fees and credit card annual fees.

Interest-bearing liabilities

	2015/2014			2016/2015		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
	(millions of Ps.)					
Demand deposits (checking accounts):						
Pesos	Ps. (73)	Ps. (231)	Ps. (304)	Ps. 267	Ps. 580	Ps. 847
UDIs	-	-	-	-	-	-
Foreign currency	9	12	21	12	(21)	(9)
Subtotal	(64)	(219)	(283)	279	559	838
Saving deposits:						
Pesos	10	(581)	(571)	141	268	409
UDIs	-	-	-	-	-	-
Foreign currency	-	-	-	-	-	-
Subtotal	10	(581)	(571)	141	268	409
Time deposits:						
Pesos	1,093	573	1,666	1,285	3,948	5,233
UDIs	5	17	22	20	1	21
Foreign currency	25	107	132	6	(127)	(121)
Subtotal	1,123	697	1,820	1,311	3,822	5,133
Short-term borrowings:						
Pesos	(604)	483	(121)	74	(15)	59
UDIs	-	-	-	-	-	-
Foreign currency	-	(6)	(6)	(3)	3	-
Subtotal	(604)	477	(127)	71	(12)	59
Long-term debt:						
Pesos	46	(25)	21	128	141	269
UDIs	-	-	-	-	-	-
Foreign currency	(1)	6	5	5	(2)	3
Subtotal	45	(19)	26	133	139	272
Subordinated Notes:						
Pesos	(1)	104	103	-	(179)	(179)
UDIs	-	-	-	-	-	-
Foreign currency	269	(376)	(107)	308	2,588	2,896
Subtotal	268	(272)	(4)	308	2,409	2,717
Debtors from repurchase agreements:						
Pesos	(13)	(753)	(766)	(574)	2,711	2,137
UDIs	-	-	-	-	-	-
Foreign currency	-	-	-	-	-	-
Subtotal	(13)	(753)	(766)	(574)	2,711	2,137
Creditors from repurchase agreements:	(1)	104	103	-	(179)	(179)
Pesos	-	-	-	-	-	-
UDIs	269	(376)	(107)	308	2,588	2,896
Foreign currency	268	(272)	(4)	308	2,409	2,717
Subtotal	-	-	-	-	-	-
Total interest-bearing liabilities:						
Pesos	458	(430)	28	1,321	7,454	8,775
UDIs	5	17	22	20	1	21
Foreign currency	302	(257)	45	328	2,441	2,769
Total	765	(670)	95	1,669	9,896	11,565
Total net change:						
Pesos	5,067	1,832	6,899	9,513	1,285	10,798
UDIs	(76)	168	92	(111)	(287)	(398)
Foreign currency	263	491	754	1,137	39	1,176
Total	Ps. 5,254	Ps. 2,491	Ps. 7,745	Ps. 10,539	Ps. 1,037	Ps. 11,576

Interest earning assets—yield and yield spread

The following table sets forth, by currency of denomination, the levels of our average interest-earning assets and net interest income, and gross and net yield and yield spread obtained, for each of the periods indicated. In addition, because loan fees are a component of pricing, a table including loan fees (which include loan origination fees and credit card fees) in net interest income has been included. For purposes of this presentation, as required under Mexican Banking GAAP, loan fees are recognized as interest income at the time the related loan is made.

	For the Years Ended December 31,		
	2014	2015	2016
	(millions of Ps., except percentages)		
Total average earning assets:			
Pesos	Ps. 1,063,437	Ps. 1,107,200	Ps. 1,180,745
UDIs	23,587	22,517	22,574
Foreign Currency	211,812	213,642	254,484
Total	1,298,836	1,343,359	1,457,803
Historical not including loan fees:			
Net interest income:			
Pesos	78,597	85,453	96,206
UDIs	537	629	231
Foreign Currency	3,846	4,603	5,779
Total	82,980	90,685	102,216
Gross yield:(1)			
Pesos	9.23%	9.49%	10.55%
UDIs	5.32%	6.08%	4.40%
Foreign Currency	3.53%	3.88%	4.81%
Weighted-average rate	8.23%	8.65%	9.45%
Net yield:(2)			
Pesos	7.39%	7.72%	8.15%
UDIs	2.28%	2.79%	1.02%
Foreign Currency	1.82%	2.15%	2.27%
Weighted-average rate	6.39%	6.75%	7.01%
Yield spread:(3)			
Pesos	7.14%	7.43%	7.75%
UDIs	1.23%	1.90%	0.21%
Foreign Currency	1.00%	1.63%	1.55%
Weighted-average rate	6.05%	6.53%	6.56%
Historical including loan fees:			
Net interest income:			
Pesos	80,048	86,947	97,745
UDIs	537	629	231
Foreign Currency	3,869	4,623	5,799
Total	84,454	92,199	103,775
Gross yield:(1)			
Pesos	9.37%	9.62%	10.68%
UDIs	5.32%	6.08%	4.40%
Foreign Currency	3.54%	3.89%	4.81%
Weighted-average rate	8.35%	8.65%	9.56%
Net yield:(2)			
Pesos	7.53%	7.85%	8.28%
UDIs	2.28%	2.79%	1.02%
Foreign Currency	1.83%	2.16%	2.28%
Weighted-average rate	6.50%	6.86%	7.12%
Yield spread:(3)			
Pesos	7.28%	7.56%	7.88%
UDIs	1.23%	1.90%	0.21%
Foreign Currency	1.01%	1.64%	1.56%
Weighted-average rate	6.17%	6.53%	6.67%

(1) Gross yield is interest income divided by average earning assets.
(2) Net yield represents the total of net interest income divided by average earning assets.
(3) Yield spread represents the difference between gross yield on average interest-earning assets and cost of average interest-bearing liabilities.

Return on average total assets and average stockholders' equity

The following table presents certain of our selected financial data and ratios for the periods indicated.

	For the Years Ended December 31,		
	2014	2015	2016
	(millions of Ps., except percentages)		
Net result	Ps. 24,745	Ps. 28,613	Ps. 33,311
Average total assets	1,468,064	1,547,935	1,565,053
Average stockholders' equity	141,080	143,164	159,833
Return on average assets	1.69%	1.85%	2.13%
Return on average equity	17.54%	19.99%	20.84%
Average stockholders' equity as a percentage of average total assets	9.61%	9.25%	10.21%

Interest Rate Sensitivity of Assets and Liabilities

Interest rates

Banco de México's regulations mandate that Mexican banks base their interest rates on loans with an amount of 5 million UDIs or less on a fixed rate or a single reference rate published regularly by official sources and that the agreements for such loans specify the factor used to determine the interest rate and, if applicable, the minimum and maximum spread over the reference rate. Currently, we base the interest rates on most of our peso-denominated loans on the TIIE.

In accordance with *Banco de México*'s regulations, our policy with respect to foreign currency-denominated loans, which are principally in U.S. dollars, is generally to price such loans on the basis of LIBOR with repricing intervals of one, three or six months. Spreads over LIBOR are determined in accordance with the marginal cost of funding in currencies other than pesos. Interest on loans to Mexican borrowers paid to our Houston branch is subject to the withholding tax. The established rate is 4.9% for the year ended December 31, 2016, and future periods. The cost of this withholding tax is reflected in the determination of the overall cost of the loan to the customer. No withholding tax is applicable on loans to Mexican borrowers obtained from approved export credit agencies. Under *Banco de México*'s regulations, an amount equivalent to a portion of our foreign currency-liabilities must be invested in low-risk, highly liquid instruments and deposits. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency—Denominated Liabilities." The cost associated with funding this reserve is also included in determining the cost to customers of foreign currency-denominated loans.

Interest rate sensitivity

A key component of our asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing characteristics of assets and liabilities. For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. Any excess of assets or liabilities over these matched items results in a repricing gap or net exposure. A positive repricing gap normally means that an increase in interest rates would result in an increase in net interest income, while a decrease in interest rates would result in a decrease in net interest income.

Our interest rate sensitivity strategy takes into account, among other things, the rates of return and the underlying degree of risk, liquidity requirements, including minimum regulatory cash reserves, mandatory liquidity ratios (inapplicable to peso lending), withdrawal and maturity deposits, capital cost and additional demands for funds. We monitor our rate and maturity mismatches and positions, which are managed within established limits.

The following table reflects our interest-earning assets and interest-bearing liabilities as of December 31, 2016. Fixed-rate instruments were classified in this table according to their final maturity and other instruments based on their interval of repricing.

	As of December 31, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Non-rate sensitive or over one year	Total
			(millions of Ps., except percentages)			
Assets:						
Variable-rate commercial loans	Ps. 309,252	Ps. 61,261	Ps. 5,569	Ps. 332	Ps. -	Ps. 376,414
Consumer loans, mortgage loans and lease receivables	177,689	3,233	7,918	18,751	236,324	443,915
Fixed-rate commercial loans	17,615	12,916	5,493	3,419	162,688	202,131
Total loans	504,556	77,410	18,980	22,502	399,012	1,022,460
Securities and derivatives	214,697	49,916	38,580	12,170	194,309	509,672
Debtors from repurchase agreements	289	-	-	-	-	289
Creditors from repurchase agreements	(263,714)	(771)	-	-	-	(264,485)
Reverse repurchase agreements	-	-	-	-	-	-
Total interest-earning assets	455,828	126,555	57,560	34,672	593,321	1,267,936
Equity securities	-	-	-	-	1,207	1,207
Cash, property and other non-interest earning assets	-	-	-	-	211,605	211,605
Less: Allowance for loan losses	(30,005)	-	-	-	-	(30,005)
Total assets	Ps. 425,823	Ps. 126,555	Ps. 57,560	Ps. 34,672	Ps. 806,133	Ps. 1,450,743
Liabilities and stockholders' equity:						
Notes sold through intermediaries	3,077	6,000	12,650	13	2,066	23,806
Notes sold through branches	118,647	26,714	4,125	353	23,961	173,800
Demand deposits	381,736	-	-	51,834	321,288	754,858
Total deposits	503,460	32,714	16,775	52,200	347,315	952,464
Short-term debt	7,344	-	19	19	1,650	9,032
Long-term debt	51,089	9,143	1,669	924	30,507	93,332
Subordinated debentures	-	-	10,310	-	82,875	93,185
Other liabilities	-	-	-	-	143,749	143,749
Stockholders' equity	-	-	-	-	158,981	158,981
Total liabilities and stockholders' equity	Ps. 561,893	Ps. 41,857	Ps. 28,773	Ps. 53,143	Ps. 765,077	Ps. 1,450,743
Interest rate sensitivity gap	(136,070)	84,698	28,787	(18,473)	41,058	-
Cumulative interest rate sensitivity gap	(136,070)	(51,372)	(22,585)	(41,058)	2,830	5,660
Cumulative gap as percentage of total interest-earning assets	(10.73)%	(4.05)%	(1.78)%	(3.24)%	0.22%	0.00%

*Fixed-rate instruments were classified in this table according to their final maturity and other instruments according to their time to repricing.

As of December 31, 2016, interest-earning assets totaled Ps. 1,267,936 million. Of these assets, 35.95% repriced every thirty days or less and were comprised of the following: 56.5% of commercial loans, 40.0% of consumer and mortgage loans, 42.1% of investment securities and derivatives (excluding equity investments) and 0.0% of credits from repurchase agreements. The interest rates for 6.7% of interest-earning assets, comprising mostly commercial loans, are reset periodically every 31 to 180 days.

Non-interest rate sensitive assets and assets that are not repriced within a period of 365 days include, among others, cash, real and personal property and equity investments. Investments in the foregoing assets amounted to Ps. 806,133 million as of December 31, 2016, which represented 55.6% of total assets.

Of our total liabilities as of December 31, 2016, 73.7% consisted of deposits, totaling Ps. 952,464 million, of which 52.9% reprice every 30 days or less, and 5.2% every 31 to 180 days. The remaining 26.3% of our liabilities totaled Ps. 339,297 million as of December 31, 2016 and consisted of Ps. 9,032 million of short-term borrowings, Ps. 186,517 million of long-term debt, subordinated debt, funding from the *Fondo de Operación y Fomento Bancario de la Vivenda*, or FOVI (the Mexican Government's fund for low-income housing assistance) and Ps. 143,749 million of other liabilities. Of our total liabilities, 17.2% reprice every 30 days or less, 6.2% every 31 to 180 days, 0.3% every 181-365 days, and the remaining 76.3% reprice at periods exceeding a year.

Interest-Bearing Deposits with Other Banks

Banco de México's regulations require us to maintain a minimum liquidity coefficient of certain foreign currency liabilities. See "Supervision and Regulation—Liquidity Requirements for Foreign Currency—Denominated Liabilities." Accordingly, a substantial majority of our short-term deposits with international banks are denominated in U.S. dollars.

Banco de México requires that we hold open positions in foreign currency (short or long) no greater than a specified level with respect to our total Tier 1 Capital. As of September 30, 2017, the limit established for foreign currency-denominated liabilities was U.S. $17,158 million. On the same date, our position in foreign currency-denominated liabilities was U.S. $6,581 million, below the limit imposed by *Banco de México*.

Additionally, *Banco de México* requires us to maintain liquid assets to cover our foreign currency-denominated liabilities. As of September 30, 2017, we were required to have liquid assets for U.S. $4,134 million, and had U.S. $8,193 million, which represents an excess liquidity of U.S. $4,058 million.

Our foreign exchange risk management involves a very close monitoring of exposure to foreign currencies, to neutralize the effect of the currency exchange in our income, as well as perform daily estimates and projections for liquidity in foreign currency, to ensure regulatory compliance, and monitor the Bank's internal guidelines on liquidity.

Securities

As of December 31, 2016, we held securities in the amount of Ps. 401,333 million, representing 21.03% of our total assets as of that date. The following table presents our portfolio of securities at the dates indicated, including securities under repurchase and resale agreements.

	As of December 31,		
	2014	2015	2016
	(millions of Ps.)		
Peso-denominated:			
Mexican Government securities:			
Cetes (federal treasury securities)	Ps. 7,970	Ps. 60,547	Ps. 6,479
Special Cetes (federal treasury securities)	16,339	16,826	15,656
Bondes (federal government development bonds)	53,286	11,591	14,885
BPAs (floating rate bonds issued by IPAB)	47,750	55,493	119,667
Bono Tasa Fija (fix-rate bond)	187,476	170,072	147,103
Total Mexican Government securities	312,821	314,529	303,790
Non government securities:			
Bank bonds and certificates	32,651	26,194	20,422
Commercial paper	798	-	-
Other fixed-income securities	-	-	-
Total non-government securities	33,449	26,194	20,422
Equity securities:			
Listed	5,082	6,263	6,518
Investment in subsidiaries	52	52	55
Investment in affiliated companies	1,320	1,454	1,144
Total Equity Securities	6,454	7,769	7,717
Total peso-denominated	352,724	348,492	331,929
UDI-denominated:			
Udibonos (Federal government development bonds)	10,436	9,960	16,010
Promissory Notes issued for highway program	5,452	4,580	4,394
CBICs	-	228	-
Bank bonds and certificates	4,639	3,490	3,080
Total UDI-denominated	20,527	18,258	23,484
Foreign currency-denominated:			
Government securities:			
Mexican Government securities issued abroad	29,153	16,213	23,667
US Treasury securities	9,040	10,759	1,376
Government securities from other countries	-	-	-
Total government securities	38,193	26,972	25,043
Euronotes	-	-	12,499
Commercial paper	-	20,159	-
Equity securities (listed):			
Listed	5,844	1,598	8,370
Unlisted	-	-	-
Investment in subsidiaries	0	6	0
Investment in affiliated companies	6	7	8
Total foreign currency-denominated	44,043	48,742	45,920
Total securities	Ps. 417,294	Ps. 415,492	Ps. 401,333

Securities – maturities and average yields

The following table analyzes by currency, as of December 31, 2016, remaining maturities and weighted-average yields of securitie maturity without the mark-to-market effect on securities.

BBVA Bancomer, S.A., and subsidiaries consolidated
Million of nominal pesos

	From 1 to 89 days Amount	Yield	From 90 to 179 days Amount	Yield	From 6 to 12 months Amount	Yield	From 1 to 2 years Amount	Yield	From 2 to 3 years Amount	Yield	From 3 to 4 years Amount	Yield	F 4 y An
Peso-denominated:													
Mexican Government securities:													
Cetes (federal treasury securities)...........	Ps.3,219	5.09%	Ps.3,199	5.07%	Ps. 61	6.20%	Ps. -	0.00%	Ps. -	0.00%	Ps. -	0.00%	Ps
Special Cetes (federal treasury securities)..	-	0.00%	-	0.00%	1,918	5.13%	-	0.00%	-	0.00%	-	0.00%	
Bondes (federal government development bonds)..........................	98	4.37%	8	5.08%	10	5.00%	10,047	4.92%	4,126	4.73%	595	5.14%	
BPAs (floating rate bonds issued by IPAB)..	182	5.73%	10,168	4.80%	4,357	4.41%	17,047	5.03%	33,910	4.99%	7,300	4.76%	31
Bono Tasa Fija (fixed-rate bond)	-	0.00%	233	5.65%	15,784	6.98%	19,132	5.13%	9,723	4.99%	33,871	4.86%	27
Total Mexican Government securities	3,499	5.10%	13,608	4.88%	22,130	6.31%	46,226	5.05%	47,759	4.97%	41,766	4.84%	58
Non government securities:													
Bank bonds and certificates...................	1,312	5.95%	7	5.80%	2,106	6.22%	4,756	6.59%	3,119	6.66%	5,637	7.02%	1
Commercial paper.................................	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	
Other fixed-income securities	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	
Total peso-denominated..........................	4,811	5.33%	13,615	4.88%	24,236	6.30%	50,982	5.19%	50,878	5.07%	47,403	5.10%	59
Udi-denominated:													
Udibonos (federal government development bonds)..........................	-	0.00%	16	1.00%	(539)	0.89%	31	1.67%	13,247	5.64%	8	10.39%	
Promissory Notes issued for highway program...	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	
CBICs..	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	2
Banks bonds and certificates	-	0.00%	-	0.00%	243	4.21%	-	0.00%	-	0.00%	-	0.00%	
Total UDI-denominated..........................	-	0.00%	16	1.00%	(296)	0.00%	31	1.67%	13,247	5.64%	8	10.39%	2
Foreign currency-denominated:													
Government securities:													
Mexican Government securities issued abroad...	(133)	-0.14%	-	0.00%	-	0.00%	90	6.70%	4,544	6.30%	1,003	4.26%	3

BBVA Bancomer, S.A., and subsidiaries consolidated
Million of nominal pesos

	From 1 to 89 days Amount	Yield	From 90 to 179 days Amount	Yield	From 6 to 12 months Amount	Yield	From 1 to 2 years Amount	Yield	From 2 to 3 years Amount	Yield	From 3 to 4 years Amount	Yield	F 4 y An
US Treasury bills	-	0.00%	1,274	0.50%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	
Commercial paper.................................	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	
Government securities from other countries	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	
Total Government securities....	(133)	0.00%	1,274	0.50%	-	0.00%	90	6.70%	4,544	6.30%	1,003	4.26%	3
Euronotes..	188	10.00%	-	0.00%	-	0.00%	964	5.78%	1,306	5.19%	1,447	6.08%	
Investment trusts.......................................	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	
Commercial paper.....................................	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	
Other fixed-income securities	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	
Total foreign currency-denominated	55	34.67%	1,274	0.50%	-	0.00%	1,054	5.85%	5,850	6.05%	2,450	5.34%	3
Total securities (excluding equity securities)..	Ps.4,866	5.66%	Ps.14,905	4.50%	Ps.23,940	6.38%	Ps.52,067	5.20%	Ps.69,975	5.26%	Ps.49,861	5.11%	Ps

Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of total performing and total non-performing loans outstanding at the date presented, which include rediscounted loans and loans in the UDI Trusts. The terms "total loans" and "total loan portfolio" include total performing loans plus total non-performing loans. The terms "net total loans" and "net total loan portfolio" refer to net total performing loans plus net non-performing loans.

As of December 31, 2016, our loan portfolio amounted to Ps. 1,015,222 million, an increase of 12.1% as compared to December 31, 2015. This increase was a result of a 13.5% increase in commercial and corporate loans, which was due to increased activity in small and medium sized enterprises and, micro-businesses, a 8.1% increase in mortgage loans and a 12.2% increase in credit cards and other consumer loans.

Loans by type and by borrower

The following table illustrates our loan portfolio by loan type. Total loans reflect the sum of the total performing loan portfolio and the total non-performing loan portfolio. For a breakdown of non-performing loans by loan type, see "—Non-Performing Loan Portfolio" below. See note 9 to our Financial Statements included elsewhere in this offering memorandum.

	As of December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
			(millions of Ps.)		
Performing loans:[1]					
Commercial and corporate loans:[2]					
Secured or guaranteed by:					
Real estate [3]	Ps. 9,892	Ps. 6,353	Ps. 5,068	Ps. 5,744	Ps. 8,156
Fixed assets	2,939	2,599	1,816	1,596	1,722
Inventories	1,789	1,900	2,480	2,332	2,595
Other [4]	3,535	2,528	1,984	831	635
Subtotal	18,155	13,380	11,348	10,503	13,108
Unsecured:					
Term loans	24,233	28,406	21,576	27,872	98,384
Revolving credits	267,596	300,766	383,068	442,994	432,353
Original issue discounts	13,096	17,274	12,189	14,272	18,623
Subtotal	304,925	346,446	416,833	485,138	549,360
Total commercial and corporate loans	323,080	359,826	428,181	495,641	562,468
Consumer loans:					
Residential mortgage	150,413	153,569	158,955	167,329	180,964
Credit card	92,172	96,655	93,200	95,280	101,379
Other consumer credits	73,084	83,048	99,143	121,423	141,779
Total consumer loans	315,669	333,272	351,298	384,032	424,122
Leasing credit	3,751	3,670	5,463	5,571	6,728
Total performing loans	642,500	696,768	784,942	885,242	993,318
Total non-performing loans	21,046	22,021	21,282	20,671	21,904
Total Loans	663,546	718,789	806,224	905,915	1,015,222
FOBAPROA and IPAB Notes	-	-	-	-	-
Total loans and FOBAPROA and IPAB Notes	Ps. 663,546	Ps. 718,789	Ps. 806,224	Ps. 905,915	Ps.1,015,222

(1) Includes loans to government entities and financial entities.
(2) Includes loans secured in whole or in part by cash, securities or property (including plant, inventory and equipment) and loans guaranteed by third parties.
(3) Includes various types of loans secured in whole or in part by cash, securities or other property (including plant or equipment otherwise not included above) and loans guaranteed by third parties.
(4) Does not include past-due interest.

Loans by currency

Foreign currency-denominated loans increased as a percentage of the total loan portfolio from 15.05% as of December 31, 2015 to 15.18% as of December 31, 2016. Foreign currency-denominated loans totaled Ps. 154,152 million as of December 31, 2016, an increase of 13.05% from Ps. 136,362 million as of December 31, 2015, each as measured in constant pesos as of such date.

The following table presents the peso- and foreign currency-denominated loan portfolio at the dates indicated. Foreign currency-denominated loans that were not denominated in U.S. dollars were converted into U.S. dollars and then expressed in pesos in accordance with the methodology described in the introduction to the table under "—Average Balance Sheet and Interest Rate Data" above.

	As of December 31,									
	2012		2013		2014		2015		2016	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)									
Total loans excluding FOBAPROA										
Peso-denominated loans	Ps. 587,166	88.49%	Ps. 624,769	86.92%	Ps. 685,730	85.05%	Ps. 769,552	84.95%	Ps. 861,070	84.82%
Foreign currency-denominated loans	76,380	11.51%	94,020	13.08%	120,494	14.95%	136,363	15.05%	154,152	15.18%
Total loans	Ps. 663,546	100.00%	Ps. 718,789	100.00%	Ps. 806,224	100.00%	Ps. 905,915	100.00%	Ps. 1,015,222	100.00%

The loan amounts set out in the above table do not include accrued interest.

Loans to the public and private sectors

As of December 31, 2016, our loans to the public sector totaled Ps. 142,186 million, accounting for 14.01% of our total loan portfolio. As of December 31, 2015, our loans to the public sector amounted to Ps. 142,409 million, accounting for 15.72% of our total loan portfolio.

Loans to individuals are comprised of loans to sole business owners, residential mortgage loans, credit card loans and other consumer loans. As of December 31, 2016, loans to individuals totaled Ps. 440,076 million, representing 43.35% of our total loan portfolio and a 10.16% increase from our total of 2015. This increase in loans to individuals in 2016 over 2015 was primarily the result of greater loan origination. In addition, during 2016 we issued 1.3 million credit cards compared to 1.1 million for the year ended December 31, 2015.

The following table sets forth an analysis of the composition of our total loan portfolio at the dates indicated with respect to loans to both the public and private sectors.

	As of December 31,									
	2012		2013		2014		2015		2016	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)									
Public sector(1)..........	Ps.89,642	13.50%	Ps.89,521	12.45%	Ps.127,933	15.87%	Ps.142,409	15.72%	Ps.142,186	14.01%
Private sector:										
Businesses............	241,586	36.41%	277,824	38.65%	309,373	38.37%	361,008	39.85%	426,375	42.00%
Individuals(2)	330,879	49.87%	350,887	48.82%	368,068	45.65%	399,482	44.10%	440,076	43.35%
Other private sector(3)............	1,439	0.22%	557	0.08%	850	0.11%	3,016	0.33%	6,585	0.65%
Total private sector loans.....................	573,904	86.50%	629,268	87.55%	678,291	84.13%	763,506	84.28%	873,036	86.00%
Total loans	Ps.663,546	100.00%	Ps.718,789	100.00%	Ps.806,224	100.00%	Ps.905,915	100.00%	Ps.1,015,222	100.00%

(1) Includes loans supported by the full faith and credit of the Mexican Government.
(2) Includes loans to individuals for business activities, as well as mortgage, credit card and other consumer loans and credit exposures connected to leasing.
(3) Includes loans to foreign banks, foreign companies, non-profit entities and certain other entities.

Performing commercial loans

As of December 31, 2016, performing commercial and corporate loans totaled Ps. 562,468 million, reflecting an increase of 13.48% from December 31, 2015. This increase was attributable primarily to a 253% increase in unsecured term loans by Ps. 70,512 million.

As of December 31, 2016, the aggregate outstanding principal amount of our 25 largest loans (including loan exposures to a single corporate group or to an agency of the federal government of Mexico) represented 16.9% of our total loans outstanding. The largest single loan exposure as of December 31, 2016 accounted for 27.3% of our paid-in capital. As of December 31, 2016, of our twenty-five largest outstanding loans, twenty-two were rated "A1", two loans were rated "A2" and one was classified as an "exempt loan." As of December 31, 2016, of our ten largest outstanding loans, representing 11.4% of our total outstanding loans, nine were rated "A1" and one was rated as an "exempt loan" as described under "—Loan Portfolio—Loans to the public and private sectors—Performing commercial loans."

As of December 31, 2016, 97.7% of our performing commercial loan portfolio was unsecured with collateral, including mortgages. Unsecured commercial loans, consisting primarily of short-term working capital loans (with terms of 30 to 90 days), are common in Mexico. The credit analysis process and administration of these loans are the same as for secured loans. If we establish an unsecured line of credit it is because we believe the borrower is a creditworthy customer, and the fact that it is an unsecured loan is taken into consideration during the approval process. The additional risk from originating unsecured commercial loans is generally accounted for through larger spreads to cover possible losses. The fact that a loan is unsecured is among several factors considered when we grade the portfolio and, depending on the results of this grading, an appropriate allowance for loan losses is created.

Performing consumer and residential mortgage loans

As of December 31, 2016, performing consumer loans (including residential mortgage loans) totaled Ps. 424,122 million, an increase of 10.43% from December 31, 2015. As of December 31, 2015, performing consumer totaled Ps. 384,032 million, an increase of 9.32% from December 31, 2014. The preferred lending products for this market segment have been first residential mortgage loans and other consumer credits.

Our performing residential mortgage loan portfolio totaled Ps. 180,964 million as of December 31, 2016, an increase of 8.15% from December 31, 2015. This increase was primarily attributable to an increase in loan origination by 13% in 2016. Our performing residential mortgage loan portfolio totaled Ps. 167,329 million as of December 31, 2015, an increase of 5.26% from December 31, 2014.

Substantially all mortgage loans that we originate are recorded on our books, excluding certain mortgage loans granted under government programs for low-income housing.

As of December 31, 2016, our performing credit card portfolio totaled Ps. 101,379 million, an increase of 6.4% from December 31, 2015. As of December 31, 2015, our performing credit card portfolio totaled Ps. 95,280 million, an increase of 2.2% from December 31, 2014. The increase in our performing credit card portfolio for each of these years is attributable to increased credit card issuances. We, like other Mexican banks, reflect, in our interest rates for credit cards, the greater risk associated with such loans. Other types of loans are generally less risky because borrowers are not able to increase their borrowings without prior approval and must generally provide some form of collateral, such as cash, securities or property (including plants, inventories and equipment), and third party guarantees.

Loans by economic activity

During the last few years, we have focused our lending activities towards those sectors of the economy that we believe, within the context of our overall risk management policies, have the greatest potential for growth. In addition, we have attempted to reduce our risk by diversifying our loans among a greater number of customers and within a larger geographic area in Mexico.

As of December 31, 2016 our mortgage loans totaled Ps. 188,421 million, our credit card loans totaled Ps. 105,203 million and our commercial loans totaled Ps. 116,545 million. In 2016, we granted approximately 35,345 mortgages directly to individuals and approximately 400 mortgages to housing developers, an increase of 10.2% and 16.6% respectively, each as compared to 2015.

During 2016, our loans to the commercial sector increased by 35.0% as compared to 2015. Our credit card loans increased by 6.4% as compared to 2015, reflecting an increase in the use of credit lines. Our loans to major economic sectors (social and community services and manufacturing) increased by 16.6% and loans to the services sector decreased by 17.7%, each as compared to 2015. The following table sets forth an analysis of our loan portfolio's composition at the dates indicated according to the borrower's principal economic activity.

	As of December 31,									
	2012		2013		2014		2015		2016	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except percentages)									
Economic Activity:[(1)]										
Residential mortgages	Ps.157,724	23.78%	Ps.162,850	22.66%	Ps.167,786	20.81%	Ps.175,403	19.36%	Ps.188,421	18.56%
Social and community services[(2)]	75,425	11.37%	106,694	14.84%	119,961	14.88%	125,622	13.87%	138,906	13.68%
Manufacturing....	36,296	5.47%	44,684	6.22%	85,974	10.66%	55,339	6.10%	72,122	7.10%
Construction and real estate development...	37,773	5.69%	28,192	3.92%	26,981	3.35%	29,221	3.23%	33,913	3.34%
Commercial[(3)].....	54,442	8.20%	79,075	11.00%	61,846	7.67%	86,300	9.53%	116,545	11.48%
Credit card	96,682	14.57%	100,442	13.97%	97,164	12.05%	98,900	10.92%	105,203	10.36%
Services[(4)]...........	15,351	2.31%	15,857	2.21%	27,616	3.43%	32,153	3.55%	26,447	2.61%
Energy and utilities	30,702	4.63%	32,768	4.56%	23,953	2.97%	44,593	4.92%	52,999	5.22%
Other..................	159,151	23.98%	148,227	20.62%	194,943	24.18%	258,384	28.52%	280,666	27.65%
Total loans	Ps.663,546	100.00%	Ps.718,789	100.00%	Ps.806,224	100.00%	Ps.905,915	100.00%	Ps.1,015,222	100.00%

(1) Includes loans to the public sector.
(2) Includes loans for commercial activities not directly related to manufacturing, as well as loans related to tourism.
(3) Includes credit extended to financial institutions.

Our loan portfolio is characterized by seasonal variations in loan demand and in outstanding loans. For example, heavy demand for agricultural financing drives increases in outstanding loans in March through May of each year. Also, the Mexican economy has historically seen large increases in economic activity during the second half of the year, resulting in significant demand for working capital and inventory financing during the period from September through November and for consumer loans during November and December.

Maturity composition of the commercial and leasing loan portfolio

The following table sets forth an analysis with reference to the time remaining to maturity of our performing commercial and leasing loan portfolio as of the dates indicated.

	As of December 31, 2016									
	2012		2013		2014		2015		2016	
	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%	Loan Portfolio	%
	(millions of Ps., except for percentages)									
Due within 1 year	Ps.111,954	34.25%	Ps.132,889	36.56%	Ps.144,975	33.43%	Ps.175,947	35.10%	Ps.165,153	29.02%
Between 1 and 5 year	108,470	33.19%	113,912	31.34%	127,779	29.47%	142,002	28.33%	188,233	33.07%
Over 5 years	106,407	32.56%	116,695	32.10%	160,890	37.10%	183,262	36.57%	215,810	37.91%
Total	Ps.326,831	100.00%	Ps.363,496	100.00%	Ps.433,644	100.00%	Ps.501,211	100.00%	Ps.569,196	100.00%

As of December 31, 2016, the total amount of our performing commercial and leasing loan portfolio was Ps. 569,196 million. Of these loans, 29.02% were scheduled to mature within one year and were generally intended to cover the borrower's working capital requirements, the purchase of inventory or the financing of foreign commercial transactions.

Loans maturing after more than one year were generally intended for the renovation of manufacturing plants and purchase of equipment, as well as the construction of factories.

Interest rate sensitivity of outstanding loans

The majority of our peso-denominated loans have rates that are reset not less frequently than every 28 days. All rates are determined either by reference to a marginal variable rate or the higher of several reference rates. We began using the TIIE as a reference rate following its establishment in 1995.

The following table sets forth our fixed-rate and variable rate performing loan portfolio.

	As of December 31, 2016				
	2012	2013	2014	2015	2016
			(millions of Ps.)		
Commercial and corporate loans:					
Fixed-rate	Ps. 116,425	Ps. 141,683	Ps. 149,406	Ps. 175,668	Ps. 202,130
Variable rate[(1)]	216,840	227,438	289,548	331,084	373,224
Total	Ps. 333,265	Ps. 369,121	Ps. 438,954	Ps. 506,752	Ps. 575,354
Total non-performing commercial loans	6,434	5,625	5,309	5,541	6,158
Allowances for loan losses	(6,205)	(6,784)	(6,396)	(6,328)	(6,452)

(1) Includes loans that mature or reprice in 30 days or less, which we consider to be effectively variable rate loans.

Non-Performing Loan Portfolio

In assessing the performance of our loan portfolio, we review both the outstanding balance of our non-performing loan portfolio as well as the Loan Classification and Rating Rules.

The outstanding balance of past-due loans is recorded as non-performing as follows:

- When there is evidence that the customer has been declared bankrupt.
- When payments have not been fully settled according to contractual terms, considering that:

- Loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity.

- In the case of loans with a single repayment of principal at maturity, but with periodic interest payments, the total of the principal and interest to the 3 months of expiration.

- The loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 3 months after the first installment is past due.

- In the case of revolving credit granted, loans are considered past due when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 or more calendar days following maturity.

- Customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

Interest is recognized in income when it is accrued. The accrual of interest is suspended when loans become non-performing.

Interest accrued during the period in which the loan was considered non-performing is not recognized as income until collected.

Furthermore, when a number of loans granted to the same borrower are consolidated into a single loan, the treatment applicable to the lowest rated loan involved in the restructuring or renewal will be applied to the total balance of the resulting loan.

Restructured overdue credits are not considered as current portfolio until there is evidence of sustained payment, which is considered to have occurred when the bank has received full and timely payment for three consecutive monthly installments, or the payment of an installment in those cases where the installment covers periods in excess of 60 days and it is evidenced that the borrower is able to pay.

Performing loans other than those that have a single payment of principal at maturity and periodic payments of interest, which are restructured or renewed without having completed at least 80% of the original term of the loan, will still be considered as current only when the borrower has:

a. Settled the total amount of the accrued interest, and

b. Settled the principal of the original loan, which should have been settled as of the date of renewal or restructuring, as the case may be.

If all the conditions described in the preceding paragraph are not fulfilled, loans will be considered as overdue from the time that they are restructured or renewed until there is evidence of sustained payment.

Loans with a single payment of principal and interest at maturity that are renewed at any time will be considered as overdue until there is evidence of sustained payment. They will be considered as current only when the borrower has timely paid the total amount of the interest payable and also paid 25% of the original amount of the loan.

Accrued interest recorded as non-performing interest and included in income becomes part of our total classifiable credit portfolio and is subject to the loan loss reserve requirements of the credit portfolio grading system described under "—Grading of Loan Portfolio" below. The amount of the loan loss allowance for possible credit risks is based upon the grade assigned to the underlying loan.

The non-performing loan portfolio may include credits that our management views as involving different levels of risk and that are accordingly graded for regulatory purposes in any of categories "A 1" to "E." See "—Grading of Loan Portfolio."

As of December 31, 2016, our total non-performing loans totaled Ps. 22,759 million, or 2.2% of total loans. Of this amount, Ps. 855 million, or 3.8% of total non-performing amounts, represented past-due accrued interest. Total non-performing loans increased by Ps. 1,354 million, or 6.3%, in 2016 as compared to 2015, as non-performing consumer credit card loans increased by 5.6%, or Ps. 204 million, mainly due to a change in the write-off policy imposed by new regulations.

As of December 31, 2015, our total non-performing loans totaled Ps. 21,405 million, or 2.4% of total loans. Of this amount, Ps. 734 million, or 3.4% of total non-performing loans, represented non-performing accrued interest. Total non-performing loans decreased by Ps.546 million or 2.5% during 2015 as compared to 2014.

As of December 31, 2014, total non-performing loans amounted to Ps. 21,951 million, or 2.7% of total loans. Of this amount, Ps. 670 million, or 3.1% of total non-performing loans, represented non-performing accrued interest. Total non-performing loans decreased by Ps.724 million or 3.2% during 2014 as compared to 2013.

The following table sets forth an analysis of non-performing loans by type of loan at the dates indicated.

	As of December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
			(millions of Ps.)		
Non-performing loans:					
Commercial and corporate loans:					
Unsecured	Ps. 5,512	Ps. 4,662	Ps. 4,259	Ps. 4,484	Ps. 5,498
Secured	882	906	996	1,041	637
Consumer loans:					
Residential mortgage	7,311	9,281	8,831	8,074	7,459
Credit card	4,510	3,787	3,965	3,620	3,824
Other consumer credits	2,791	3,328	3,177	3,436	4,462
Leasing receivables	40	57	53	16	24
Past-due interest	640	654	670	734	855
Total Non-performing loans	21,686	22,675	21,951	21,405	22,759
Allowance for loans losses	(27,934)	(27,336)	(26,081)	(27,386)	(30,005)
Total Non-performing portfolio net of allowance for loan losses	Ps. (6,248)	(4,661)	Ps. (4,130)	Ps. (5,981)	Ps. (7,246)

Grading of Loan Portfolio

Commercial loan portfolio

The amount of the allowance for loan losses on each loan is determined by applying the following formula:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

Ri =	Amount of the allowance for loan losses to be created for the nth loan.
Ii =	Probability of Default of the nth loan.
SPi =	Severity of the Loss on the nth loan.
EIi =	Exposure to Default on the nth loan.

The amount of the allowance for loan losses of each loan (PIi) is determined by applying the following formula:

$$PI_i = \frac{1}{1+e^{-(500-TotalCreditScore_i)\times\frac{\ln(2)}{40}}}$$

For purposes of the above:

The total credit score of each borrower will be obtained by applying the following expression:

$$TotalCreditScore_i = \alpha \times (QuantitativeCreditScore_i) + (1-\alpha) \times (QualitativeCreditScore_i)$$

Where:
Quantitative credit scorei = Is the score obtained for the nth borrower when evaluating the risk factors.
Qualitative credit scorei = Is the score obtained for the nth borrower when evaluating the risk factors.
α = Is the relative weight of the quantitative credit score.

Unsecured loans

The Severity of the Loss (SP_i) of commercial loans which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a. 45%, for Preferred Positions.
b. 75%, for Subordinated Positions, in the case of syndicated loans, those which for purposes of their priority of payment are contractually subordinated in relation to other creditors.
c. 100%, for loans which are 18 months or more in arrears for the amount due and payable under the original terms.

The Exposure to Default of each loan (EIi) will be determined based on the following:

I. For disposed balances of uncommitted credit lines which may be canceled unconditionally or which in practice allow for an automatic cancellation at any time and without prior notice:
EI i = Si
II. For other credit lines:

$$EI_i = S_i * Max\left\{\left(\frac{S_i}{AuthorizedLineofCredit}\right)^{-0.5794}, 100\%\right\}$$

Where:

S_i: The unpaid balance of the nth loan at the classification date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted. In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet, for loans classified within the non-performing portfolio.

Authorized Line of Credit: The maximum authorized amount of the line of credit at the classification date.

The Bank may recognize the security interests in real property, or personal or credit-derived collateral in the estimate of the Severity of the Loss of the loans, with the aim of decreasing the reserves derived from the portfolio classification. In any case, it may elect not to recognize the credit enhancements if larger reserves are generated as a result. For such purpose, the provisions established by the CNBV are applied.

Loans granted under the terms of the Commercial Bankruptcy Law

This methodology mainly contemplates the consideration of collateral created under the terms of article 75 of the Commercial Bankruptcy Law for the determination of the Severity of the Loss by applying certain adjustment factors or discount percentages applicable to each type of admissible security interest based on personal or real property. Pursuant to the foregoing, in the case of loans granted under the terms of section II of article 224 of the Commercial Bankruptcy Law, the Severity of the Loss will be subject to the following treatment:

$$SP = Max\left(Min\left(1 - \frac{Collateral + Adjusted\ Estate}{Si}, 45\%\right), 5\%\right)$$

Where:

Collateral= Any collateral created under the terms of article 75 of the Commercial Bankruptcy Law by applying, as the case may be, adjustment factors or discount percentages for each type of admissible security interest based on personal or real property.
Adjusted Estate= The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in article 224, section I of the aforementioned Law and applying a 40% discount to the resulting amount.
Si= Unpaid balance of the loans granted under the terms of article 224, section II of the Commercial Bankruptcy Law at the classification date.

In the case of loans granted under the terms of article 224, section III of the Commercial Bankruptcy Law, the Severity of the Loss will be subject to the following treatment:

$$SP = Max\left(Min\left(1 - \frac{Adjusted\ Estate}{Si}, 45\%\right), 5\%\right)$$

Where:

Adjusted Estate= The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in sections I and II of article 224 of the aforementioned Law and applying a 40% discount to the resulting amount.
Si= Unpaid balance of the loans granted under the terms of article 224, section II of the Commercial Bankruptcy Law at the classification date.

Pursuant to Document 121-1/116843-2014 and 121-1/116844-2014 dated April 21, 2014, the CNBV granted authorization to apply new parameters for the classification for the Business (with annual sales above Ps. 50 million) and Other Enterprises portfolio, which were applied beginning April 2014.

Pursuant to Document 121-1/118709/2016 and 121-1/118708/2016 dated February 9 and 10, 2016, the CNBV granted authorization to apply new parameters for the classification for the Business and Other Enterprises portfolio used in its "Expected Loss Internal Methodology", which were applied beginning February 2016.

The internally developed methodology consists of the calculation of the expected loss of 12 months with the following concepts:

– Probability of Default – Based on a rating determined based on the financial information of the companies and 100% for non-performing portfolio.

– Severity of Loss – Calculated based on the collateral and time in default.

The Bank records the respective allowances for loan losses monthly, applying the results of the classification made quarterly to the balance of the debt recorded on the final day of each month.

The allowances for losses from our commercial loan portfolio created by the Bank as a result of the classification of each loan are classified in accordance with the following percentages:

Risk Level	**Percentages Ranges Loss Reserves**		
A1	0%	to	0.90%
A2	0.901%	to	1.50%
B1	1.501%	to	2.00%
B2	2.001%	to	2.50%
B3	2.501%	to	5.00%
C1	5.001%	to	10.00%
C2	10.001%	to	15.50%
D	15.001%	to	45.00%
E	Greater than		45.00%

Portfolio of States and their Municipalities:

When classifying the loan portfolio of States and Municipalities, the Bank considers the Probability of Default, Severity of the Loss and Exposure to Default, while also classifying the portfolio of the States and Municipalities into different groups and establishing different variables for the estimation of the probability of default of the commercial portfolio in relation to loans granted to States and Municipalities.

The allowance for loan losses of each loan will be determined using the following formula:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

Ri =	The amount of the allowance for loan losses to be created for the nth loan.
PIi =	Probability of Default of the nth loan.
SPi =	Severity of the Loss of the nth loan.
EIi =	Exposure to Default of the nth loan.

The probability of default of each loan (PIi) will be calculated according to the following formula:

$$PI_i = \frac{1}{1 + e^{-(500 - TotalCreditScore_i) \times \frac{\ln(2)}{40}}}$$

For purposes of obtaining the respective PIi, the total credit score of each borrower is calculated by applying the following formula:

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 = Average days in arrears with banking institutions (IFB) + % of on time payments with IFB + % of on time payments with non-bank financial institutions.
IB = Number of ratings agencies recognized in accordance with the provisions which provide a classification to the State or Municipality.
IC = Total debt to eligible participations + debt service to adjusted total revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + proprietary revenues to total revenues.
IIA = Local unemployment rate + presence of financial services of regulated entities.
IIB = Contingent obligations derived from retirement benefits to adjusted total revenues + operating balance sheet to local Gross Domestic Product + level and efficiency of collections + robustness and flexibility of the regulatory and institutional framework for budget approval and execution + robustness and flexibility of the regulatory and institutional framework for approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the stock market.

Unsecured loans

The Severity of the Loss (SPi) of the loans granted to States or Municipalities which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a. 45%, for Preferred Positions.
b. 100%, for Subordinated Positions or when the loan is 18 months or more in arrears for the amount due and payable under the original terms.

The Exposure to Default of each loan (EIi) will be determined based on the following:

$$EI_i = S_i * Max\left\{ \left(\frac{S_i}{AuthorizedLineofCredit} \right)^{-0.5794}, 100\% \right\}$$

Si = The unpaid balance of the nth loan at the classification date, which represents the amount of loan granted to the borrower, adjusted for interest accrued, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted. In any case, the amount subject to the classification must not include uncollected accrued interest, recognized in memorandum accounts on the balance sheet, of loans classified within the non-performing portfolio.

Authorized Line of Credit = The maximum authorized amount of the credit line at the classification date.

The Bank may recognize security interests in real property, or personal or credit-derived collateral in the estimation of the Severity of the Loss of the loans, for the purpose of reducing the allowance for loan losses derived from the portfolio classification. For such purpose, the provisions established by the CNBV are applied.

Admissible security interests in real property may be financial and nonfinancial. Furthermore, only those security interests in real property which comply with the requirements established by the CNBV are recognized.

Mortgage portfolio

The Bank determines the allowance for loan losses related to its mortgage portfolio based on the criteria established by the CNBV, calculating the Probability of Default, Severity of Loss and Exposure (expected loss model) as of the classification date, according to the following:

- Probability of default: For portfolio with less than four payments in arrears, it is determined based on the number of late payments, the maximum delay in the last four monthly periods, the average payment commitment of the last seven periods, as well as the value of the credit enhancements with respect to the loans and the currency; and 100% if there are four or more late payments.

- Severity of loss: This is determined based on the value of the credit enhancement with respect to the loans and the means of formalizing the credit enhancement, and, in the case of unemployment insurance coverage, the balance of the housing subaccount.

The allowances for loan losses on the mortgage portfolios established by the Bank as the result of classifying the loans will be based on the following risks levels and percentages:

Risk Level	**Allowance Percentage Ranges for Loan Losses**		
A1	0%	to	0.50%
A2	0.501%	to	0.75%
B1	0.751%	to	1.00%
B2	1.001%	to	1.50%
B3	1.501%	to	2.00%
C1	2.001%	to	5.00%
C2	5.001%	to	10.00%
D	10.001%	to	40.00%
E	40.001%	to	100.00%

Consumer loan portfolio that does not include credit card operations

The Bank determines the allowance for loan losses related to non-revolving consumer portfolio as established by the CNBV, calculating the Probability of Default, Severity of Loss and Exposure (expected loss model) as of the classification date, as follows:

- Probability of default: Depending on the payment periodicity and the type of loan, it is determined using variables such as the number of payments in arrears, the maximum length of arrears, average payment compliance, the remaining term and the number of times that the loan is paid or financed.

- Severity of loss: This is 65% for up to 10 months in arrears and 100% thereafter.

- Exposure refers to the balance as of the classification date excluding interest accrued but not collected for loans in the non-performing portfolio.

Allowances for loan losses in the consumer portfolio, excluding credit card operations, are classified based on the following degrees of risk and percentages:

Level of risk	**Allowance Percentage Ranges for Loan Losses**		
A1	0%	to	2.00%
A2	2.01%	to	3.00%
B1	3.01%	to	4.00%
B2	4.01%	to	5.00%

B3	5.01%	to	6.00%
C1	6.01%	to	8.00%
C2	8.01%	to	15.00%
D	15.01%	to	35.00%
E	35.01%	to	100.00%

For this portfolio, general reserves were considered in risk "A" rating. The specific reserves were ones with a risk rating of "B" or higher.

Consumer credit card loan portfolio

The CNBV approved our request to apply an internal credit card rating model per official Document 111-1/69930/2009 on June 22, 2009, which we applied since August 2009.

In Document 121-1/118710/2016 dated November 20, 2012 dated February 3, 2016, the CNBV authorized the application of new parameters for the classification of revolving consumer loan portfolio used in its "Expected Loss Internal Methodology," which were applied beginning in February 2016.

This internally developed rating methodology involves calculating the expected 12-month loss based on the following:

– Non-compliance probability - Based on variables including portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.

– Loss severity – Calculated based on variables like portfolio type, balance aging and noncompliance period.

– Exposure – Determined according to the credit limit and current balance.

The allowance for credit card losses created by the Bank following this credit rating process is classified according to the following risk levels and percentages:

Level of risk	**Allowance Percentage Ranges for Loan Losses**		
A1	0%	to	3.00%
A2	3.01%	to	5.00%
B1	5.01%	to	6.50%
B2	6.51%	to	8.00%
B3	8.01%	to	10.00%
C1	10.01%	to	15.00%
C2	15.01%	to	35.00%
D	35.01%	to	75.00%
E	Greater than		75.01%

As of December 31, 2016 and 2015, the classification and creation of the allowance for loan losses of the consumer loan portfolio is performed with figures as of the last day of each month and is presented to the CNBV at the latest as of the 30 days following the month classified, in accordance with the reserve percentages applicable to each type of portfolio, as indicated above.

Additionally, a reserve is recognized for the total amount of the uncollected interest earned applicable to loans that are classified within the non-performing portfolio.

Additional reserves

The additional reserves established by the Bank reflect internal rating models, mainly for mortgage loans, which consists of applying specific percentages (expected loss) to the unpaid balance of the debtor.

Analysis of graded loans

The following table analyzes the grading of our loan portfolio as of the dates indicated. In accordance with the CNBV's rules, graded loans reported at the end of a quarter, which we refer to as the reporting quarter, are based on loans outstanding at the end of the preceding quarter after giving effect to charge-offs made during the reporting quarter. Information in this table excludes loans to the federal government of Mexico and to *Banco de México*, but includes accrued interest, past-due interest and off-balance sheet commitments (such as guarantees and letters of credit).

	As of December 31, 2016						
	2012		2013		2014		2015
	Amount	%	Amount	%	Amount	%	Amount
	(millions of Ps., except for percentages)						
Total graded loans:							
A1	Ps. 362,654	54.63%	Ps. 409,873	56.74%	Ps. 506,135	64.28%	Ps. 597,656
A2	131,572	19.82%	134,178	18.58%	109,714	13.93%	120,489
B1	34,102	5.14%	58,007	8.03%	46,114	5.86%	55,964
B2	29,769	4.49%	31,708	4.39%	32,320	4.10%	46,717
B3	32,317	4.87%	24,241	3.36%	28,410	3.61%	32,363
C1	28,222	4.25%	16,057	2.22%	17,698	2.25%	17,703
C2	17,215	2.59%	17,212	2.38%	16,043	2.04%	18,102
D	17,785	2.68%	20,673	2.86%	18,515	2.35%	16,804
E	10,152	1.53%	10,401	1.44%	12,420	1.58%	12,830
Total	663,788	100.00%	722,350	100.00%	787,369	100.00%	918,628
Allowances grading of our loans	23,842		24,846		24,580		25,694
Charge-offs applied after the grading	-		-		-		-
Past-due interest	562		665		696		754
Excess over minimum regulatory requirements	3,391		1,690		708		835
Bancomer allowance	27,795		27,201		25,984		27,283
Mercury Bank allowance	-		-		-		-
Securitization Trust 881 allowances	99		77		67		62
Bancomer Financial Holding allowance	-		-		-		-
Financiera Ayudemos Allowance	40		58		30		41
Total allowance for loan losses	Ps. 27,934		Ps. 27,336		Ps. 26,081		Ps. 27,386
Allowance as a percentage of:							
Graded loans		4.21%		3.78%		3.31%	
Total loans plus interest(1)		4.21%		3.79%		3.22%	
Total non-performing amount		128.81%		120.56%		118.81%	
Total non-performing as a percentage of total loans plus interest (1)		3.27%		3.14%		2.71%	
Total net non-performing loans (non-performing amounts less allowances) as a percentage of net total loans plus interest(1)		-0.98%		-0.67%		-0.53%	

(1) Interest includes past-due and outstanding interest.

As of December 31, 2016, the aggregate outstanding principal amount of our 25 largest loans (excluding loan exposures to a single corporate group or to an agency of the Mexican Government) represented 8.2% of our total loans. As of December 31, 2016, of the 25 largest loans, 23 loans were rated "A1" and two loans were rated "A2". As of December 31, 2016, of our 10 largest loans, representing 4.6% of our total loans, all were rated "A1".

Allowance for loan losses

General

We provide for possible loan losses in accordance with the regulations of the CNBV and are in compliance with regulatory loan loss allowance requirements. The grading of loans determines the amount of the allowance for loan losses required to be set aside, see section above – Grading of Loan Portfolio. The amount reserved for loan losses is carried in a separate account on our balance sheet and all charge-offs for uncollectible loans are made against this reserve. Mexican banks are required to obtain authorization from their boards of directors in order to charge off loans. In addition, Mexican banks are required to inform the CNBV after such charge-offs have been recorded. For a discussion of our charge-off policy, see "Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP."

As of December 31, 2016, we recorded loan loss provisions charged against earnings totaling Ps. 32,383 million. Our allowance for loan losses amounted to 131.84% of total non-performing loans as of December 31, 2016, as compared to 127.94% as of December 31, 2015 and 118.81% as of December 31, 2014. As of the date hereof, we believe that our current loan loss allowance is adequate for all known or knowable losses on our assets.

As of September 30, 2017, we recorded loan loss provisions charged against earnings totaling Ps. 25,569 million. Our allowance for loan losses amounted to 139.20% of total non-performing loans as of September 30, 2017, as compared to 131.84% as of December 31, 2016 and 127.94% as of December 31, 2015. As of the date hereof, we believe that our current loan loss allowance is adequate for all known or knowable losses on our assets.

Analysis of allowance for loan losses

The following table analyzes our loan loss allowances and movements in loan charge-offs and recoveries for the periods indicated, as well as changes to income and period-end allowances for loan losses.

	For the Years Ended December 31,				
	2012	2013	2014	2015	2016
	(millions of Ps.)				
Balance at beginning of period	Ps. 24,873	Ps. 27,934	Ps. 27,336	Ps. 26,081	Ps. 27,386
Increase:					
Provision charged against earnings	22,260	23,699	25,526	28,482	32,383
Provisions charged against equity	-	1,551	-	-	105
Exchange rate revaluation	202	181	182	156	217
Inflation revaluation of the UDI program[(1)]	68	62	61	21	33
Subtotal	22,530	25,493	25,769	28,659	32,738
Decrease:					
Exchange rate revaluation	339	190	62	20	72
Punto Final program for mortgage loans[(1)]	21	-	-	-	-
Other charge-off	19,109	25,901	26,962	27,334	30,047
Subtotal	19,469	26,091	27,024	27,354	30,119
Balance at the end of period	Ps. 27,934	Ps. 27,336	Ps. 26,081	Ps. 27,386	Ps. 30,005

(1) See "—Early Termination of Debtor Support Programs."

Allocation of allowance for loan losses by category

	As of December 31, 2016									
	2012		2013		2014		2015		2016	
	Allowance	%	Allowance	%	Allowance	%	Allowance	%	Allowance	%
	(millions of Ps., except for percentages)									
Commercial, financial and agriculture	Ps.6,156	22.04%	Ps.6,745	24.68%	Ps.6,343	24.33%	Ps.6,316	23.07%	Ps.6,424	21.42%
Residential mortgages	3,692	13.22%	4,197	15.35%	4,086	15.66%	3,872	14.13%	3,886	12.95%
Credit Card	8,597	30.78%	8,425	30.83%	7,995	30.66%	8,335	30.44%	9,830	32.77%
Other consumer loans	5,487	19.64%	5,575	20.39%	6,200	23.77%	7,262	26.52%	8,628	28.75%
Leases	49	0.18%	39	0.14%	53	0.20%	12	0.04%	29	0.09%
Charge-offs applied after the grading	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Excess over minimum regulatory requirements	3,391	12.13%	1,690	6.18%	708	2.71%	835	3.04%	429	1.43%
Past-due interest	562	2.01%	665	2.43%	696	2.67%	754	2.76%	779	2.59%
Total	Ps.27,934	100.00%	Ps.27,336	100.00%	Ps.26,081	100.00%	Ps.27,386	100.00%	Ps.30,005	100.00%

Foreclosed real estate and other assets

As of December 31, 2016, the book value of our foreclosed real estate and non-real estate assets, net of allowances, totaled Ps. 3,862 million and Ps. 4 million, respectively. As of December 31, 2015, the book value of our foreclosed real estate and non-real estate assets, net of allowance, totaled Ps. 5,662 million and Ps. 0 million, respectively. This decrease was mainly due to the sale of real estate properties from our housing developers which totaled Ps. 1,443 million net of allowance.

Under CNBV regulations, Mexican banks that are awarded title to foreclosed property in a judicial auction are required to account for such property at the amount set at the auction. Real estate assets received by the bank in a negotiated settlement with the borrower must be recorded at the lower of the appraised value of the property and the amount of the loan recorded in such settlement. In addition, although time limits to sell foreclosed real estate assets or real estate assets received by the bank in negotiated settlements have not been eliminated from the regulations, as a general practice such time limits have been waived by the CNBV in order to allow banks to sell such assets, subject to market conditions and liquidity requirements.

We operate a specialized unit that administers foreclosed real estate and manages all activities related to the administration, marketing and sale of such properties.

The following table sets forth, by type of property, the book value of foreclosed real estate and non-real estate assets at December 31, 2014, 2015 and 2016.

	As of December 31, 2016		
	2014	2015	2016
	(millions of Ps.)		
Real estate			
Rural land	Ps. 767	Ps. 609	Ps. 462
Urban land	2,233	2,141	1,736
Family houses	4,503	4,299	3,795
Condominium	554	577	535
Industrial plants	107	117	83
Commercial building	47	43	37
Other	260	260	179
Subtotal Real estate	8,471	8,046	6,827
Allowance for real estate	(1,649)	(2,384)	(2,965)
Total real estate, net	6,822	5,662	3,862
Non-real estate	20	20	23
Allowance for non-real estate	(20)	(20)	(19)
Total non-real estate	-	-	4
Property type	8,491	8,066	6,850
Allowance	(1,669)	(2,404)	(2,984)
Total	Ps. 6,822	Ps. 5,662	Ps. 3,866

Early termination of debtor support programs

As a consequence of the 1995 Mexican crisis, the banks operating in Mexico had to create debtor support programs to help clients with their outstanding debts. These programs were in place for almost 10 years, until they were terminated ahead of schedule in July 2010. On July 15, 2010, an agreement was signed between the Mexican Government, through the Treasury Department ("SHCP"), and some credit institutions, with the participation of the Mexican Bankers' Association, to early terminate certain debtor support programs (the "Agreement"). See note 10 to our Financial Statements included elsewhere in this offering memorandum.

The support programs in which the Bank participated, and which are the subject matter of this Agreement, are:

– Housing Loan Debtor Support Program

– Housing Loan Debtor Benefits Agreement

The amount of the obligations as of December 31, 2010 payable to us by the Mexican Government under the Agreement was composed as follows:

Restructured credits under the Agreement:	Ps.	4,098
Overdue portfolio which showed payment compliance as of March 31, 2011		37
Total base amount	Ps.	4,135

General conditions of payment obligations of the Mexican Government

The payment obligations of the Mexican Government were fulfilled through installments of Ps. 827 per year, adjusted for accrued interest and any excess amount between the 7.5% and the average of the indicators of arrears at the close of each of the months of the year immediately before payment, for a period of five years, in accordance with the following:

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

The interest earned was at the rate resulting from the arithmetical average of the annual rates of return on the discount basis of 91-day CETES (Mexican Treasury Bills), carried to a 28-day yield curve.

As a result of an agreement between the Bank and the CNBV, the first annual charge was not paid on the date agreed; it was paid by arrangement between the CNBV and SHCP on November 1, 2012.

Position in special Cetes and special "C" Cetes which the Bank keeps under the heading of "Securities held to maturity":

As of December 31, 2016, the remnant of the special Cetes and special "C" Cetes is composed as follows:

Trust of Origin	Special Cetes No. of securities	Special Cetes Amount	Special Cetes Date of maturity	Special "C" Cetes No. of securities	Special "C" Cetes Amount	Special "C" Cetes Date of maturity
421-5	18,511,119	Ps. 1,811	13/07/2017	2,109,235	Ps. 66	13/07/2017
422-9	128,738,261	12,595	07/07/2022	-	-	
423-9	10,656,993	1,043	01/07/2027	468,306	15	01/07/2027
424-6	383,470	38	20/07/2017	96,876	3	20/07/2017
431-2	964,363	86	04/08/2022	1,800	-	04/08/2022
Total		Ps. 15,573			Ps. 84	

Other Restructuring Programs

Workout and credit recovery

We operate a central workout unit in Mexico City, as well as four smaller credit recovery units operating throughout Mexico. These units handle debt recovery for borrowers with loans in excess of Ps. 2.0 million in current and past-due principal. Recovery prospects are measured by reference to a scale of 1 through 8, with a loan ranked 1 deemed to have the best recovery prospect and a loan ranked 8 deemed to have the worst recovery prospect. The credit recovery units are automatically engaged in the recovery of non-performing loans ranked 6 or higher.

In the event that a credit recovery unit is unable to reach an agreement with a borrower in respect of non-performing loan amounts and the borrower fails to propose terms for an alternative satisfactory restructuring agreement, the unit submits the loan to our litigation department for the initiation of an action to recover the loan. Foreclosure procedures on collateral in Mexico can take a long period of time. These procedures require the filing of a written petition with a Mexican court requesting the court's authorization to complete the foreclosure. This petition and its approval process are generally subject to significant delays. Accordingly, the value of the collateral may be impaired during the foreclosure process as a result of delays or other factors. As a result, there can be no assurance that the rate of non-performing loan recoveries will not decrease in the future. Loans with respect to which recovery has been unsuccessful despite the implementation of workout procedures and litigation, are charged-off.

Short-Term Borrowing and Loans from to Repurchase Agreements

The following table sets forth our short-term borrowings and securities sold under agreements to repurchase for the periods indicated.

	As of December 31,					
	2014		2015		2016	
	Amount	Rate	Amount	Rate	Amount	Rate
	(million of Ps., except percentages)					
Short-term borrowings:						
At end of period	Ps.39,500	1.31%	Ps. 8,538	4.56%	Ps. 1,737	25.79%
Daily average indebtedness during period	34,740	1.49%	14,495	2.68%	16,280	2.75%
Maximum month-end balance	46,915		28,026		29,991	
Debtors from repurchase agreements:						
At end of period	258,742	3.63%	244,431	3.52%	264,485	4.06%
Daily average indebtedness during period	264,417	3.55%	264,026	3.26%	250,649	4.29%
Maximum month-end balance	319,500		305,806		287,036	
Total:						
At end of period	298,242	3.32%	252,969	3.56%	266,222	4.21%
Daily average indebtedness during period	299,157	3.31%	278,521	3.23%	266,929	4.20%
Maximum month-end balance	366,415		333,832		317,027	

Deposits

The following table presents the components of our deposit base for the periods indicated.

	As of December 31,		
	2014	2015	2016
		(millions of Ps.)	
Interest-bearing demand deposits:			
Peso-denominated	Ps. 433,652	Ps. 498,221	Ps. 513,590
Foreign currency-denominated	47,528	74,626	108,824
Subtotal	481,180	572,847	622,414
Non interest-bearing demand deposits:			
Peso-denominated	70,822	69,236	80,227
Foreign currency-denominated	26,064	39,328	51,834
Subtotal	96,886	108,564	132,061
Saving deposits:			
Peso-denominated	-	-	-
Foreign currency-denominated	-	-	(7)
Subtotal	-	-	(7)
Time deposits:			
Peso-denominated	176,233	222,948	240,555
Foreign currency-denominated	42,429	47,042	38,684
Sub-total	218,662	269,990	279,239
Total	Ps. 796,728	Ps. 951,401	Ps. 1,033,707

THE TEXAS AGENCY

General

On June 2, 2003, the Texas Agency was issued a license by the commissioner of the Texas Department of Banking under the Texas Finance Code (the "Commissioner"). Through the Texas Agency, we are a foreign bank licensed to transact business in the State of Texas under the Texas Finance Code. The Texas Agency's registered office is located at 5075 Westheimer Road, Suite 1260W, Houston, Texas, United States of America; the Agency's telephone number is 713-341-8200; and the Agency's charter number is 5030-03.

A licensed foreign bank agency in the State of Texas has the powers outlined in the Texas Finance Code, including, but not limited to, the power to (i) borrow and lend money with or without property as security and (ii) buy or acquire and sell or dispose of a bill of exchange, draft, note, acceptance or other obligation for the payment of money. The Texas Agency may not accept deposits from citizens or residents of the United States, other than credit balances that are incidental to or arise out of the exercise of other lawful banking powers, but may accept deposits from persons who are neither citizens nor residents of the United States.

Activities

The Texas Agency is not an entity separate and distinct from BBVA Bancomer S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer. The Texas Agency is required to keep the assets of our business in the State of Texas, including the assets of the Texas Agency, separate and apart from the assets of our business outside of the State of Texas. Our depositors and creditors arising out of transactions with, and recorded on the books of, the Texas Agency are entitled to absolute preference and priority over the depositors and creditors of our offices located outside of the State of Texas with respect to our assets located in the State of Texas. The majority of transactions of the Texas Agency are performed under our direction and involve issuing debt on our behalf, booking loans originated at our home office and accepting deposits from non-United States corporations, government agencies, or persons who reside, are domiciled, and maintain their principal place of business in a foreign country.

Regulation of the Texas Agency

Under Mexican law, the Texas Agency's obligations are our obligations. The Texas Agency is subject to regulations issued by the CNBV and *Banco de México*, including liquidity requirements as well as applicable regulations issued by the Texas Department of Banking and the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). See "Supervision and Regulation—Liquidity Requirements for Foreign Currency-Denominated Liabilities."

The Texas Agency is examined by the Texas Department of Banking and is generally subject to all of the laws of the State of Texas that are applicable to a Texas state bank. The Texas Agency is required to keep on deposit with unaffiliated banks in the State of Texas certain money and securities pledged to the Commissioner, and such required amount is subject to the conditions and limitations the Commissioner considers necessary or desirable for the maintenance of a sound financial condition, the protection of the creditors and depositors of the Texas Agency's business in the State of Texas, the public interest in the State of Texas, and the support of public confidence in the business of the Texas Agency. At this time, the Commissioner has not imposed upon the Texas Agency any requirement to maintain a specific ratio of assets to liabilities appearing on the books, accounts and records of the Texas Agency or liquidity requirements. However, the Commissioner has the discretion to impose such requirements as may be necessary or desirable to reflect differences among Texas agencies because of (i) the financial condition of the Texas agency offices of the foreign bank, (ii) the financial condition of the branch or agency offices of the foreign bank located in other states, (iii) the general economic conditions prevalent in the home country of the foreign bank, or (iv) the financial condition of the foreign bank itself, including the financial condition of branches or agencies in other countries, the financial condition of its affiliated bank and non-bank subsidiaries in the United States and the financial condition of the foreign bank on a worldwide consolidated basis or in its home country.

The Texas Agency is required to disclose that deposits and credit balances in the Texas Agency's offices are not insured by the Federal Deposit Insurance Corporation.

The Texas Finance Code authorizes the Commissioner to take enforcement actions to revoke the license of a foreign bank agency or to seize the assets that are located in Texas of a non-United States bank for a variety of offenses, including but not limited to, if the Commissioner by examination or other credible evidence finds that the foreign bank (i) has refused to permit the Commissioner to examine its books, papers, accounts, records or affairs, (ii) has failed to make a report required or made a material false or misleading statement in the report, (iii) has misrepresented or concealed a material fact in the original application for license, or (iv) conducts business in an unsafe and unsound manner. If the Commissioner finds that certain conditions have been met, including consideration of the foregoing factors and others established by statute, and that it is necessary for the protection of the interests of creditors of the foreign bank's business in the State of Texas or for the protection of the public interest, the Commissioner may initiate a variety of enforcement measures, including, without limitation, the following: (i) the Commissioner may issue, without notice and hearing, an order suspending or revoking the license of the foreign bank for a period of up to ninety (90) days, pending investigation or hearing, or (ii) the Commissioner may by order immediately take possession of the property and business of the foreign bank in the state of Texas and as soon as practicable thereafter initiate a receivership proceeding to liquidate the property and business of the foreign bank in the State of Texas, under circumstances and using procedures similar to those used to liquidate a Texas state bank, except that the depositors and creditors of a Texas agency, arising out of transactions with and recorded on the books of a Texas agency, would have an absolute preference and priority over the creditors of the foreign bank located outside of the State of Texas. Upon issuing a final order revoking the license of a foreign bank, such foreign bank must immediately cease all activity in the State of Texas requiring a license. After the Commissioner (or other receiver) completes the liquidation of the property and business of the foreign bank in the State of Texas, the Commissioner is required to transfer any remaining assets to the foreign bank or to the liquidators of the foreign bank's offices in other states in the event that such proceedings were pending in other states in accordance with the applicable court order.

In addition to being subject to Texas banking laws and regulations, the Texas Agency is also subject to federal regulation primarily but not limited to the International Banking Act of 1978, as amended (the "IBA"), and the amendments to the IBA made pursuant to the Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA"), and to examination by the Board of Governors of the Federal Reserve Board. Under the IBA, as amended by FBSEA, all United States branches and agencies of foreign banks, such as the Texas Agency, are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by United States bank holding companies.

Among other things, FBSEA provides that a state-licensed branch or agency of a foreign bank may not engage in any type of activity that is not permissible for a federally licensed branch or agency of a foreign bank unless the Federal Reserve Board has determined that such activity is consistent with sound banking practice. A state branch or agency must also comply with the same single borrower lending limits applicable to national banks. These limits are based on the capital of the entire foreign bank. In addition, FBSEA authorizes the Federal Reserve Board to halt the activities of a United States branch or agency of a foreign bank if it finds that the foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country or there is reasonable cause to believe that such foreign bank, or an affiliate, has violated the law or engaged in unsafe banking practice in the United States, and as a result, continued operation of the branch or agency would be inconsistent with the public interest and purposes of the banking laws.

THE BANK

Overview

We are a leading multi-purpose bank with limited liability organized under Mexican law. As of September 30, 2017, we had total assets of Ps. 1,962,836 million, total deposits of Ps. 1,154,584 million, and our stockholders' equity was Ps. 174,841 million. For the year ended December 31, 2016, our net result was Ps. 33,311 million and for the first nine months of 2017, our net result was Ps. 29,343 million. As of September 30, 2017, based on total assets, loans and deposits, we were the largest bank in Mexico according to data from the CNBV.

We are the principal subsidiary of GFBB, a Mexican financial services holding company. GFBB is controlled and substantially all of its capital stock is beneficially owned by BBVA, a leading Spanish bank. As of September 30, 2017, we accounted for 92% of GFBB's total assets and 85% of GFBB's net result.

We are focused on distributing our banking products and services efficiently. As of September 30, 2017, we distributed our products and services in Mexico for all of our banking units through a nationwide network of 1,845 branches, including our agency located in Houston, Texas, 11,519 ATMs and 170,794 operating POS terminals, as well as through mobile phone and internet banking. As of September 30, 2017, 91% of our banking transactions were completed by channels other than a teller window. We are present in all 32 states of Mexico.

Over the last three years, our commercial activity has grown at a higher average rate than Mexico's GDP, which grew by 2.4% from 2014 to 2016 according to data from *Banco de México*. From 2014 to 2016, compounded annual growth for our total performing loan portfolio and for our total deposits (including demand and time deposits) was 12.7% and 14.5%, respectively. During this same period, our loan portfolio has grown while maintaining asset quality. Our performing loan portfolio grew in the first nine months of 2017 by 4.8% as compared to the previous period and grew 13.2% in 2016, 12.2% in 2015 and 12.7% in 2014; each as compared to the previous year. Total non-performing loans as a percentage of total loans were 2.2% in the first nine months of 2017; 2.2% in 2016; 2.4% in 2015, and 2.7% in 2014.

As of September 30, 2017, our performing commercial loan portfolio, which includes loans to corporations, enterprises and financial and governmental entities, represented 58% of our total performing loan portfolio, while our consumer loan portfolio represented 24% of our total performing loan portfolio and our mortgage loan portfolio represented the remaining 18%.

Our net result increased by 12% in the first nine months of 2017 as compared to the previous period, and increased 16.4% in 2016 and 15.6% in 2015 and decreased by 19.7% in 2014, each as compared to the previous year.

We operate through two main units:

- *Wholesale Banking*: serves medium-sized enterprises and government entities; as well as major corporations and institutional customers. Through this business unit we provide companies with bridge loans for the construction industry and credit for the distribution and purchase of vehicles. In addition, this business unit provides banking services for Mexican federal agencies, states and municipalities. It also provides lending, mergers and acquisitions, capital markets (equity and fixed income), cash management and e-banking and money-market instruments to Mexico's major corporates and institutional customers.

- *Business Development (Retail Banking)*: We refer to this segment as Business Development (Retail Banking) since the majority of our business for this segment is in the retail sector with customers utilizing a single product such as a deposit account or mortgage and provides us with the best opportunity to offer these customers additional products and further develop our overall business. In 2015, we restructured our internal structural operations to allow for a simpler and more efficient management of our products and clients. In order to achieve this, we merged two areas: Digital

Banking and Business Development with Payment Methods (Retail Banking) to create the new banking unit called Business Development (Retail Banking). This Business Development (Retail Banking) unit serves individuals in the following classifications: high net-worth, upper affluent, affluent, upper mass and lower mass, as well as micro and small enterprises. This unit is focused on providing banking services and products such as: debit and credit cards, automobile loans, residential mortgage loans, consumer and payroll loans through our network of retail branches, ATMs and digital channels.

The Mexican financial market is highly competitive. As of September 30, 2017, the banking market in Mexico was composed of 48 banks. Considering this market, we hold the leading position in the following business lines:

	As of September 30, 2017[1]	
	Market Share	**Rank**
Total assets	22.8%	1
Total deposits	23.3%	1
Total loans	23.3%	1
Number of branches	14.6%	1
Wholesale loans	21.0%	1
Corporate loans	21.0%	1
Consumer loans	27.8%	1
Mortgage loans	27.1%	1

(1) Source: CNBV.

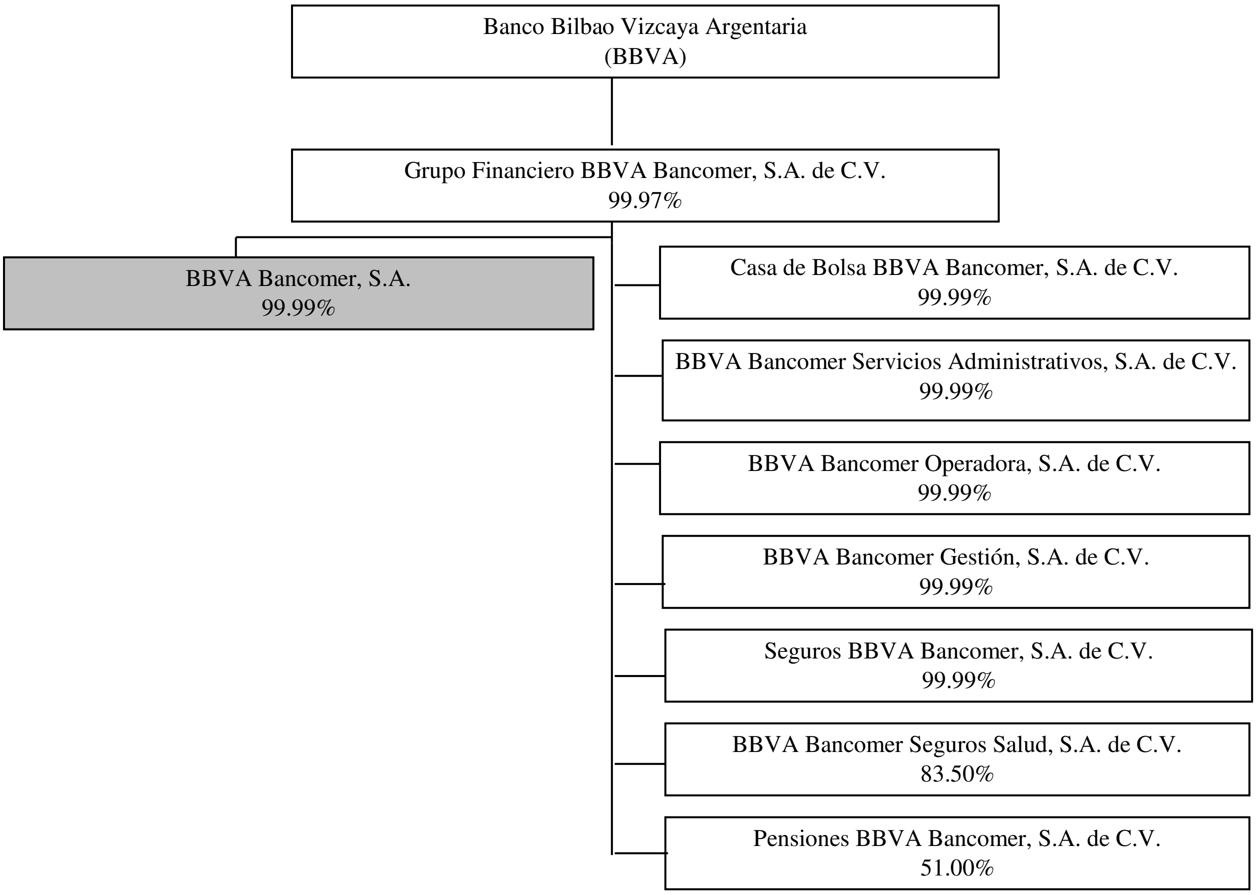
Organizational Structure

We are the principal subsidiary of GFBB, a Mexican financial services holding company.

In addition to our own products and services, we distribute and earn fee income and commissions from a wide range of financial and related products and services in Mexico for GFBB and other affiliates that are not subsidiaries of ours, including:

- Bank assurance products on behalf of Seguros BBVA Bancomer, S.A. de C.V.;
- Mutual funds on behalf of BBVA Bancomer Gestión, S.A. de C.V.;
- Brokerage services on behalf of Casa de Bolsa BBVA Bancomer, S.A. de C.V.;
- Pension fund management on behalf of Pensiones BBVA Bancomer, S.A. de C.V. and
- Health services insurance products on behalf of BBVA Bancomer Seguros Salud, S.A. de C.V.

The following chart presents our current holding organizational structure and that of GFBB, including principal subsidiaries and affiliates, as well as respective ownership interests as of the date of this offering memorandum:



Our headquarters are located at Paseo de la Reforma No. 510, Colonia Juárez, Mexico City, Mexico, C.P. 06600. Our telephone number is +52 (55) 5621-3434. See "—Properties."

Our History

General

We trace our origins back to *Banco de Comercio, S.A.*, which was founded in 1932 in Mexico City. In 1977, various institutions comprising the Banco de Comercio Group were consolidated into a multi-purpose bank under the name of "Bancomer." The merger enabled us to maintain our strong ties with local communities throughout Mexico and begin offering the services of a national banking network.

Bancomer was nationalized by the Mexican Government in 1982 along with nearly all other commercial banks in Mexico. As part of the subsequent privatization process, in 1991, a core group of Mexican investors led by Eugenio Garza Lagüera incorporated GFB, to acquire 56% of Bancomer's outstanding capital stock directly from the Mexican Government.

GFB subsequently increased its ownership of Bancomer through acquisitions and, in 1993, the Mexican Government exchanged its remaining stake in Bancomer for shares of GFB's capital stock, which gave GFB control of nearly 100% of Bancomer's outstanding capital.

We are a Mexican company authorized to exist and operate as a foreign-owned subsidiary bank. Our capital is 100% owned by GFBB, a foreign-owned subsidiary holding company, whose capital is, in turn, 99.97% owned by BBVA.

BBVA's Investment in GFB

In 2000, BBVA acquired operating control of Grupo Financiero Bancomer, S.A. de C.V., which was renamed Grupo Financiero BBVA Bancomer, S.A. de C.V. as a result of a merger of BBV-Probursa, an indirect subsidiary of BBVA and the parent of BBV-Mexico. In July 2000, BBVA obtained an 30% interest in the outstanding capital of GFB. As a result of a series of transactions effected between January 2002 and March 2004, BBVA acquired 99.9% of the capital stock of GFB.

Following BBVA's initial investment in GFB in 2000, we grew as a result of our September 2000 merger with Promex, an insolvent bank that had been acquired by the Mexican Government, and, to a lesser extent, the transfer of a substantial portion of the traditional banking business of BBV-Mexico to us in 2001. As part of that transfer, certain of our assets and activities, including our ATM network, were transferred to BBV-Mexico. Subsequently, we were renamed BBVA Bancomer, S.A., Institución de Banca Múltiple and BBV-Mexico was renamed BBVA Bancomer Servicios, S.A., Institución de Banca Múltiple, or BBVA Bancomer Servicios.

On August 1, 2009, we entered into a merger agreement through which BBVA Bancomer Servicios was merged into us, resulting in one financial institution. As a result of this merger, we now wholly own and carry out all of the former business activities of BBVA Bancomer Servicios, including trust and ATM services.

On January 9, 2013, we completed the sale of Afore Bancomer, S.A. de C.V. to Afore XXI Banorte. The total amount of this transaction was U.S. $1,734 million.

On February 22, 2013, our parent GFBB purchased 20.61% of the shares of Seguros BBVA Bancomer from BBVA in order for GFBB to increase its shareholding in Seguros BBVA Bancomer to 99.99%.

On June 6, 2016, we completed the sale of our subsidiary BTS for Ps. 1,249 million.

In January 2017, our shareholders approved the merger of Hipotecaria Nacional S.A. de C.V. Sociedad Financiera de Objeto Múltiple Entidad Regulada Grupo Financiero BBVA Bancomer, (Entidad Financiera de Objeto Multiple), BETESE S.A. de C.V., the holding company, and Desitel Tecnología y Sistemas S.A. de C.V., the services provider, into us, which took effect in February 2017.

Strategy

Our business model, which focuses on increasing our profitability in accordance with our risk criteria, while also promoting long-term growth, has enabled us to remain the leader in the Mexican banking industry. Our business model is customer-centric and based on our classification system of our customer base. It allows us to cater to the entire customer pyramid irrespective of income, while offering innovative, specialized and customized products and services for each banking segment.

In 2015, the BBVA Group launched a strategic plan with a new focus ("To bring the age of opportunity to everyone") and seven strategic priorities. These strategic priorities are:

- Enhance customer experience;
- Drive digital sales including through the internet, our website and mobile devices and applications;
- Optimize profitability through capital allocation;
- Optimize efficiencies;
- Maintain a skilled and experienced workforce;
- Focus on social responsibilities; and
- Continually seeking to improve risk management policies.

In 2017, we adopted the BBVA Group's new mission "Creating Opportunities" and are applying it in all areas of the bank by focusing on enhanced customer experience and on technological innovations as described below.

Enhance customer experience

We understand that our customers are the core of our business. Our objective is to offer the best experience to our customers by providing them with the differentiated products and services they need within each of our segments.

Since 2015, we have been implementing a franchise model called "Experiencia Única" (Unique Experience). This model seeks to standardize our customers' interactions with us from the moment they enter a branch or access our online services. As a part of Experiencia Única, we generate an internal certification model that allows for continuous improvement of our service, and we have implemented this successfully across our branch network.

We also use the NPS methodology, a metric that we believe is capable of predicting growth based on customer satisfaction and willingness to recommend our services. NPS detects opportunities by allowing us to identify the causes of satisfaction and dissatisfaction among our customers and prioritize critical areas requiring improvement. We measure quality inside our branches and seek to increase the quality of our service and thus improve customer satisfaction by categorizing our retail branches, based on the quality of service provided as measured by the results of customer surveys.

Our business model is based on specific customer segmentation, which entails offering specialized products and services to customers within each segment. We have divided our customer base into different segments according to their profiles; on one hand we cater to enterprises dividing them into the following segments: Corporate, Medium-sized businesses, Government entities, Small businesses and Micro-businesses; on the other hand for individuals we cater to high net-worth customers or *Privada*, upper affluent customers or *Patrimonial*, affluent customers or *Personal*, upper mass customers or *Bancario*, and lower mass customers or *Express*.

Drive digital sales including through the internet, our website and mobile devices and applications

Easy access to information through the internet and on mobile platforms has disrupted our industry and generated changes in our customers' needs and behaviors. Customer demand for faster service and customization has led us to boost digital sales through a series of initiatives since the launch of our strategic plan. One of these initiatives is to offer "do-it-yourself" solutions by providing advanced and modern ATMs in each branch.

Since 2015, we have focused on encouraging interaction with our customers through digital channels. We launched several digital products and solutions for all customer segments, increasing our offering of digital products from six in December 31, 2014 to 54 as of the date of this offering memorandum. As of September 30, 2017, we had 4.9 million digital customers who used at least one digital platform (mobile or web) in the prior quarter and 3.89 million mobile customers, compared to 2.20 million mobile customers as of September 30, 2016.

"One-click" is one of the best examples of our initiatives used to boost digital sales, because it provides the segments of private individuals and small businesses with access to consumer loans through digital and remote channels such as Bancomer.com, ATMs and Bancomer Móvil, a mobile banking application that allows the customers to check their balances and transfers, make money transfers to BBVA Bancomer and other bank accounts, pay bills and services, receive personalized credit offers, and check the health of the personal finances with the so-called "Checkup" function, which permits individuals to assess the state of their personal finances by displaying metrics such as their liabilities, savings, available funds, and credit capacity. For the nine months ended September 30, 2017, the number of consumer loans we granted through digital channels represented 36.7% of total loans, compared to 39.8% for the year ended December 31, 2016 and 15.7% for the year ended December 31, 2015. For the nine months ended September 30, 2017, our digital sales represented 11.1% of total sales, compared to 5.83% for the nine months ended September 30, 2016.

Optimize profitability through capital allocation

In order to achieve this objective, we attempt to make our processes more efficient and utilize internal tools and metrics that allow a more efficient use of our capital, while complying with the requirements of local and global regulators. Our objective is to maximize return on capital steadily over time. We aim to do so through: (i) the use of suitable management-oriented metrics which incorporate the customers' needs and seek to maximize the overall profitability of certain client relationships, (ii) efficient allocation of resources, (iii) the assessment of our business model in different economic scenarios, (iv) the continuation of our universal banking model which is focused on diversification in terms of geography, customers and products and which has contributed to our steady growth over time.

Optimize efficiencies

We seek to streamline our operations through the use of new technologies, product development, customer service quality metrics and methodologies, which allow us to simplify the banking experience for our customers. We believe that our new distribution model and focus on customer segmentation will also allow us to increase productivity in each of our banking units.

The improvements in our efficiency have already resulted in increased sales at our branches. Through an increase in our loan portfolios and deposits, we have been able to sustain growth while adhering to risk controls. We believe these improvements will help us achieve long-term profitability and increased recurring income and profits.

We believe we have one of the most competitive efficiency ratios as compared to our peers in the Mexican financial system according to the Mexican banking authority, CNBV, and we seek to improve efficiencies through specialized training of our personnel and increased use of automated data and related systems as well as external suppliers when it is more cost-effective to do so. As of September 30, 2017, our efficiency ratio was 39.2%, which represented an improvement of 2.0 percentage points as compared to 41.1% as of September 30, 2016. As of December 31, 2016 our efficiency ratio was 43.5%, compared to 44.0% as of December 31, 2015 and 46.4% as of December 31, 2014.

As of September 30, 2017, according to public filings with the CNBV we had the largest branch network in Mexico, consisting of 1,845 branches strategically located in all Mexican states including 1,808 commercial branches, 23 affluent branches and 13 business branches. Each of our branches reports to one of seven regional divisions in Mexico. We have one branch located in Houston, Texas.

Our digital channels have been critical to the recent improvement of our efficiency ratio. The increase in the number and types of digital channels we offer has led to a decrease in the number of transactions made through teller windows. During the first nine months of 2017, our customers made 2,222 million transactions through digital channels, compared to 4,192 million transactions in 2016 and 2,283 million transactions in 2015.

We also expanded our points of sale to more than 33,144 stores and establishments, which include retail stores, pharmacies, gas stations and supermarkets, such as OXXO, Farmacias Benavides, Chedraui and WalMart, among others. This network allows our customers to complete transactions more flexibly with a wider variety of locations and increased hours throughout the week.

We operate a call center and telephone banking service that we refer to as "*Línea Bancomer*," which provides our customers with access to a telephone service to conduct certain basic banking transactions, including obtaining account balances and transferring funds. Our call center also allows us to perform telemarketing activities to offer credit cards and bank insurance products (provided by Seguros Bancomer, S.A. de C.V., a subsidiary of GFBB) to our customers, as well as services such as the payment of bills and automatic debits to checking accounts.

Maintain a skilled and experienced workforce

We believe that people are the key to the success of our business and we seek to create a workforce dedicated to the needs of our customers. We have recently reorganized our human resources division into our talent and culture division in order to enhance our focus on our employees development. We are currently reorganizing our Human Resources Division and transforming it into what we refer to as the Talent and Culture Division This cultural transformation is based on the following five-dimension model, which seeks to positively impact the people who form our organization:

- Promoting shared values;
- Seeking employee satisfaction;
- Managing talent and developing leaders;
- Improving performance; and
- Alignment of our global strategy with our holding company.

Recognizing the importance of recruiting talent has led us to, among other things, implement young talent internship programs that target different age groups, with a wide range of university degrees to enrich our teams and add new talent with diverse skills. We also have two BBVA Campus Training Centers that provide workshops and training on subjects such as anti-money laundering, protection of personal data and codes of conduct. In addition, we promote equal opportunities incentives and have adopted initiatives to include people with disabilities as part of our team.

Focus on social responsibilities

We also sponsor financial education programs intended to raise awareness of the practical advantages and positive impact of responsible use of financial services and products. We are also fully committed to supporting the development of Mexico's educational system, especially through Fundación Bancomer, which primarily supports education in Mexico through various social and development projects. We assign 1.0% of our annual net result to Fundación Bancomer.

The foundation's most significant project includes a scholarship program called *Por los que se quedan* ("For those left behind") that grants scholarships to children from families that have been dispersed as a result of immigration. As of September 30, 2017, this program has reached 22 states and 167 municipalities in Mexico. Since its inception in 2006, *Por los que se quedan* has granted a total of 80,583 scholarships and the mentorship of 1,956 volunteers from our branches every year, totaling Ps. 1,854,690,000.

We also focus on increasing financial education in Mexico through our program Educación Financiera: "*Adelante con tu futuro*," which provides participants with guidance on banking products and services. We hold various workshops that educate participants on savings, credit cards and mortgage loans. We have held these workshops at our retail branches, through mobile classrooms and electronic channels such as our website. Since we launched this project in 2008, we have provided financial education courses to more than 3,727,261 participants.

Continually seeking to improve risk management policies

Another relevant part of our strategy is continually assessing and updating our risk management policy, which we believe contributes to our profit growth and controlled risk. We consider risk management to be a central part of our strategy, acting as a key differentiator from our competitors and as a tool for future growth and profitability.

We have been using internal credit risk models and have developed advanced risk modeling tools that accurately measure credit risk. For example, our internal model for provisioning for losses on our credit card portfolio has been certified by *Banco de España*, Spain's central bank, and the CNBV. Our risk indicators, such as the "risk premium" which is equal to the allowance for loan losses divided by average loan portfolio, have also been very stable. The risk premium was 3.3% in the first nine months of 2017, 3.4% in 2016, 3.4% in 2015, and 3.4% in 2014.

We seek to control credit risk, asset quality and costs in all stages of the credit cycle (origination, follow-up and recovery) through the implementation of advanced tools and methodologies. We have been able to generate segmented and specialized credit behavior scorings that enable us to offer specialized products and prices. We have a clear objective to effectively manage operational risk through structures based on tracking and reliable management of processes. In addition, we have introduced extensive internal risk management and control systems that involve all personnel and areas of the institution. Such programs focus on measuring, tracking and preventing potential risks and preventing money laundering and financing of terrorist activities.

Market Information

The following table provides information with respect to us and selected leading banks in Mexico as of September 30, 2017 (unless otherwise indicated), as reported by us to the CNBV or by the CNBV with respect to each additional bank. This comparison is for illustrative purposes only.

	BBVA Bancomer	Banamex	Banorte	Santander	HSBC	Scotiabank
	(millions of Ps., except for percentages)					
Total loans	1,071,033	627,271	602,929	613,263	287,744	296,797
Total deposits	1,154,584	685,279	637,124	699,279	334,231	315,550
Market share (total loans)	23.3%	13.7%	13.2%	13.4%	6.3%	6.5%
Total assets	1,962,725	1,144,714	1,043,406	1,212,150	633,723	437,403
Total loans/total assets	54.6%	54.8%	57.8%	50.6%	45.4%	67.9%
Total loans/total deposits(1) (2)	92.8%	91.5%	94.6%	87.7%	86.1%	94.1%
Equity	174,841	161,762	89,887	117,245	56,141	45,370
Net result(3)	33,311	10,571	15,044	15,750	1,174	4,373
Return on assets (ROA)	1.9%	1.3%	1.7%	1.4%	0.3%	1.3%
Return on equity (ROE)	22.1%	9.2%	19.0%	15.7%	3.8%	12.0%
Cost of funding(4)	1.98%	1.96%	2.85%	3.91%	2.94%	4.24%
Non-performing loan ratio(5)	2.2%	0.8%	1.8%	1.5%	2.9%	2.1%
LTM efficiency ratio(6)	41.9%	69.9%	44.3%	51.4%	64.2%	56.8%
Branches	1,845	1,496	1,144	1,224	973	551

(1) Total deposits (*Capitación Tradicional*) is defined by the CNBV as the sum of time deposits, demand deposits, credit notes issued and resources from dormant or inactive accounts.
(2) Deposits include demand deposits and term deposits ("*depósitos de exigibilidad inmediata*" and "*depósitos a plazo,*" respectively, from its original Spanish source).
(3) As of December 31, 2016.
(4) Calculated as the weighted average cost of time and demand deposits as reported by *Banco de México*.
(5) Refers to "delinquency index" as defined by the regulator ("*IMOR ajustado*" from its original Spanish source).
(6) Calculated as the sum of 2016 figures plus nine months accumulated as of September 30,2017 minus nine months accumulated figures as of September 30, 2016.

Our Values

In July 2017, BBVA Group published a set of values to guide the BBVA Group in achieving its purpose and the strategic priorities. Our values are the following:

The customer comes first

This value is our highest priority, as the customer is at the center of our business. We approach our customers with empathy by factoring in and adopting the customer's point of view from the first point of contact so we can understand our customers' needs better. This commitment to our customers requires that we always maintain integrity in our dealings with customers. As a result, we conduct the services we provide to customers in a legal and ethical manner. Additionally, we have a strong commitment to solving our customers' specific problems and addressing our customers' needs.

We think big

This principle motivates us to set ambitious and aspirational goals which can impact on our customers. We aim to provide high-quality service to exceed our customers' expectations and provide them with unique, personal experiences and solutions. We are determined to find new ways to improve our business, and we constantly seek to innovate to improve the quality of our services.

We are one team

This value reflects the commitment of all of our employees to their roles within the Bank and to their personal goals, as well as to wider goals of the organization. We are focused on making employees feel passionate and enthusiastic about their work by cultivating trust among coworkers and creating a collaborative environment in which to work. Our motto is, "I am BBVA," which aims to highlight the importance of each member of our team in order achieve our objectives and our purpose.

Business Units

We are a bank in a constant state of transformation, focused each day on evolving and improving our customer service and products. Our business model is based on our customer classification which ensures that we provide strategic banking products and services which are catered to customers in the different classifications. We have the following banking units:

Business Development (Retail Banking)

We refer to this segment as Business Development (Retail Banking) since the majority of our business for this segment is in the retail sector with customers utilizing a single product such as a deposit account or mortgage and provides us with the best opportunity to offer these customers additional products and further develop our overall business. In 2015, we restructured our internal structural operations to allow for a simpler and more efficient management of our products and clients. In order to achieve this, we merged two areas: Digital Banking and Business Development with Payment Methods (Retail Banking) to create the new banking area called Business. This unit focuses on developing new businesses, new technology and channels to ensure we continue to be the market leader. This unit focuses on developing new businesses, technology and channels to ensure we continue to be the market leader. For example, all of our branches have been remodeled: larger "practicajas" have been installed with state-of-the-art ATMs where customers can also access consumer loans (one-click), making access to our products simpler for our customers. We have also integrated the Insurance Business unit within the Business Development (Retail Banking) unit, crucial for that product to be an integral part of the sales drive as we cross-sell our products across the network.

Wholesale Banking

In 2015, the Middle-Market and Government unit merged with the Corporate and Investment Banking unit to create the Wholesale Banking unit. This new unit's primary purpose is to boost our capabilities and better serve customer institutions through a comprehensive offering of services that spans the most basic products to the most sophisticated. Through this unit, we offer products and services adapted to the specific needs of each relevant customer classification.

Business Development Unit (Retail Banking)

General

The Business Development (Retail Banking) unit is our major operating business unit and includes sub-units for providing banking products and services and originating credit and debit cards, residential mortgage loans, consumer loans, payroll loans and loans to small businesses through our network of retail branches and ATMs, as well as alternative distribution channels. As of September 30, 2017, our Business Development (Retail Banking) lending portfolio comprised of 43% mortgages, 34% consumer loans and 23% credit cards.

As of September 30, 2017, we had 1,808 commercial branches and 11,519 ATMs throughout Mexico, as well as distribution channels outside of these networks, including 170,794 active POS terminals and our internet portal. As of September 30, 2017, our Business Development (Retail Banking) unit accounted for 49.5% of our total loan portfolio, 53.8% of our demand and time deposits, 67.1% of our net interest income and 83.8% of our fees income.

We have divided the customer base served by our Business Development (Retail Banking) unit into the following classifications: for individuals based on deposit size: ultra high net-worth ("UHN"), high net-worth, upper affluent, affluent, upper mass and lower mass; for small businesses including micro and small enterprises.

The Business Development (Retail Banking) unit focuses on increasing the value of the customer base and increasing cross-selling. We believe that payroll accounts (similar to direct deposits in the United States) is a key product in which entry by other Mexican banks has been modest and considerable potential for deposits and cross-selling exist. For the first nine months of 2017, we generated 668,665 payroll accounts. We intend to continue increasing the origination of payroll loans by offering our payroll accounts clients more benefits. We are also focused on delivering banking products and services to unbanked and underserved segments of the Mexican population.

The Business Development (Retail Banking) unit also emphasizes increasing productivity by reducing branch traffic through the installation of electronic payment systems at our branches and offering mobile and internet banking solutions to our customers. This is part of the new customer service model that has been implemented throughout our whole branch network.

Deposits

We believe that our diversified and stable deposit base provides a low-cost source of funding. Our deposit base has traditionally been one of our strengths and represents an area of strategic importance. Our strategy is aimed at increasing our deposit base and maintaining competitive funding costs. We support this strategy through marketing campaigns seeking to increase both the balance of existing savings accounts and the number of new savings accounts opened.

As of September 30, 2017, the balance of demand deposits originated from the Business Development (Retail Banking) unit was Ps. 419,299 million, which represented 50.9% of our total demand deposits. This level of demand deposits contributed to a reduction of our funding costs, which, in turn, resulted in an increase in our net result for the year. As of September 30, 2017, balances in time deposits and mutual funds originated from the Business Development (Retail Banking) unit were Ps. 129,737 million and Ps. 314,594 million, respectively, which represented 76.3% of our total time deposits and mutual fund balances.

Through our Business Development (Retail Banking) unit, we issue debit cards from a variety of different account products. For the first nine months of 2017, we had debit card billing Ps. 914,758. For the year ended December 31, 2016, debit card billing totaled Ps. 1,119,119 million, representing a 13.1% annual increase as compared to the same period in 2015. In addition, we offer time deposits and mutual funds and we are continuously designing specialized products for customers in each classification.

Credit cards

We are a leading bank issuer of Visa and MasterCard private label credit cards in Mexico. Revenues from credit card operations are derived primarily from annual fees charged per account, variable interest rates charged on monthly account balances and merchant fees. We originated 1.0 million new credit cards in 2014, 1.1 million for the year ended December 31, 2015, 1.3 million in 2016, and 961 thousand for the first nine months of 2017. As of September 30, 2017, total credit card loans outstanding were Ps. 100,680 million, while aggregate credit card billing for the first nine months of 2017 totaled Ps. 218,910 million.

We offer a wide array of different credit cards depending on the customer's monthly income, in order to reach all types of customers. Our credit card offerings include "*Bancomer Azul*", "*Bancomer Oro*", "*Bancomer Platinum*", and "*Bancomer Infinite*", which are accepted by all merchants in Mexico and abroad. We also offer "*Vida Bancomer*", the first customer loyalty program using a credit card with an embedded intelligent microchip running proprietary software developed to offer real-time rewards to customers and marketing and merchandising flexibility to merchants. As of September 30, 2017, approximately 4.5% of our credit cards were private label credit cards and represented Ps. 4,573 million in outstanding loans.

Our strong risk analysis platform allows us to monitor and differentiate the behavior of each customer to better identify customers with debt problems early on, and offer them a support plan through preferential rates. This support program helps us strengthen our credit card portfolio by offering better interest rates to credit card customers with higher credit scores, improving the quality of our service and the loyalty of our clients.

Consumer loans

The consumer loan portfolio consists largely of unsecured personal loans, mainly for the purchase of consumer goods. Consumer lending, excluding credit card loans, reached Ps. 151,713 million as of September 30, 2017, representing a 7.9%, or Ps. 11,165 million, increase from Ps. 140,549 million as of September 30, 2016.

"*Creditón Nómina*" is a credit program collected through payroll deductions that offers customers the ability to borrow up to four months of salary and repay that balance over the course of three years. During the first nine months of 2017, we originated more than 668,000 payroll loans and 169,571 personal loans, and for the year ended December 31, 2016 we granted more than 686,000 payroll loans and more than 222,000 personal loans. Our platform for monitoring customer credit behavior and expanded multi-channel distribution network allowed us to offer pre-approved loans. For the first nine months of 2017, we originated over 536,447 pre-approved payroll and personal loans originated over 143,207 credits.

Residential mortgages

We grant residential mortgages through our Business Development (Retail Banking) unit. As of September 30, 2017, we maintained our leadership position in the residential mortgage market, holding a 26.4% market share in number of new loans with 15,532 loans granted for an amount totaling Ps. 18,249 million. During 2016, we granted 35,345 loans for a total amount of Ps. 39,051 million. As of September 30, 2017, our residential mortgage portfolio totaled Ps. 191,766 million. The loan to value ratio of 87% our mortgage loans ranges from 50% to 90% depending on the type of product.

Customer classifications

Ultra high net-worth

We believe that "BBVA Bancomer UHN" is the first office of its kind in Mexico and the world, combining products and services for family offices and high net-worth investors with the backing of a global bank. As of September 30, 2017, thirteen relationship officers in two offices in Mexico served approximately 195 groups in this classification.

High net-worth

We provide personalized financial and investment services to these customers with our relationship officers who are familiar with the customer's individual needs, and who can recommend and provide access to specialized products and services.

As of September 30, 2017, we had 68 relationship officers in 33 offices located throughout Mexico that attend approximately 6,000 customers. We seek to provide customers in this segment with tailored solutions for their financial needs. Products offered to this group of customers are mutual funds, brokerage services, and a wide range of wealth management products.

Upper affluent

We cater to this segment through our relationship officers that provide specialized products and tailored solutions for their financial needs rather than offering them generic products and services. As of September 30, 2017, 321 relationship officers in 64 offices attended approximately 45,000 customers of this segment.

Affluent

In 2011, we created a new customer classification to offer them specialized attention and tailor-made products. As of September 30, 2017, we had 1,856 "personal bankers" or specialized sales representatives to cater these customers.

We offer products to three types of customers within the affluent classification: (i) new and mono-product customers, to whom we offer attractive packages to increase cross-selling of product and service opportunities; (ii) bi-product customers, to whom we offer linked products with high benefits; and (iii) multi-product customers, to whom we offer additional benefits. This strategy allows us to increase cross-selling with our affluent customers, which was previously not serviced by dedicated sales representatives and in which no targeted products were offered.

Upper mass

The upper mass classification is our largest retail customer segment based on number of customers, with more than 8.4 million customers as of September 30, 2017. We provide products and services to individuals in the upper mass segment through 2,457 commercial executives and our retail distribution network throughout Mexico.

We are focused on providing customers in this classification with a wide range of products and services in a short period of time and under the highest credit quality standards. In particular, we have a strong focus on analyzing the credit behavior of our credit cards customers in order to offer them credit card upgrades.

Lower mass

This classification is dedicated to serving the low-income population without adequate access to financial services. We offer low-cost transactional accounts that allow customers to use our banking services. The bank correspondents network is useful for these customers. The CNBV approved our partnership with small merchants, supermarkets and pharmacies to install terminals (ATMs) that allow customers to manage deposits and payments. As of September 30, 2017, these partnerships have allowed us to expand our network and hours of operation until 8 p.m. in more than 33,144 points of sale.

We have launched the first mobile account in Mexico, *Cuenta Express,* which is linked to mobile phones and has an account number that is the same as the mobile phone number of the customer. Users of *Cuenta Express* do not need to maintain a minimum average balance.

We have also launched a mobile solution called Bancomer SMS that allows customers to use mobile phones to check their debit account balance, purchase minutes for their mobile phone and transfer money to other BBVA Bancomer debit accounts. This service is useful for our lower mass customers because it does not require an internet connection, since it is based on a messaging service using SMS.

Micro and small businesses

This classification provides services and originates loans for micro and small businesses. The maximum amount extended is usually limited to Ps. 15 million, all of which is generally secured. As of September 30, 2017, we had approximately 514,000 customers in this classification.

Innovation has been and continues to be the key to our success in this group of customers. In 2003, we developed the first unsecured revolving credit lines for our small business customers. We refer to these credit lines as "*Tarjeta Negocios*"; such credit lines are limited to Ps. 4.1 million, and are primarily used by our small business customers to finance their working capital needs. *Tarjeta Negocios* can also be used as a special purpose credit card, which allows a large number of our small business customers to access term financing for the first time. Small business owners can use their line of credit electronically and issue checks using their line of credit. More than 85% of *Tarjeta Negocios* include a guarantee scheme from NAFIN (*Nacional Financiera, S.N.C. Institución de Banca de Desarrollo*). NAFIN is a Mexican governmental development bank that, among other things, supports small business lending by providing guarantees to commercial banks to allow small businesses to access credit on more favorable terms than they would be able to obtain on a standalone basis.

In 2013, we were recognized by the Ministry of Economy as the financial intermediary that supported the largest number of micro and small enterprises. This is the fifth time that we have received this recognition of our contribution to the growth of micro and small enterprises through our innovative products and loans, as well as of our participation in programs supported by the Ministry of Economy for these customers. We have also increased the number of specialized executives and branches to cater to micro and small businesses the Mexican Republic. During the first nine months of 2017, we granted more than 26,092 new loans to small and medium businesses. In 2016, we granted more than 44,800 new loans to this group of customers.

We also have a blog (www.yosoypyme.net) dedicated to specialized information for small and medium businesses. This blog was created as part of the customized experience for small and medium business owners and offers a platform for business counseling with simple language and visual information.

Wholesale Banking Unit

The Wholesale Banking unit focuses on medium sized companies, government entities, homebuilders and large corporations. We offer products and services adapted to the specific needs of the segment. As of September 30, 2017, our wholesale banking lending portfolio was comprised of 71% to companies and corporations, 21% to government entities, 5% to other financial entities and 2% to homebuilders.

Middle-Market

In the middle-market segment we have a network of 131 offices consisting of 68 dedicated to mid-sized companies, 30 dedicated to government customers, and 33 that serve both types of customers. As of September 30, 2017, we had 53,276 customers in our middle-market and government segment, each with a variety of financial needs.

The middle-market loan portfolio reached Ps. 213,531 million as of September 30, 2017 and represents 35% of our total commercial loan portfolio. The quality of this portfolio has not been negatively impacted by its growth. As of September 30, 2017, the non-performing loan ratio was 1.2%.

Our middle-market customers are also an important source of deposits, as they mostly use cash management and saving products. We offer a wide array of products designed to meet its customers' needs in terms of cash management and collection solutions. Some of its more popular products are: (1) *Tesorería Integral Bancomer*, which provides easier and faster operation of our customers' financial transactions by the installation of high-technology software through our website; and (2) *Multipagos*, which is a software that has optimized the collection process.

Consumer Finance

In 2013, the Consumer Finance Business segment was created to offer financial services including credit for the distribution and purchasing of vehicles. This is a specialized business unit that works along the Middle-Market segment and allows us to service the automobile dealers (agencies).

As of September 30, 2017, the outstanding balance of automobile loans reached Ps. 42,695 million, an annual growth of 17.3%. During the first nine months of 2017, we granted 92,078 automobile loans, compared to 129,257 automobile loans in 2016.

Housing developers

This segment caters to housing developers who need bridge loans for construction purposes. As of September 30, 2017, our portfolio of loans to housing developers totaled Ps. 16,813 million. During the first nine months of 2017, we provided loans to finance the construction of 16,176 housing projects for a total of Ps. 13,362 million. In 2016, we granted credit for the construction of 32,587 housing projects, equivalent to Ps. 19,271 million.

Government Entities

The government banking segment services Mexican Federal agencies, states and municipalities. We have enhanced our relationships with our government entity customers, which has resulted in being positioned as a market leader in this segment. We offer several specialized products to our customers classified as government entities, such as payroll for government employees, checking accounts, and tax collection solutions for states and municipalities. "*Multipagos*" and "*CIE en línea*," for tax collections.

As of September 30, 2017, the government loan portfolio amounted to Ps. 128,356 million and accounted for 12.2% of our total commercial loan performing portfolio and 10.4% of our total demand and time deposits.

Corporate and Investment Banking

Corporate and Investment Banking is focused on helping clients reach their objectives through sophisticated products and services in Lending, Corporate Finance, Global Markets, and Transaction Banking. We provide, among other things, products and services in lending, mergers and acquisitions, capital markets transactions (equity and fixed income), cash management, e-banking and money-markets.

The Corporate and Investment Banking unit includes Mexico's major corporate and institutional customers through originating, distributing and managing lending, money-market and investment products and tailored financial solutions. In addition, this group provides financial advice and structuring and assures, originates and syndicates complex financing structures including project finance, trade finance and syndications.

As of September 30, 2017, our Corporate and Investment Banking unit provided services to approximately 460 groups of customers consisting of multi-national companies located in Mexico as well as institutional clients. As of September 30, 2017, our Corporate and Investment Banking classification accounted for 21.4% of our total performing loan portfolio, and 17.5% of our total demand and time deposits.

This unit strives to better serve our customers through the development of new products tailored to their needs. Some of our new products include: (i) *Bancomer Net Cash*, a global electronic banking solution that allows corporations, enterprises and government organizations to efficiently and securely execute all their banking transactions through one platform accessible remotely and at any time; (ii) *Bancomer Web Trader*, a simple system that allows investors to trade online and in real time and also offers them market information, analysis, news and applications that can be customized to support our clients' decision-making.

Business through subsidiaries and affiliates

BBVA Bancomer USA, Inc. In June 2016, we completed the sale of BTS for Ps. 1,249 million.

Hipotecaria Nacional, BETESE and Deitel. In January 2017, our shareholders approved the merger of Hipotecaria Nacional S.A. de C.V. Sociedad Financiera de Objeto Múltiple Entidad Regulada Grupo Financiero BBVA Bancomer, (Entidad Financiera de Objeto Multiple), a mortgage loan company, BETESE S.A. de C.V., the holding company, and Desitel Tecnología y Sistemas SA de C.V., the services provider, into us, which took effect in February 2017.

Competition

General

The Mexican financial sector is highly competitive. We face strong domestic competition in all aspects of our businesses from other Mexican financial groups, commercial banks, insurance companies and securities-brokerage houses, as well as from non-Mexican banks and international financial intermediaries. In commercial banking, we compete with other large Mexican banks and non-Mexican banks, many of which, like us, have been incorporated into a financial group and seek to offer a broad array of products and services to their customers. We also compete with certain non-Mexican banks, primarily based in the United States, for the business of the largest Mexican industrial groups, government entities and high net worth individuals, as well as in providing financings in U.S. dollars. Additionally, we compete with other banks that have recently obtained banking licenses, such as Sabadell, ICBC and Mizuho Bank. In investment banking, we face competition principally from other major Mexican securities-brokerage houses, as well as from international investment banks.

Trends in associated markets are also shaping the competitive environment, such as entry by new players on digital platforms, including so-called "*Fintech Companies*," which have demonstrated high concentrations in payments, lending and enterprise financial management. There are approximately 170 new players in this new fintech sector in Mexico. Furthermore, the Mexican banking industry in general has experienced increasing competition in recent years, partly due to the entry of new players. In addition, we have noticed a trend of investments by key banks updating their retail networks and growing their digital platforms and big data processing capabilities.

Commercial banks in Mexico compete in the retail market with limited-purpose financial institutions, or *Sofoles*, which offered mortgage, consumer and commercial loans mainly for low- and middle-income individuals. Since the Mexican economic crisis in 2009, most *Sofoles* were affected by liquidity problems as a result of difficulties experienced in obtaining funding and many have either disappeared or are in financial restructuring. Due to these restructurings, on July 19, 2013, the local regulator, CNBV, declared invalid the previous authorizations for *Sofoles*. The purpose was encouraging the entities migrating to another scheme, such as *Sofomes*.

As of September 30, 2017, the Mexican banking system was comprised of 48 private-sector banks, of which 60.4% are principally Mexican-owned and 39.6% are foreign-owned. Our largest competitors in the private-sector banks are Banamex, Santander, Banorte-Ixe, HSBC and Scotiabank, which together with BBVA Bancomer accounted for 74.8% of all assets of Mexican private sector banks as of September 30, 2017.

We believe that we have several advantages over many foreign banks and smaller Mexican banks that allow us to compete more effectively. We continuously seek to improve our products and services in order to address greater competition in recent years. The following table sets forth certain statistics relating to the Mexican commercial banking system as of September 30, 2017, except as otherwise indicated:

	As of September 30, 2017							
	Asset		Loan		Deposits		Stockholders' Equity	
	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share
	(in millions, except percentages)							
Domestic private-sector banks	2,929,174	26.5%	1,631,816	26.2%	1,753,593	27.1%	330,868	27.3%
Foreign-owned banks	5,670,372	51.2%	2,946,679	47.3%	3,283,574	50.7%	595,612	49.2%
Private-sector total	8,599,546	77.7%	4,578,495	75.3%	5,037,166	77.8%	926,480	76.5%
Public-sector banks	1,743,911	15.8%	1,033,040	16.6%	911,752	14.1%	137,641	11.4%
Total banking system	10,343,457	93.4%	5,611,535	90.0%	5,948,919	91.9%	1,064,121	87.9%
Non-banking institutions*	726,121	6.6%	621,754	10.0%	525,868	8.1%	146,705	12.1%
Financial system total	**11,069,577**	**100.0%**	**6,233,289**	**100.0%**	**6,474,786**	**100.0%**	**1,210,826**	**100.0%**

Source: CNBV (with subsidiaries). Deposits includes: demand deposits, time deposits and bank bonds.
*Includes SOFOMs, SOFIPOs, General Bonded Warehouses, Currency Exchange Centers and Credit Unions as of September 30, 2017.

Deposits

As of September 30, 2017, we had deposits in an aggregate amount of Ps. 1,080,027 million. Our 23.3% market share for deposits, including borrowings from domestic financial institutions, ranks first among commercial banks in Mexico according to data from the CNBV. As of September 30, 2017, Ps. 828,229 million of our total deposits were demand deposits, representing a 27.2% market share and Ps. 234,929 million of our total deposits were time deposits, representing a 16.4% market share. As of September 30, 2017, the next two largest banks in terms of total deposits, Santander and Banamex, had deposits in an aggregate amount of Ps. 699,116 million and Ps. 685,279 million, respectively.

The following table sets forth the market shares in terms of deposits for the six Mexican commercial banks with the largest market shares as of September 30 of each of the last three years:

	Bank Deposits As of September 30,		
	2015	2016	2017
BBVA Bancomer	23.3%	22.5%	23.3%

Santander	13.9%	14.1%	13.9%
Banamex	14.9%	15.2%	13.6%
Banorte	13.0%	12.2%	12.6%
HSBC	7.6%	7.3%	6.6%
Scotiabank	5.3%	5.3%	6.3%
Six main banks	**78.1%**	**76.7%**	**76.3%**

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements).
Market share includes commercial banks regulated by CNBV.

Loans

As of September 30, 2017, we had the largest total loan portfolio among commercial banks in Mexico, with a total of Ps. 1,071,033 million. Our total loan portfolio represented 23.3% of the commercial banks market for loans. As of September 30, 2017, Ps. 609,193 million of our total loan portfolio were wholesale banking loans, representing a 21.0% market share; Ps. 264,313 million were consumer loans, representing a 27.8% market share; Ps. 450,359 million were corporate loans, representing a 21.0% market share; and Ps. 197,527 million were mortgage loans, representing a 27.1% market share. Despite the adverse macroeconomic environment and improved performance from our major competitors, our total loan portfolio experienced an annual growth rate of 8.32%. The following table sets forth the market shares in terms of loans for the six private-sector banks with the largest market shares as of September 30 of each of the last three years.

	Bank Loans As of September 30,		
	2015	**2016**	**2017**
BBVA Bancomer	24.1%	23.6%	23.3%
Santander	14.4%	14.4%	13.4%
Banamex	14.2%	13.9%	13.7%
Banorte	13.3%	12.8%	13.2%
HSBC	6.3%	6.5%	6.3%
Scotiabank	5.6%	5.7%	6.5%
Six main banks	**77.8%**	**77.0%**	**76.3%**

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements).
Market share includes commercial banks regulated by CNBV.

Stockholders' Equity

As of September 30, 2017, we had a market share of 18.9% in terms of stockholders' equity according to data from the CNBV. We maintain a strong solvency position, despite dividend payout, increasing equity through recurrent income and organic capital generation.

The following table sets forth the level of stockholders' equity for the six largest commercial banks in Mexico (measured by stockholders' equity) as of September 30 of each of the last three years.

	Bank Stockholders' Equity As of September 30,		
	2015	**2016**	**2017**
BBVA Bancomer	142,990	157,501	174,805
Santander	110,729	119,080	117,245
Banamex	151,794	151,478	161,762
Banorte	100,382	111,313	89,887

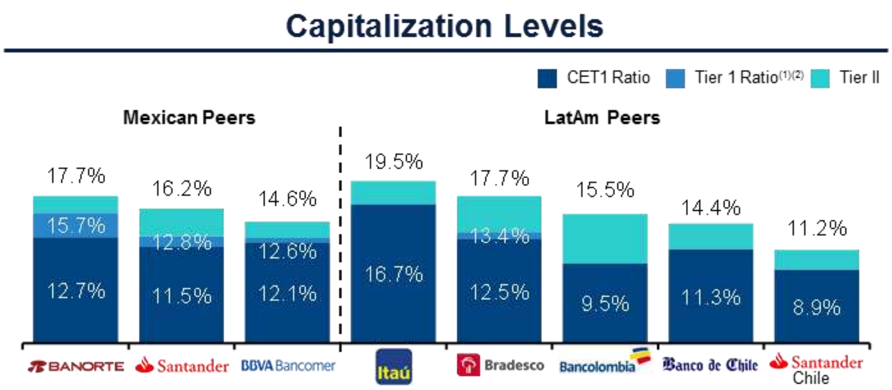
HSBC	47,672	47,432	56,141
Scotiabank	32,954	39,339	45,370
Six main banks	**586,521**	**626,143**	**645,211**

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements).
Market share includes commercial banks and the rest of the financial institutions regulated by CNBV.

Other Indicators

We continue to maintain the lead in profitability among commercial Mexican banks and maintain a well-positioned, diversified and sound loan portfolio. Based on publicly available information, as of September 30, 2017, our capital ratio was 14.6% in the case of Total Net Capital, as compared to 16.2% for Santander and 17.7% for Banorte.

The following chart provides information with respect to us and selected leading banks in the region with respect to our capitalization levels.



Source: Information for Santander, Banorte, BBVA Bancomer, Itaú Unibanco Holding S.A., Banco Bradesco S.A., Bancolombia S.A., Banco de Chile and Santander Chile Holding S.A. ("Santander Chile") based on data as reported by each country's regulator, unless otherwise noted. Information for figures for Santander, Banorte and BBVA Bancomer sourced from the CNBV as of September 30, 2017; for Itaú Unibanco Holding S.A. and Banco Bradesco S.A. sourced from *Banco Central do Brasil* (Central Bank of Brazil) as of September 30, 2017; for Bancolombia S.A. sourced from the *Superintendencia Financiera* (Financial Superintendency of Colombia) as of September 30, 2017; and for Banco de Chile and Santander Chile sourced from the *Superintendencia de Bancos e Instituciones Financieras* (Bank and Financial Institution Superintendency of Chile) as of September 30, 2017. Each of these regulatory entities has different requirements, including with regards to reserves, financial statements standards and the calculation of the various ratios presented above, among others. Accordingly, this tabular comparison is for illustrative purposes only and we do not purport to assert that the above information is actually comparable.

(1) For Banco de Chile and Santander Chile: Tier 1 Ratio is calculated as basic capital divided by risk-weighted assets (*"capital básico / activos ponderados por riesgo de crédito*," from its original Spanish source).

(2) For Itaú Unibanco Holding S.A. and Banco Bradesco S.A.: Tier 1 Ratio is calculated as Tier 1 regulatory capital divided by risk-weighted assets ("*patrimônio de referência nivel 1 / ativos ponderados pelo risco*," from its original Portuguese source).

Properties

We are domiciled in Mexico and our headquarters are located at Paseo de la Reforma 510, Colonia Juárez, 06600, Mexico City, Mexico. As of January 31, 2017, we owned 499 of the properties on which 1,995 of our full-service branches are located. We lease the remainder of our branches from unaffiliated third parties. We believe that our facilities are adequate for their intended purposes. In 2008, we carried out the sale of our main properties, including our headquarters. During the same period, we purchased two plots of land intended for our new corporate headquarters. The new corporate buildings were built in 2015 and are located in the financial center of Mexico City, with our headquarters building being the *Torre BBVA Bancomer* in *Paseo de la Reforma*, and the operative building being *Torre Polanco* nearby in *Parques Polanco*.

We also own a data processing center called the *Centro de Procesamiento de Datos BBVA Bancomer*, the building measuring 6,082 square meters and houses our back-up computer facilities. The facility provides computer services to our branches and operational centers in more than 500 regions in Mexico. We believe our communication network is the largest in Mexico and Latin America.

Employees

The following table shows the breakdown of our full-time, permanent employees at the dates indicated:

	As of December 31,			As of September 30,
	2014	**2015**	**2016**	**2017**
BBVA Bancomer	29,315	30,333	31,048	30,806
Overseas branches and representative offices	28	28	24	25
Subsidiaries	0	0	0	0
Total	29,343	30,361	31,072	30,831

As of September 30, 2017, we had 30,831 employees of which approximately 32% were unionized. All management positions are held by non-unionized employees. We are party to a single collective bargaining agreement. The collective bargaining agreement was signed on February 2, 2017 and expires on January 31, 2018. We consider relations with our employees to be satisfactory.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial subjects, as well as participation in external seminars.

As required by Mexican law, we must make severance payments to employees whose employment is terminated under certain circumstances, as well as seniority premiums in cases of employees who have worked with us for at least 15 years and decided to terminate their employment with BBVA Bancomer. In addition, we offer pension funds to retired employees based on seniority, including life and disability insurance for all those who qualify for this benefit. All of our employees have the right to receive a productivity bonus. The benefits that we grant our employees include benefits and incentive programs in addition to those established by Mexican labor laws.

Under the terms of our employment agreements, we are required to make certain post-retirement payments to our employees and their dependents. In accordance with Mexican Banking GAAP, we are required to include the net between the present value of the actuarial liabilities and the assets for financing these liabilities, these payments as an additional liability that must be reflected on our balance sheet. We are permitted to record the additional liability stemming from these payments as a one-time charge to our income statement, or we may amortize the effect of these payments on a straight-line basis over the expected remaining period that our employees will be under employment. We record these differences (gain/losses)) liabilities annually as a one-time charge to our income statement. The application of this Mexican Banking GAAP criterion did not have an adverse effect on our financial condition or results of operations for the nine-month period ended September 30, 2017.

On December 6, 2006, we entered into an employer substitution agreement (*contrato de sustitución patronal*) with Operadora pursuant to which, as of January 1, 2007, all of our employees (except for our Chief Executive Officer) were transferred to Operadora's payroll. The transfer was made in order to give GFBB the flexibility to deploy personnel into its various business units without requiring a change of employers. All employees' salaries and benefits are paid by Operadora. We pay an amount equal to all employees' salaries and benefits plus a commission to Operadora as a service fee. All of our former employees continue to enjoy their former benefits and seniority. As a result of this transfer, all of our former employees are now part of a performance-based compensation program.

Legal Proceedings

Deposit account cases

We have faced a number of lawsuits from depositors who held deposit accounts with one of our predecessor entities from 1979 through 1992, the period during which these entities were owned by the Mexican Government. The plaintiff in each lawsuit has claimed that under the terms of the deposit agreement then in effect, we are required to pay the rate of interest (generally in excess of 95%) specified in such deposit agreement indefinitely, regardless of subsequent decreases in market interest rates.

In March of 2010, the Mexican Supreme Court issued rulings in three areas which will be applicable to the lawsuits described in the preceding paragraph. First, high interest rates agreed during a period of high inflation are only applicable to the period originally agreed by the parties. *Banco de México* will fix the applicable interest rate for any extension. Second, interests may only be capitalized if there is an express agreement between the parties. Third, unclaimed interests will prescribe ten years after they accrue. Based on the application of the foregoing, the amount of these contingencies has been substantially reduced and we consider them to be immaterial.

Other litigation

There are no relevant ongoing legal, administrative or arbitral proceedings other than those that are part of the normal course of our business, including those related to liquidation or bankruptcy proceedings, in which we, our subsidiaries or shareholders, directors and senior officials, are or could be involved, which could have or has had a significant impact on the outcome of our operations.

There are no legal, administrative or arbitral proceedings with contingencies amounting to more than 10% of the total assets of the Bank. For further information about other types of lawsuits and proceedings brought against us, see note 37 to our Financial Statements.

RISK MANAGEMENT

General

Our risk exposures consist of credit, liquidity, operational (including legal) and market risks. Credit risk is defined as the potential loss caused by the partial or total failure of a counterparty or issuer to perform on an obligation to us. Credit risk can affect the performance of both the loan portfolio and the investment portfolio. Liquidity risk encompasses funding liquidity risk, which refers to the inability to renew liabilities or acquire new ones at normal or stressed market conditions, and market liquidity risk, which refers to the inability to unwind or offset positions due to a lack of market depth, thereby affecting the value of an asset. Operational risk is the potential loss caused by failures or deficiencies in information systems, internal controls or errors while processing transactions. Market risk is the potential loss due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates and equity prices, and the adverse effect on our traditional banking activities of interest rate and foreign exchange rate fluctuations. We consider risk management an essential activity that requires ongoing improvement and adjustment according to our operations.

Mexican financial authorities have formulated rigorous risk management regulations for the banking sector. The CNBV has issued a set of requirements regarding risk management practices for all banking institutions in Mexico. The regulations require that banks have adequate policies and procedures in place to manage credit, liquidity, technological, market, operational and legal risk. This management process must include sound measurement and monitoring methods, as well as the establishment of risk limits. The regulations also require the establishment of a risk committee and a risk management unit. We have implemented and continue to update our program approved by our Board of Directors that fully complies with the CNBV requirements and requires higher standards with respect to many issues.

Risk Management Organizational Structure

We have a general risk management and control model that we believe to be appropriate for our business model and our organization. This model allows us to carry out our activities within the parameters of our risk management and control strategy and policies that are defined by our governing bodies and adapt to a changing economic and regulatory environment. The model comprises the following basic elements: (i) governance and organization, (ii) our Risk Appetite Framework, (iii) decisions and processes, (iv) evaluation, monitoring and reporting and (v) infrastructure.

Our risk strategy is established by our governing bodies (the Board of Directors and the Risk Committee) through the Risk Appetite Framework and its statements, as well as the core metrics by type of risk, which together constitute the principles on which the risk function is based.

The head of the risk function at the executive level is the Chief Risk Officer ("CRO") who is appointed by the Board of Directors as a member of senior management and reports directly to the Chief Executive Officer on the activities carried out by the corporate bodies. The CRO is supported by a structure consisting of risk units in the corporate area and specific risk units in the business areas. The CRO provides information to the Risk Committee about the performance of risk portfolios and the actions taken by his units to manage them.

The Risk Management Committee Strategies ("RMC-E"), the highest executive authority in terms of our risk management, was established to develop the strategies, policies, procedures and infrastructures required to identify, assess, measure and manage material risks faced by us in the ordinary course of business, which in some cases are subject to approval by our governing bodies.

In addition, we have a specific Internal Risk Control unit whose main function is to ensure the integration of our risk strategy in all areas of our management through an internal regulatory framework which we consider to be adequate.

Credit Risk

Credit policies and procedures

Credit risk policies and procedures constitute the internal regulatory framework on which prudential and integrated management is carried out during the credit life cycle (admission, monitoring and settlement).

The Risk Management Unit has the authority to authorize exposure to credit risk by the unit, by the Risk Committee or more senior levels within the Bank. The approval is the result of an analysis of the potential or existing client's ability to fulfill on a timely basis all financial obligations with business or other income. The risk decision is supported by risk models and tools which are used at all times pursuant to our policies and procedures.

Credit risk quantification

We have an integrated bank-wide risk assessment system that provides us with sophisticated risk measurement tools and risk management practices. We use the following two measures for this purpose:

- Expected loss is calculated over the total outstanding credit portfolio. The credit scores are calculated using qualitative and quantitative information obtained from Financial Statements, and self-regulatory organizations (i.e. BC-Credit Bureau and AMB-Asociación Mexicana de Bancos). This score is determined to reflect the expected probability of default of a borrower and the expected loss given a default on any particular operation. We record this measure as a cost by creating a reserve for expected losses relating to a particular portfolio. As of September 30, 2017, the total allowance for expected loan losses equaled Ps. 32,133 million, or U.S. $1,770 million.

- Unexpected loss represents the uncertainty that actual losses will, in fact, differ from expected loss as it measures the impact of external events that may affect the likelihood of a customer's payment and helps us to determine how much economic capital we need in order to maintain an investment grade that is satisfactory to our shareholders.

Credit analysis and pricing

Account officers are trained and responsible for assigning risk ratings based on a set of quantitative and qualitative variables as well as on information from credit rating agencies and credit bureaus under homogeneous criteria. Different rating systems have been developed for different segments of clients. An account officer's analysis of a loan application is accompanied by a summary of the major sources of risk. With respect to commercial loans approval, there are several pre-authorizations required depending on the amount of the credit requested and a given debtor's rating, as shown in the table below.

Middle-Market Division's Credit Authorizations by Credit Amount

Committee	Maximum amount (millions of U.S. $)
Division Manager	30
Operations Technical Committee ("CTO")	120
Risk Management Committee – Admission ("RMC-A")	Greater than 120

The pricing of the loan is tied to our risk and operating costs. The pricing formula is based on the following factors: cost of funds (as priced by our finance division) based on general local market conditions, our yield model and market competition; commissions; operating costs; expected losses; required margins; adjustment for risk rating; and capitalization requirements.

Retail lending analysis

We perform credit analyses of all our retail borrowers. In the case of individual borrowers, the credit approval process is based primarily on an evaluation of the borrower's repayment capacity. A branch officer evaluates the information presented by the prospective borrower taking into consideration the following factors: (i) the results generated by an automated scoring program, which takes into consideration the potential borrower's income, expenses and personal assets; (ii) the potential borrower's credit history; and (iii) our previous experience, if any, with the potential borrower. We have improved our systems for tracking the repayment of loans and credit card balances. Decisions on the granting of loans are taken at various levels and with varying degrees of involvement by directors and officers, depending on the size of the loan under consideration, the aggregate amount of credit outstanding to the borrower and the complexity of the loan.

Our credit evaluation procedures with respect to credit cards and consumer credits are based on a computerized credit scoring system. The credit scoring process centralizes the decision-making process in regard to both the issuance of credit cards and increases in credit lines, increasing the level of control exercised in making such decisions. We have taken additional steps to improve the quality of our credit card assets, including raising the minimum gross monthly income requirement for credit card applicants and verifying the information contained in credit card applications more rigorously. We have access to on-line information about the credit history of each of our credit card customers that we use in our decision-making process regarding increases or decreases in the credit line provided to a particular customer. We currently use the services of a Mexican credit bureau created jointly by us, other Mexican banks and a Mexican affiliate of TransUnion, a leading U.S. credit bureau, to manage our credit card portfolio. We have also been working on the development of additional decision-making systems aimed at verifying the reliability of the information obtained from our admission process.

Our mortgage loan origination process is centralized and based on a computerized credit scoring system. The credit process begins at the pre-qualification phase, which serves as a filter to the loan approval process, and provides all required applicant information including information about the applicant's credit history obtained through a credit bureau, which is reviewed to determine whether an applicant meets the pre-qualification standards. Appraisal of the property is undertaken through a centralized independent unit. The relevant officer reviews the applicant's file and the collateral file (including the appraisal) to determine the applicant's debt capacity and the authorized loan amount. Once a final decision is made, the credit contract is signed before a notary public, the deed is registered at the Public Registry, and the funds are disbursed to the applicant's checking account. Loan-to-value ratios are set according to the size of the loan with a maximum of 90%, which requires a minimum down payment of 10%. We only accept first mortgages on property.

Corporate and middle-market lending analysis

A potential corporate borrower's evaluation focuses primarily on the credit history and reputation of its owners and management, its production processes and facilities, the diversification of its financing sources, its current and projected cash flows and the security offered for the loans. With respect to loans intended to finance a particular project, the evaluation focuses primarily on the experience of the borrower, the existence of a technological alliance, market conditions and the projected financial condition of the borrower. We assign a credit risk rating based on this analysis that helps to identify the customer's risk profile.

Account officers are responsible for preparing proposals regarding corporate loan applications. Each loan application is classified according to its industry sector and is then reviewed by the credit manager responsible for that particular sector to determine whether it merits further consideration. The credit manager, presents the proposal to the corresponding credit committee for approval.

Loan applications above U.S. $100 million (or its peso equivalent) must be presented by the responsible credit manager to our Risk Management Committee that is comprised of the Credit Risk Officer, Wholesale Credit Risk Director and the credit managers of all sectors.

The Middle Market segment is covered by risk teams assigned to each of the divisions in which the business unit is divided. Division risk managers report directly to the central risk department and take credit decisions through divisional committees.

Monitoring

We operate a compliance center to monitor our borrowers' compliance with the term of loans. The compliance center monitors the dates and payments of loans, the conditions and covenants of loans and any authorized exceptions to standard procedures. The monitoring process also includes the verification of the use of proceeds and satisfaction contractual conditions, financial analysis of the borrower and guarantors, on-site visits to the borrower's place of business, confirmation of credit bureau information and analysis of the economic environment, among other procedures. Finally, the compliance center also operates an early warning default system.

Pursuant to the rules governing lending activities under the General Rules Applicable to Mexican Banks, Mexican banks must implement certain measures relating to lending controls, including processes relating to loan promotion, evaluation, approval, documentation, management control and collection. We have implemented these measures with the approval of the CNBV.

Derivative financial instruments

Credit exposure from derivative financial instruments arises from the risk that customers or counterparties will default on their obligations to us. To reduce this risk, each customer or counterparty engaged in these transactions must have either a trading line of credit, which takes into account the trading risk for each customer or counterparty, or a collateral deposit. The amount of risk implied in derivative financial instrument transactions, measured as the potential credit exposure, is added to the total risk authorized for a specific customer and must be authorized by a credit committee. To quantify the amount of line of credit utilized by a specific customer or counterparty in a derivative financial instrument transaction, our risk management unit calculates, by the use of statistics and volatility levels, the maximum expected credit exposure within a pre-defined confidence level. This amount is the potential credit exposure and corresponds to an amount that must be blocked out of the customers' or counterparties' line of credit. Lines of credit are monitored during the day and at the end of the day by a support area of our risk management unit and by our risk management unit.

Liquidity Risk

Liquidity risk is related to the inability to meet efficiently both expected and unexpected current and future cash flows without affecting either our daily operations or our financial condition; it is also related to the structure of the balance sheet regarding the term structure gap between assets and liabilities. The purpose of managing liquidity risk is to minimize the cost of funds through adequate coverage of liquidity needs that arise in either the ordinary course of business or from unforeseen events.

Our treasury unit is responsible for maintaining adequate intraday and short-term liquidity levels in pesos and U.S. dollars. Our Asset and Liability Committee, or ALCO, is responsible for maintaining overall adequate liquidity levels in pesos and U.S. dollars. Our principal sources of peso funding are customer deposits, which are highly concentrated in checking accounts (non-interest and interest-bearing) and short-term notes with interest due at maturity. Our main sources of U.S. dollar funding are checking accounts (non-interest and interest-bearing), time deposits and foreign exchange derivatives.

Liquidity risk is analyzed by time horizon (short and long-term), by concentration of funding, between the liquidity buffer and net outflows, by encumbrance of the Bank's assets, and by uses and sources of funding under normal and extreme conditions. Liquidity risk is monitored through a limit scheme for quantitative and qualitative indicators where, if necessary, a contingency funding plan is implemented for immediate corrective actions.

Operational Risk

Operational risk is risk that cannot be classified as credit risk, market risk or technical or biometric risk. We measure and endeavor to control operational risk through our operational risk management unit.

Our operational risk management unit reports to a risk executive officer who is responsible for establishing and implementing methodologies and procedures to identify, measure, valuate and mitigate operational risk throughout the Bank. Because operational risk mitigation is a part of every process, the responsibility of its management is assigned to each process owner or manager in the Bank who has designated a member of his staff as operational risk manager, each of whom works as a delegate of the operational risk management unit.

We mainly use tools such as "STORM" (System for Operational Risk Management) and SIRO to manage operational risk, each of which was developed in-house and is a proprietary trademark. STORM is a qualitative management tool that identifies and evaluates operational risk factors and helps us establish and prioritize mitigating measures, including a collection of a key risk indicators that are customized for each process and that provide information about the level and type of operational risk exposure in the respective process. SIRO is a database of historic losses suffered by us as a consequence of operational risk events that are classified by risk class and loss type, business unit and account, among other criteria.

Pursuant to applicable regulations in Mexico, as of the end of 2015, operational risk for regulatory capital is currently being calculated under a Basel II alternative standard approach ("ASA"). Operational risk for economic capital is calculated under a Basel II advanced approach with a diversified allocation of economic capital for each business unit. Calculations under the Basel II Advanced Measurement Approaches ("AMA") have been estimated using data as of the end of July 2015 and June 2016, and will continue to be recalculated each year using data as of the end of each June.

Market Risk

Our exposure to market risk arises from trading and investment in financial instruments, where interest rates, foreign exchange rates (mainly the peso/U.S. dollar exchange rate) and stock prices are the most important sources of market risks, and from traditional banking services such as deposit taking and lending, where the balance sheet is exposed to interest-rate risk and foreign-exchange risk.

Treasury and trading positions are evaluated on a daily basis for market risk using Value at Risk Methodology. In addition, information regarding risk versus limits, scenario analysis and stress tests is produced on a daily basis.

Our risk management unit uses a historical simulation model to calculate value at risk. Equally weighted historical simulation is used as the central measure, against which limits are compared. In addition, historical simulation with Exponentially Weighted Moving Average, or EWMA, is used as a complement because it is more sensitive to risk and, therefore, responds more quickly to changes in volatility and correlation levels. Finally, the effect of portfolio diversification is measured within each model.

Historical data of market parameters such as interest rate curves, foreign exchange prices, volatilities and stock indexes for the last two years are available for value at risk calculations. "Unwind Period Value at Risk" looks to reflect market liquidity risk by calculating the number of days it will take to unwind a position without affecting the market. In making these calculations, market outstanding amounts and trade volume information is compared against current exposures, with the information being updated periodically for internal use.

The following table sets forth the average, maximum and minimum values of the daily Value at Risk during the first nine months of 2017, as well as the daily limits in effect as of September 30, 2017. Daily Value at Risk is calculated with a 99% confidence level. Value at Risk is calculated to represent the maximum loss at this confidence level due to changes in market values of trading positions. The information below does not include securities that are no longer traded, recorded as for sale, or as held to maturity, or that are highly illiquid or in workout. During the first nine months of 2017, daily Value at Risk did not exceed Ps. 300 million (U.S. $16.6 million). The daily consolidated Value at Risk limit was Ps. 310 million. Limits are reviewed periodically.

	Nine months ended September 30, 2017			Actual limit as of September 30, 2017
	Average	Maximum	Minimum	
Equities	24.5	51.4	11.2	74.8
Interest rate	124.8	207.2	83.8	227.5
Foreign exchange	23.8	108.9	2.8	65
Vega EQ	14.8	44.2	8.0	107.3
Vega FX	2.7	6.2	0.7	21
Vega IR	21.6	33.4	12.7	58
Total	131.0	300.2	97.0	310

Stress testing is used to complement the value at risk methodology. Stress testing involves the creation of scenarios based on infrequent or catastrophic events to evaluate contingencies, and is of particular importance in periods of highly volatile or illiquid markets. The sensitivity analysis we conduct shows the effect on positions caused by predetermined changes in market variables (a 1% increase in interest rates).

In addition, we have a stop-loss process that issues a warning if losses reach a certain level preset by our board of directors. If a stop-loss warning is issued, the ALCO is convened to establish an action plan.

ALCO monitors our Basis Point Value ("BPV") and Net Interest Income ("NII"), exposures and positions of our banking book. We seek to manage our assets and liabilities to reduce any potential adverse impact on our results of operation and economic value that might result from changes in interest rates. Risk control of interest rates is conducted through systematic monitoring of limit exposure. Particularly, we have established sensitivity alerts for BPV and expected NII for the following twelve months, as well as limits for economic capital, which is the maximum expected loss in net economic value with a 99% confidence level over a three-month volatility horizon, and for margin at risk, which is the maximum expected loss in net expected NII for the following 12 months with a 90% confidence level over a one-month volatility horizon.

The primary methods used to estimate the interest rate risk of the balance sheet portfolio are as follows:

- parallel and non-parallel scenario analysis (including theoretical and historical stress scenarios); and
- interest rate simulation.

Non-maturity products are characterized according to their economic durations and to their market rate sensitivity and using a stability model.

Our non-peso lending activities are generally priced based on LIBOR, with re-pricing intervals of one, three or six months depending on our funding opportunities. Spreads over the LIBOR reference rate are managed in accordance with our marginal cost of funding in currencies other than pesos.

MANAGEMENT

Board of Directors

Pursuant to Mexican Banking Law, the board of directors of the largest Mexican banks must be composed of a minimum of five and a maximum of 15 directors, of whom, at least 25% must be independent. There must also be an alternate director appointed for each director. Independent directors shall also have independent alternates. No more than a third of the board members may be employees of the relevant bank.

On February 28, 2017, our shareholders voted to elect the members of our board of directors. Our board of directors meets at least every three months and is chaired by Luis Robles Miaja, who is also the Chairman of the board of directors of GFBB.

The following table sets forth our current directors and their alternates:

Name and position	Principal activity	Years on our board of directors	Age
Chairman			
Luis Robles Miaja	Chairman of GFBB	16	57
Secretary José Fernando Pío Díaz Castañares	Legal Officer of BBVA Bancomer	16	55
Alternate Secretary			
Alfredo Aguirre Cárdenas	Legal Officer of BBVA Bancomer	5	53
Directors			
Alberto Bailleres González	Executive Chairman of Grupo Bal	25	86
Alejandro Ramírez Magaña *	CEO of Cinépolis de México, S.A. de C.V.	4	46
Fernando Gerardo Chico Pardo	Chairman and General Director of Promecap, S.C. and Aeropuestos del Sureste, S.A.	5	62
Carlos Vicente Salazar Lomelín	Executive Chairman and CEO of Coca-Cola FEMSA, S.A. of C.V.	12	66
Francisco González Rodríguez	Chairman of BBVA, S.A.	17	72
Ricardo Guajardo Touché *	Chairman of Audit Committee of GFBB	25	68
Carlos Torres Vila	CEO of BBVA, S.A.	0	51
Enrique Medina Fernández *	Founder Associate of Despacho Medina Fernandez, A.C.	4	75
Alternates			
Arturo Manuel Fernández Pérez	The Dean of the Instituto Tecnológico Autónomo de México (ITAM)	23	63
José Francisco Gil Díaz	Executive Chairman of Fundación Telefónica Data México, S.A.	7	73
Vice Chairman			
Eduardo Osuna Osuna	General Director of BBVA Bancomer	2	48
Andrés Alejandro Aymes Blanchet *	Aymes and Associated	17	77
José Fernando de Almansa y Moreno Barreda *	Board Member of Telefónica, S.A.	11	65
Vicente María Rodero Rodero	Independent Council	5	60
Fernando Gutiérrez Junquera	Deputy Director at the Chairman of BBVA, S.A.	4	60
Jaime Serra Puché *	Founder Associate and General Director of SAI Consultores, S.C.	10	66
Jorge Saenz-Azcunaga Carranza	Business Monitoring Responsable of BBVA, S.A	0	47

* Independent directors

Examiners

The examiners of the Bank must be residents of Mexico. The duties of the examiners include monitoring and supervising our operations, books and records. The examiners must comply with obligations imposed by law and internal statute and must meet the following requirements:

- technical capacity;
- knowledge and experience in accounting, financial, legal or administrative matters;
- quality of credit history;
- moral character; and
- absence of any legal impediment to the performance of their duties (such as conflict of interest).

Because of the relationship between the examiners and the Bank, the examiners are bound by confidentiality obligations. They may attend the board of directors' and shareholders' meetings but may not vote.

Although some of the functions of the examiner and the external auditor are similar, their responsibilities differ. To avoid conflicts of interest, examiners cannot sign the audit opinion on our annual financial statements. However, examiners and auditors may work for the same firm.

Board activities

The main functions of our board of directors are to:

- manage and represent the company and fulfill its corporate purposes;
- appoint and dismiss chief executives, including the CEO, officers, agents, employees and external auditors of the Executive Officers Committee;
- create committees and commissions as it deems necessary, delineating their structure, organization and authority and granting them the necessary powers to carry out the business as the board may determine; and
- summon the ordinary and extraordinary shareholders' meetings.

Credit and market risk committee

Our credit and market risk committee is responsible for:

- approving credit operations that involve more than U.S. $30 million, or its equivalent in national and other currencies;
- approving credit and market risk management policies (excluding policies that must be approved by our board of directors);
- overseeing the development of our loan portfolio;
- To perform the functions inherent to the Compensation Committee related to the "General Provisions applicable to Credit Institutions" issued by the CNBV, and
- addressing certain special issues referred to it by our board of directors.

The current members of our credit risk committee are Andrés Alejandro Aymes Blanchet, Eduardo Osuna Osuna, Fernando Gerardo Chico Pardo, Arturo Manuel Fernández Pérez, Blanca Cecilia Muñoz Martínez and José Fernando Pío Diaz Castañares (Secretary).

Audit committee

Our audit committee performs the following functions:

- *Internal Controls*. Our audit committee reviews and submits internal control procedures and policies to our board of directors for approval, analyzes and approves operations manuals and evaluates our internal control system, reporting its findings and recommendations to our board of directors.

- *Code of Ethics*. Our audit committee analyzes amendments to our code of ethics and submits its recommendations to our board of directors for its approval.

- *Financial Information*. Our audit committee makes recommendations to our board of directors concerning the preparation of our financial information to ensure it is useful, adequate and reliable. The committee also reviews our financial statements, on a quarterly and annual basis, before they are presented to our board of directors and reviews the relevant changes in accounting principles to ensure our financial statements comply with them.

- *Compliance*. Our audit committee reviews and approves the annual program of our compliance unit before it is presented to our board of directors, and the committee verifies our compliance with the program.

- *Anti-Money Laundering and Anti-Funding to Terrorism*. Our audit committee examines and approves annually the working plan about these matters. Every six months the committee evaluates the fulfillment of this plan and its outcomes.

- *Internal Auditing*. Our audit committee evaluates and makes recommendations to our board of directors concerning the appointment of the head of our internal audit unit; reviews and approves our annual auditing plan; supervises and evaluates the independence, quality and effectiveness of our internal auditing department; facilitates communication between our board of directors and our auditors, oversees training of internal auditors; and oversees the implementation of corrective measures taken based on recommendations from the audit committee.

- *External Auditing*. Our audit committee submits external auditing candidates to our board of directors for its approval, verifies that we rotate external auditors every five years, evaluates the independence of the external auditor, ensures that the external auditing program is based on contractual agreements and reviews the external auditor's reports before they are presented to our board of directors.

- *External Supervision*. Our audit committee reviews the results of any inspections by external supervisory bodies and oversees our compliance with their recommendations.

- *Systems*. The audit committee is informed about the incidents that occur in systems and services provided to users through electronic media (i.e., e-mail and websites), to ensure that measures are taken to prevent or avoid any incidents in the future.

- *Outsourcing Operations*. The audit committee is informed of the performance of contracted services to third parties, as well as of compliance with applicable regulations relating to such services, to ensure that appropriate mechanisms are followed to manage, control and protect information created, received, transmitted, processed or stored in the technological infrastructure, telecommunications or information processing services that are performed by such third parties.

- *Credit Risk*. The audit committee is provided with quarterly reports on any deviations detected with respect to objectives, guidelines, policies, procedures, strategy and current regulations concerning credit.

- *Derivative Operations*. Each year the audit committee is informed and informs the board of directors of the results of the annual evaluation regarding our compliance with the requirements imposed by *Banco de México* on our derivative operations, including approval by our board of directors of our procedures, products and risk limits, qualification of our personnel and sufficiency of our infrastructure and internal controls related to our derivative operations.

- *Remuneration System*. Each year the audit committee must update the board of directors regarding the compliance, procedures and success of the remuneration system.

The current members of our audit committee are Ricardo Guajardo Touché (Chairman), Andrés Alejandro Aymes Blanchet and Jaime Serra Puche. In addition, Fernando Pío Díaz Castañares and Alfredo Aguirre Cárdenas are Secretary and Alternate Secretary of the Committee, respectively, and do not have voting powers.

Executive Committee

Our executive committee is responsible for:

- working on special and urgent matters of competence of the board of directors that cannot be considered by the entire board of directors given time limitations or other limiting factors. The resolutions of the executive committee must be ratified by the board of directors;

- being knowledgeable about any matter that the Chairman or the Chief Financial Officer submits to the committee;

- convening special meetings of the board of directors; and

- resolving any matter expressly delegated to it by the board of directors.

The current members of the executive committee are Luis Robles Miaja (Chairman), Eduardo Osuna Osuna, Alberto Bailleres González, Ricardo Guajardo Touché and Ricardo Torres Vila.

Executive Officers

All of our executive officers are appointed by our Chief Executive Officer and their appointments are ratified by our board of directors. Since January 1, 2007, our executive officers, other than our Chief Executive Officer, are employed by Operadora. See "The Bank—Employees."

The following table sets forth our executive officers as of September 30, 2017:

Name	Position	Years working for our group	Age
Luis Robles Miaja	Chairman of the Board and General Director of Presidency	24	57
Eduardo Osuna Osuna	General Director	23	48
Fernando Eguiluz Lozano	General Director—Talent and Culture	20	45
Luis Ignacio de la Luz Dávalos	General Director—Finance	16	46
Blanca Cecilia Muñoz Martínez	General Director—Risks	33	56
José Fernando Pío Díaz Castañares	General Director—Legal Services	24	55
Hugo Daniel Nájera Alva	General Director—Business Development and Payment Methods	25	53
Oscar Enrique Coppel Tirado	General Director—Commercial Banking Network	30	55
Francisco Javier Leyva Rubio	General Director—Systems and Operations	14	49
Natalia Ortega Gómez	General Director—Audit	14	39

Name	Position	Years working for our group	Age
Adrián Otero Rosiles	General Director—Wholesale and investment banking	15	41
Álvaro Vaqueiro Ussel	General Director—Global Markets	12	49

RELATED PARTY TRANSACTIONS

Loans to Related Parties

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.

Article 73 of the Mexican Banking Law regulates and limits our loans and other transactions (including securities and derivatives transactions) to related parties pursuant to which such parties may become creditors of a bank, including loans to (1) holders of 2% or more of GFBB's or its subsidiaries' shares, (2) principal and alternate board members of GFBB, any of its subsidiaries or us, (3) relatives of a board member or of a 2% or more shareholder of GFBB or us, (4) any person not an officer or employee of GFBB or us who, nevertheless, is empowered to contractually bind GFBB or us, (5) any corporation which has a director or officer in common with GFBB or us or (6) a corporation in which GFBB's external auditors, our employees, holders of 2% or more of GFBB's shares, 2% or more of or our shares, or we or any director or officer of GFBB or of 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 Article 73 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 (i) two million UDIs or (ii) 1% of a bank's Tier 1 net capital (approximately Ps. 158,728, as of December 31, 2016, in our case), are exempt from such provisions. Loans to related parties may not exceed 35% of a bank's Tier 1 Capital. The CNBV may, upon request, grant exemptions from these provisions.

SHCP has adopted rules which exclude from the category of loans to related parties loans granted to the Mexican Government, loans to companies that provide ancillary services to us, provided that in each of these cases such entities do not make a loan to a related party, and loans to our directors or directors of GFBB if they fall within the minimum thresholds set forth above. These loans are not considered for purposes of determining the 35% 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 December 31, 2016, our loans to related parties under Article 73 of the Mexican Banking Law totaled approximately Ps. 39,962 million, which comprised 3.93% of our total loan portfolio at such date. Of the Ps. 39,962 million, approximately Ps. 31,520 million were loans made to BBVA S.A. and its subsidiaries and approximately Ps. 8,442 million were loans made to borrowers affiliated with members of our board of directors. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on December 31, 2016, approximately 86.6% were graded "A," and 13.4% "B" under the regulations of the CNBV. The majority of such credits are loans for either commercial or industrial activities.

Affiliate Transactions

From time to time we enter into agreements, including service agreements, with our affiliates. We have entered into service agreements with our affiliates, including with (1) Servicios Corporativos Bancomer, S.A. de C.V. for the sale of certain banking products, (2) Seguros BBVA Bancomer, S.A. de C.V. for the sale of insurance policies and (3) Casa de Bolsa BBVA Bancomer, S.A. de C.V. for brokerage services.

Based on these service agreements, we receive fees on a cost basis from Seguros BBVA Bancomer, S.A. de C.V., and pay fees on a cost basis to Servicios Corporativos Bancomer, S.A. de C.V. and Casa de Bolsa BBVA Bancomer, S.A. de C.V. No assurance can be given that transactions between us, on the one hand, and GFBB and our affiliates (including BBVA), on the other hand, have been or will in the future be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. Future conflicts of interest between us, on the one hand,

and GFBB and our affiliates (including BBVA), on the other hand, are likely to develop, which conflicts are not required to be and may not be resolved in our favor.

All of our transactions among our subsidiaries are carried out according to market conditions. For further information, see note 23 to our Audited Financial Statements.

THE MEXICAN FINANCIAL INDUSTRY

General

Mexico's financial industry 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 and limited purpose financial institutions. In 1990, Mexico adopted the 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, which was amended and restated on January 10, 2014. Most major Mexican financial institutions are members of financial groups.

The principal financial authorities that regulate financial institutions are the Ministry of Finance and Public Credit, *Banco de México*, the CNBV, the National Commission for Retirement Savings (*Comisión Nacional del Sistema de Ahorro para el Retiro*), or CONSAR, the National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas*), or the CNSF, the IPAB, and the National Commission for the Defense of Financial Service Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*), or CONDUSEF.

Trend toward multi-purpose banking institutions

Prior to 1978, the Mexican banking system was comprised primarily of specialized institutions, which were authorized to conduct specified financial activities pursuant to concessions granted by the Mexican Government. Institutions other than multi-purpose banking institutions were not permitted to engage in more than two of the specified activities. During the period from 1978 to the nationalization of commercial banks in 1982, the structure of the Mexican banking system evolved towards the creation of multi-purpose banking institutions, which were allowed to engage in the full range of banking activities.

Nationalization and subsequent privatization

In September 1982, Mexico's president decreed the nationalization of private Mexican commercial banks. Effective November 18, 1982, a constitutional amendment was adopted to implement the nationalization, which granted the Mexican Government a monopoly on banking and credit service. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking. By 1988, the number had been further reduced to 18, of which six had national coverage, five were regional banks and seven were multi-regional banks. Only two banks, Banco Obrero, S.A. and Citibank N.A., were excluded from the nationalization and continued limited operations as privately-owned commercial banks.

Effective June 28, 1990, the Mexican Constitution was amended to permit Mexican individuals and financial services holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the Mexican Government. Subsequently, a new Banking Law was enacted to regulate the ownership and operation of Mexican commercial banks, national development banks and foreign financial institutions. Pursuant to the Banking Law, Mexico began the process of privatizing commercial banks. By the third quarter of 1992, the Mexican Government had privatized all 18 state-owned commercial banks. Since that time, new commercial banks, have been chartered and regulations regarding investment in the banking sector by foreign investors have been relaxed.

Financial groups

The enactment of the 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 ourselves, 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 operating subsidiaries. Such subsidiaries may include Mexican banks, brokerage firms, insurance companies, bonding companies, mutual fund operators, bond-warehousing companies, Sofomes, foreign exchange service providers , retirement fund administrators and financing companies that provide credit to low income borrowers (*sociedades financieras de crédito popular*). As a general rule, a financial services holding company must maintain a majority participation and effective control of at least two financial subsidiaries, provided that a the holding of two Sofomes only will not constitute a financial services holding company.

The Mexican Financial Groups Law allows 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 as 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 undertaken 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 the losses of its subsidiaries, up to the total amount of the holding company's assets. In the event that the assets of the financial services holding company are insufficient to meet the losses of its subsidiaries if occurred simultaneously, the financial services holding company must first meet the liabilities of the financial institutions that are part of the group and subsequently, the liabilities of any other entities that form the group will be prorated. For such purposes, a subsidiary is deemed to have losses if its assets are insufficient to meet its payment obligations. The subsidiaries will never be held liable for the losses of their financial services holding company or for the losses of the other subsidiaries of the group.

Authorities of the Mexican Financial System

The principal financial authorities that regulate financial institutions are the SHCP, the CNBV, the CONSAR, the CNSF, the IPAB, and 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. We, as a financial services holding company, are subject to the supervision and regulation of the CNBV. In addition, we and other financial subsidiaries are subject to the supervision and regulation of the corresponding financial authority, and are in constant interaction with such authorities during their normal course of business.

Banco de México

Banco de México is the Mexican central bank, which is an autonomous entity that is not subordinate to any other body of the federal government. *Banco de México's* primary purpose is to issue the Mexican currency, as well as maintaining the acquisition power of such currency, the establishment of reference interest rates and ensuring that the banking and payments systems perform under safe and sound principles.

SHCP

The SHCP is the regulator in charge of proposing, conducting and controlling the economic policy of the federal government in matters of economics, tax, finance, public budget, public debt and income. Together with the CNBV and *Banco de México*, 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 and has 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 under the SHCP and has 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 under the SHCP and has 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 federal 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 protecting and defending the rights of users of financial services and serves as an arbitrator between financial institutions and their customers. Among other powers, CONDUSEF has the authority to order the amendment of standardized agreements used by financial entities when it considers that such agreements contain abusive clauses, it may issue general recommendations to financial institutions, and suspend the distribution of information regarding financial services and products that it considers confusing.

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 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 *Banco de México* to help banks with dollar liquidity problems;
- increasing the level of required loan loss reserves;
- 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 January 10, 2014, several amendments to the Mexican Banking Law were published in the Federal Official Gazette, and are currently in effect, with the following purposes:

Update capital requirements according to Basel III. The amendments to the Mexican Banking Law update the capital requirements for banking institutions by incorporating the requirements of the Basel III accords, currently included in the General Rules Applicable to Mexican Banks. The amendments specify that net capital will be comprised of capital contributions, retained profits and capital reserves. The CNBV is authorized to allow or prevent the inclusion of other items to calculate a bank's net capital, subject to the terms and conditions of the general rules to be issued by CNBV to further regulate the capital requirements for bank institutions.

Strengthen measures to maintain the liquidity requirements of banks. The amendments to the Mexican Banking Law grant authority to the CNBV to order adjustments to a bank's accounting registries. If a bank fails to meet the liquidity requirements imposed by CNBV and *Banco de México*, the CNBV may order the bank to adopt actions toward restoring the corresponding liquidity requirements, including suspending or partially limiting certain lending, borrowing or service operations of the bank, and requiring the bank to present a liquidity restoration plan.

Create a special liquidation mechanism for banks. The amendments to the Mexican Banking Law establish that the revocation of a bank's authorization to organize and operate as a banking institution, will immediately lead to the liquidation of the bank under the provision of the Mexican Banking Law excluding banks from the *concurso mercantil* procedure under the Mexican Bankruptcy Law. Except when the shareholders specifically request the revocation of the authorization to organize and operate as a bank, the IPAB will act as receiver (*liquidador judicial*) of the bank in liquidation.

Allow foreign government to hold shares in Mexican banks under certain conditions. The amendments to the Mexican Banking Law expressly set fort an exception to the rule prohibiting the participation of foreign governments in the capital stock of banking institutions, when such governments hold equity in the banking institution (i) pursuant to preventive temporary measures, such as financial support or rescue programs, (ii) when control over such institution is held through official entities (such as funds or support governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate separately from the relevant foreign government, and (iii) when the participation is indirect and does not imply the control by the relevant foreign government over the banking institution in terms of the Mexican Banking Law.

Strengthen the authority of CNBV. The amendments to the Mexican Banking Law reinforce the oversight powers of CNBV by giving it authority to order the suspension or limitation of transactions with related parties if such transactions are not within market terms. The CNBV may also order measures to stimulate banks into channeling more funds to the productive sector of the Mexican economy.

Initiatives to improve creditors' rights and remedies

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a bankruptcy law.

Collateral mechanisms

Laws regarding the perfection and enforcement of security interests include mechanism for pledging without transferring possession, as well as a common security device known in Mexico as the security trust. All personal property being used in a debtor's main business activity may be pledged, by making only a generic description of such property. The provisions regulating the security trust are similar to those governing pledges of personal property, except they provide that title to the collateral must be held by the trustee.

Also, for security pledges, there are provisions allowing the transfer of title to pledgee of the pledged assets, if agreed by the parties. Under the latest amendments to the Mexican Securities Market Law, if the transfer of property over the pledged securities is agreed upon by the parties, the pledgee may apply the market value of the pledged securities to the payment of the corresponding obligation in the event of default, without requiring the enforcement of such pledge before a court.

Deregulation of lending entities and activities

In July 2006, the Mexican Congress enacted reforms to the General Law of Auxiliary Credit Organizations and Credit Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*), the Mexican Banking Law and the Foreign Investment Law (*Ley de Inversión Extranjera*), with the purpose of creating a new type of financial entity called multi-purpose financial entities ("Sofom"). In January 10, 2014 further amendments to the General Law of Auxiliary Credit Organizations and Credit Activities were published in the Federal Official Gazette to strengthen the oversight authority of the CNBV and the CONDUSEF in respect to Sofomes.

Sofomes are Mexican companies (*sociedades anónimas*) the main corporate purpose of which is to engage in lending and/or financial leasing and/or factoring services. Pursuant to the creation of Sofomes, the Ministry of Finance and Public Credit ceased to authorize the creation of *Sofoles* (limited purpose financing companies), and all existing Sofol authorizations were automatically terminated on July 19, 2013.

Sofomes can either be regulated entities on non-regulated entities. Sofomes that are regulated entities are subject to the supervision of the CNBV, and 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 indicate so 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.

Regulated Sofomes are companies that are affiliates of Mexican banks, of financial entities, financing companies that provide credit to low income borrowers (*sociedades financieras populares*), community financing companies (*sociedades financieras comunitarias*), savings and lending companies (*sociedades financieras de ahorro y préstamo*), or that offer debt securities registered in the RNV, or non-regulated Sofomes authorized by CNBV to be considered as a regulated entity.

In addition, for an entity to be considered a Sofom (regulated or non-regulated), the company must be registered with the CONDUSEF, and will be subject to its supervisions, as is the case with any other financial entity.

SUPERVISION AND REGULATION

General

Our operations are primarily regulated by the Mexican Banking Law, and the rules issued thereunder by the Ministry of Finance and Public Credit and the CNBV, as well as rules issued by *Banco de México* and IPAB. The authorities that supervise our operations are the Ministry of Finance and Public Credit, *Banco de México* and the CNBV.

The Ministry of Finance and Public Credit, either directly or through the CNBV, the role of which has been expanded, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities, principally the CNBV and *Banco de México*. 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. From time to time, we are required to respond to information requests and to also cooperate with regulators in the course of an investigation.

Additionally, banks must publish on their website, among other things:

- 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 including their resume;

- a description and the total amount 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, June 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 by-laws in effect at any time and from time to time.

The CNBV has the authority to grant and revoke authorizations to bank institutions and to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations promulgated thereunder. In addition, *Banco de México* has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of *Banco de México* (*Ley del Banco de México*) and regulations that it promulgates and the Law for the Transparency and Regulation of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), including violations relating to the regulation of interest rates and fees and the terms of disclosure of fees charged by banks to customers. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

Licensing of Banks

An authorization of the Mexican Government is required to conduct banking activities. The CNBV, subject to the prior favorable opinion of *Banco de México*, 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 outside of Mexico or transfer of assets or liabilities between branches.

Intervention

The CNBV may declare managerial intervention (*intervención*) of a banking institution pursuant to Articles 129 through 141 of the Mexican Banking Law and in such case the Governing Board of IPAB will appoint a "peremptory manager" (*administrador cautelar*) (the "CNBV Intervention").

A CNBV Intervention pursuant to Articles 129 through 141 of the Mexican Banking Law will only occur when (i) during a calendar month, any of the Capital Ratios of a bank is reduced from a level equal to or above the minimum Capital Ratios required under the Mexican Capitalization Requirements, to 50% or less than such minimum Capital Ratios; (ii) the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and it does not submit itself to the conditional operation regime under Article 29 Bis 2 of the Mexican Banking Law, or (iii) 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 *Banco de México*, 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 customers and the Banking Stability Committee finds that any of the events described in the section "Financial Support—Determination by the Banking Stability Committee", could occur. In addition, a CNBV Intervention may occur when the CNBV, in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the public interest or the bank's creditors.

The peremptory manager appointed by IPAB will assume the authority of the board of directors. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law and will not be subject to our board of directors or our shareholders. The appointment of the peremptory manager will be published in the Federal Official Gazette and in two National newspapers, and must be registered in the Public Registry of Commerce of the corresponding domicile.

IPAB

The Banking Deposit Insurance Law, or the "IPAB Law" (*Ley de Protección al Ahorro Bancario*), which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the bank savings protection agency. IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits.

Only in exceptional cases may IPAB grant financial support to banking institutions. For a detailed description of the financial support that may be granted by IPAB, see "—Resolution and Payment of Guaranteed Obligations."

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 and databases of banks.

IPAB is authorized to 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 *Banco de México*, (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 a bank's depositors will be paid upon determination of liquidation of a bank. IPAB will act as liquidator or receiver, or both, in the liquidation of banks, according to the Mexican Banking Law. IPAB will guaranty obligations of banks to certain depositors and creditors (excluding, among others, financial institutions) only up to the amount of 400,000 UDIs per person per bank. IPAB will not guarantee (i) deposits and loans constituting negotiable instruments and bearer promissory notes; (ii) liabilities for financial institutions or subsidiaries of the bank, (iii) liabilities not incurred in the ordinary course of business and related party transactions, or (iv) liabilities assumed in bad faith or in connection with money laundering or other illegal activities.

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 0.4% 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) certain forward-operations.

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) such extraordinary contributions may not exceed, on an annual basis, the amount equivalent to 0.3% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB 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 0.8% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

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 Mexican banks.

Amendments to Banking Laws/Support Commercial Banking Institutions

In January 2014, certain amendments to the Mexican Banking Law were enacted by Mexican Congress to reinforce the legal framework to adopt and grant financial support to commercial banking institutions undergoing financial difficulties.

Resolution and Payment of Guaranteed Obligations

Revocation of banking license

In case that the CNBV revokes a license to organize and operate as a banking institution, the bank will immediately be in liquidation by the IPAB, according to the procedure set forth in 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; (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 less 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:

- if the banking institution is dissolved or initiates liquidation according to the procedure in the Mexican Banking Law;
- if the banking institution (a) does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 122 of the Mexican Banking Law; (b) does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 122; or (c) consistently does not comply with an additional special corrective measure ordered by the CNBV;
- if the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and the Mexican Capital Requirements;
- 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 *Banco de México*, 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 customers.
- if the assets of the banking institution are insufficient to meet its liabilities.

Upon publication of the resolution of the CNBV revoking a banking license in the Federal Official Gazette 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 of a banking institution, IPAB shall proceed to make payment of all "guaranteed obligations" of the relevant banking institution, in compliance with the terms and conditions set forth by the Mexican Banking Law, other than those "guaranteed obligations" that have been actually transferred pursuant to article 186 of the Mexican Banking Law.

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:

- term obligations will become due (including interest accrued);
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;
- 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 *Banco de México*;

- 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;

- obligations subject to a condition precedent, shall be deemed unconditional;

- 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; and

- derivatives, repos and securities loans will be early terminated and netted after two business days following the publication of the resolution of the CNBV revoking a banking license in the Federal Official Gazette and in two newspapers of wide distribution in Mexico.

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 other liabilities 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 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 stockholders.

Financial Support

Determination by the Banking Stability Committee

The Banking Stability Committee (the "BSC", formerly called the "Financial Stability Committee"), includes representatives of the Ministry of Finance and Public Credit, *Banco de México*, the CNBV and IPAB. In the case that the BSC determines that if a bank were to default on its payment obligations and such default may (i) generate, directly or indirectly, 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 systems, necessary for development of economic activity, at risk, then the BSC may determine 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 top level officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures be covered or paid by IPAB or any other Mexican governmental agency.

Types of financial support

In case that the BSC 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:

- If the BSC determines that the full amount of all of the outstanding liabilities of the relevant troubled bank institution (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 151 through 155 of the Mexican Banking Law, or (ii) credit support granted by

IPAB in accordance with Articles 156 through 164 of the Mexican Banking Law, and in either case the CNBV shall refrain from revoking the banking license granted to such commercial bank.

- If the BSC 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 the payment of the general percentage of outstanding obligations of the relevant troubled banking institution in determined by the BSC, in terms of article 198 of the Mexican Banking Law, or transferring the assets and liabilities of such banking institution to a third party, as set forth in Articles 194 or 197 of the Mexican Banking Law.

Conditional management regime

As an alternative to revoking the banking license, the relevant bank may request, with the prior approval of its shareholders, the application of a conditional management regime. The conditional management regime may be requested when any of the Capital Ratios of the relevant bank is below the minimum required pursuant to the Mexican Capitalization Requirements. 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 that fail to meet the minimum core capital required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

Bank Liquidation Process

According to the latest amendments to the Mexican Banking Law, enacted on January 10, 2014, upon publication of the resolution of the CNBV revoking a banking license, in the Federal Official Gazette 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, in terms of the procedure set forth in the Mexican Banking Law. The IPAB will be appointed liquidator of the banking institution.

In the event that the banking license is revoked because the assets of the relevant bank are insufficient to meet its liabilities, the IPAB shall undertake the liquidation procedure before a competent Federal court, according to the terms and conditions provided for a court liquidation (*liquidación judicial*) procedure under the Mexican Banking Law, in substitution of the *concurso mercantil* under the Mexican Bankruptcy Law. Moreover, the IPAB will be appointed as receiver (*liquidador judicial*) for purposes of the court liquidation procedure.

The IPAB will carry out the creditors' identification process. The IPAB must also comply with the following preference for the payment of the banking institution´s debts: first, secured creditors; second, labor obligations; third, debts with a special privilege provided by statute; fourth, the unpaid balance in respect to the of the deposits insured by the IPAB and thereafter, payments shall be made in the preference provided in article 241 of the Credit Institutions Law, noting that the last debts to be paid are subordinated preferred and non-preferred obligations.

Capitalization

The minimum subscribed and paid-in capital for banks is set in accordance with three different components: credit risk, market risk and operational risk. Pursuant to the Mexican Banking Law and the General Rules Applicable to Mexican Banks, banks may participate in 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.

In accordance with the capitalization rules in effect as of January 1, 2017, the minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law is 90,000,000 UDIs.

The capitalization requirements in the General Rules Applicable to Mexican Banks set forth the methodology to determine the net capital (*capital neto*) relative to market risk, risk-weighted assets and operations risk. Under the relevant rules, the CNBV may impose additional capital requirements. The capitalization requirements provide capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices, or the Basel Committee, which includes the supervisory authorities of twelve major industrial countries.

The General Rules Applicable to Mexican Banks, classify Mexican banks in several categories based on their Capital Ratios. The corrective measures referred to below are determined based on the following classifications:

		Net Capital Ratio (*ICAP*)				
Fundamental Capital or CET1 (*CCF*)	**Tier 1 Capital (*CCB*)**	**≥ 10.5% + CBF**	**≥ 8.0%**	**≥ 7.0% + CBF**	**≥ 4.5%**	**< 4.5%**
≥ 7% +CBF	≥ 8.5% + CBF	I	II			
	≥ 7% + CBF	II	II	III		
≥ 4.5%	≥ 8.5% + CBF	II	II			
	≥ 6%	II	II	III	IV	
	≥ 4.5%	III	III	IV	IV	
< 4.5%						V

Where:

ICAP = Net Capital Ratio (*Índice de Capitalización*)

CCB = Tier 1 Capital Ratio (*Coeficiente de Capital Básico*)

CCF = Fundamental Capital Ratio (*Coeficiente de Capital Básico Fundamental*)

CBF = Capital Supplements (Systemically Important Bank Capital Supplement + Countercyclical Capital Supplement)

The General Rules Applicable to Mexican Banks require Mexican banks to maintain Capital Ratios equal to or exceeding: (i) 10.5% in the case of the Total Net Capital (*capital neto*), (ii) 7.0% in the case of Core Equity Tier 1 capital (*capital fundamental*) or (iii) 8.5% in the case of Tier 1 Capital (*capital básico*) plus in each case, any other applicable Capital Supplement (currently, a Systemically Important Bank Capital Supplement for Grade IV Banks of 1.50%) and any other Countercyclical Capital Supplement (as defined below) applicable to the Bank.

Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy, are required by the CNBV to constitute an additional capital supplement, as determined from time to time (the "Systemically Important Bank Capital Supplement"). The CNBV also has the authority to require countercyclical capital supplements from any and all Mexican banks, designed to cover adverse economic cycles, in the event that the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy (the "Countercyclical Capital Supplement").

The CNBV reconfirmed our status as a grade IV bank of systemic importance on April 3, 2017. As a grade IV bank of systemic importance, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 1.50% in May 2016. Also, an initial Countercyclical Capital Supplement of 0.00% was imposed. These Capital Supplements are required to be implemented by us in four annual steps, one fourth each December, starting in December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by us in four annual steps commencing December 31, 2016, the minimum Capital Ratios applicable to us as of the date hereof, including, in each case, the Capital Conservation Buffer, the Systemically Important Bank Capital Supplement and the Countercyclical Capital Supplement, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

Minimum Capital Ratios	2016	2017	2018	2019
(i) .... Total Net Capital (*capital neto*)	10.88%	11.25%	11.63%	12.00%
(ii) ... Tier 1 Capital (*capital básico*)	8.88%	9.25%	9.63%	10.00%
(iii) .. Fundamental Capital (*capital básico fundamental*)	7.38%	7.75%	8.13%	8.50%

As of September 30, 2017, our Capital Ratios were (i) 14.58% in the case of Total Net Capital, (ii) 12.61% in the case of Tier 1 Capital and (iii) 12.05% in the case of Fundamental Capital. As of December 31, 2016, our Capital Ratios were (i) 13.73% in the case of Total Net Capital, (ii) 11.40% in the case of Tier 1 Capital, and (iii) 10.73% in the case of Fundamental Capital.

Aggregate net capital consists of Tier 1 Capital (which, in turn, consists of Core Equity Tier 1 and Additional Capital Tier 1) and Tier 2 Capital. The capitalization requirements include among the Core Equity Tier 1 capital, mainly, paid-in capital, which represents the most subordinated right to collect in case of liquidation of a credit institution, which are not due and do not grant reimbursement rights, profits (mainly including retained profits), and capital reserves, and subtract from such Additional Capital Tier 1, among other things, certain subordinated debt instruments, issued by financial and non-financial entities, securities representing residual parts of portfolio securitization, investments in the equity of venture-capital funds and investments in or credits to related companies, reserves pending creation, loans and other transactions that contravene applicable law, and intangibles (including goodwill). Additional Capital Tier 1 is comprised of preferential shares, regarding which the issuer has the right to cancel the dividend payments, and subordinated debt instruments, which are not subject to a due date or forced conversion, regarding which it is possible to cancel the interest payments and which may become shares of a credit institution or a controlling entity or are subject to cancellation (when capitalization problems arise).

The supplementary part of basic capital (Tier 2) comprises capitalization instruments, as long as such capitalization instruments are registered with the RNV, are subordinated to deposits and any other debt of the credit institution, do not have any specific guarantee, have a term of at least five years and are convertible into shares at their maturity date, and the total allowable reserves without total expected losses up to an amount that does not exceed 0.6% of weighted assets by credit risk. These instruments shall be included as capital based on their maturity date: 100% if the due date exceeds five years, 80% if the due date exceeds four years but is less than five years, 60% if the due date exceeds three years but is less than four years, 40% if the due date exceeds two years but is less than three years, 20% if the due date exceeds one year but is less than two years, and 0% if the due date is less than one year.

Every Mexican bank must create certain legal reserves (*fondo de reserva de capital*), that are considered to be part of Tier 1 capital. Banks must separate and allocate 10.0% of their net result to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The remainder of net result, to the extent not distributed to shareholders as dividends, is added to the retained profits account. Under Mexican law, dividends may not be paid out against the legal reserve. As of September 30, 2017, we had set aside Ps. 6,901 million in legal reserves compared to paid-in capital of Ps. 24,143 million (without adjustment for inflation).

Corrective Measures

Pursuant to the Mexican Capitalization Requirements, the CNBV classifies Mexican banks in several categories based on their Capital Ratios and orders corrective measures to prevent and correct problems that may affect the stability or solvency of banks if a bank fails to meet any of the minimum required Capital Ratios.

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 *Banco de México's* monetary policy is to maintain the stability of the purchasing power of the peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of *Banco de México* have been directed towards a restrictive monetary policy. Under this policy, *Banco de México* has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where *Banco de México* compensates liquidity deficits through daily operations in the money market providing adequate liquidity and stability to these markets.

In order to manage its maturity exposures to the Mexican financial markets, *Banco de México* 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*), and into investment securities such as longer-term government bonds (*Bondes*) and compulsory monetary regulatory bonds (Brems). At the same time, *Banco de México* 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.

Banco de México may impose on Mexican commercial banks reserve and compulsory deposits from time to time. The amount of the deposit that each bank has to make is determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated and registered as of certain date. Such compulsory deposits have an indefinite term. During the time, these reserves are maintained on deposit with *Banco de México*, each banking institution receives interest on such deposits every 28 days. *Banco de México* provides 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

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 factors (a) for credit card exposure, the probability of non-payment and potential losses (taking into account collateral received), and (b) for loans to individuals, the probability of non-payment, potential losses (taking into account collateral received), and credit exposure (net of reserves created), (ii) mortgage loans (i.e., residential, including loans for construction, remodeling or improvements), considering as principal factors 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. Based on this methodology, the percentage of required reserves is determined. The Loan Classification and Rating Rules also permit banks, subject to prior approval by the CNBV, to develop and adopt specific internal procedures and methodologies within certain parameters to grade the loans in their loan portfolio. See "Selected Statistical Information."

The Loan Classification and Rating Rules require that Mexican banks grade 100.0% of their commercial loan portfolio (except loans made to or guaranteed by the Mexican Government) as of the end of each month. The classification of mortgage and consumer loans is required to be made monthly and reported to the CNBV.

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 loan loss reserve, 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 reserves. The Loan Classification and Rating Rules allow us to use our own methodology following certain parameters to assign a risk rating to each borrower. The CNBV approved our internal methodology in April 2014 for the portfolios of companies and large companies, and reapproved it in February 2016. Although there is an internal methodology, as of September 30, 2017 we used the CNBV methodology in which we are required to classify 100% of the aggregate balance of our commercial loans, including all loans with an outstanding balance equal to or greater than 14,000,000 UDIs, as of the classification date. The commercial loans should, at the same time, be classified by sector as Financial Entities, States and Municipalities and Investment Projects or by Sales Volume by Small, Medium or Large Companies. Once we have this classification, we are expected to calculate the expected loss as a result of probability of default, loss severity and exposure at default, based on the parameters established by the CNBV in the particular annexes (21, 22, 23 and 24) of the Unique Bank Agreement. If our analysis of the classification of a commercial loan changes from period to period, then the calculation of the amount of our loan loss reserve will adjust accordingly.

The Loan Classification and Rating Rules establish the following categories corresponding to levels of risk and set forth procedures for the grading of commercial loans: Grade "A" loans, representing minimal risk of non-payment; Grade "B" loans, represent low risk loans; Grade "C" loans, representing loans with moderate risk; Grade "D" loans, represent high risk loans; and Grade "E" loans, representing non-collectible loans.

We classify each loan in our commercial loan portfolio based on the following default probability percentages:

Probability of Default	**Risk Level**
0.000% to 0.90%	A1
0.901% to 1.5%	A2
1.501% to 2.0%	B1
2.001% to 2.50%	B2
2.501% to 5.0%	B3
5.001% to 10.0%	C1
10.001% to 15.5%	C2
15.501% to 45.0%	D
Greater than 45%	E

We record loan loss allowances for individual loans on a monthly basis, and apply the results of the classification monthly to the balance of the loan recorded on the final day of each month.

In June 2011, the CNBV modified the methodology to grade commercial loans granted to states and municipalities, as well as the accounting treatment of such loans.

The new methodology establishes that allowances will be made based on the expected loss, considering the likelihood of default, the severity of the loss and the exposure to default. The likelihood of default shall be determined based on quantitative (Payment experience, Risk Rating Agencies, Financial Risk) and qualitative (Socioeconomic and Financial Strength) scores considering several risk factors and will range from 0.5%, for loans guaranteed by programs under Mexican federal law included in the federal expense budget, to 100%, when the loan is past due. Real and personal collateral as well as loan derivatives will be considered to determine the severity of the loss and the exposure to default.

Consumer revolving loans (including credit cards)

Our internal advanced model for the classification of consumer revolving loans (including credit cards) was certified by the CNBV in June 2011, with our annual reauthorization last in February 2017.

We determine the allowance for loan losses based on the following criteria:

- *Probability of default*: Based on variables, such as portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.

- *Severity of loss*: Calculated based on variables like portfolio type, balance aging and noncompliance period.

- *Exposure*: Determined according to the credit limit and current balance.

The allowance made according to the following percentages:

Probability of Default	Risk Level
0.00% to 3.0%	A1
3.01% to 5.0%	A2
5.01% to 6.5%	B1
6.51% to 8.0%	B2
8.01% to 10.0%	B3
10.01% to 15.0%	C1
15.01% to 35.0%	C2
35.01% to 75.0%	D
Greater than 75.01%	E

Consumer non-revolving loans (excluding credit card loans)

We determine the allowance for loan losses for our consumer loan portfolio by applying specific percentages to the number of billing periods with payments in default as of the classification date. These billing periods may be weekly, bi-weekly or monthly. We determine our loan loss allowances for our consumer and mortgage loan portfolio based on the following percentages in accordance with the Loan Classification and Rating Rules:

Probability of Default	Risk Level
0.00% to 2.0%	A1
2.01% to 3.0%	A2
3.01% to 4.0%	B1
4.01% to 5.0%	B2
5.01% to 6.0%	B3
6.01% to 8.0%	C1
8.01% to 15.0%	C2
15.01% to 35.0%	D
Greater than 35.01%	E

Residential mortgage loans

We determine loan loss allowances for our mortgage portfolio by applying specific percentages to a borrower's unpaid balances, net of supports. Our mortgage loan portfolio is classified into levels based on the number of monthly installments that a loan is in default as of the classification date:

- *Probability of default*: an allowance percentage range of 100% is assigned to loans in default for four months or more. For loans in default for less than four months, the variables that are considered to estimate the allowance percentage are listed as follows: Amount of non-performing periods and average of the last seven billing periods (CNBV methodology).

- *Severity of loss*: an allowance percentage of 100% is applied to loans in default of 48 months or more. For loans that are in default for less than 48 months, the variables that are considered to estimate the allowance percentage are listed as follows: Credit Recuperation Rate, Long to Value, Outstanding Balance, an index (it considers if the credits are associated to trusts, judicial agreements and the geographical region), Monthly Payments covered by an Unemployment Insurance, and INFONAVIT and FOVISSSTE (social security agencies) outstanding balances that may serve as collaterals (CNBV methodology).

In addition to the allowance requirements under the Loan Classification and Rating Rules for mortgage loans, we contribute a supplementary allowance that reflects the application of our internal model for the classification of mortgage loans, which consists of applying specific percentages (expected loss) to a debtor's unpaid balance. The sum of both methodologies (CNBV and the internal model) is the allowance considered as official, and the one registered in the Financial Statements.

The loan loss reserves are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors to write-off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

The determination of the allowance for loan losses, particularly for commercial loans, requires management's judgment. The loan loss reserve calculation that results from using the estimated and prescribed loss percentages may not be indicative of future losses. Differences between the estimate of the loan loss reserve 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 loan loss reserve for changes in estimates of the collectability of loans will be made in the short term.

Liquidity Requirements for Foreign Currency-Denominated Liabilities

Pursuant to the regulations of *Banco de México*, the liabilities of Mexican banks denominated in foreign currencies (including dollars) are subject to a liquidity coefficient equal to the amount obtained by multiplying all foreign currency-denominated indebtedness which will become due within 60 days or less by a percentage factor dependent on the remaining maturity of the liability (netted against liquid foreign currency-denominated assets also weighted depending on their maturity), which resulting amount must be invested in low-risk and highly liquid instruments and deposits, including, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible, and with no transfer restrictions, to U.S. dollars;

- deposits with *Banco de México*;

- treasury bills, treasury bonds and treasury notes issued by the United States government;

- one-day 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 funds or companies identified by *Banco de México* upon the banks' request;

- 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; and

- foreign currency-denominated deposits made with foreign financial institutions rated P-2 by Moody's or A-2 by S&P that may be drawn against on demand or on two-day notice.

Such liquid assets may not be granted as collateral, lent or subject to repurchase transactions or any other similar transactions that may limit their transferability. In addition, the total amount of maturity-adjusted average net liabilities denominated or indexed in foreign currencies that Mexican banks, their subsidiaries or foreign agencies may have (calculated daily) are limited to 1.8 times the amount of their Tier 1 Capital. In recent years, the Mexican Banking Regulation has also incorporated Basel III best practices, including the LCR, and it is in the process of implementing amendments to regulate the NSFR.

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, restrictions relating to the diversification of a bank's financing transactions are determined in accordance with the bank's compliance with Mexican Capitalization Requirements. For a bank with:

- Capitalization ratio greater than 8% 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;

- Capitalization ratio greater than 9% 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;

- Capitalization ratio greater than 10% 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;

- Capitalization 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

- Capitalization 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 or the risk management of the bank is inadequate.

Financings guaranteed by unconditional and irrevocable security interests or guarantees, that may be enforced immediately and without judicial action, granted by Mexican credit institutions or foreign financial institutions with investment grade ratings and domiciled 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 guidelines, 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.

In addition, 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. Banks are not obligated to comply with the aforementioned limits with respect to financings made to the Mexican Government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), *Banco de México*, the IPAB and development banks guaranteed by the Mexican Government. The aforementioned guidelines do not apply to financings made to Mexican banks. The aggregate financings to Mexican banks and to government-controlled companies and decentralized agencies may not exceed 100.0% of such bank's Tier 1 Capital.

Banks are required to disclose, in the notes to their financial statements, (i) the number and amount of financings that exceed 10% 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 its receipt of funds from a person or a group of persons acting in concert that represent in one or more funding transactions, more than 100% of a bank's Tier 1 Capital. As of September 30, 2017, none of our liabilities to a person or group of persons exceeded the 100% threshold.

Related Party Loans

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 35% 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

Banco de México 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 certain minimum liquidity, prescribed by regulations issued by *Banco de México*, in connection with maturities of obligations denominated in foreign currencies (as discussed under "—Liquidity Requirements for Foreign Currency—Denominated Liabilities" above).

Derivative Transactions

Certain *Banco de México* rules apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, futures 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,
- nominal and real interest rates, including those referring to debt instruments an index referring to such rates,
- loans and other advances,
- yellow corn (maize), wheat, soybeans, sugar, rice, sorghum, cotton, oats, coffee, orange juice, cacao, barley, bovine and porcine livestock, milk, canola, soy oil and soy paste, lean value hog carcasses, natural gas, heating oil, gasoline, gas oil, crude oil, aluminum, copper, nickel, platinum, lead and zinc,
- gold or silver, and
- futures, forwards, options and swaps with respect to the underlying assets referred to above.

Mexican banks require an express general approval, issued in writing by *Banco de México* to enter into, as so-called intermediaries, into 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 *Banco de México* 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 *Banco de México*, 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 Requirements, 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 is a related party, are subject to lending limits and other requirements generally specified in connection with related party transactions, set forth in Mexican Banking Law.

Institutions may collateralize derivative transactions through cash deposits, receivables and/or securities of its portfolio. In the case of derivative transactions that take place in OTC markets, collateral may be granted only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, mutual funds manager of pension funds and any other counterpart authorized by *Banco de México*. 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 *Banco de México* 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 *Banco de México* 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 carry out swaps, futures forwards and options related to pesos and foreign currencies in the underlying assets described above, except gold or silver, as well as of credit derivatives related to interest rate.

Repurchase Operations and Securities Lending

Under a circular issued by *Banco de México*, Mexican banks may enter into repurchase operations with Mexican and foreign counterparts. Repurchase operations may be entered into in respect of bank securities, Mexican Government securities, debt securities registered with the CNBV and certain foreign securities. Repurchase operations 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 operations.

Banco de México has also authorized Mexican banks to participate in securities lending activities on terms similar to those applicable to repurchase operations.

Limitations on Investments in Other Entities

Under the Financial Groups Law, subsidiaries of a financial services holding company may not directly or indirectly own capital stock of their own financial services holding company, unless they hold such stock as institutional investors under the Financial Groups Law. Institutional investors under the Financial Groups Law are insurance and bond companies that invest their technical reserves, investment funds and pension funds. In addition, members 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 Ministry of Finance and Public Credit (which shall take into consideration the opinions of *Banco de México* and the primary Mexican regulatory commission supervising the financial entity), members of a financial group may not accept as collateral shares of stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks in authorization from the Ministry of Finance and Public Credit is required prior to acquisition of shares of capital stock of non-Mexican financial entities.

In addition, 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; (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 each class of the bank's board of directors; and (iii) for higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, with prior authorization of the CNBV. The total of all such investments made by a bank may not exceed 30.0% of such Tier 1 Capital.

Restrictions on Liens and Guarantees

Under the Mexican Banking Law, banks are specifically prohibited from (i) pledging their properties as collateral (except when pledging collection rights or securities in transactions with *Banco de México*, development banks, public federal trust and IPAB or if the CNBV so authorizes or as described above with respect to derivative transactions, securities lending and repurchase transactions) 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 Mexican Banking Law authorizes the CNBV to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws; provided, however, that an agreement must be in place 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. We currently use the services of Buró de Crédito, S.A. de C.V., a Mexican credit bureau created jointly by us, other Mexican banks and a Mexican affiliate of TransUnion, a leading U.S. credit bureau.

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") and were last amended in February 2017.

Under the Money Laundering Rules, in order to prevent 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*) we are required to satisfy various requirements, including:

- the establishment and implementation of client identification and know-your-customer policies, including stricter measures for higher risk clients;
- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Anti-Money Laundering Rules);
- reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV;
- the establishment of a communication and control committee in charge of, among other matters, submitting to the Audit Committee the Money Laundering policies and procedures for approval, monitoring suspicious or unusual activities detected and supervising compliance with anti-money laundering provisions; and
- the appointment of a compliance officer in charge of, among other matters, the elaboration of the anti-money laundering policies and procedures, supervising the correct implementation of the communication and control committee's determinations, and informing said committee of high risk relationships.

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: (i) full name, (ii) gender, (iii) date of birth, (iii) nationality and place of birth, (iv) tax identification number and the certificate evidencing the tax identification number issued by the SHCP and/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: (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, (viii) copy of the public deed containing its constitutive documents, and (ix) identification and copy of the public deed containing the powers of attorney of its representative.

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. $7,500, (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. $1,000, and (iii) reports of unusual transactions from employees and clients within three calendar days counted from the date an unusual transaction is reviewed by the communication and control committee, which should analyze the case within 60 calendar days counted from the date the alert was detected by our systems, among others.

Additionally, anti-money laundering regulations 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 individual customers 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 limited circumstances.

Furthermore, Mexican banks are not permitted to receive physical cash amounts in U.S. dollars from individual non-customers 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.

Finally, the newly amended Money Laundering Rules, published in February 2017 and to be effective as of November 2017, set forth obligations for Mexican banks to obtain information to identify the natural person that ultimately is the beneficial owner of all corporate clients and to update their Identification Files with the frequency established in the anti-money laundering policy.

Apart from the Mexican regulation as described above, we have included in our anti-money laundering policies the obligation to screen customers and potential customers against OFAC lists, and we have implemented an automated screening process to identify any person included in those lists as well as procedures to close the accounts of any customer included in those lists in accordance with applicable laws. Accordingly, our anti-money laundering policies include those obligations which can be enforced by Mexican authorities.

Rules on Interest Rates

Banco de México 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 either: a fixed rate, TIIE, *Cetes*, MEXIBOR (Mexican Bank Overnight Rate), CCP (*costo de captación promedio a plazo*), the rate determined by *Banco de México* as applied to loans funded by or discounted with NAFIN or the rate agreed to with development banks in loans funded or discounted with them. For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose either a fixed rate, EURIBOR, LIBOR or the rate agreed 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, CCP-Dollars, LIBOR or the rate agreed with international or national development banks or funds, for loans funded by or discounted with such banks or funds.

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. Similarly, a bank's spread has also been restricted to a single formula of either a fixed percentage or a number of basis points to be added to the selected reference rate.

On July 11, 2008, *Banco de México* issued rules regulating a bank's yield on credit card debt and provided that certain information regarding interest charges be included on the credit card statements sent to card users.

Fees

Under *Banco de México* regulations, Mexican banks and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients, (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 subject of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks 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 and Sofomes issuing credit or debit cards ("Issuers") may not charge cardholders any additional fee (Issuers are entitled to charge operators the respective fee), or (ii) permit Issuers to charge a fee to clients, in which case, Mexican banks and Sofomes may not charge additional fees to clients.

Banco de México, on its own initiative or as per request from the CONDUSEF (*Comisión Nacional para la Defensa de los Usuarios de las Instituciones Financieras*), banks or Sofomes, may assess whether reasonable competitive conditions exist in connection with fees charged by Banks or Sofomes in performing financial operations. *Banco de México* must obtain the opinion of the Federal Competition Commission (*Comisión Federal de Competencia*) in carrying out this assessment. *Banco de México* may take measures to address the issues.

Law for the Protection and Defense of Financial Service Users

A Law for the Protection and Defense of Financial Service Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) 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 steps 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 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 using 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 Regulation of Financial Services

The law for the Transparency and Regulation of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), published in the Federal Official Gazette in June 2007 and amended on January 10, 2014, aims to regulate (i) the fees charged to customers 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 customers, and (iv) other aspects related to financial services, in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants *Banco de México* the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements. *Banco de México* 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 *Banco de México* 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 June 15, 2007. 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) that offers made by credit institutions granting secured loans shall have binding legal effect; (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 in connection with refinancings.

Financial Groups Statutory Responsibility

The Financial Groups Law requires that each financial services holding company, enter into an agreement with each of its financial services subsidiaries, which includes us. Pursuant to such agreement, the financial services holding company is responsible secondarily and without limitation for the satisfaction of the obligations undertaken 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 the 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 its assets are insufficient to meet its payment obligations.

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 collateralize the payment of the bank's losses that are paid by IPAB pursuant to the Mexican Banking Law. Such collateral may be created over the financial services holding company's assets or over such company's shares or those of its subsidiaries.

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. GFBB has entered into such an agreement with us and its other financial services subsidiaries.

Ownership Restrictions; Foreign Financial Affiliates

Ownership of a financial services holding company's capital stock is no longer limited to specified persons and entities under the Financial Groups Law and the group's corporate charter. Series F shares may be purchased, directly or indirectly, by foreign financial institutions who are residents of a country that has entered into a free trade agreement with Mexico and must represent at all times at least 51% of the paid-in capital.

Notwithstanding the above, under the Financial Groups Law, foreign governments cannot purchase a financial services holding company's capital stock, directly or indirectly, except (i) pursuant to preventive temporary measures, such as financial support or rescue programs, (ii) when control over such institution is held through official entities (such as funds or support governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate separately from the relevant foreign government, and (iii) when the participation is indirect and does not imply the control by the relevant foreign government over the financial services holding company. Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are qualified investors as defined in the Financial Groups Law.

In accordance with applicable law (1) the capital of banks may be composed of voting Series O shares, which may be owned both by Mexican and non-Mexican investors, by Series F shares, which may be owned only by foreign financial institutions or Series B shares, which represent a minority interest in a bank controlled by a foreign financial institution and may be owned by Mexican or foreign investors and, (2) any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the CNBV, (3) the CNBV has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank and (4) the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of whom must qualify as independent. Minority shareholders own our Series B shares.

The change in foreign ownership rules continued the liberalization of the Mexican banking system commenced under NAFTA. Pursuant to NAFTA, the Free Trade Agreement between Mexico and the European Union, the Free Trade Agreement between Mexico and Japan, the Free Trade Agreement between Mexico and European Free Trade Zone and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, member states of the European Union, Japan and other countries with which Mexico has executed relevant international trade agreements, or financial services holding companies formed in Mexico by such foreign financial entities, will be treated identically to Mexican investors when investing in affiliate banks and other financial entities.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have their corporate and economic rights under such shares suspended, and may not be enforced until the necessary authorizations have been obtained or the necessary requirements have been met, as required under the Financial Groups Law.

Pension Fund Management

The Mexican Social Security Law (*Ley del Seguro Social*) established the AFORE pension system. Among other economic benefits and other services to be provided to participants in the social security system, the Social Security Law provides that each worker may establish an independent retirement account, which is to be managed by an approved AFORE. Pursuant to the AFORE Law (*Ley de los Sistemas de Ahorro para el Retiro*), the main functions of an AFORE include, among others, (1) administering pension funds in accordance with the Social Security Law, (2) creating and administering individual pension accounts for each worker, (3) creating, administering and operating specialized pension funds (*Sociedades de Inversion Especializadas en Fondos para el Retiro*), or SIEFOREs, (4) distributing and purchasing SIEFOREs' shares, (5) contracting pension insurance and (6) distributing, in certain cases, the individual funds directly to the pensioned worker.

The AFOREs and SIEFOREs are subject to the supervision of CONSAR, which is charged with the coordination, regulation and supervision of the pension system. Under the Social Security Law, no AFORE may have more than 20% of the total market, which as of September 30, 2017, according to the CONSAR, consisted of approximately 59.1 million accounts of workers.

Related Party Transactions

The Banking Law requires that the board of directors of a bank approves any transaction in which a related party becomes a debtor of a bank. Such transactions include deposits, loans, credits, discounts and the net position of derivatives transactions. The total amount of related party transactions may not exceed 35% of Tier 1. Related parties include, among others, persons that own directly or indirectly 2% or more of the shares of the relevant bank or of its holding or other members of the financial group, directors and officers of the bank or of any entity in which the bank or its holding company have more than 10% of the shares or any corporation in which the officers and directors are part of the management.

The approval process for related party transactions is similar to any other loan, except that any loans to a related party above 1.0% of Tier 1 Capital or 2 million UDIs, which is determined based on the National Consumer's Price Index, an inflation index determined by *Banco de México*, must be approved by our board of directors with the favorable opinion of our credit committee.

Texas Banking Supervision and Regulation

See above under "The Texas Agency."

DESCRIPTION OF THE NOTES

We will issue the Notes through our Texas Agency (the "Agency"). The Notes will be issued under an indenture, dated as of January 17, 2018, among us and The Bank of New York Mellon as trustee, paying agent, registrar and transfer agent (the "Trustee"), which may be amended or supplemented from time to time (the "Indenture"). This summary describes the general terms and provisions of the Notes. The description of certain provisions of the Notes 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 of certain terms included therein. We urge you to read each of the Indenture and the forms 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 Notes and this offering memorandum, the terms of the Indenture will prevail. In case of any conflict regarding the translation of the provisions of the applicable Mexican law, the official text in Spanish of the Mexican law will prevail. Capitalized terms not otherwise defined in this "Description of the Notes" have the meanings ascribed to them in the Indenture. You may obtain a copy of the Indenture and the forms of the Notes by contacting the Trustee at the address indicated in this offering memorandum.

General

The Notes will be issued in the aggregate principal amount of U.S. $1,000,000,000 in registered form, in minimum denominations of U.S. $200,000 and integral multiples of U.S. $1,000 in excess thereof. We will issue the Notes through the Agency, but the Notes will represent our general, unsecured and subordinated, preferred obligations. The Notes constitute Subordinated Preferred Indebtedness and will rank (i) subordinate and junior in right of payment and in liquidation to all of our present and future Senior Indebtedness (ii) *pari passu* without preference among themselves and with all our present and future other unsecured Subordinated Preferred Indebtedness and (iii) senior only to our Non-Preferred Subordinated Indebtedness and all classes of our equity or capital stock, as described in this offering memorandum. See "—Subordination." We may incur additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness from time to time, and the provisions of the Indenture does not prohibit or limit the incurrence of additional indebtedness, including additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness.

THE NOTES WILL BE UNSECURED AND WILL NOT BE INSURED OR GUARANTEED BY ANY OF OUR SUBSIDIARIES OR AFFILIATES, INCLUDING OUR PARENT COMPANY, OR BY THE IPAB OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO ANY OF OUR DEBT SECURITIES, SHARES OR ANY OF OUR EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF OUR SUBSIDIARIES OR AFFILIATES.

Subject to the occurrence of one or more Write-Downs (as defined below), unless the Notes have been redeemed as described below or a Suspension Period (as defined below) is in effect on the Maturity Date, the Notes will mature and be payable in full on January 18, 2033 (the "Maturity Date"). We may redeem the Notes under the circumstances described below under "—Redemption—Optional Redemption," "—Redemption—Withholding Tax Redemption" and "—Redemption—Special Event Redemption." Other than in accordance with an Optional Redemption, a Withholding Tax Redemption or a Special Event Redemption, the Notes will not be redeemable prior to the Maturity Date.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under "—Book-Entry System."

We will maintain an office or agency in the Borough of Manhattan, The City of New York, where the Notes may be presented for exchange or transfer. Such office or agency initially will be located at The Bank of New York Mellon, 101 Barclay Street, 7E, New York, New York, 10286, Attention: Global Finance Americas. The holders of the Notes will not have to pay a service charge to register the transfer or exchange of any Notes, but we may require that holders pay any applicable tax or other governmental charge.

The Indenture and the Notes do not contain any provision that would protect the holders of the Notes against a sudden and dramatic decline in our credit quality resulting from a takeover, recapitalization or other restructuring or other event involving us that may adversely affect our credit quality.

Principal and Interest

Interest periods

Subject to deferral during any Suspension Period (as defined below), an earlier redemption date and to one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from (and including) January 17, 2018 (the "Issue Date"), up to (but excluding) January 18, 2028, or the "Optional Call Date," at a fixed rate per annum equal to 5.125%, payable semi-annually in arrears on January 17 and July 17 of each year and on the Maturity Date (each an "Interest Payment Date"), commencing on July 17, 2018.

Subject to deferral during any Suspension Period, an earlier redemption date and to one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from (and including) the Optional Call Date to (but excluding) January 18, 2033, or the "Maturity Date," at a fixed rate per annum equal to the sum of (a) the Treasury Yield (as defined below) and (b) 265 basis points payable semi-annually in arrears on each Interest Payment Date, commencing on July 17, 2028.

"*Treasury Yield*" is defined in the Indenture to mean, as of any date of determination, an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the per annum rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Maturity Date, and trading in the public securities markets either as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Maturity Date, and (B) the other maturity as close as possible to, but later than the Maturity Date, in each case as published in the most recent H.15 (519) or, if a weekly average yield to maturity for United States Treasury securities maturing on the Maturity Date is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519); and

"*H.15 (519)*" is defined in the Indenture to mean the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System and most recent H.15 (519) means the H.15 (519) published prior to the close of business on the third Business Day prior to the applicable payment date.

Upon the occurrence of a Write-Down, any holder of Notes will be deemed to have irrevocably waived its right to claim or receive the Written-Down Principal (as defined below) of the Notes or any interest with respect thereto (or Additional Amounts), including any and all accrued and unpaid interest.

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 Optional Call Date, the Maturity Date or an earlier redemption date, as the case may be, 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. 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 fifteenth day preceding the respective Interest Payment Date (such date, a "Record Date," whether or not a Business Day).

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, New York or Mexico City, Mexico are authorized or required by law or executive order to remain closed.

"Current Principal Amount" means in respect of each Note, at any time, the outstanding principal amount of such Note, being the Original Principal Amount of such Note as such amount may be reduced, on one or more occasions, as a result of a Write-Down or a redemption of the Notes, as the case may be.

"Original Principal Amount" means, in respect of each Note, the amount of the denomination of such Note on the Issue Date.

Payment upon Maturity

Subject to the occurrence of one or more Write-Downs, unless the Notes have been redeemed prior thereto or a Suspension Period (as described below) is in effect on the Maturity Date, the Notes will be repaid on the Maturity Date at their then Current Principal Amount outstanding, together with any accrued and unpaid interest thereon to (but excluding) the Maturity Date and any other amounts, including Additional Amounts (as defined below), due thereunder, in each case as provided in this offering memorandum.

For deferral of interest and principal payments during a Suspension Period, see below in "—Deferral of Interest and Principal Payments."

For possible reduction or suspension of interest and principal payments due to a Write-Down, see below in "—Trigger Event and Write-Down."

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 shall return the money to us, upon our written request, subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to us 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.

No Further Issuances

No additional notes may or will be issued under the Indenture.

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, imposed or levied by or on behalf of Mexico, the United States, or any other jurisdiction through which payments are made (each a "Relevant Jurisdiction") or any authority or agency therein or thereof having power to tax (collectively, "Relevant Tax") unless the withholding or deduction of such Relevant Tax is required by law. In that event, we will pay additional amounts ("Additional Amounts") as may be necessary so that the net amounts received by the holders or beneficial owners of the Notes or their nominees 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 (or beneficial owner) to the extent that such Relevant Tax:

(1) is imposed only by virtue of such holder (or beneficial owner) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes; or

(2) is imposed only by virtue of such holder or any other person having failed to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or other lack of connection with the Relevant Jurisdiction or any similar claim for exemption or reduction in the rate of withholding, if satisfying such requirement or making such claim is a precondition to exemption from, or reduction in the rate of, the imposition, withholding or deduction of any Relevant Tax, provided that (x) we have or our agent has provided the Trustee with at least 60 days' prior written notice of an opportunity to satisfy such a requirement or make such a claim (such notice to be provided by the Trustee to the registered holder of the Notes), and (y) in no event, shall such holder's obligation to satisfy such a requirement or to make such a 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-8BEN-E, W-8ECI, W-8EXP and/or W-8IMY; or

(3) is imposed only by virtue of such holder (or beneficial owner) not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such holder would be entitled to Additional Amounts had the Notes been surrendered during such 30-day period; or

(4) is imposed only by virtue of such holder or beneficial owner (or any financial institution through which the holder or beneficial owner holds any Notes through which payment on such Note are made) having failed to comply with any certification, information, identification, documentation or other reporting requirement (including entering into and complying with an agreement with the Internal Revenue Service) imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code as in effect on the Issue Date or any successor or amended version of these provisions that is substantially comparable and materially more onerous to comply with; or

(5) in the event the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or

(6) is an estate, inheritance, gift, sale, transfer, personal property or similar tax or assessment; or

(7) is imposed as a result of any combination of (1) through (6) above.

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 furnish to the Trustee, within thirty Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, an officer's certificate and other documentation acceptable to the Trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by us. Upon written request made by the holders to the Trustee, copies of such officer's certificate or other documentation, as the case may be, will be made available to the holders.

To give effect to the foregoing, we will, upon the written request of any holder, indemnify and hold harmless and reimburse the holder for the amount of any Relevant Taxes (other than any Relevant Taxes for which the holder would not have been entitled to receive Additional Amounts pursuant to any of the conditions described in the first paragraph of this section titled "Payment of Additional Amounts") so imposed on, and paid by, such holder as a result of any payment of principal or interest on the Notes, so that the net amount received by such holder after such reimbursement will not be less than the net amount the holder would have received if such Relevant Tax had not been imposed or levied and so paid. Holders will be obligated to provide reasonable documentation in connection with the foregoing.

We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes 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, we will use our reasonable efforts to obtain an exemption 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 of the Notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder 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 claim for a refund or credit and incurs no other obligation with respect thereto. We will inform the Trustee of the refund or credit within 30 Business Days of our determination that we are entitled to receive such refund or credit.

Treatment of Interest and Principal During a Suspension Period

Deferral of Interest and Principal Payments

WE HAVE THE RIGHT TO AND WILL DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS), THE PAYMENT OF INTEREST DUE ON THE NOTES AND DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS), THE PAYMENT OF PRINCIPAL THEREOF FOR THE DURATION OF ANY SUSPENSION PERIOD (SEE "—SUSPENSION PERIODS"). IN THE EVENT OF A DEFERRAL OF THE PAYMENT OF INTEREST ON THE NOTES OR DEFERRAL OF PAYMENT OF PRINCIPAL THEREOF, WE WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. PAYMENTS OF INTEREST DUE ON THE NOTES WILL BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE DEFERRED DURING A SUSPENSION PERIOD AND SUBJECT TO THE OCCURRENCE OF ONE OR MORE WRITE-DOWNS, HOLDERS OF THE NOTES WILL HAVE THE RIGHT TO RECEIVE FOLLOWING THE TERMINATION OF THE SUSPENSION PERIOD ALL INTEREST ACCRUED PRIOR TO AND DURING THE SUSPENSION PERIOD, BUT NOT PAID AS A RESULT OF SUCH SUSPENSION PERIOD, AND SUCH INTEREST WILL BE PAYABLE (WITHOUT ANY INTEREST ON SUCH PREVIOUSLY ACCRUED INTEREST) ON THE NEXT SUCCEEDING INTEREST PAYMENT DATE ON WHICH A SUSPENSION PERIOD IS NO LONGER IN EFFECT, UNLESS SUCH INTEREST PAYMENT DATE OCCURS ON A DATE THAT IS LESS THAN TWELVE BUSINESS DAYS AFTER SUCH SUSPENSION PERIOD ENDS, IN WHICH CASE ANY AND ALL INTEREST THEN PAYABLE SHALL BE PAID ON THE DATE THAT IS TWELVE BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS, EXCEPT TO THE EXTENT SUCH INTEREST IS CANCELLED PURSUANT TO ONE OR MORE WRITE-DOWNS. IF A SUSPENSION PERIOD IS IN EFFECT ON THE MATURITY DATE OR ANY REDEMPTION DATE OR THE MATURITY DATE OR SUCH REDEMPTION DATE IS ON A DATE THAT IS LESS THAN TWELVE BUSINESS DAYS AFTER A SUSPENSION PERIOD ENDS, PAYMENT OF PRINCIPAL WILL BE DEFERRED WITH INTEREST UNTIL THE DATE THAT IS TWELVE BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS, EXCEPT TO THE EXTENT SUCH PRINCIPAL IS CANCELLED PURSUANT TO ONE OR MORE WRITE-DOWNS. WHEN A SUSPENSION PERIOD IS NO LONGER IN EFFECT, WE WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. IF A WRITE-DOWN OCCURS, THE WRITTEN-DOWN PRINCIPAL, AND ANY INTEREST ACCRUED WITH RESPECT THERETO DURING ANY SUSPENSION PERIOD, WILL BE CANCELLED.

Suspension Periods

FOR PURPOSES HEREOF, A SUSPENSION PERIOD WILL COMMENCE AND WE WILL DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS) THE PAYMENT OF INTEREST AND PRINCIPAL DUE THEREON UPON THE OCCURRENCE OF ONE OF THE FOLLOWING EVENTS:

(1) ANY OF THE FOLLOWING CAPITAL RATIOS APPLICABLE TO US DECLINES BELOW THE MINIMUM PERCENTAGE REQUIRED, FROM TIME TO TIME, BY THE MEXICAN CAPITALIZATION REQUIREMENTS WHICH AS OF THE DATE HEREOF ARE: (A) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (B) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), OR (C) 7.0% IN THE CASE OF

FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS, IN EACH CASE, ANY OTHER APPLICABLE CAPITAL SUPPLEMENT (CURRENTLY, A SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT (AS DEFINED BELOW) FOR GRADE IV BANKS OF 1.50% AND ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT (AS DEFINED BELOW) APPLICABLE TO US, BOTH TO BE CREATED BY US IN FOUR ANNUAL STEPS COMMENCING DECEMBER 31, 2016) (A "CAPITAL RATIOS EVENT"); OR

(2) THE CNBV INSTITUTES A PREVENTIVE OR CORRECTIVE MEASURE AGAINST US PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW OR ANY SUCCESSOR PROVISIONS (INCLUDING THE CORRESPONDING RULES SET FORTH UNDER THE GENERAL RULES APPLICABLE TO MEXICAN BANKS), WHICH REQUIRES DEFERRING OR CANCELING PAYMENTS OF INTEREST AND PRINCIPAL OTHERWISE DUE ON THE NOTES IF WE ARE CLASSIFIED AS CLASS III (OR EQUIVALENT CLASSIFICATION UNDER SUCCESSOR PROVISIONS) OR BELOW UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS (A "MEXICAN REGULATORY EVENT.")

General Rules Applicable to Mexican Banks and their Application to Us

Article 121 of the Mexican Banking Law provides that in the exercise of its supervisory duties the CNBV, through general regulations approved by its Board of Governance, will classify banking institutions based on their compliance with the provisions of the Mexican Capitalization Requirements, which may take into account Capital Ratios that reflect the degree of stability and solvency of a bank.

Article 122 of the Mexican Banking Law provides that if a Mexican bank does not comply with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements, such bank must implement the corrective measures ordered by the CNBV, including:

(1) informing the bank's board of directors of its classification, based on the Capital Ratios thereof, and submit a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulations; the bank shall provide written notice to the general director and the chairman of the board of directors of the bank's regulated holding company (*sociedad controladora del grupo financiero*) with respect to such events and the status thereof;

(2) within a period not to exceed seven (7) Business Days, filing with the CNBV, for its approval, a capital recovery plan to increase the bank's Capital Ratios; the bank's capital recovery plan shall be approved by such bank's board of directors before it is submitted to the CNBV;

(3) suspending any payment of dividends to its shareholders, as well as any mechanism or act for the making of any distributions or the granting of any economic benefits to shareholders;

(4) suspending any share repurchase programs;

(5) deferring or canceling payment of interest and deferring or canceling the payment of principal on outstanding subordinated debt, as the case may be, or, if applicable, exchanging outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency if ordered by the CNBV; these corrective measures shall be applicable to subordinated debt considered part of the bank's Tier 1 Capital (*capital básico*) or Tier 2 Capital (*capital complimentario*); in the event that the bank issues subordinated debt, the bank is obligated to include in the documentation evidencing such debt, in the applicable Indenture and in the applicable offering document, that such deferral of payment of principal or deferral and cancellation of payments of interest, as the case may be, shall apply upon the occurrence of certain events as provided in the General Rules Applicable to Mexican Banks and that the implementation of such measures shall not be considered a default under the documents evidencing such debt;

(6) suspending payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the general director or any officer within the next two levels of seniority, and

suspending the granting of new benefits to the general director and the officers mentioned above until the bank complies with the minimum Capital Ratios set forth under the Mexican Capitalization Requirements;

(7) abstaining from increasing outstanding amounts of any loans granted to any person who is a related party of the bank; and

(8) any other corrective measures that, in each case, are provided by the General Rules Applicable to Mexican Banks.

Article 122 of the Mexican Banking Law further provides that:

(1) If a Mexican bank complies with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements but any of its Capital Ratios is not equal to or greater than the minimum Capital Ratios required to be satisfied for a bank not to be subject to any corrective measures, such bank must implement certain corrective measures ordered by the CNBV, including, among others, (A) informing the bank's board of directors of its classification, based on the Capital Ratios thereof and submitting a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulations including the principal regulatory ratios, that reflect the Bank's degree of stability and solvency (together with any determinations or indications made by any of the CNBV or *Banco de México*) and providing written notice to the general director and the chairman of the board of directors of the bank's regulated holding company (*sociedad controladora del grupo financiero*) with respect to such events and the status thereof; (B) abstaining from entering into any transaction that may decrease the bank's Capital Ratios below the Mexican Capitalization Requirements; and (C) any other corrective measures ordered by the CNBV.

(2) Regardless of the capitalization level, the CNBV may order the implementation of additional special corrective measures, including, among others: (1) requiring compliance with additional corrective measures that the bank will be required to carry out to avoid a decrease of its Capital Ratios; (2) special audits to be performed by special auditors in connection with specific matters; (3) abstaining from increasing the salaries and benefits of all officers and employees of the bank, except for any change in salary previously agreed on and subject to the officers' and employees' labor rights; (4) removing officers, directors, statutory auditors or external auditors or appointing any persons to such positions; or (5) any other measures ordered by the CNBV, based on its inspection and supervision authorities.

(3) Corrective measures will not be applicable to Mexican banks with a Capital Ratio equal to or greater than the minimum Capital Ratios required by the Mexican Capitalization Requirements.

The Mexican Banking Law and the General Rules Applicable to Mexican Banks classify Mexican banks in categories from I through V based on their capital ratios for Total Net Capital (*capital neto*), Tier 1 Capital (*capital básico*) and Fundamental Capital (*capital básico fundamental*); corrective measures are imposed based on such classification, starting at the time a bank is included in the category Class II.

Article 122 of the Mexican Banking Law specifies that if a bank does not satisfy the Capital Ratios pursuant to the Mexican Capitalization Requirements, the bank must implement the corrective measures ordered by the CNBV. Currently, the minimum Capital Ratios required to be classified as Class I are, including the capital supplement required to be equivalent to 2.5% of the bank's total risk weighted assets, pursuant to Section III(a) of Article 2 Bis 5 of the General Rules Applicable to Mexican Banks (the "Capital Conservation Buffer"): (i) 10.5% in the case of the Total Net Capital (*capital neto*), (ii) 8.5% in the case of Tier 1 Capital (*capital básico*) and (iii) 7.0% in the case of Fundamental Capital (*capital básico fundamental*), *plus*, in each case, any other applicable Capital Supplement.

If the minimum Capital Ratios to be classified as Class I are not satisfied, Mexican banks shall be classified as Class II, III, IV or V, as the case may be, according to the General Rules Applicable to Mexican Banks then in effect.

The General Rules Applicable to Mexican Banks, further provide that corrective measures applicable to Mexican banks classified in Class II, III, IV or V include, among others, requiring a bank to suspend or cancel payment of interest and defer or cancel 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, in the applicable indenture and in the applicable offering memorandum, that such suspension or cancellation of payment of interest and deferral or cancellation of payment of principal shall apply to subordinated debt in the event that a bank is classified in Class II, III, IV or V and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy, are required by the CNBV to constitute an additional capital supplement, as determined from time to time (the "Systemically Important Bank Capital Supplement"). The CNBV also has the authority to require a countercyclical capital supplement from any and all Mexican banks, designed to cover adverse economic cycles, in the event that the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy (the "Countercyclical Capital Supplement").

We were ratified as a grade IV bank of systemic importance by the CNBV on April 3, 2017. In May 2016, as a grade IV bank of systemic importance, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 1.50%. Also, an initial Countercyclical Capital Supplement of 0.00% was imposed. These Capital Supplements are required to be implemented by us in four annual steps, one fourth each December, starting in December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by us in four annual steps commencing December 31, 2016, the minimum Capital Ratios applicable to us as of the date hereof, including, in each case, the Capital Conservation Buffer, the Systemically Important Bank Capital Supplement and the Countercyclical Capital Supplement, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

Minimum Capital Ratios	**2016**	**2017**	**2018**	**2019**
(i) .... Total Net Capital (*capital neto*)........................	10.88%	11.25%	11.63%	12.00%
(ii) ... Tier 1 Capital (*capital básico*)..........................	8.88%	9.25%	9.63%	10.00%
(iii) .. Fundamental Capital (*capital básico fundamental*)	7.38%	7.75%	8.13%	8.50%

As of September 30, 2017, our Capital Ratios were (i) 14.58% in the case of Total Net Capital, (ii) 12.61% in the case of Tier 1 Capital and (iii) 12.05% in the case of Fundamental Capital. As of December 31, 2016, our Capital Ratios were (i) 13.73% in the case of Total Net Capital, (ii) 11.40% in the case of Tier 1 Capital, and (iii) 10.73% in the case of Fundamental Capital.

We are currently classified as Class I and, as a result, are not subject to any corrective measures.

Conclusion of a Suspension Period

Subject to the occurrence of one or more Write-Downs, a Suspension Period shall terminate and the payment of interest or principal due on the Notes thereof will resume:

(1) if such Suspension Period was triggered by a Capital Ratios Event, when the Capital Ratios Event has terminated; or

(2) if such Suspension Period was triggered by a Mexican Regulatory Event, when the Mexican Regulatory Event has terminated.

Further Provisions for Suspension Periods

Notwithstanding anything in this offering memorandum to the contrary, the occurrence or continuance of a Suspension Period shall not give rise to any Event of Default under the Indenture or the Notes.

We must give notice of any Suspension Period affecting the Notes to the holders via the applicable clearing system and to the Trustee in writing at least five Business Days prior to the earlier of (1) the date the interest due on the Notes would have been payable except for such Suspension Period and (2) the date the Trustee is required to give notice to any securities exchange or to holders of the Notes of the record date or the date such interest is payable but in any event not less than five Business Days prior to such record date. We must also give notice of the termination of any Suspension Period to the holders via the applicable clearing system and to the Trustee in writing not more than three Business Days after the Suspension Period is no longer in effect.

Unless all payable accrued interest and any Additional Amounts on the Notes have been paid or been cancelled pursuant to one or more Write-Downs, following termination of such Suspension Period we shall not:

(1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock (which includes common and preferred stock);

(2) make any payment of premium, if any, or interest on or repay, repurchase or redeem any of our debt securities that rank *pari passu* with or junior in right of payment and in liquidation to the Notes;

(3) to the extent any such guaranty is permitted under applicable law, make any guaranty payments with respect to any guaranty by us of the debt securities of any of our subsidiaries if such guaranty ranks *pari passu* with or junior in right of payment and in liquidation to the Notes; or

(4) take any other action in violation of any other order by CNBV, *Banco de México*, Ministry of Finance and Public Credit or any other relevant Mexican authority;

provided, *however*, that the foregoing shall not apply to the extent that we obtain prior regulatory approval for any action that would otherwise be prohibited.

Trigger Event and Write-Down

Trigger Event

A "TRIGGER EVENT" WILL BE DEEMED TO HAVE OCCURRED IF:

(I) THE CNBV PUBLISHES A DETERMINATION, IN ITS OFFICIAL PUBLICATION OF CAPITALIZATION LEVELS FOR MEXICAN BANKS, THAT OUR FUNDAMENTAL CAPITAL RATIO, AS CALCULATED PURSUANT TO THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS, IS EQUAL TO OR BELOW 4.5% (FOUR POINT FIVE PERCENT);

(II) BOTH (A) THE CNBV HAS NOTIFIED US THAT IT HAS MADE A DETERMINATION, PURSUANT TO ARTICLE 29 BIS OF THE MEXICAN BANKING LAW, THAT A CAUSE FOR REVOCATION OF OUR LICENSE HAS OCCURRED RESULTING FROM (X) OUR ASSETS BEING INSUFFICIENT TO SATISFY OUR LIABILITIES, (Y) OUR NON-COMPLIANCE WITH CORRECTIVE MEASURES IMPOSED BY THE CNBV PURSUANT TO THE MEXICAN BANKING LAW, OR (Z) OUR NON-COMPLIANCE WITH THE CAPITALIZATION REQUIREMENTS SET FORTH IN THE MEXICAN CAPITALIZATION REQUIREMENTS AND (B) WE HAVE NOT CURED SUCH CAUSE FOR REVOCATION, BY (a) COMPLYING WITH SUCH CORRECTIVE MEASURES, OR (b)(1) SUBMITTING A CAPITAL RESTORATION PLAN TO, AND RECEIVING APPROVAL OF SUCH PLAN BY, THE CNBV, (2) NOT BEING CLASSIFIED IN CLASS III, IV OR V, AND (3) TRANSFERRING AT LEAST 75% (SEVENTY FIVE PERCENT) OF OUR SHARES TO AN IRREVOCABLE TRUST, OR (c) REMEDYING ANY CAPITAL DEFICIENCY, IN EACH CASE, ON OR BEFORE THE THIRD OR SEVENTH BUSINESS DAY IN MEXICO, AS APPLICABLE, FOLLOWING THE DATE ON WHICH THE CNBV NOTIFIES US OF SUCH DETERMINATION; OR

(III) THE BANKING STABILITY COMMITTEE, WHICH IS A COMMITTEE FORMED BY THE CNBV, THE MINISTRY OF FINANCE AND PUBLIC CREDIT (*SECRETARÍA*

DE HACIENDA Y CRÉDITO PÚBLICO**), *BANCO DE MÉXICO*** **AND THE *INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO*** **OF MEXICO, DETERMINES PURSUANT TO ARTICLE 29 BIS 6 OF THE MEXICAN BANKING LAW THAT, UNDER ARTICLE 148, SECTION II, PARAGRAPHS (A) AND (B) OF THE MEXICAN BANKING LAW, FINANCIAL ASSISTANCE IS REQUIRED BY US TO AVOID REVOCATION OF OUR LICENSE BECAUSE OUR ASSETS ARE INSUFFICIENT TO SATISFY OUR LIABILITIES, OR OUR FAILURE TO COMPLY WITH CORRECTIVE MEASURES, TO COMPLY WITH CAPITALIZATION REQUIREMENTS, OR TO SATISFY CERTAIN LIABILITIES WHEN DUE, AS A MEANS TO MAINTAIN THE SOLVENCY OF THE MEXICAN FINANCIAL SYSTEM OR TO AVOID RISKS AFFECTING THE MEXICAN PAYMENTS SYSTEM AND SUCH DETERMINATION IS EITHER MADE PUBLIC OR NOTIFIED TO US (FOR THE AVOIDANCE OF DOUBT, PURSUANT TO ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS, A TRIGGER EVENT SHALL OCCUR IF FINANCIAL ASSISTANCE OR OTHER LOANS SHALL BE GRANTED TO THE BANK PURSUANT TO ARTICLE 148, SECTION II, PARAGRAPHS (A) AND (B) OF THE MEXICAN BANKING LAW).**

Write-Down

IF A TRIGGER EVENT OCCURS, THE FOLLOWING WRITE-DOWNS SHALL BE DEEMED TO HAVE OCCURRED ON THE WRITE-DOWN DATE (AS DEFINED BELOW), AUTOMATICALLY AND WITHOUT ANY ADDITIONAL ACTION BY US, THE TRUSTEE OR THE HOLDERS OF THE NOTES:

(I) THE CURRENT PRINCIPAL AMOUNT OF THE NOTES WILL AUTOMATICALLY BE REDUCED BY ONE OR MORE WRITE-DOWNS BY EACH APPLICABLE WRITE-DOWN AMOUNT (AS DEFINED BELOW) AND SUCH WRITE-DOWN SHALL NOT CONSTITUTE AN EVENT OF DEFAULT; AND

(II) ANY HOLDER OF NOTES WILL AUTOMATICALLY BE DEEMED TO HAVE IRREVOCABLY WAIVED ITS RIGHT TO CLAIM OR RECEIVE, AND WILL NOT HAVE ANY RIGHTS AGAINST US OR THE TRUSTEE WITH RESPECT TO, REPAYMENT OF, THE WRITTEN-DOWN PRINCIPAL OF THE NOTES OR ANY INTEREST WITH RESPECT THERETO (OR ADDITIONAL AMOUNTS PAYABLE IN CONNECTION THEREWITH), INCLUDING ANY AND ALL ACCRUED AND UNPAID INTEREST WITH RESPECT TO SUCH WRITTEN-DOWN PRINCIPAL AS OF THE WRITE-DOWN DATE, IRRESPECTIVE OF WHETHER SUCH AMOUNTS HAVE BECOME DUE AND PAYABLE PRIOR TO THE DATE ON WHICH THE TRIGGER EVENT SHALL HAVE OCCURRED.

WE SHALL PROVIDE NOTICE TO HOLDERS VIA THE APPLICABLE CLEARING SYSTEM AS WELL AS WRITTEN NOTICE TO THE TRUSTEE (A "WRITE-DOWN NOTICE") THAT A TRIGGER EVENT HAS OCCURRED NOT LATER THAN THE NEXT BUSINESS DAY SUCCEEDING SUCH TRIGGER EVENT. ANY WRITE-DOWN NOTICE TO THE TRUSTEE MUST BE IN WRITING AND ACCOMPANIED BY A CERTIFICATE SIGNED BY TWO OFFICERS OF OURS STATING THAT A TRIGGER EVENT HAS OCCURRED AND SETTING OUT THE METHOD OF CALCULATION OF THE RELEVANT WRITE-DOWN AMOUNT.

"WRITE-DOWN AMOUNT" MEANS AN (I) AMOUNT OF THE THEN CURRENT PRINCIPAL AMOUNT OF THE NOTES THAT WOULD BE SUFFICIENT, TOGETHER WITH ANY CONCURRENT *PRO RATA* WRITE DOWN OF ANY OTHER LOSS-ABSORBING INSTRUMENTS ISSUED BY US AND THEN OUTSTANDING, TO RETURN OUR FUNDAMENTAL CAPITAL RATIO TO THE LEVELS OF THEN-APPLICABLE FUNDAMENTAL CAPITAL RATIO REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IX, B) OF ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM IS, INCLUDING THE CAPITAL CONSERVATION BUFFER OF 2.5%, 7% (SEVEN PERCENT) (PLUS THE AMOUNT REQUIRED TO RESTORE ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT AND ANY SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT

TO THE MINIMUM AMOUNTS REQUIRED UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS ON SUCH WRITE-DOWN DATE; OR (II) IF ANY WRITE-DOWN OF THE CURRENT PRINCIPAL AMOUNT, TOGETHER WITH ANY CONCURRENT *PRO RATA* WRITE DOWN OF ANY OTHER LOSS-ABSORBING INSTRUMENTS ISSUED BY US AND THEN OUTSTANDING, WOULD BE INSUFFICIENT TO RETURN OUR FUNDAMENTAL CAPITAL RATIO TO THE AFOREMENTIONED AMOUNT DESCRIBED IN CLAUSE (I) ABOVE, THEN THE AMOUNT NECESSARY TO REDUCE THE CURRENT PRINCIPAL AMOUNT OF EACH OUTSTANDING NOTE TO ZERO.

"WRITE-DOWN DATE" MEANS THE DATE ON WHICH A WRITE-DOWN WILL BE DEEMED TO TAKE EFFECT, WHICH SHALL BE THE NEXT BUSINESS DAY SUCCEEDING THE DATE OF THE TRIGGER EVENT.

"WRITTEN-DOWN PRINCIPAL" MEANS THE AMOUNT BY WHICH THE PRINCIPAL OF ANY NOTE HAS BEEN WRITTEN DOWN BY ANY ONE OR MORE WRITE-DOWNS.

AS REQUIRED UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS, A FULL WRITE-DOWN (WHEREBY THE PRINCIPAL AMOUNT OF THE NOTES HAS BEEN WRITTEN DOWN TO ZERO) SHALL BE COMPLETED BEFORE ANY PUBLIC FUNDS ARE CONTRIBUTED OR ANY PUBLIC ASSISTANCE IS PROVIDED TO US IN THE TERMS OF ARTICLE 148, SECTION II, SUBSECTIONS A) AND B) OF THE MEXICAN BANKING LAW, INCLUDING, AMONG OTHERS IN THE FORM OF (I) SUBSCRIPTION OF SHARES, (II) GRANTING OF LOANS, (III) PAYMENT OF OUR LIABILITIES, (IV) GRANTING OF GUARANTIES AND (V) THE TRANSFER OF ASSETS AND LIABILITIES.

Subordination

The Indenture for the Notes provides that the Notes constitute Subordinated Preferred Indebtedness (*obligaciones subordinadas preferentes*), (i) will rank junior to all of our present and future Senior Indebtedness, (ii) will rank *pari passu* with all other present or future Subordinated Preferred Indebtedness and (iii) will be senior to unsecured Subordinated Non-Preferred Indebtedness (*obligaciones subordinadas no preferentes*) and all classes of our capital stock. No payment of premium, if any, or interest on the Notes may be made at any time when (1) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (2) the maturity of any Senior Indebtedness has been accelerated because of a default.

In the event of the acceleration of the maturity of the Notes due to our insolvency or liquidation and upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *liquidación or resolución* or similar proceedings in connection with our insolvency or bankruptcy, (1) all principal, premium, if any, and interest due or to become due on all Senior Indebtedness must be paid in full before the holders of Subordinated Preferred Indebtedness (including the Notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of unsecured Subordinated Preferred Indebtedness (including the Notes) will be entitled to receive *pari passu* among themselves any payment in respect thereof. The Notes and all other Subordinated Preferred Indebtedness will be senior to our Subordinated Non-Preferred Indebtedness and all classes of our capital stock.

Definitions

For the purposes of the Notes:

(1) The term "Senior Indebtedness" is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness (including the Notes) or Subordinated Non-Preferred Indebtedness, and any deferrals, renewals or extensions of such Senior Indebtedness;

(2) The term "Subordinated Preferred Indebtedness" (including the Notes) is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of

the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness, but is senior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness and all classes of our capital stock, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;

(3) The term "Subordinated Non-Preferred Indebtedness" is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness and Subordinated Preferred Indebtedness, but is senior in right of payment and in liquidation to all classes of our capital stock, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness; and

(4) The term "Indebtedness for Money Borrowed" is defined in the Indenture to mean any obligation of, or any obligation guaranteed by us (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures or other written instruments, but shall not include (a) any trade accounts payable in the ordinary course of business, (b) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness, (c) indebtedness to any of our employees, (d) our indebtedness which, when incurred, was without recourse to us, and (e) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks *pari passu* with or junior in right of payment and in liquidation to any of the indebtedness described in clause (a) or (b) above.

Redemption

Optional Redemption

WE HAVE THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES ON THE OPTIONAL CALL DATE ONLY, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) OR IN PART, AT PAR PLUS ACCRUED AND UNPAID INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION (AN "OPTIONAL REDEMPTION").

WE MAY REDEEM THE NOTES ONLY IF (I) WE ARE THEN IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, WE MAINTAIN EACH OF OUR CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), AND (Z) 7% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*) PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR WE ISSUE SECURITIES THAT REPLACE THE NOTES SUCH THAT WE REMAIN IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) WE HAVE OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE; *PROVIDED*, *HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, OR A SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED, THEN WE SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR OPTIONAL REDEMPTION.

IN THE EVENT OF SUCH AN OPTIONAL REDEMPTION, WE ARE REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. OUR OBLIGATION TO OBTAIN *BANCO DE MÉXICO'S* AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE

OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.

Withholding Tax Redemption

WE HAVE THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME PRIOR TO THE MATURITY DATE, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION, UPON THE OCCURRENCE OF A WITHHOLDING TAX EVENT (AS DEFINED BELOW) AFFECTING THE NOTES (A "WITHHOLDING TAX REDEMPTION"); *PROVIDED*, *HOWEVER*, THAT IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, (I) WE SHALL BE IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE WITHHOLDING TAX REDEMPTION, WE MAINTAIN EACH OF OUR CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), AND (Z) 7% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*) PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR WE ISSUE SECURITIES THAT REPLACE THE NOTES SUCH THAT WE REMAIN IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) WE HAVE OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE; *PROVIDED*, *HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, OR A SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED, THEN WE SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR WITHHOLDING TAX REDEMPTION.

IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, WE ARE REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. OUR OBLIGATION TO OBTAIN *BANCO DE MÉXICO'S* AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.

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 ANY ANNOUNCED PROSPECTIVE CHANGE) IN THE LAWS OR TREATIES (OR ANY RULES OR REGULATIONS THEREUNDER) OF ANY RELEVANT JURISDICTION AFFECTING TAXATION, (B) ANY JUDICIAL DECISION, OFFICIAL 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 OR WITH RESPECT TO ANY JURISDICTION OTHER THAN MEXICO, AFTER SUCH JURISDICTION HAS BECOME A RELEVANT JURISDICTION, (COLLECTIVELY, A "CHANGE IN

TAX LAW"), THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT WE ARE OR WILL BE LIABLE FOR MORE THAN A *DE MINIMIS* PAYMENT OF ADDITIONAL AMOUNTS IN RESPECT OF THE NOTES IN EXCESS OF THE GROSS AMOUNT OF ADDITIONAL AMOUNTS PAYABLE IN RESPECT OF THE NOTES PRIOR TO SUCH CHANGE IN TAX LAW AND (II) THE DELIVERY TO THE TRUSTEE OF AN OFFICER'S CERTIFICATE 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).

Special Event Redemption

WE ALSO HAVE THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME PRIOR TO THE MATURITY DATE, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY, UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION, UPON THE OCCURRENCE OF A SPECIAL EVENT (AS DEFINED BELOW) AFFECTING THE NOTES) (A "SPECIAL EVENT REDEMPTION"); *PROVIDED*, *HOWEVER*, IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION WITH RESPECT TO THE NOTES, (I) WE SHALL BE IN COMPLIANCE WITH APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, WE MAINTAIN EACH OF OUR CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), AND (Z) 7% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*) PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR WE ISSUE SECURITIES THAT REPLACE THE NOTES SUCH THAT WE REMAIN IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) WE HAVE OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE; *PROVIDED*, *HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, OR A SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED, THEN WE SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR SPECIAL EVENT REDEMPTION.

IN THE EVENT OF SUCH A SPECIAL EVENT REDEMPTION, WE ARE REQUIRED TO OBTAIN THE AUTHORIZATION OF *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE. OUR OBLIGATION TO OBTAIN *BANCO DE MÉXICO'S* AUTHORIZATION TO REDEEM THE NOTES SHALL NOT GRANT ANY RIGHTS TO THE TRUSTEE OR THE HOLDERS OF THE NOTES TO HAVE THE NOTES REDEEMED, EVEN IF SUCH AUTHORIZATION IS OBTAINED.

FOR THE PURPOSES OF THE FOREGOING:

(1) THE TERM "SPECIAL EVENT" IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN A CAPITAL EVENT OR A TAX EVENT (BOTH AS DEFINED BELOW);

(2) THE TERM "CAPITAL EVENT" IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN THE REASONABLE DETERMINATION BY US THAT, AS A RESULT OF (A) THE OCCURRENCE OF ANY AMENDMENT TO OR CHANGE IN THE LAWS OR ANY REGULATIONS THEREUNDER OF MEXICO OR (B) ANY OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OR JUDICIAL DECISION INTERPRETING OR APPLYING THESE LAWS OR REGULATIONS, WHICH AMENDMENT OR CHANGE IS EFFECTIVE OR WHICH PRONOUNCEMENT OR DECISION IS ANNOUNCED ON OR AFTER THE ISSUE DATE, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT WE WILL NOT

BE ENTITLED TO TREAT THE NOTES AS TIER 2 CAPITAL, OR THE THEN EQUIVALENT OF TIER 2 CAPITAL FOR PURPOSES OF THE RULES FOR CAPITALIZATION AND MEXICAN CAPITALIZATION REQUIREMENTS, AS THEN IN EFFECT AND APPLICABLE TO US;

(3) THE TERM "TAX EVENT" IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN THE RECEIPT BY US OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF A CHANGE IN TAX LAW, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT INTEREST PAYABLE BY US ON THE NOTES IS NOT OR WILL NOT BE DEDUCTIBLE BY US IN WHOLE OR IN PART FOR MEXICAN INCOME TAX PURPOSES.

Redemption Procedures

IF WE GIVE A NOTICE OF AN OPTIONAL REDEMPTION, WITHHOLDING TAX REDEMPTION OR SPECIAL EVENT REDEMPTION IN RESPECT OF THE NOTES, IN ACCORDANCE WITH THE INDENTURE BY 12:00 P.M., 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 THE DEPOSITORY TRUST COMPANY ("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" BELOW. 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 WITH RESPECT TO THE PORTION OF NOTES BEING SO REDEEMED, 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 SO REDEEMED 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 REDEMPTION 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.

IF WE HAVE DELIVERED A NOTICE OF AN OPTIONAL REDEMPTION, WITHHOLDING TAX REDEMPTION OR SPECIAL EVENT REDEMPTION IN RESPECT OF THE NOTES, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO ANY SUCH REDEMPTION, (X) A TRIGGER EVENT HAS OCCURRED OR A SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED; (Y) *BANCO DE MÉXICO* HAS REFUSED TO APPROVE THE REDEMPTION; OR (Z) WE ARE NOT IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS OR ANY ALTERNATIVE OR ADDITIONAL PRE-CONDITIONS REQUIRED BY *BANCO DE MÉXICO* AS A PREREQUISITE TO ITS PERMISSION FOR ANY SUCH REDEMPTION, SUCH NOTICE OF REDEMPTION SHALL BE RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE; PROVIDED HOWEVER THAT PURSUANT TO THE INDENTURE, WE WILL BE

REQUIRED TO GIVE NOTICE OF SUCH RESCISSION TO THE HOLDERS OF THE NOTES IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN "—NOTICES" BELOW AND TO THE TRUSTEE IN WRITING.

IN THE EVENT OF A PARTIAL OPTIONAL PREPAYMENT OF THE NOTES, THE NOTES TO BE REDEEMED THAT ARE NOT HELD THROUGH DTC SHALL 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 SHALL BE SELECTED BY DTC IN ACCORDANCE WITH ITS PROCEDURES.

WE SHALL DELIVER NOTICE OF ANY REDEMPTION TO THE TRUSTEE AT LEAST 40 DAYS PRIOR TO THE APPLICABLE REDEMPTION DATE. THE TRUSTEE SHALL, UPON OUR REQUEST, IN TURN GIVE NOTICE OF ANY SUCH REDEMPTION 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 the Notes are outstanding, we will furnish to the Trustee, who will in turn furnish to the holders of such Notes:

(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 ("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, (ii) the English version of our annual financial statements and (iii) our annual financial information included in the English version of our annual report as provided to our shareholders, and

(b) 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 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) our quarterly financial information included in the English version of our quarterly report as provided to our shareholders;

provided that any such information or reports will be deemed to have been delivered to the holders of the Notes and the Trustee on the date any such information or reports is posted by us on our website as long as the Trustee has been notified in writing, who in turn will notify the holders of the Notes, that such information has been posted on our website.

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, 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.

Events of Default, Notice and Waiver

An Event of Default is defined in the Indenture as:

- a default in the payment of interest or Additional Amounts, if applicable, due and payable in respect of any of the Notes, unless such payment of interest or Additional Amounts is deferred as a result of a Suspension Period, and such default continues for a period of 30 calendar days;

- a default in the timely payment of the principal due and payable of the Notes, as applicable under the Indenture, other than during a Suspension Period;

- a payment by us, during a Suspension Period, of dividends or other distributions in respect of our capital stock; or

- certain events involving our liquidation (including *liquidación* or *resolución*) or dissolution.

For the avoidance of doubt, the occurrence of one or more Write-Downs shall not constitute an Event of Default.

The payment of the principal of the Notes or interest accrued and unpaid thereon may be accelerated only upon the occurrence of an Event of Default described in the last bullet point above, referred to as a "Liquidation Event of Default." There is no right of acceleration of the payment of principal or accrued and unpaid interest of the Notes upon the occurrence of any of the other Events of Default noted above, including a default in the payment of principal or interest. If payment of the principal of the Notes or accrued and unpaid interest is accelerated, we shall promptly notify holders of our Senior Indebtedness of the acceleration. If an Event of Default occurs under the Indenture and is continuing, the Trustee may pursue any available remedy (excluding acceleration, except as provided above) under the Indenture to collect the payment of due and unpaid principal of and interest on the Notes, or to enforce the performance of any provision of the Notes or the Indenture.

If and only if a Liquidation Event of Default occurs and is continuing, the Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any holder of the Notes. The Notes will become immediately due and payable at their Current Principal Amount together with accrued and unpaid interest up to (but excluding) the date on which the Liquidation Event of Default occurs, without further action by any person. For the avoidance of doubt, no Capital Ratios Event or Mexican Regulatory Event will constitute a Liquidation Event of Default, nor during a Suspension Period in respect of the Notes will a deferral in the payment of interest or principal on the Notes, as applicable, entitle the holders of the Notes to accelerate the payment of principal or accrued and unpaid interest of the Notes. In the event of a Liquidation Event of Default, holders of the Notes may not be able to collect the full amount payable under the Notes and other bankruptcy rules may affect the timing or amount paid to holders of the Notes. In addition, holders of the Notes may have no enforcement remedies for an Event of Default upon the occurrence of a Trigger Event and resulting Write-Down. See "Risk Factors—If we do not satisfy our obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited."

Holders may not enforce the Indenture or the Notes except as provided in the Indenture. The holder of any Note, however, will have the right to receive payment of the principal of and interest on that Note on or after the due dates, Redemption Dates or Maturity Date expressed in the Indenture or such Note and, subject to one or more Write-Downs and the deferral provisions set forth in the Note and the Indenture and certain other limitations and conditions, to institute a lawsuit for the enforcement of any such payment on or after such respective dates. The Trustee may refuse to enforce any of the provisions of the Indenture or the Notes unless it receives indemnity or security satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the outstanding Notes may direct the Trustee under the Indenture in its exercise of any trust or power in respect thereof. The Trustee may withhold from holders notice of any continuing Event of Default (except a default in payment of principal or interest) if the Trustee in good faith determines that withholding notice is in their interest.

Under the Indenture, we must furnish the Trustee annually with a statement regarding any default in the performance of our obligations thereunder.

Modification of Indenture; Waiver of Covenants

Subject to authorization by *Banco de México*, we and the Trustee may amend, waive or supplement each of the Indenture or the Notes without notice to or consent of any holder 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 the Notes" and to make any change that does not adversely affect the rights of any relevant holder in any material respect. In addition, subject to authorization by *Banco de México* and the approval by 75% of the members of our Board of Directors as provided by the Mexican Banking Law, 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 (except in the case of one or more Write-Downs);
- 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;
- 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; or
- modify the subordination provisions relating to the Notes in any manner adverse to the holders of the Notes.

The holders of a majority in aggregate principal amount of the outstanding (as defined in the Indenture) 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, Sale or Transfer of Assets

We may not, without the consent of holders of at least 66 2/3% in aggregate principal amount of the outstanding Notes, consolidate with or merge into, or convey or transfer, in one transaction or a series of transactions, all or substantially all of our properties and assets to any person, unless:

(1) the resulting entity, if other than us, is organized and existing under the law of Mexico and, by execution of a supplemental indenture delivered to the Trustee, assumes all of our obligations to:

(x) pay the principal of, and interest on, the Notes; and

(y) perform and observe all of our other obligations under the Indenture; and

(2) we are, or any successor entity is, as the case may be, not, immediately after any such transaction, in default under the Indenture.

Restrictions Applicable to Mexican Financial Institutions

Unless otherwise permitted by applicable law, the Indenture will provide that the Notes (i) may not constitute collateral granted in favor of Mexican credit institutions (*instituciones de crédito*) including us and (ii) may not be directly or indirectly acquired by us for our own account by any person controlled by us, or by any of the following entities:

(a) Mexican financial entities (*entidades financieras*) of any kind that acquire the Notes for their own accounts except for (1) investment companies that invest in debt and variable yield instruments (*fondos de inversión en instrumentos de deuda y de renta variable*), (2) securities brokers (*casas de bolsa)* that acquire the Notes for placement with investors, and (3) insurance companies (*instituciones y sociedades mutualistas de seguros*) and bonding companies (*instituciones de fianzas*) to the extent they acquire the Notes to invest their technical reserves; *provided*, *however*, that the exceptions referred to in (1), (2) and (3) of this paragraph shall not apply to (x) investment companies in which we or any other entity that forms part of our financial group (*grupo financiero*) holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of our financial group (*grupo financiero*);

(b) Mexican or non-Mexican entities with respect to which we (1) own voting stock representing at least 51 percent of their outstanding paid-in capital, (2) have control of the shareholders' meetings of such entity, as such term is defined in the Mexican Securities Market Law or (3) are in a position to appoint the majority of the members of such entity's board of directors;

(c) Mexican pension or retirement funds if managed by us or another entity that forms part of our financial group (*grupo financiero*); and

(d) We or another entity that forms part of our financial group (*grupo financiero*) acting in its capacity of trustee, representative, agent or attorney-in-fact if, by acting in such capacity, it has discretionary investment authority; *provided*, *however*, that any Mexican financial entity or Mexican pension or retirement fund that is not otherwise prevented from investing in the Notes may acquire, together with any other such entity that is an affiliate or that forms part of the same financial group on a collective basis, up to 10% of the aggregate principal amount of the outstanding Notes.

Notices

Notice to holders of the Notes if they are global Notes will be given in accordance with the procedures of the applicable clearing system; if they are certificated Notes notice to holders will be given by mail to the addresses of such holders as they appear in the security register.

Book-Entry System

The Notes will be initially represented by one or more Global Notes.

The Global Notes representing the Notes will be issued in the form of one or more registered notes in global form, without interest coupons and will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes are being 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 transferor 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 of the beneficial interest in the form provided in the Indenture 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 144 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, any paying agents, transfer agents or registrars 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 represented by that Global Note has occurred and is continuing.

- 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.

Listing

Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.

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, 7 East, New York, NY 10286, Attention: Global Finance Americas - BBVA Bancomer S.A. The Trustee also will initially act as registrar, paying agent, transfer agent and 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 Indenture. 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 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 aggregate principal amount of the 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. WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR A CAPITAL RATIOS EVENT OR A MEXICAN REGULATORY EVENT (LEADING TO A SUSPENSION PERIOD) HAS OCCURRED IS BASED UPON A DETERMINATION BY THE APPLICABLE MEXICAN REGULATOR, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). WHETHER A WITHHOLDING TAX EVENT OR A TAX EVENT HAS OCCURRED IS BASED UPON A DETERMINATION IN ACCORDANCE WITH MEXICAN LAW (OR OTHER APPLICABLE LAW IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A JURISDICTION OTHER THAN MEXICO), AS AMENDED FROM TIME TO TIME, EVIDENCED BY AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM AND, IF REQUIRED, A CERTIFICATION BY US. WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY US, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE RANKING AND SUBORDINATION OF THE NOTES, WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, MEXICAN LAW (AS AMENDED FROM TIME TO TIME). WE WILL WAIVE ANY RIGHTS WE MAY HAVE UNDER THE LAW OF THE STATE OF NEW YORK NOT TO GIVE EFFECT TO ANY SUCH DETERMINATION TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW. ANY PROCEEDINGS IN RESPECT OF OUR *LIQUIDACIÓN OR RESOLUCIÓN* WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AND ANY MERGER OR CONSOLIDATION SHALL BE SUBJECT TO APPLICABLE APPROVALS UNDER THE MEXICAN BANKING LAW AND ANY OTHER APPLICABLE MEXICAN LAWS, AS AMENDED FROM TIME TO TIME.

WE WILL CONSENT TO THE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK, BOROUGH OF MANHATTAN, COUNTY OF NEW YORK, OR THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND WILL AGREE THAT ALL DISPUTES UNDER THE INDENTURE AND THE NOTES 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 AND THE NOTES 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 AND THE NOTES 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, if a judgment or order made by any court for the payment of any amount in respect of the Indenture or any Notes is expressed in a currency other than U.S. dollars, we will indemnify the relevant recipient 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, defaced, 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.

TRANSFER RESTRICTIONS

General

The notes have not been registered, and will not be registered, under the Securities Act or any state securities laws, and the notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the notes are being offered and sold only:

- to QIBs (as defined in Rule 144A) pursuant to Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Regulation S under the Securities Act.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of notes and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

1) it is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a QIB and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;

2) it acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any state and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

3) it understands and agrees that notes initially offered to QIBs will be represented by a global note and that notes offered outside the United States pursuant to Regulation S will also be represented by a global note;

4) it will not resell or otherwise transfer any of such notes except (a) to the Issuer or any of our subsidiaries, (b) within the United States to a QIB in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States and other jurisdictions;

5) it agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;

6) it acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture, including with respect to notes sold or transferred pursuant to Rule 144A or Regulation S;

7) it acknowledges that the trustee, registrar or transfer agent for the notes may not be required to accept for registration or transfer of any notes acquired by it, except upon presentation of evidence satisfactory to the Issuer that the restrictions set forth herein have been complied with;

8) it acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify the Issuer and the initial purchasers; and

9) if it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

10) if it is (1)(i) a pension, profit-sharing or other employee benefit plan subject to ERISA, (ii) a plan or arrangement subject to Section 4975 of the Code, (iii) an entity whose underlying assets are deemed to be the assets of any such employee benefit plan, plan or arrangement or (iv) an employee benefit plan or arrangement subject to provisions under any other federal, state, local, non-U.S. or other laws or regulations that are substantially similar to the provisions of ERISA or Section 4975 of the Code or (2) a person acting on behalf of or with the assets of any such employee benefit plan, plan, arrangement or entity, then such purchase, holding and disposition of the notes is (a) covered by the exemptive relief provided by (i) Prohibited Transaction Class Exemption ("PTCE") 96-23, 95-60, 91-38, 90-1 or 84-14, (ii) Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or (iii) another applicable statutory or administrative exemption and (b) not a violation of any applicable federal, state, local or non-US law that is substantially similar to ERISA or Section 4975 of the Code.

11) if it is (i) a pension, profit-sharing or other employee benefit plan subject to ERISA, (ii) a plan or arrangement subject to Section 4975 of the Code, (iii) an entity whose underlying assets are deemed to be the assets of any such employee benefit plan, plan or arrangement each, a "Plan"), including if a fiduciary is purchasing the Notes on behalf of a Plan or who represents a Plan with respect to such purchase, it will be deemed to have represented by the purchase of the Notes that: (1) none of the Transaction Parties has provided or will provide advice with respect to the acquisition of the Notes by the Plan; (2) with respect to the purchase of the Notes, the Plan is represented by a fiduciary (the "Plan Fiduciary") that either: (a) is a bank as defined in Section 202 of the Investment Advisers Act of 1940 (the "Advisers Act"), or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency; (b) is an insurance carrier which is qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of assets of a Plan; (c) is an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the state in which it maintains its principal office and place of business; (d) is a broker-dealer registered under the Exchange Act, as amended; or (e) has, and at all times that the Plan is invested in the Notes will have, total assets of at least U.S. $50,000,000 under its management or control (provided that this clause (e) shall not be satisfied if the Plan Fiduciary is either (i) the owner or a relative of the owner of an investing individual retirement account or (ii) a participant or beneficiary of the Plan investing in the Notes in such capacity); (3) the Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition by the Plan of the Notes; (4) the Plan Fiduciary is a "fiduciary" with respect to the Plan within the meaning of Section 3(21) of ERISA, Section 4975 of the Code, or both, is "independent" within the meaning of the Department of Labor's Regulation Section 29 C.F.R. § 2510.3-21(c) and is responsible for exercising independent judgment in evaluating the Plan's acquisition of the Notes; (5) none of the Transaction Parties has exercised any authority to cause the Plan to invest in the Notes or to negotiate the terms of the Plan's investment in the Notes; and (6) the Plan Fiduciary has been informed by the Transaction Parties: (a) that none of the Transaction Parties is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with the Plan's acquisition of the Notes; (b) of the existence and nature of the Transaction Parties financial interests in the Plan's acquisition of the Notes; and (c) that none of the Transaction Parties receives a fee or other compensation from the Plan for the provision of investment advice with respect to the purchase of the Notes.

Legends

The following is the form of restrictive legend which will appear on the face of the Restricted Global Note and which will be used to notify transferees of the foregoing restrictions on transfer. This legend will only be removed with our consent. If we so consent, it will be deemed to be removed.

THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE

> OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE BANK THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A)(I) TO THE BANK OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.
>
> THIS LEGEND MAY ONLY BE REMOVED AT THE OPTION OF THE BANK.
>
> PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE (2)(A)(V) ABOVE, THE BANK RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS, OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The following is the form of restrictive legend which will appear on the face of the Regulation S Global Note and which will be used to notify transferees of the foregoing restrictions on transfer:

> THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")), THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON, EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE. THE TERMS "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.

The following is the form of Mexican restrictive legend which will appear on the face of the Restricted Global Note and the Regulation S Global Notes and which will be used to notify transferees of the foregoing restrictions on transfer.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*) MAINTAINED BY THE 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 PURSUANT TO A PRIVATE PLACEMENT EXEMPTION SET FORTH UNDER ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*). AS REQUIRED UNDER THE MEXICAN SECURITIES MARKET LAW, THE BANK 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.

If you are a Plan, including if you are a fiduciary purchasing the Notes on behalf of a Plan or who represents a Plan with respect to such purchase, you will be deemed to have represented by your purchase of the Notes that: (1) none of the Transaction Parties has provided or will provide advice with respect to the acquisition of the Notes by the Plan; (2) with respect to the purchase of the Notes, the Plan is represented by a fiduciary (the "Plan Fiduciary") that either: (a) is a bank as defined in Section 202 of the Investment Advisers Act of 1940 (the "Advisers Act"), or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency; (b) is an insurance carrier which is qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of assets of a Plan; (c) is an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the state in which it maintains its principal office and place of business; (d) is a broker-dealer registered under the Exchange Act, as amended; or (e) has, and at all times that the Plan is invested in the Notes will have, total assets of at least U.S. $50,000,000 under its management or control (provided that this clause (2) shall not be satisfied if the Plan Fiduciary is either (i) the owner or a relative of the owner of an investing individual retirement account or (ii) a participant or beneficiary of the Plan investing in the Notes in such capacity); (3) the Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition by the Plan of the Notes; (4) the Plan Fiduciary is a "fiduciary" with respect to the Plan within the meaning of Section 3(21) of ERISA, Section 4975 of the Code, or both, is "independent" within the meaning of the Department of Labor's Regulation 29 C.F.R. § 2510.3-21(c) and is responsible for exercising independent judgment in evaluating the Plan's acquisition of the Notes; (5) none of the Transaction Parties has exercised any authority to cause the Plan to invest in the Notes or to negotiate the terms of the Plan's investment in the Notes; and (6) the Plan Fiduciary has been informed by the Transaction Parties: (a) that none of the Transaction Parties is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with the Plan's acquisition of the Notes; (b) of the existence and nature of the Transaction Parties financial interests in the Plan's acquisition of the Notes; and (c) that none of the Transaction Parties receives a fee or other compensation from the Plan for the provision of investment advice with respect to the purchase of the Notes. The above representations in this paragraph are intended to comply with the Department of Labor's Regulation Sections 29 C.F.R. 2510.3-21(a) and (c)(1) as promulgated on April 8, 2016 (81 Fed. Reg. 20,997). If these regulations are revoked, repealed or no longer effective, the representations in this paragraph that are responsive to such Sections of the Department of Labor's Regulation will be deemed to not be in effect.

Restrictions on marketing and sales to retail investors in the European Economic Area

The Notes described in this offering memorandum are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority (the "FCA") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 which took effect from October 1, 2015 (the "PI Instrument"). Under the rules set out in the PI Instrument (as amended or replaced from time to time, the "PI Rules"); (i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Notes, must not be sold to retail clients in the EEA; and (ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.

The initial purchasers are subject to, and required to comply with, the PI Rules, or, if not subject to the PI Rules, they will comply with them as if they were subject to the PI Rules. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the initial purchasers, you represent, warrant, agree with and undertake to the Issuer and each of the initial purchasers that:

1) you are not a retail client in the EEA (as defined in the PI Rules);

2) whether or not you are subject to the PI Rules, you will not (a) sell or offer the Notes (or any beneficial interests therein) to retail clients in the EEA or (b) communicate (including the distribution of this offering memorandum or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules), in any such case other than (i) in relation to any sale or offer to sell the Notes (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell the Notes (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (x) you have conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Notes (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Notes (or such beneficial interests therein) and (y) you have at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("MiFID") to the extent it applies to you or, to the extent MiFID does not apply to you, in a manner which would be in compliance with MiFID if it were to apply to you; and

3) you will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the initial purchasers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

TAXATION

Certain United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a beneficial owner of the Notes that is a citizen or resident of the United States, a domestic corporation or is otherwise subject to U.S. federal income tax on a net result basis in respect of the Notes (a "United States holder"), as well as certain considerations (described in "—*Information Reporting and Backup Withholding*" and "—*FATCA*" below) relevant to a holder of a Note that is not a United States holder. 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 the Notes. In particular, the summary deals only with holders that will acquire Notes as part of the initial offering at their issue price and will hold them as capital assets. It does not address all aspects of the tax treatment of holders that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, tax-exempt entities, financial institutions, traders in securities that elect to use the mark-to-market method of accounting for their securities, partnerships that hold the Notes or partners therein, non-U.S. persons who are individuals present in the United States for 183 days or more within a taxable year, persons that own (directly or by attribution) 10 percent or more of our voting stock, or persons that hedge their exposure in our securities or will hold the Notes as a position in a "straddle" or "conversion" transaction or as part of a "synthetic security" or other integrated financial transaction. Moreover, this discussion does not address any tax consequences relating to the alternative minimum tax or the Medicare tax on investment income or any tax consequences other than U.S. federal income tax consequences (such as the estate or gift tax).

This summary is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, in each case as of the date hereof, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein, possibly with retroactive effect. No ruling is being requested from the U.S. Internal Revenue Service (the "IRS") and no legal opinion is being given regarding the tax consequences of investing in the Notes. Furthermore, no assurance can be given that the IRS or the courts will agree with the discussions set forth herein. The below discussion is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of the Notes. Each holder should consult its own tax advisors about the tax consequences of the purchase, ownership and disposition of the Notes in light of such holder's particular circumstances, including the tax consequences under state, local, non-U.S. and other tax laws and the possible effects of any changes in applicable tax laws.

Characterization of the Notes

No statutory, judicial or administrative authority directly addresses the characterization of the Notes or instruments similar to the Notes for U.S. federal income tax purposes (specifically, debt instruments with a write-down feature). As a result, significant aspects of the U.S. federal income tax consequences of an investment in the Notes are uncertain. However, the Notes are more likely than not to be treated as our equity for U.S. federal income tax purposes (and not as debt), and we intend, absent a change in law, to so treat the Notes. In general, under the Code, the characterization of an instrument for U.S. federal income tax purposes as debt or equity of a corporation by its issuer as of the time of issuance is binding on an owner of the instrument unless the owner discloses on its tax return that it is taking an inconsistent position. The issuer's characterization, however, is not binding on the IRS.

Except as stated below under "—*Possible Alternative Treatment of the Notes*," the following discussion assumes that the Notes will be treated as our equity for U.S. federal income tax purposes. Treatment of the Notes as debt for U.S. federal income tax purposes would significantly change the tax treatment of the Notes in ways that are potentially adverse to holders.

Tax Treatment of Payments on the Notes

Subject to the discussion below under "—*PFIC Rules*," payments of stated interest on the Notes will be treated as distributions on our stock and as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions paid to a United States holder generally will be reported as dividends.

Subject to the discussion below under "—*PFIC Rules*," dividends received by an individual generally will be subject to taxation at the maximum rate applicable to long-term capital gains if the dividends are "qualified dividends." We expect that dividends received or accrued on the Notes will be of the type of dividend that is eligible to be a qualified dividend, although there is some uncertainty as to the application of the qualified dividend rules to instruments that are treated as equity for U.S. federal income tax purposes but have the legal form of debt. United States holders should consult their own tax advisors regarding the availability of this reduced dividend tax rate for interest payments on the Notes.

Sale, Exchange, Redemption or Write-Down of the Notes

Subject to the discussion below under "—*PFIC Rules*," a United States holder will recognize capital gain or loss upon the sale, exchange, redemption or other taxable disposition of Notes or a Write Down of Notes in an amount equal to the difference between the amount realized on such disposition (or zero in the case of a Write Down) and the holder's adjusted tax basis in the Notes. A holder's tax basis in a Note generally will be the price you paid for the Note. Any capital gain or loss will be long-term if the Notes have been held for more than one year at the time of such sale, exchange, redemption or other taxable disposition or Write-Down. Certain non-corporate United States holders (including individuals) may be eligible for preferential rates of taxation on long-term capital gains. The deductibility of capital losses is subject to limitations.

PFIC Rules

Special U.S. federal income tax rules would apply to us if we were classified as a passive foreign investment company ("PFIC"). We will be classified as a PFIC in any taxable year in which, after taking into account our income and gross assets (and the income and assets of our subsidiaries pursuant to applicable "look-through rules") either (i) 75% or more of our gross income consists of certain types of "passive income" or (ii) 50% or more of the average quarterly value of our assets is attributable to "passive assets" (assets that produce or are held for the production of passive income). If a company is considered to be an active bank for purposes of the PFIC rules, its "banking income" is treated as active income even if it would otherwise be classified as passive income. Based on our audited consolidated financial statements for the year ended December 31, 2016, our unaudited interim financial statements for the first nine months of 2017 and certain administrative pronouncements by the IRS and proposed Treasury regulations which are not yet in effect, we believe that we were not a PFIC for U.S. federal income tax purposes in 2016 and do not expect to be a PFIC in 2017.

If we were to become a PFIC, a United States holder, that does not make a "mark-to-market" election may incur significantly increased U.S. federal income tax on gain recognized on the sale or other disposition of the Notes and on the receipt of payments on the Notes to the extent such payments are treated as "excess distributions" under the U.S. federal income tax rules. In addition, payments on the Notes would not be eligible for treatment as qualified dividend income, a United States holder of our Notes would be subject to additional U.S. tax form filing requirements, and the statute of limitations for collections may be suspended for a United States holder that does not file the appropriate form.

Possible Alternative Treatment of the Notes

As discussed above, significant aspects of the U.S. federal income tax consequences of an investment in the Notes are uncertain. The IRS could assert that the Notes should be characterized as debt for U.S. federal income tax purposes. If the Notes were so treated, interest on the Notes would be ordinary income and would not be eligible for the lower rate for "qualified dividends" discussed above in "—*Tax Treatment of Payments on the Notes*." Moreover, in that event, the Notes may be treated as contingent payment debt instruments, with the consequences, among others, that (i) United States holders would be required to accrue interest on the Notes even if such holders otherwise use the cash method of accounting for U.S. federal income tax purposes, (ii) the amount of interest that must be accrued in any period may differ from the amount of stated interest accruing in that period, and (iii) gain from the sale, exchange or redemption of the Notes would be ordinary income.

Prospective investors should consult their tax advisors as to the tax consequences to them if the Notes were characterized as debt for U.S. federal income tax purposes.

Information Reporting and Backup Withholding

The Paying Agent will be required to file information returns with the IRS with respect to payments made to certain holders of Notes. In addition, certain United States holders may be subject to backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers to the Paying Agent. Persons holding Notes who are not United States holders may be required to comply with applicable certification procedures to establish that they are not United States holders in order to avoid the application of such information reporting requirements and backup withholding tax. Any amounts withheld under the backup withholding rules will be allowed as a credit against a United States holder's United States federal income tax liability, if any, or as a refund, provided the required information is timely furnished to the IRS.

FATCA

We and other non-U.S. financial institutions through which payments are made (including the Paying Agent) may be required pursuant to FATCA to collect and provide to the U.S. tax authorities substantial information regarding the investors in the Notes. As such, holders may be required to provide information and tax documentation regarding their tax identities as well as that of their direct and indirect owners.

Additionally, starting at the earliest on January 1, 2019, we and other non-U.S. financial institutions through which payments are made (including the Paying Agent) may be required pursuant to FATCA (or any law or intergovernmental agreement implementing FATCA) to withhold U.S. tax on payments on the Notes made to an investor who fails to provide sufficient identifying information, or to an investor who is (or holds the Notes directly or indirectly through) a non-U.S. financial institution that is not in compliance with FATCA to the extent such payments are considered "passthru payments" under the FATCA rules. It is currently unclear if and to what extent payments on securities such as the Notes will be passthru payments subject to FATCA withholding. If an amount of, or in respect of, such withholding taxes were to be deducted or withheld from any payments in respect of the Notes as a result of an investor or intermediary's failure to comply with these rules, no additional amounts will be paid on the Notes held by such investor as a result of the deduction or withholding of such tax. Holders should consult their own tax advisors on how the FATCA rules may apply to payments they receive in respect of the Notes.

Certain Mexican Income Tax Consequences

The following summary contains a description of the principal Mexican Federal tax consequences of the purchase, ownership and disposition of Notes by a Non-Mexican Holder (as defined below). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Notes. In addition, it does not describe any tax consequences: (1) arising under the laws of any taxing jurisdiction other than Mexico, (2) arising under the laws of any state or municipality within Mexico, or (3) that are applicable to a resident of Mexico for tax purposes.

A "Non-Mexican Holder" is a holder who 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. For purposes of Mexican taxation, tax residency is a highly technical definition that involves the application of a number of factors. Generally, an individual is a resident of Mexico if he or she has established his or her home in Mexico and a corporation is considered a resident if it has established its principal place of business management or its effective seat of business management in Mexico. However, any determination of residence should take into account the particular situation of each person or legal entity.

This summary is based upon Mexican Income Tax Law and Mexican Federal Fiscal Code in effect as of the date of this offering memorandum, which are subject to change. Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican or other tax consequences of the purchase, ownership and disposition of Notes, including, in particular, the effect of any foreign state or municipal or local tax laws. The acquisition of the

Notes by an investor who is a resident of Mexico will be made under its own responsibility. Residents of Mexico who become holders of Notes are urged to notify us upon their acquisition of the Notes.

Mexico has entered into, and is negotiating several, tax treaties with various countries, that may affect the Mexican withholding tax liability of Non-Mexican Holders. Prospective purchasers of the Notes should consult their own tax advisors as to the tax consequences, if any, of such treaties.

Under the Mexican Income Tax Law, and the regulations thereunder, principal and interest on the Notes (which includes any amounts paid in excess of the issue price for the Notes, which under Mexican law is deemed to be interest) paid by us, through our Texas Agency, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Capital gains realized from the sale or other disposition of the Notes by a Non-Mexican Holder will not be subject to any Mexican income or other taxes.

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.

The Proposed Financial Transactions Tax

The European Commission has published a proposal, ("the Commission's Proposal"), for a Directive for a common financial transactions tax ("FTT"), in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the "participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State. The FTT remains subject to negotiation between participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CERTAIN ERISA CONSIDERATIONS

A fiduciary of a pension, profit-sharing or other employee benefit plan (as defined in Section 3(3) of ERISA) (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit Plans, as well as any plan or arrangement subject to Section 4975 of the Code, including, without limitation, individual retirement accounts and Keogh plans and any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3(42) of ERISA) or otherwise (each also, a "Plan"), from engaging in certain transactions involving "plan assets" with any persons who are "parties in interest" under ERISA or "disqualified persons" under the Code ("Parties in Interest") with respect to such Plan. Such Parties in Interest could include, without limitation, the Bank, the initial purchasers, the Trustee, the registrar and each of their respective affiliates and agents. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those Parties in Interest, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Governmental plans (as defined in section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), non-U.S. plans (as described in Section 4(b)(4) of ERISA) or other arrangements ("Non-ERISA Arrangements") are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to substantially similar provisions under applicable federal, state, local, non-U.S. or other regulations, rules or laws ("Similar Laws").

The acquisition, holding and/or disposition of the Notes by a Plan or any entity whose underlying assets are deemed to be the assets of a Plan with respect to which we or certain of our affiliates is or becomes a Party in Interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired, held or disposed of pursuant to and in accordance with an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions are:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an 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 than "adequate consideration" in connection with the transaction (the "service provider exemption").

Any purchaser or holder of a Note or any interest therein, including any transferee of such Note or interest, will be deemed to have represented and warranted by its purchase and holding of the Notes that it either (1) is not, and for so long as it holds the Notes or any interest therein, will not be a Plan, a Non-ERISA Arrangement and is not purchasing those Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement or any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by

Section 3(42) of ERISA) or otherwise or (2) the purchase, holding and disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement, from any Similar Laws) pursuant to the PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, the service provider exemption or another applicable statutory or administrative exemption (or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws).

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or any other applicable exemption, or the potential consequences of any purchase, holding or disposition of the Notes under Similar Laws, as applicable.

None of the Issuer, the initial purchasers or any of their respective affiliates (each, a "Transaction Party") has undertaken to provide impartial investment advice, or to give advice in a fiduciary capacity, and no Transaction Party has or shall provide any advice or recommendation with respect to the management of any interest in the Notes or the advisability of acquiring, holding, disposing or exchanging of any such interest.

In addition, each purchaser of the Notes that is a Plan, including any fiduciary purchasing the Notes on behalf of a Plan or who represents the Plan with respect to such purchase, will be deemed to have represented by its purchase of the Notes that: (1) none of the Transaction Parties has provided or will provide advice with respect to the acquisition of the Notes by the Plan; (2) with respect to the purchase of the Notes, the Plan is represented by a fiduciary (the "Plan Fiduciary") that either: (a) is a bank as defined in Section 202 of the Investment Advisers Act of 1940 (the "Advisers Act"), or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency; (b) is an insurance carrier which is qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of assets of a Plan; (c) is an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the state in which it maintains its principal office and place of business; (d) is a broker-dealer registered under the Exchange Act, as amended; or (e) has, and at all times that the Plan is invested in the Notes will have, total assets of at least U.S. $50,000,000 under its management or control (provided that this clause (2) shall not be satisfied if the Plan Fiduciary is either (i) the owner or a relative of the owner of an investing individual retirement account or (ii) a participant or beneficiary of the Plan investing in the Notes in such capacity); (3) the Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition by the Plan of the Notes; (4) the Plan Fiduciary is a "fiduciary" with respect to the Plan within the meaning of Section 3(21) of ERISA, Section 4975 of the Code, or both, is "independent" within the meaning of the Department of Labor's Regulation 29 C.F.R. § 2510.3-21(c) and is responsible for exercising independent judgment in evaluating the Plan's acquisition of the Notes; (5) none of the Transaction Parties has exercised any authority to cause the Plan to invest in the Notes or to negotiate the terms of the Plan's investment in the Notes; and (6) the Plan Fiduciary has been informed by the Transaction Parties: (a) that none of the Transaction Parties is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with the Plan's acquisition of the Notes; (b) of the existence and nature of the Transaction Parties financial interests in the Plan's acquisition of the Notes; and (c) that none of the Transaction Parties receives a fee or other compensation from the Plan for the provision of investment advice with respect to the purchase of the Notes. The above representations in this paragraph are intended to comply with the Department of Labor's Regulation Sections 29 C.F.R. 2510.3-21(a) and (c)(1) as promulgated on April 8, 2016 (81 Fed. Reg. 20,997). If these regulations are revoked, repealed or no longer effective, the representations in this paragraph that are responsive to such Sections of the Department of Labor's Regulation will be deemed to not be in effect.

PLAN OF DISTRIBUTION

General

Under the terms and subject to the conditions contained in a purchase agreement dated January 11, 2018 we have agreed to sell to the initial purchasers and the initial purchasers have severally agreed to purchase, the principal amount of Notes opposite their name on the table herein.

Initial Purchasers of the Notes	Principal Amount of the Notes
BBVA Securities Inc.	U.S.$250,000,000
BNP Paribas Securities Corp.	U.S.$250,000,000
J.P. Morgan Securities LLC	U.S.$250,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	U.S.$250,000,000
Total	**U.S.$1,000,000,000**

The purchase agreement provides that the initial purchasers are obligated to purchase all of the Notes, if any are purchased. The purchase agreement also provides that if an initial purchaser defaults, the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated. We have agreed to indemnify the several initial purchasers against liabilities or to contribute to payments which they may be required to make in that respect.

The initial purchasers propose to offer the Notes initially at the offering price on the cover page of this offering memorandum and may also offer the Notes to selling group members at the offering price less a selling concession. After the initial offering, the offering price may be changed. The initial purchasers may offer and sell the Notes through one or more of their respective affiliates. 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.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons in offshore transactions in reliance on Regulation S under the Securities Act. Each of the initial purchasers has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the Notes (1) as part of its distribution at any time, or (2) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells the Notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of such Notes within the United States, or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the Notes are restricted as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

Sales Outside the United States

United Kingdom

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 ("FSMA")) 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.

European Economic Area

In relation to each member state of the European Economic Area (each, a "Member State") which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive was implemented in that Relevant Member State (the "Relevant Implementation Date"), no offer of the Notes may be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that the initial purchasers may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

- to any legal entity which is a "qualified investor" as defined in the Prospectus Directive;

- to fewer than 150 natural or legal persons per Relevant Member State (other than "qualified investors" as defined in the Prospectus Directive); or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any Notes as a "financial intermediary," as that term is used in Article 3(2) of the Prospectus Directive, will be deemed to have represented, acknowledged and agreed that (x) the Notes acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, or in circumstances in which the prior consent of the subscribers has been given to the offer or resale, or (y) where Notes have been acquired by it on behalf of persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of the foregoing, "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 the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto including the 2010 PD Amending Directive), and includes any relevant implementing measure in the Relevant Member State; and "2010 PD Amending Directive" means Directive 2010/73/EC.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II") or (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the European Economic Area has been prepared, and therefore offering or selling the Notes or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

Hong Kong

This offering memorandum has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. The Notes will not be offered or sold in Hong Kong other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) has been issued or will be issued in Hong Kong or elsewhere 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" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

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) (the "SFA"), (ii) to a relevant person, 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.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) 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 (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, the securities, debentures and units of securities and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the securities under Section 275 except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (ii) where no consideration is given for the transfer; or (iii) by operation of law.

Japan

The Notes offered in this offering memorandum have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account 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, or for the benefit of, any resident of Japan except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Act and (ii) in compliance with any other applicable requirements of Japanese law.

Mexico

The Notes have not been and will not be registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the CNBV, and may not be publicly offered or sold in Mexico. 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. The information contained in this offering memorandum is exclusively our responsibility and has not been reviewed or authorized by the CNBV.

Chile

Pursuant to Law No. 18,045 of Chile (the securities market law of Chile) and Rule (*Norma de Carácter General*) No. 336, dated June 27, 2012 (Rule 336), issued by the Superintendency of Securities and Insurance of Chile (*Superintendencia de Valores y Seguros de Chile* or "SVS"), the Notes may be privately offered in Chile to certain “qualified investors” identified as such by Rule 336 (which in turn are further described in rule No. 216, dated June 12, 2008, of the SVS).

Rule 336 requires the following information to be provided to prospective investors in Chile:

1. Date of commencement of the offer of the Notes in Chile: January 4, 2018.
2. The offer of the Notes is subject to Rule 336.
3. The offering of the Notes is not registered with the Securities Registry (*Registro de Valores)* of the SVS nor with the foreign securities registry (*Registro de Valores Extranjeros)* of the SVS and as such;
4. Since the Notes are not registered in Chile there is no obligation by the issuer to:
   a. The Notes are not subject to the oversight of the SVS; and
   b. The issuer of the Notes is not subject to the obligation to make publicly available information about the Notes in Chile.
5. The Notes may not be subject to public offering in Chile unless and until they are registered with the relevant Securities Registry of the SVS.

Los Valores se ofrecen privadamente en Chile de conformidad con las disposiciones de la Ley N° 18.045 de Mercado de Valores, y la Norma de Carácter General N° 336 de 27 de Junio de 2012 (“NCG 336”) emitida por la Superintendencia de Valores y Seguros de Chile.

En cumplimiento de la NCG 336, la siguiente información se proporciona a los potenciales inversionistas residentes en Chile.

1. *La oferta de estos Valores en Chile comienza el día 4 de enero de 2018.*
2. *La oferta se encuentra acogida a la NCG 336.*
3. *La oferta versa sobre valores que no se encuentran inscritos en el Registro de Valores ni en el Registro de Valores Extranjeros que lleva la Superintendencia de Valores y Seguros, por lo que:*
   a. *Los Valores no están sujetos a la fiscalización de esa Superintendencia; y*
   b. *El emisor de los Valores no está sujeto a la obligación de entregar información pública sobre los valores ofrecidos.*
4. *Los Valores no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el Registro de Valores correspondiente.*

Colombia

The Notes have not been and will not be authorized by the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*) and will not be registered with the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) or on the Colombian Stock Exchange (*Bolsa de Valores de Colombia*). Therefore, the Notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 and Regulation 029 of 2014 issued by the Colombian Superintendency of Finance, as modified, complemented or substituted from time to time, to privately market and offer the Notes to their Colombian clients.

Peru

The Notes and the information contained in this offering memorandum have not been and will not be registered with or approved by the Peruvian Superintendency of the Securities Markets (*Superintendencia del Mercado de Valores* or “SMV”) or the Lima Stock Exchange (*Bolsa de Valores de Lima* or “BVL”). Accordingly, the Notes cannot be offered or sold in Peru, except if such offering is considered a private offering under the securities laws and regulations of Peru. The Peruvian securities market law establishes that any particular offer may qualify as private, among others, if it is directed exclusively to institutional investors.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement and the accompanying prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering

Other Matters

Purchasers of Notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering memorandum.

Some of the initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. BBVA Securities Inc., one of the initial purchasers, is our affiliate.

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 any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these 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.

Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. The initial purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. They are not obligated, however, to make a market in the Notes and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Notes.

The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions.

- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

We have agreed that we will not, for a period of 30 days after the date of this offering memorandum, without the prior written consent of the initial purchasers, offer, sell, contract to sell, pledge or otherwise dispose of any debt securities issued or guaranteed by the Bank that are substantially similar to the Notes and have a tenor of more than one year (other than under the Bank's *Programa de Emisión de Certificados Bursatiles* (Program for the Issuance of the Certificates) Revolving Bond Program pursuant to which it may issue up to 20 billion pesos of indebtedness with maturities up to 35 years).

We expect that delivery of the Notes will be made to investors on or about January 17, 2018, which will be the third business day following the date of this offering memorandum (such settlement being referred to as "T+3"). Under Rule 15c6-1 under the Securities Exchange Act of 1934, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder may be required, by virtue of the fact that the Notes initially settle in T+3, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

GENERAL INFORMATION

Clearing Systems

We have applied to have the Notes accepted for clearance through Euroclear and Clearstream. In addition, application will be made to have the Notes accepted for trading in book-entry form by DTC. For the Rule 144A Global Note, the ISIN number is US05533UAF57 and the CUSIP number is 05533U AF5, and for the Regulation S Global Note, the ISIN number is USP16259AM84 and the CUSIP number is P16259 AM8.

Listing

Application has been made to the ISE for the approval of this document as Listing Particulars. Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. For so long as the Notes are listed on the Global Exchange Market of the ISE, copies of the following items will be available in physical form for inspection at our principal executive offices, as well as at the corporate trust office of the Trustee, paying agent, transfer agent and registrar and at the offices of the Listing Agent, as such addresses are listed on the inside back cover page of this offering memorandum: this offering memorandum, our bylaws and articles of association, a copy of the license of the Texas Agency issued by the State of Texas, pursuant to Section 204.103 of the Texas Finance Code, the Indenture, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements, any published quarterly unaudited consolidated financial statements and any other documents related to the offering of the Notes.

We believe the auditor's reports included herein have been accurately reproduced. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware), during a period covering at least the previous twelve months, which may have, or have had in the recent past, significant effects on the issuer's financial position or profitability. There has been no material adverse change in the prospects of the Issuer since December 31, 2016 and no significant change in the financial or trading position of the Issuer since September 30, 2017. Except as otherwise disclosed herein, there are no potential conflicts of interest between the duties of the members of our board of directors and their private interests.

Authorization

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes.

LEGAL MATTERS

The validity of the Notes will be passed upon for us by our General Counsel, Lic. José Fernando Pío Díaz Castañares, Clifford Chance US LLP, New York, New York and Mayer Brown LLP, Houston, Texas. Certain legal matters will be passed upon for the initial purchasers by Shearman & Sterling LLP, New York, New York, and Bufete Robles Miaja, S.C., Mexico City, Mexico. Clifford Chance US LLP and Shearman & Sterling LLP will rely upon our General Counsel, Lic. José Fernando Pío Díaz Castañares, and Bufete Robles Miaja, S.C. with respect to matters governed by Mexican law and upon Mayer Brown LLP, with respect to matters governed by Texas law.

INDEPENDENT AUDITORS

With respect to our unaudited interim financial information for the period ended September 30, 2017, included herein, KPMG Cardenas Dosal, S.C., independent auditors, have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included in our financial information for the period ended September 30, 2017, and included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Our Audited Financial Statements included in this offering memorandum have been audited by Galaz, Yamazaki, Ruiz, Urquiza, S.C., a member of Deloitte Touche Tohmatsu Limited, independent accountants, as stated in their report. Galaz, Yamazaki, Ruiz, Urquiza, S.C., a member of Deloitte Touche Tohmatsu Limited, independent auditors, is a member of the Association of Public Accountants of Mexico (*Colegio de Contadores Públicos de México, A.C.*).

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

Unaudited condensed consolidated
interim financial information

September 30, 2017
(With comparative figures as of December 31
and September 30, 2016)

(With the Review Report of independent auditors)

KPMG Cárdenas Dosal, S.C.
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Reforma Social, Miguel Hidalgo,
C.P. 11650, Ciudad de México.
Teléfono: +01 (55) 5246 8300
kpmg.com.mx

Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

The board of directors and stockholders of
BBVA Bancomer, S. A. Institución de Banca Múltiple,
Grupo Financiero BBVA Bancomer:

Introduction

We have reviewed the accompanying September 30, 2017 condensed consolidated interim financial information of BBVA Bancomer, S. A. Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries, which comprises:

- the condensed consolidated interim balance sheet as at September 30, 2017;
- the condensed consolidated interim statements of income for the nine-month and three-month periods ended September 30, 2017;
- the condensed consolidated interim statement of changes in stockholders' equity for the nine-month period ended September 30, 2017;
- the condensed consolidated interim statement of cash flows for the nine-month period ended September 30, 2017; and
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with the accounting criteria established by National Banking and Securities Commission (the "Commission") included in the current *General Provisions applicable to Credit Institutions in Mexico (the "Provisions")*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

(Continued)

Aguascalientes, Ags.
Cancún, Q. Roo.
Ciudad de México.
Ciudad Juárez, Chih.
Culiacán, Sin.
Chihuahua, Chih.
Guadalajara, Jal.
Hermosillo, Son.
León, Gto.
Mérida, Yuc.
Mexicali, B.C.
Monterrey, N.L.
Puebla, Pue.
Querétaro, Qro.
Reynosa, Tamps.
Saltillo, Coah.
San Luis Potosí, S.L.P.
Tijuana, B.C.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as of September 30, 2017 is not prepared, in all material respects, in accordance with the accounting criteria established by the Commission.

KPMG CARDENAS DOSAL, S. C.

Hermes Castañón Guzmán

December 8, 2017.

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

Paseo de la Reforma 510, Juárez, Mexico City

Unaudited condensed consolidated interim balance sheet

September 30, 2017
(With comparative figures as of December 31, 2016)

(In millions of pesos)

Assets	**2017 September**	**2016 December**
Cash and cash equivalents	$ 231,961	186,749
Margin accounts (note 6)	12,518	8,998
Investment in securities (note 7):		
Trading	274,279	235,030
Available-for-sale	127,842	150,664
Held to maturity	14,410	15,656
	416,531	401,350
Receivables from repurchase agreements (note 8)	232	289
Derivatives (note 9):		
Trading	94,232	148,957
Hedging	13,175	18,934
	107,407	167,891
Valuation adjustments from hedges of financial assets	1,102	262
Performing loans (note 10):		
Commercial loans-		
Business or commercial activity	443,915	409,974
Financial entities	30,477	19,606
Government entities	128,356	142,641
	602,748	572,221
Consumer loans	254,463	245,965
Mortgage loans:		
Residential and non-residential	177,609	166,694
Housing loans	13,129	14,821
	190,738	181,515
Total performing loans	1,047,949	999,701
Non-performing loans:		
Commercial loans:		
Business or commercial activity	6,444	6,000
Financial entities	-	322
Government entities	1	1
	6,445	6,323
Consumer loans	9,850	8,755
Mortgage loans:		
Residential and non-residential	5,994	6,828
Housing loans	795	853
	6,789	7,681
Total non-performing loans	23,084	22,759
Total loans	1,071,033	1,022,460
Allowance for loan losses (note 11)	(32,133)	(30,005)
Total loans, net	1,038,900	992,455
Benefits receivable from securitization transactions	165	197
Receivables, sundry debtors and prepayments, net	87,107	80,807
Foreclosed assets, net	2,941	3,866
Property, furniture and equipment, net	40,626	42,563
Permanent investment in shares (note 12)	1,228	1,207
Deferred taxes, net	14,715	14,998
Other assets:		
Deferred charges, prepaid expenses and intangibles	6,569	6,293
Other short and long term assets	834	756
	7,403	7,049
Total assets	$ 1,962,836	1,908,681

Liabilities	**2017 September**	**2016 December**
Deposits (note 13):		
Demand deposits	$ 828,229	754,858
Time deposits:		
From general public	196,858	173,800
Money market	38,071	23,806
Bank bonds	88,223	79,990
Inactive global deposits account	3,203	3,170
	1,154,584	1,035,624
Interbank loans and loans from other entities (note 14):		
Payable on demand	-	413
Short-term	7,441	8,619
Long-term	9,428	10,172
	16,869	19,204
Payables from repurchase agreements (note 8)	270,756	264,485
Security loans	1	1
Collateral sold or delivered in guarantee-		
Security loans	39,738	34,416
Derivatives (note 9) :		
Trading	101,894	148,027
Hedging	9,115	11,009
	111,009	159,036
Valuation adjustments from hedges of financial liabilities	3,783	5,095
Other payables:		
Income taxes payable	4	1,005
Employee statutory sharing payable	3	2
Payables from transaction settlement	45,415	59,192
Payables for collateral received in cash	16,342	36,271
Accrued liabilities and other	49,069	34,452
	110,833	130,922
Subordinated debt (note 15)	72,476	93,185
Deferred credits and advance collections	7,946	7,731
Total liabilities	1,787,995	1,749,699
Stockholders' Equity (note 18) :		
Contributed Capital :		
Paid-in capital	24,143	24,138
Share premium	15,860	15,726
	40,003	39,864
Earned capital:		
Capital reserves	6,901	6,881
Results from prior years	100,291	82,742
Unrealized losses on available-for-sale securities, net	(1,525)	(3,967)
Result from valuation of cash flow hedges, net	(213)	141
Result from conversion of foreign subsidiaries	440	440
Re-measurement of defined benefits to employees, net	(435)	(467)
Net result	29,343	33,311
	134,802	119,081
Majority stockholders' equity	174,805	158,945
Non-controlling interest in consolidated subsidiaries	36	37
Total stockholders' equity	174,841	158,982
Contingencies (note 20)		
Total liabilities and stockholders' equity	$ 1,962,836	1,908,681

(Continued)

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

Unaudited condensed consolidated interim balance sheet, continued

September 30, 2017
(With comparative figures as of December 31, 2016)

(In millions of pesos)

		2017 September	2016 December
Memorandum accounts			
Contingent assets and liabilities	$	489	394
Credit commitments (note 10)	$	522,833	553,195
Assets in trust or under mandate:			
Trusts	$	424,421	438,732
Mandates		24,202	24,206
	$	448,623	462,938
Assets in custody or under administration	$	184,712	181,474
Collateral received by the entity		53,507	44,789
Collateral received and sold or pledged as guarantee by the entity		50,880	44,752
Investment banking transactions on behalf of third parties, net		1,172,737	889,097
Uncollected earned interest from non-performing loans		7,613	7,762
Other memorandum accounts		3,319,468	3,188,624
	$	4,788,917	4,356,498
Historical paid-in capital	$	4,248	4,243

See the accompanying notes to these unaudited interim consolidated condensed financial statements.

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

Paseo de la Reforma 510, Juárez, Mexico City

Unaudited condensed consolidated interim statement of income

For the nine and three-month periods ended September 30, 2017
(With comparative figures for the nine and three-month periods ended September 30, 2016)

(In millions of pesos)

		2017		2016	
		From January 1 to September 30	From July 1 to September 30	From January 1 to September 30	From July 1 to September 30
Interest income (note 10)	$	123,026	42,876	100,907	34,325
Interest expense		(39,579)	(14,252)	(24,442)	(8,726)
Financial margin		83,447	28,624	76,465	25,599
Allowance for loan losses (note 11)		(25,569)	(9,146)	(24,401)	(8,539)
Financial margin adjusted for credit risk		57,878	19,478	52,064	17,060
Commissions and fees collected		28,947	9,678	26,160	9,098
Commissions and fees paid		(9,890)	(3,290)	(8,519)	(2,947)
Result from intermediation		3,969	1,194	2,492	1,178
Other operating income		1,107	416	1,713	16
Administrative and promotion expenses		(42,147)	(14,489)	(40,543)	(13,820)
Result from operations		39,864	12,987	33,367	10,585
Equity in results of unconsolidated subsidiaries and associated companies (note 12)		26	14	20	(148)
Result before income tax		39,890	13,001	33,387	10,437
Current income tax		(10,740)	(2,431)	(7,171)	(885)
Deferred income tax		194	(1,095)	(797)	(1,854)
Result before discontinued operations		29,344	9,475	25,419	7,698
Discontinued operations (note 12)		-	-	872	534
Result before non-controlling interest		29,344	9,475	26,291	8,232
Non-controlling interest		(1)	(2)	-	-
Net result	$	29,343	9,473	26,291	8,232

See accompanying notes to these unaudited interim consolidated condensed financial statements.

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

Paseo de la Reforma 510, Juárez, Mexico City

Unaudited condensed consolidated interim statement of changes in stockholders' equity

For the nine-month period ended September 30, 2017
(With comparative figures for the nine-month period ended September 30, 2016)

(In millions of pesos)

		Contributed capital		Earned capital					
		Common stock	Share premium	Capital reserves	Result from previous years	Result from valuation of securities available for sale	Result from valuation of cash flow hedging instruments	Cumulative effect from conversion	Remeasure of employ defined benefit
Balances, December 31, 2015	$	24,138	15,726	6,881	69,584	(692)	550	340	-
Movements inherent to the decisions of stockholders:									
Transfer of the net result to the result from previous years		-	-	-	28,613	-	-	-	-
Payment of cash dividends		-	-	-	(12,985)	-	-	-	-
Total		-	-	-	15,628	-	-	-	-
Movements inherent to the recognition of comprehensive income:									
Net result		-	-	-	-	-	-	-	-
Result from valuation of securities available for sale		-	-	-	-	(794)	-	-	-
Result from valuation of cash flow hedging instruments		-	-	-	-	-	(248)	-	-
Remeasurement of employee defined benefits		-	-	-	-	-	-	-	
Cumulative effect from conversion		-	-	-	-	-	-	99	-
Total		-	-	-	-	(794)	(248)	99	
Balances, September 30, 2016	$	24,138	15,726	6,881	85,212	(1,486)	302	439	
Balances, December 31, 2016	$	24,138	15,726	6,881	82,742	(3,967)	141	440	(4
Changes arising from decisions of stockholders:									
Shares subscription (Hipotecaria Nacional, Betese and Desitel mergers)		5	134	20	24	-	-	-	-
Transfer of the net result to the result from previous years		-	-	-	33,311	-	-	-	-
Payment of cash dividends (note 18)		-	-	-	(14,800)	-	-	-	-
Total		5	134	20	18,535	-	-	-	-
Changes arising from comprehensive income:									
Net result		-	-	-	-	-	-	-	-
Result from valuation of securities available for sale		-	-	-	-	2,442	-	-	-
Result from valuation of cash flow hedging instruments		-	-	-	-	-	(354)	-	-
Recognition of the change in calculation of the allowance for loan losses (note 5)		-	-	-	(986)	-	-	-	-
Remeasurement of employee defined benefits		-	-	-	-	-	-	-	
Total		-	-	-	(986)	2,442	(354)	-	
Balances, September 30, 2017	$	24,143	15,860	6,901	100,291	(1,525)	(213)	440	(4

See accompanying notes to these unaudited interim consolidated condensed financial statements.

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

Paseo de la Reforma 510, Juárez, Mexico City

Unaudited condensed consolidated interim statement of cash flow

For the nine-month period ended September 30, 2017
(With comparative figures for the nine-month period ended September 30, 2016)

(In millions of pesos)

		2017 September	2016 September
Net result:	$	29,343	26,291
Adjustments for items not requiring cash flow:			
Income or loss from valuation associated with investing and financing activities		-	99
Depreciation of property, furniture and equipment		2,418	2,375
Amortization of intangible assets		1,642	1,345
Provisions		2,546	716
Current and deferred income tax		10,546	7,968
Equity in the result of unconsolidated subsidiaries and associated companies		(26)	(20)
Non-controlling interest		1	-
		46,470	38,774
Operating activities:			
Change in margin accounts		(3,821)	(4,854)
Change in investments in securities		(16,987)	19,205
Change in receivables from repurchase agreements		286	11,081
Change in derivatives (assets)		54,725	(28,454)
Change in loan portfolio (net)		(65,806)	(66,216)
Change in benefits receivable from securitization transactions		32	926
Change in foreclosed assets (net)		925	1,109
Change in other operating assets (net)		(7,690)	(29,342)
Change in deposits		140,516	46,886
Change in interbank loans and other loans from other entities		(2,141)	(2,651)
Change in payables from repurchase agreements		6,270	(9,532)
Change in collaterals sold or delivered in guarantee		5,322	1,051
Change in derivatives (liabilities)		(46,133)	28,909
Change in subordinated debt		(10,889)	(299)
Change in other operating liabilities		(15,951)	23,740
Change in hedging instruments (of hedged items related to operation activities)		2,051	2,059
Income taxes paid		(11,739)	(9,676)
Net cash flow from operating activities		75,440	22,716
Investing activities:			
Proceeds from disposal of property, furniture and equipment		638	9
Payments from acquisition of property, furniture and equipment		(1,119)	(4,294)
Proceeds for acquisition of subsidiaries and associated companies		2	259
Proceeds from cash dividends received		-	68
Payments for acquisition of intangible assets		(1,581)	(1,110)
Net cash flows used in investing activities		(2,060)	(5,068)
Financing activities:			
Subscription of shares		5	-
Payments of cash dividends		(17,265)	(17,411)
Net cash flows used in financing activities		(17,260)	(17,411)
Net increase in cash and cash equivalents		56,120	237
Effects from changes in the value of cash and cash equivalents		(10,908)	8,185
Cash and cash equivalents at the beginning of the period		186,749	150,102
Cash and cash equivalents at the end of the period	$	231,961	158,524

See accompanying notes to these unaudited interim consolidated condensed financial statements.

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

Notes to the unaudited condensed consolidated interim financial information

September 30, 2017
(With comparative figures as of December 31 and September 30, 2016)

(In millions of pesos)

1. Explanation added for translation into English

The accounting criteria used to prepare the accompanying condensed consolidated interim financial information used by BBVA Bancomer, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries (the "Institution") conform with the financial reporting requirements prescribed by the Mexican National Banking and Securities Commission (the "Commission"), and may differ in certain significant respects from the financial reporting standards accepted in the country of use.

2. Operations and regulatory environment

The Institution is a subsidiary of Grupo Financiero BBVA Bancomer, S. A. de C. V. (the "Financial Group") and is regulated, among others, by the Credit Institutions Law and the General Provisions Applicable to Credit Institutions (the "Provisions") issued by the Commission and Banco de México (the "Central Bank"). Its corporate purpose is the provision of full banking services under the terms of such Law, performing operations which mainly include the reception of deposits, acceptance of loans, granting of credits, trading of securities and derivatives and the execution of trust contracts.

The powers of the Commission in its capacity as the regulator of credit institutions include that of reviewing the financial information of the Institution and requesting amendments thereto.

The principal regulatory issues require full-service banks to maintain a minimum capitalization ratio with regard to market, credit and operational risks, comply with certain limits on acceptance of deposits, obligations and other types of funding which may be denominated in foreign currency, while also establishing minimum limits for paid-in capital and capital reserves, with which requirements the Institution has complied satisfactorily.

The Institution has no employees, except the Managing Director, and its administrative functions are performed mainly by BBVA Bancomer Operadora, S. A. de C. V. and BBVA Bancomer Servicios Administrativos, S. A. de C. V. (related parties), which provide advice and personnel for its administration, under the contract executed between the parties.

(Continued)

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

Notes to the unaudited condensed consolidated interim financial information

(In millions of pesos)

3. Basis for presentation

The condensed consolidated interim financial information have been prepared in conformity with the accounting criteria for credit institutions in Mexico issued by the Commission (the Accounting Criteria), which were in effect at the consolidated balance sheet date and should be read in conjunction with the consolidated financial statements of the Institution as of December 31, 2016, previously issued on February 24, 2017.

Monetary unit of the unaudited condensed consolidated interim financial information-

The unaudited condensed consolidated interim financial information and their notes as of September 30, 2017 and for the three- and nine-month periods then ended, include balances and transactions in pesos (reporting currency) of different purchasing power, which is the same as local currency and functional currency.

Comprehensive income-

Is comprised of the net result for the year or period plus other items that represent a gain or loss from the same period, which, in conformity with the accounting criteria followed by the Institution, are presented directly in stockholders' equity, such as the result from valuation of securities available for sale, the result from valuation of cash flow hedging instruments, recognition in the allowance for loan losses of commercial portfolio due to a change in calculation methodology, and the cumulative effect from conversion.

Consolidation of the unaudited condensed interim financial information-

The accompanying unaudited condensed consolidated interim financial information include the financial statements of the Institution, those of its subsidiaries over which it exerts control, and of the trusts for securitization operations. Other permanent investments in shares are valued by the equity method. All material intercompany balances and transactions have been eliminated.

The subsidiaries which are consolidated with the Institution as of September 30, 2017 are detailed below:

Subsidiary	Participation	Location	Activity
-Betese, S. A. de C. V. (Formerly, BBVA Bancomer USA, Inc.) (Betese until February 14, 2017)	99.90%	Mexico (before USA)	Holding company of companies engaged in the sale of notes denominated in U.S. dollars and other foreign currencies, as well as banking operations.
-Opción Volcán, S. A. de C. V.	99.99%	Mexico	Real estate leasing.
-Desitel, Tecnología y Sistemas, S. A. de C. V. (Desitel) (Until February 14, 2017)	99.99%	Mexico	Provider of computer data transfer

(Continued)

(In millions of pesos)

Subsidiary	Participation	Location	Activity
-Fideicomiso No. 29764-8, Socio Liquidador de Operaciones Financieras Derivadas Integral	100.00%	Mexico	Offset and settle futures contracts on behalf of third parties and own position.
-Adquira México, S. A. de C. V	50.00%	Mexico	Develop, administer, market and operate a shopping club, as well as markets by electronic means.
-Financiera Ayudamos, S. A. de C. V., SOFOM, ER	99.99%	Mexico	Granting of loans in accordance with the terms of article 87-B of the General Law on Credit Organizations and Auxiliary Activities.
-Fideicomiso Irrevocable para la emisión de Certificados Bursátiles Número 881	100.00%	Mexico	Issuance of certificates through the Mexican Stock Market backed by mortgage loans.
-Fideicomiso Irrevocable para la emisión de Certificados Bursátiles Número 989	100.00%	Mexico	Issuance of certificates through the Mexican Stock Market backed by mortgage loans.
-Fideicomiso Empresarial Irrevocable de Administración y pago No. F/1859	100.00%	Mexico	Financing for the acquisition of modular drilling equipment, to subsequently grant it under finance lease with a purchase option to PEMEX Exploración y Producción.
-Fideicomiso Empresarial Irrevocable de Administración y Pago No. F/1860	100.00%	Mexico	Financing for the acquisition of modular drilling equipment to subsequently grant it under finance lease with a purchase option to PEMEX Exploración y Producción.

On the Extraordinary Shareholders' Meeting held on January 27, 2017, it was approved to carry out the merger of Hipotecaria Nacional (former subsidiary of Grupo Financiero BBVA Bancomer, S. A. de C. V.), Betese and Desitel with the Institution, which took effect on February 14, 2017, once the legal proceedings concluded.

(Continued)

Functional and reporting currency-

The aforementioned condensed consolidated interim financial information are presented in Mexican pesos as the reporting currency, which is equal to both the recording and functional currency.

For porposes of disclosures in notes to the condensed consolidated interim financial information, “pesos”, “$” or “mp” means millions of Mexican pesos, and “dollars” or “USD” means dollars of United Estates of America.

4. Significant accounting criteria

The accounting criteria followed by the Institution are considered a financial reporting framework established by the Commission, which require management to make certain estimates and use certain assumptions to determine the valuation of some of the items included in the financial information and make the disclosures required therein. Even though their final effect may differ, management believes that the estimates and assumptions used were adequate under the circumstances. As mention in note 5, the Institution adopted accounting changes prescribed by the Commission during 2017.

5. Accounting changes

On January 6, 2017, the Commission issued, throught the official Gazette, the resolution amending the methodology applicable to the credit quality classification of non-revolving consumer loan portfolio, mortgage portfolio and non-revolving consumer loans that should be classified as microcredit. The main objetive of these changes is to incorporate new risk dimensions at a customer level, such as the level of indebtedness, payment behavior of the system and the specific risk profile of each product, as well as to update and adjust the risk parameters of the probability of default, severity of loss and exposure to default.

Under the Provisions issued by the Commision the initial effect, must be recognized under the caption "Results from previous years" starting in June 1, 2017 and no later than 12 months after.

The Institution recognized the total initial effect as of June 30, 2017, amounting $953 debit for non-revolving consumer loan portfolio, $477 debit for mortgage portfolio and $22 credit for non-revolving consumer loans that should be classified as microcredit. The amount recognized in stockholders’ equity, under the caption "Results from previous years", was $986, net of deferred taxes.

(Continued)

(In millions of pesos)

6. Margin accounts

As of September 30, 2017 and December 31, 2016, margin accounts in derivates Organized Markets amount to $12,518 and $8,998 respectively.

7. Investment in securities

At September 30, 2017 and December 31, 2016, financial instruments were as follows:

a. ***Trading -***

	September 2017				December 2016
Instrument	**Acquisition cost**	**Accrued interest**	**Increase (Decrease) from valuation**	**Book value**	**Book value**
American Depositary Receipts (ADR)	$ 4,171	-	110	4,281	7,294
Deposit Certificates	131	-	-	131	-
Fixed rate bonds	2,282	174	(19)	2,437	1,871
Savings Protection Bonds (BPA´s)	-	-	-	-	8,058
Treasury Bonds	90	-	(1)	89	102
Promissory notes with returns realizable at maturity	813	-	-	813	54
Banking debt certificates	286	1	-	287	390
Fungible securitization certificates (CBIC's)	551	4	1	556	340
Debt certificates	7,700	64	(49)	7,715	6,303
Mexican Development Bonds (BONDES)	-	-	-	-	418
Mexican Federal Treasury Certificates (CETES)	1	-	-	1	169
Corporate Eurobonds	1,831	41	57	1,929	2,535
Sovereign debt Eurobonds	5,605	111	83	5,799	6,164
Shares	8,487	-	(45)	8,442	5,750
Federal Mexican Government Development Bonds in UDIS (UDIBONOS)	277	26	(7)	296	297
	32,225	421	130	32,776	39,745
Collateral provided (a.1)	237,714	230	2,953	240,897	197,860
Value date purchases (a.2)	18,827	28	30	18,885	15,187
Value date sales (a.3)	(18,195)	(65)	(19)	(18,279)	(17,762)
	$ 270,571	614	3,094	274,279	235,030

(Continued)

(In millions of pesos)

During the nine-month periods ended September 30, 2017 and 2016, the Institution recognized in consolidated condensed interim income statement valuation gains (losses) for net amounts of $1,124 and $661, respectively, and for the period July to September, 2017 and 2016, were $(86) and $(50), respectively.

a.1. The collateral provided as of September 30, 2017 and December 31, 2016, is comprised as follows:

	September 2017				December 2016
Instrument	**Acquisition cost**	**Accrued interest**	**Increase (Decrease) from valuation**	**Book value**	**Book value**
Fixed rate bonds	$ 22,643	16	193	22,852	14,484
Bonds IPAB	18,891	20	15	18,926	-
BPA's	-	-	-	-	20,798
BONDES	-	-	-	-	29
CETES	-	-	-	-	2
Colateral bonds to be received on securities loan	41,534	36	208	41,778	35,313
Bonds IPAB	98,380	133	1,903	100,416	-
BPA's	-	-	-	-	91,982
Fixed rate bonds	41,069	51	430	41,550	22,680
BONDES	24,959	8	386	25,353	15,287
Debt Certificates	16,538	2	24	16,564	3,981
UDIBONOS	13,352	-	2	13,354	15,940
CETES	1,882	-	-	1,882	6,707
Net equity instruments	-	-	-	-	37
Banking Debt Certificates	-	-	-	-	1,863
Exchangeable securitization certificates (CBIC´s)	-	-	-	-	4,070
Colateral Bonds to be received on repurchase agreements subtotal	196,180	194	2,745	199,119	162,547
	$237,714	230	2,953	240,897	197,860

(Continued)

(In millions of pesos)

a.2. Value date purchases at September 30, 2017 and December 31, 2016, was comprised as follows:

		September 2017				December 2016
Instrument		**Acquisition cost**	**Accrued interest**	**Increase (Decrease) from valuation**	**Book value**	**Book value**
Fixed rate bonds	$	11,051	-	15	11,066	10,518
Shares		2,461	-	10	2,471	164
BONDES		2,126	26	-	2,152	-
UDIBONOS		1,502	-	3	1,505	3,079
CETES		1,129	-	-	1,129	150
ADR's		292	-	1	293	694
Sovereign debt Eurobonds		179	2	1	182	274
Eurobonds		17	-	-	17	-
Debt certificates		70	-	-	70	308
Subtotal	$	18,827	28	30	18,885	15,187

a.3. Value date sales at September 30, 2017 and December 31, 2016, were comprised as follows:

		September 2017				December 2016
Instrument		**Acquisition cost**	**Accrued interest**	**Increase (Decrease) from valuation**	**Book value**	**Book value**
Shares	$	(2,421)	-	(7)	(2,428)	(166)
ADR´s		(307)	-	-	(307)	(102)
CETES		(3,097)	-	-	(3,097)	(547)
Fixed rate Bonds		(9,735)	-	(12)	(9,747)	(8,606)
BONDES		(3)	(64)	1	(66)	(847)
UDIBONOS		(2,234)	-	(1)	(2,235)	(3,655)
Eurobonds		(5)	-	-	(5)	-
Sovereign debt Eurobonds		(214)	(1)	-	(215)	(2,834)
Debt Certificates		(179)	-	-	(179)	(7)
BPAS		-	-	-	-	(998)
Subtotal	$	(18,195)	(65)	(19)	(18,279)	(17,762)

(Continued)

(In millions of pesos)

b. ***Available for sale-***

	September 2017				December 2016
Instrument	**Acquisition cost**	**Accrued interest**	**Increase (Decrease) from valuation**	**Book value**	**Book value**
ADR´s	$ -	-	-	-	483
Monetary Regulation bonds (BREM)	16,254	73	-	16,327	3,721
CEDES	80	56	(4)	132	-
Banking debt certificates	8,039	120	(64)	8,095	12,848
Development banking eurobonds	-	-	-	-	351
Corporate Eurobonds	8,317	146	(112)	8,351	9,503
Sovereign debt Eurobonds	15,778	223	1,127	17,128	16,884
Net equity instruments	817	-	(3)	814	733
	49,285	618	944	50,847	44,523
Value date sales fixed rate bonds	(209)	-	-	(209)	-
Restricted (b.1)	78,854	89	(1,739)	77,204	106,141
	$ 127,930	707	(795)	127,842	150,664

(Continued)

(In millions of pesos)

b.1. Collateral granted (restricted securities) as of September 30, 2017 and December 31, 2016, were as follows:

		September 2017				December 2016
Instrument		**Acquisition cost**	**Accrued interest**	**Increase (Decrease) from valuation**	**Book value**	**Book value**
Fixed rate bonds	$	57,640	57	(1,641)	56,056	75,580
BREM		16,450	25	-	16,475	335
UDIBONOS		373	-	(24)	349	-
Debt Certificate		3,271	2	(78)	3,195	28,950
Total colaterals to be received on repurchase agreements		77,734	84	(1,743)	76,075	104,865
T-Bill collaterals to be received on derivatives		1,120	5	4	1,129	1,276
Sub total	$	78,854	89	(1,739)	77,204	106,141

c. ***Held to maturity -***

The following securities have medium and long-term maturities:

		September 2017			December 2016
Instrument		**Acquisition cost**	**Accrued interest**	**Book value**	**Book value**
Government bonds- Mortgage debtor support program	$	14,410	-	14,410	15,656

For the nine-month periods ended September 30, 2017 and 2016, the yields related to the overall held to maturity portfolio, recorded in the result of the year, amounted to $735 and $472, respectively, and for the three-month periods of July to September, 2017 and 2016, $251 and $176, respectively.

(Continued)

(In millions of pesos)

Collateral Received

The terms and conditions for the delivery of securities as collateral are in line with the framework contracts of Repurchase Agreements, Securities Loans, and Derivatives (ISDA/CEMOF). These contracts establish the exchange of collateral, which will help mitigate the credit risk, in order to have a reasonable level of collateral; the collateral granted does not fulfill criteria for transfer of ownership, for which reason the entity providing the collateral retains the corporate and economic rights of such instruments, unless there is default on the secured obligations. However, these framework contracts stipulate the temporary use and enjoyment of such securities with the commitment to return them at maturity of the guarantee transaction or margin return calls due to a decrease in the secured value at risk.

As a result of the collateral exchange agreements of financial institutions which have a negative market value, a commitment is made to deliver to the other party (which therefore presents a positive market value) assets or cash to reduce the exposure for credit risk, under the terms stipulated in the aforementioned bilateral contract.

8. Repurchase transactions

As of September 30, 2017 and December 31, 2016, repurchase transactions were comprised as follows:

(a) ***Repurchase agreement receivables-***

As repurchasing party:

	September 2017			December 2016		
Instrument	**Asset Receivable under repurchase**	**Liability Collateral sold or delivered**	**Debit**	**Asset Receivable under repurchase**	**Liability Collateral Sold or delivered**	**Debit**
Fixed rate bonds	$ 6,002	(5,838)	164	5,488	(5,249)	239
BONDES	4,192	(4,146)	46	1,220	(1,179)	41
BPA´s	1,022	(1,000)	22	1,400	(1,400)	-
Securitization certificates	-	-	-	2,323	(2,314)	9
Total	$ 11,216	(10,984)	232	10,431	(10,142)	289

(Continued)

(In millions of pesos)

(b) ***Repurchase payables-***

Instrument		September 2017	December 2016
Fixed rate bonds	$	95,116	98,205
BPA´s		98,086	89,180
BONDES		24,925	15,288
CETES		1,882	6,706
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)		13,700	16,304
Securitization certificates		4,681	4,259
BREMS		16,409	28,975
Bank Bonds		893	1,507
CBIC´s		15,064	4,061
Total	$	270,756	264,485

For the nine-month periods ended September 30, 2017 and 2016, the interest (premiums) earned by the Institution were $13,426 and $10,888, respectively, and for the three-month periods of July to September, 2017 and 2016 were $4,903 and $3,198 respectively, which were recorded in the consolidated statements of income in the "Interest income". Also, for the nine-month periods ended September 30, 2017 and 2016, the interest (premiums) charged to the Institution were $14,285 and $8,179, respectively, and for the three-month periods of July to September, 2017 and 2016 were $5,621 and $2,912 respectively.

Premiums payable were recognized in the results for the nine-month periods at September 30, 2017 and 2016 for the amount of $93 and $46 respectively. Premiums payable were recognized in the results for the three-month periods of July to September, 2017 and 2016 for the amount $38 and $15, respectively.

At September 30, 2017, the Institution has contracted repurchase agreements for an average period of 31 days, while transactions involving securities loans are performed over an average period of 14 days.

(Continued)

(In millions of pesos)

At December 31, 2016, the Institution has contracted repurchase agreements for an average period of 22 days, while transactions involving securities loans are performed over an average period of 8 days.

9. Derivatives

The charts below shows the open derivative instrument transactions for trading and hedging purposes of the Institution as of September 30, 2017 and December 31, 2016. The currency position generated by these derivative instruments must be added to the position in the condensed consolidated interim balance sheet in order to obtain the final position.

Trading:

		September 2017			
		Position		Balance	
Transaction		Asset	Liability	Debit	Credit
Long-term futures position	$	55,686	55,686	-	-
Short-term futures position		32,867	32,867	-	-
Long-term forwards contracts		552,564	555,323	8,025	10,784
Short-term forwards contracts		605,245	607,325	8,838	10,918
Options acquired		3,924	-	3,924	-
Options sold		-	10,202	-	10,202
Swaps		1,034,419	1,030,964	73,445	69,990
	$	2,284,705	2,292,367	94,232	101,894

		December 2016			
		Position		Balance	
Transaction		Asset	Liability	Debit	Credit
Long-term futures position	$	90,228	90,228	-	-
Short-term futures position		8,459	8,459	-	-
Long-term forwards contracts		497,619	489,326	17,411	9,118
Short-term forwards contracts		484,231	501,706	1,742	19,217
Options acquired		6,200	-	6,200	-
Options sold		-	11,983	-	11,983
Swaps		1,013,433	997,538	123,604	107,709
	$	2,100,170	2,099,240	148,957	148,027

(Continued)

(In millions of pesos)

Hedging:

		September 2017			
		Position		Balance	
Transaction		**Asset**	**Liability**	**Debit**	**Credit**
Long-term forwards contracts	$	8,006	8,244	59	297
Swaps		80,936	76,638	13,116	8,818
	$	88,942	84,882	13,175	9,115

		December 2016			
		Position		Balance	
Transaction		**Asset**	**Liability**	**Debit**	**Credit**
Long-term forwards contracts	$	2,778	2,485	293	-
Short-term forwards contracts		142	188	-	46
Swaps		93,980	86,302	18,641	10,963
	$	96,900	88,975	18,934	11,009

(Continued)

(In millions of pesos)

10. Loan portfolio

The loan portfolio by type as of September 30, 2017 and December 31, 2016 is shown below:

	Current portfolio		Overdue portfolio		Total	
	September-17	December-16	September-17	December-16	September-17	December-16
Commercial loans						
Denominated in pesos:						
Commercial	$ 285,988	254,914	6,279	5,578	292,267	260,492
Rediscounted portfolio	12,568	13,203	45	49	12,613	13,252
Lease portfolio	1,788	1,831	35	21	1,823	1,852
Denominated in USD (valued in pesos):						
Commercial	142,001	138,285	84	324	142,085	138,609
Rediscounted portfolio	580	606	-	26	580	632
Lease portfolio	990	1,135	1	2	991	1,137
Business or comercial activities	443,915	409,974	6,444	6,000	450,359	415,974
Credit for financial entities	30,477	19,606	-	322	30,477	19,928
Credits goverment entities	128,356	142,641	1	1	128,357	142,642
Total commercial loans	602,748	572,221	6,445	6,323	609,193	578,544
Consumer loans						
Credit card	101,896	102,712	4,982	4,016	106,878	106,728
Other consumer credits	152,567	143,253	4,868	4,739	157,435	147,992
Total consumer loans	254,463	245,965	9,850	8,755	264,313	254,720
Mortgage loans						
Residential and non residential	177,609	166,694	795	6,828	178,404	173,522
Housing loans	13,129	14,821	5,994	853	19,123	15,674
Total mortage portfolio	190,738	181,515	6,789	7,681	197,527	189,196
Total portfolio	$ 1,047,949	999,701	23,084	22,759	1,071,033	1,022,460

(Continued)

(In millions of pesos)

Below is a detail of the commercial loans, differentiating between distressed and nondistressed portfolio, and current and overdue portfolio, as of September 30, 2017 and December 31, 2016. This portfolio does not include guarantees and interest collected in advance, which are shown as part of the commercial portfolio on the condensed consolidated interim balance sheet:

September 2017

		Distressed		Nondistressed		
Portfolio		**Current**	**Overdue**	**Current**	**Overdue**	**Total**
Business or commercial activity	$	-	4,970	413,618	402	418,990
Credits to financial institutions		-	-	29,417	-	29,417
Credits to government agencies		-	1	128,356	-	128,357
TDC Business		-	1,069	31,692	1,459	34,220
TDC Companies		-	14	185	5	204
Total	$	-	6,054	603,268	1,866	611,188

December 2016

		Distressed		Nondistressed		
Portfolio		**Current**	**Overdue**	**Current**	**Overdue**	**Total**
Business or commercial activity	$	-	5,144	380,172	6	385,322
Credits to financial institutions		-	322	19,601	-	19,923
Credits to government agencies		-	1	142,640	-	142,641
TDC Business		-	1,552	30,637	638	32,827
TDC Companies		-	2	101	1	104
Total	$	-	7,021	573,151	645	580,817

(Continued)

(In millions of pesos)

The restructured and renewed portfolio as of September 30, 2017 and December 31, 2016 is as follows:

	September 2017		
	Performing	**Non performing**	**Total**
Business or commercial activity	$ 58,957	1,100	60,057
Consumer credits	1,150	1,165	2,315
Housing loans	15,938	3,690	19,628
Total	$ 76,045	5,955	82,000

	December 2016		
	Performing	**Non performing**	**Total**
Business or commercial activity	$ 62,279	1,582	63,861
Consumer loans	1,050	999	2,049
Mortgage loans	16,848	3,838	20,686
Total	$ 80,177	6,419	86,596

As of September 30, 2017, the Institution holds collateral in real estate properties for $9,442 and collateral in securities for $1,386 in relation to the restructured commercial loans.

At December 31, 2016, the Institution had collateral in real property in the amount of $8,473, together with collateral in securities in the amount of $5,634, for restructured commercial loans.

(Continued)

(In millions of pesos)

As of September 30, 2017 and December 31, 2016, the overdue portfolio is aged as follows:

		September 2017				
Portfolio		**From 1 to 180 days**	**From 181 to 365 days**	**From 366 days to 2 years**	**Guarantees**	**Total**
Business or commercial activity	$	2,014	2,433	3,476	(1,478)	6,445
Consumer credits		6,729	3,121	-	-	9,850
Mortgage loans		1,843	1,733	3,213	-	6,789
Total	$	10,586	7,287	6,689	(1,478)	23,084

		December 2016				
Portfolio		**From 1 to 180 days**	**From 181 to 365 days**	**From 366 days to 2 years**	**Guarantees**	**Total**
Business or commercial activity	$	1,855	2,689	3,109	(1,330)	6,323
Consumer credits		8,337	418	-	-	8,755
Mortgage loans		1,641	1,981	4,059	-	7,681
Total	$	11,833	5,088	7,168	(1,330)	22,759

(Continued)

(In millions of pesos)

As of September 30, 2017 and 2016, the unearned commissions for the initial granting by type of credit and by average repayment period are composed as follows:

		September 2017			
		By repayment period			
		1 to 5 years	More than 5 to 15 years	More than 15 years	Total
Business or commercial activity	$	917	468	160	1,545
Mortgage loans		-	15	177	192
Total	$	917	483	337	1,737

		September 2016			
		By repayment period			
		1 to 5 years	More than 5 to 15 years	More than 15 years	Total
Business or commercial activity	$	684	461	170	1,315
Mortgage loans		-	18	198	216
Total	$	684	479	368	1,531

(Continued)

(In millions of pesos)

As of September 30, 2017 and December 31, 2016 the balances of overdue portfolio fully reserved and eliminated from the condensed consolidated interim balance sheet are composed as follows:

Description		**September 2017**	**December 2016**
Business or commercial activity	$	3,695	2,729
Consumer loans:			
Credit card		3,299	3,273
Other consumer loans		2,597	3,037
		5,896	6,310
Mortgage loans		4,979	5,415
Total	$	14,570	14,454

As of September 30, 2017 and December 31, 2016, the amounts of overdue portfolio sold, without including securitization operations, are composed as follows:

Description		**September 2017**	**December 2016**
Business or commercial activity	$	979	-
Consumer loans		25,218	10,683
Mortgage		1,788	1,182
Total	$	27,985	11,865

As of September 30, 2017 and December 31, 2016, undisclosed credit lines and letters of credit recorded in memorandum accounts amount to $522,833 and $553,195, respectively.

(Continued)

(In millions of pesos)

For the nine-month periods ended September 30, 2017, and 2016, the interest income and commissions recorded in the financial margin, segmented by type of credit, are comprised as follows:

		2017			2016		
Type of credit		**Interest**	**Commissions**	**Total**	**Interest**	**Commissions**	**Total**
Commercial loan:							
Denominated in pesos:							
Commercial	$	20,945	739	21,684	14,107	689	14,796
Rediscounted portfolio		955	-	955	568	-	568
Lease portfolio		127	-	127	84	-	84
Denominated in USD (valued in pesos):							
Commercial		4,356	-	4,356	3,652	-	3,652
Rediscounted portfolio		71	-	71	52	-	52
Lease portfolio		41	-	41	31	-	31
Business or commercial activity		26,495	739	27,234	18,494	689	19,183
Credits to financial entities		1,257	-	1,257	600	-	600
Credits to government entities		7,380	-	7,380	5,443	-	5,443
Total commercial loans		35,132	739	35,871	24,537	689	25,226
Consumer loans:							
Credit card		22,058	31	22,089	22,303	-	22,303
Other consumer credits		23,310	307	23,617	21,124	331	21,455
Total consumer loans		45,368	338	45,706	43,427	331	43,758
Mortgage loans		14,655	29	14,684	13,636	49	13,685
Total	$	95,155	1,106	96,261	81,600	1,069	82,669

(Continued)

(In millions of pesos)

For the nine-month periods ended September 30, 2017 and 2016, the amount of credit portfolio recoveries already written off or eliminated amount to $535 and $485, respectively, which were recognized under the heading "Other (expenses) income".

For the three-month periods form July 1 to September 30, 2017 and 2016, the interest income and commissions recorded in the financial margin, segmented by type of credit, are comprised as follows:

		2017			2016		
Type of credit		**Interest**	**Commissions**	**Total**	**Interest**	**Commissions**	**Total**
Commercial loans:							
Denominated in pesos:							
Commercial	$	7,478	247	7,725	5,036	253	5,289
Rediscounted portfolio		338	-	338	220	-	220
Lease portfolio		45	-	45	32	-	32
Denominated in USD (valued in pesos):							
Commercial		1,539	-	1,539	1,314	-	1,314
Rediscounted portfolio		22	-	22	20	-	20
Lease portfolio		13	-	13	14	-	14
Business or commercial activity		9,435	247	9,682	6,636	253	6,889
Credits to financial entities		504	-	504	237	-	237
Credits to government entities		2,480	-	2,480	1,897	-	1,897
Total commercial loans		12,419	247	12,666	8,770	253	9,023
Consumer loans:							
Credit card		7,423	11	7,434	7,180	9	7,189
Other consumer credits		7,893	105	7,998	7,277	111	7,388
Total consumer loans		15,316	116	15,432	14,457	120	14,577
Mortgage loans		4,924	9	4,933	4,621	11	4,632
Total	$	32,659	372	33,031	27,848	384	28,232

(Continued)

(In millions of pesos)

For the three-month periods from July 1, to September 30, 2017 and 2016, credit portfolio recoveries already written-off or eliminated amount to $233 and $158, respectively, which were recognized under the heading "Other operating income".

Loans originated, grouped by economic sectors as of September 30, 2017 and December 31, 2016, are shown below:

	September 2017		December 2016	
	Amount	**Percentage of concentration**	**Amount**	**Percentage of concentration**
Private (companies and private parties)	$ 450,333	42.05%	$ 415,964	40.68%
Credit card and consumer	264,313	24.67%	254,720	24.91%
Housing	197,527	18.44%	189,196	18.50%
Credits to government entities	128,357	11.98%	142,642	13.95%
Financial	28,512	2.66%	17,490	1.71%
External (foreign financial institutions)	1,965	0.18%	2,438	0.25%
Other overdue debts	26	0.02%	10	-
Total	$ 1,071,033	100.00%	$ 1,022,460	100.00%

Credits to related parties- As of September 30, 2017 and December 31, 2016, loans granted to related parties as established in Article 73 of the Credit Institutions Law, amount to $37,585 and $39,962, respectively. The related party loans as of September 30, 2017 and December 31, 2016 includes $13,284 and $16,716 in letters of credit, respectively, which are recorded in memorandum accounts.

(Continued)

(In millions of pesos)

11. Allowance for loan losses

The ratings of the Institution's portfolio, which forms the basis for recording the allowance for loan losses as of September 30, 2017 and December 31, 2016, is shown below:

		September 2017		December 2016	
Risk Category		**Total Portfolio**	**Reserve**	**Total Portfolio**	**Reserve**
A1	$	795,338	2,952	747,109	3,016
A2		94,607	1,595	129,740	2,169
B1		71,321	2,172	60,570	1,674
B2		50,672	2,009	41,086	1,721
B3		32,675	1,754	26,107	1,500
C1		26,497	1,899	19,097	1,568
C2		21,568	3,702	20,105	3,354
D		12,257	3,695	17,819	4,776
E		19,007	12,355	15,224	9,773
Subtotal		1,123,942	32,133	1,076,857	29,551
Additional exempt portfolio		-	-	-	454
Total	$	1,123,942	32,133	1,076,857	30,005

The total loan portfolio balance used for classification purposes includes amounts related to the irrevocable lines of credit granted, letters of credit and guarantees given, which are recorded in memorandum accounts.

The balance of the allowance at September 30, 2017 and December 31, 2016 is determined based on the balance of the portfolio at those dates.

The allowance for loan losses at September 30, 2017 and December 31, 2016 covers 100% of non-performing accrued interest.

(Continued)

(In millions of pesos)

The amount of the allowance at September 30, 2017 and December 31, 2016 includes the classification of loans granted in foreign currency valued at the exchange rate in effect on those dates.

At December 31, 2016, the Institution has created additional mortgage portfolio reserves of $454 which represent the supplement required by the internal expected loss rating model. At September 30, 2017, there is no additional commercial portfolio reserves.

At September 30, 2017 and December 31, 2016, the allowance for loan losses represents 139.20% and 131.84%, respectively, of the non-performing loan portfolio.

As of September 30, 2017 and December 31, 2016, the allowance for loan losses by type of portfolio is comprised as follows:

Description		**September 2017**	**December 2016**
Commercial loans:			
Business or commercial activity	$	6,395	5,740
Financial institutions		324	618
Government entities		188	266
		6,907	6,624
Consumer credits		21,276	18,847
Mortgage loans		3,950	4,534
Total allowance for loan losses	$	32,133	30,005

(Continued)

(In millions of pesos)

Movements of the allowance for loan losses – The roll forward analysis of the allowances for loan losses for the nine-month period ended September 30, 2017 and year ended December 31, 2016, is as follows:

Description		**September 2017**	**December 2016**
Balance at beginning of period and year	$	30,005	27,386
Allowances charged to income statement from January to June		16,423	15,862
Allowances charged to income statement from July to September		9,146	8,539
Allowances charged to income statement from September to December		-	7,982
Applications and write-offs during the year		(24,783)	(29,938)
Recognition in the allowance for loan loses for methodology amendments (note 5)		1,408	-
Exchange effect		(66)	174
Balance at end of period and year	$	32,133	30,005

12. Permanent investments in shares

Investments in associated companies were valued by the equity method and other permanent investments are recorded at acquisition cost, of which the most important as of September 30, 2017 and December 31, 2016, are detailed below:

Entity	**Equity**		**2017 September**	**2016 December**
Fideicomiso No.1729 INVEX - Enajenación de Cartera	32.25%	$	758	758
Servicios Electrónicos Globales, S. A. de C. V.	46.14%		137	125
Compañía Mexicana de Procesamiento, S. A. de C. V.	50.00%		146	136
Seguridad y Protección Bancarias, S. A. de C. V.	22.32%		13	15
Other	Sundry		174	173
Total		$	1,228	1,207

(Continued)

(1) On March 18, 2016, the Institution sold its shareholding in I+D México, S. A. de C. V.; the sale generated an effect of $131, which was recorded under the heading of "Discontinued operations" in the condensed consolidated interim statement of income.

(2) On July 29, 2016, the Institution sold its shareholding in Unidad de Avalúos México, S. A. de C. V., ("AVAMEX"); the sale generated a gain of $421, which was recorded in the condensed consolidated interim statement of income under the heading of "Discontinued operations".

The investment in shares of associates as of September 30, 2017 and December 31, 2016 was determined in some cases based on unaudited financial information, which is adjusted, if any differences arise, once the audited information becomes available.

For the nine-month period ended September 30, 2017 and year ended December 31, 2016, the dividends received from associates and other permanent investments were $81 and $75, respectively.

For the nine-month period ended September 30, 2017 and September 30, 2016, the Institution earned equity in the results of associates for the amount of $26 and $20, respectively.

For the three-month periods from July 1 to September 30, 2017 and 2016, did not receive dividends from associated companies or other permanent investments.

For the three-month periods from July 1 to September 30, 2017 and 2016, the equity income and (loss) in results of associated companies is $14 and $(148), respectively.

(Continued)

(In millions of pesos, except otherwise noted)

13. Deposits

***Liquidity coefficient* -** The provisions of the Treatment for Admission of Liabilities and Investment for Foreign Currency Transactions, issued by the Central Bank for credit institutions establishes the mechanism for determining the liquidity coefficient over liabilities denominated in foreign currency.

Under the aforementioned provisions, during the nine-month period ended September 30, 2017 and the year ended December 31, 2016, the Institution generated a liquidity requirement of 4,158 million dollars and 51 million dollars, respectively and held an investment in liquid assets of 8,218 million dollars and 3,551 million dollars, with a surplus of 4,060 million dollars and 3,649 million dollars in that currency, respectively.

As of September 30, 2017 and Decemeber 31, 2016, Deposits are analyzed as follows:

	September 2017	December 2016
Demand deposits	$ 828,229	754,858
Time deposits:		
Notes with interest payable at maturity	182,229	161,540
Time deposits	52,700	36,066
Credit instruments issued	88,223	79,990
Inactive global deposits account	3,203	3,170
Total	$ 1,154,584	1,035,624

(Continued)

(In millions of pesos)

14. Borrowings from banks and other agencies

The loans received as of September 30, 2017 and December 31, 2016 are as follows:

		Mexican Pesos		US Dollars Valued		Total	
Description		**September 2017**	**December 2016**	**September 2017**	**December 2016**	**September 2017**	**December 2016**
Bank loans	$	-	1,111	-	55	-	1,166
Call money		-	413	-	-	-	413
Loans from other entities		15,437	15,960	1,432	1,665	16,869	17,625
Total	$	15,437	17,484	1,432	1,720	16,869	19,204

15. Subordinated debt

The subordinated debt as of September 30, 2017 and December 31, 2016, are as follow:

Item		**September 2017**	**December 2016**
Non-preferred capitalization notes for US $500 million, issued in May 2007 at an interest rate of 6.0080% until May 17, 2017, payable semiannually and LIBOR + 1.81% as of May 18, 2017, payable quarterly, and maturing on May 17, 2022; the number of outstanding securities is 500,000 with a face value of $1,000 dollars each, which were prepaid during May 2017.	$	-	10,310
Non-preferred capitalization notes for USD 1,000 million, issued in April 2010, at an interest rate of 7.25% payable semiannually, beginning as of October 22, 2010, and maturing on April 22, 2020; the number of outstanding securities is 1,000,000 with a face value of $1,000 dollars each.		18,159	20,619
Preferred capitalization notes for USD 1,250 million, issued in March 2011, at an interest rate of 6.50% payable semiannually, starting at September 10, 2011 and maturing on March 10, 2021; the number of outstanding securities is 1,250,000 with a face value of $1,000 dollars each.		22,699	25,774
Subtotal to the next page	$	40,858	56,703

(In millions of pesos)

Item		**September 2017**	**December 2016**
Subtotal from previus page	$	40,858	56,703
Preferred capitalization notes for USD 1,000 million, issued in July 2012, at an interest rate of 6.75% and additional issuances of USD 500 million September 2012, at an interest rate of 5.45% payable semiannually starting on March 30, 2015, and maturing on September 30, 2022; the number of outstanding securities is 1,500,000 with a face value of $1,000 US dollars each.		27,239	30,929
Preferred capitalization notes for USD 200 million, issued in November 2016, at an interest rate of 5.35% payable semiannually, starting on May 12, 2016, and maturing on November 12, 2029; the number of outstanding securities is 200,000 with a face value of $1,000 dollars each.		3,632	4,124
Unpaid accrued interest		747	1,429
Total	$	72,476	93,185

The debt issuance costs related to these issues are amortized using the straight-line method over the term of the debt.

(Continued)

(In millions of pesos)

16. Related parties

Balances and transactions with related parties as established in Bulletin C-3 "Related parties" issued by the Commission are as follows:

		2017	2016
Banco Bilbao Vizcaya Argentaria, S. A.			
Derivative financial instruments[1]	$	(217)	378
Payables from repurchase agreements[1]	$	(2,344)	(4,113)
Grupo Financiero BBVA Bancomer, S. A. de C. V.			
Account payable[1]	$	-	(2,465)
BBVA Bancomer Operadora, S. A. de C. V.			
Fees paid for administrative services[2]	$	(8,922)	(9,386)
Fees paid for administrative services[3]	$	(5,985)	(6,329)
Account payable[1]	$	(2,970)	(2,837)
BBVA Bancomer Servicios Administrativos, S. A. de C. V.			
Fees paid for administrative services[2]	$	(7,775)	(6,504)
Fees paid for administrative services[3]	$	(5,045)	(4,273)
Account payable[1]	$	(2,080)	(2,072)

1 Corresponds to debit or (credit) in condensed consolidated interim Balance Sheet (September 2017 and December 2016)

2 Corresponds to revenue or (expense) in condensed consolidated interim Income Statement (from January to September 2017 and 2016)

3 Corresponds to revenue or (expense) in condensed consolidated interim Income Statement (from July to September 2017 and 2016)

(Continued)

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

Notes to the unaudited condensed consolidated interim financial information

(In millions of pesos)

		2017	2016
Seguros BBVA Bancomer, S. A. de C. V.			
Commissions income[2]	$	1,501	1,479
Commissions income[3]	$	1,036	1,002
Insurance premiums paid[2]	$	(134)	(236)
Insurance premiums paid[3]	$	(100)	(179)
BBVA Bancomer Gestión, S. A. de C. V.			
Commissions income[2]	$	2,118	1,832
Commissions income[3]	$	1,379	1,202
Aplica Tecnología Avanzada, S. A. de C. V.			
Deposits[1]	$	(748)	(1,223)
Performing loans[1]	$	1,011	1,443
Interest income[2]	$	31	19
Interest income[3]	$	21	15
Commissions collected on loan originations[2]	$	24	25
Commissions collected on loan originations[3]	$	17	16
Fees paid for administrative services[2]	$	(37)	(24)
Fees paid for administrative services[3]	$	(29)	(27)
Processing and system development expense[2]	$	(1,759)	(1,848)
Processing and system development expense[3]	$	(1,170)	(1,281)

1 Corresponds to debit or (credit) in condensed consolidated interim Balance Sheet (September 2017 and December 2016)

2 Corresponds to revenue or (expense) in condensed consolidated interim Income Statement (from January to September 2017 and 2016)

3 Corresponds to revenue or (expense) in condensed consolidated interim Income Statement (from July to September 2017 and 2016)

(Continued)

(In millions of pesos)

		2017	2016
Facileasing, S. A. de C. V.			
Deposits[1]	$	(179)	(32)
Performing loans[1]	$	6,083	6,278
Interest income[2]	$	157	162
Interest income[3]	$	96	112
Fees paid for administrative services[2]	$	(46)	(45)
Fees paid for administrative services[3]	$	(31)	(31)
Facileasing Equipment, S. A. de C. V.			
Deposits[1]	$	(214)	(265)
Performing loans[1]	$	3,247	6,476
Interest income[2]	$	112	210
Interest income[3]	$	84	144
Fees paid for administrative services[2]	$	(31)	(30)
Fees paid for administrative services[3]	$	(120)	(21)

1 Corresponds to debit or (credit) in condensed consolidated interim Income Balance Sheet (September 2017 and December 2016)

2 Corresponds to revenue or (expense) in condensed consolidated interim Income Statement (from January to September 2017)

3 Corresponds to revenue or (expense) in condensed consolidated interim Income Statement (from July to September 2017 and 2016)

As of September 30, 2017 and December 31, 2016, there are other transactions and operations with related parties which are not material, and therefore have not been disclosed.

17. Tax on earnings

As of September 30, 2017 and 2016, the effective tax rates were 26.46% and 23.33%, respectively. The main items in the reconciliation between the effective tax rate and legal Income Tax rate were inflationary effect, non-deductible items and cancelations of non-taxable provisions.

(Continued)

(In millions of pesos, except otherwise noted)

18. Stockholders' equity

Common stock- The common stock of the Institution as of September 30, 2017 and December 31, 2016

	Number of shares at par value of $0.28 pesos each				
	September 2017			Decer	
	Common stock	Shares issued (unsubscribed)	Capital paid-in	Common stock	S i (unsu
Series "F" shares	9,107,142,859	(1,370,063,922)	7,737,078,937	9,107,142,859	(1,3
Series "B" shares	8,749,999,999	(1,316,335,923)	7,433,664,076	8,749,999,999	(1,32
Total	17,857,142,858	(2,686,399,845)	15,170,743,013	17,857,142,858	(2,70

BBVA Bancomer, S. A.,
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Notes to the unaudited condensed consolidated interim financial information

(In millions of pesos)

	Historical amounts				
	September 2017			Decen	
	Common stock	Shares issued (unsubscribed)	Capital paid-in	Common stock	S i (unsu
Series “F” shares	$ 2,550	(384)	2,166	2,550	
Series “B” shares	2,450	(368)	2,082	2,450	
Subtotal	$ 5,000	(752)	4,248	5,000	
Rearrangement of capital restatements			10,971		
Restatement to pesos as of December 31, 2007			8,924		
Total			$ 24,143		

At a Stockholders' Ordinary General Meeting held on February 28, 2017, the Institution authorized the distribution of a cash dividend up to the amount of $23,318 from the account "Result from previous years", which was distributed in proportion to the equity held at the ratio of $1.537037439763 pesos per share, and were paid to the stockholders during 2017, as follows: March 28, 2017 for $3,025, June 21, 2017 for $7,138 and September 20, 2017 for $4,637.

Restrictions on profits- Stockholders' equity, except restated common stock paid-in and tax-retained earnings, will incur tax on dividends payable by the Institution at the rate in effect at the time of distribution. Any tax paid on such distribution may be credited against income tax for the year in which the dividend tax is paid, and in the immediately two years, against tax for the year and the related estimated payments.

The net result of the Institution is subject to the legal provision whereby 10% of the profit from each year must be transferred to the legal reserve, until it is equal to the amount of capital paid-in. This reserve cannot be distributed to the stockholders during the life of the Institution, except in the form of a stock dividend.

19. Segment information

The Institution and its subsidiaries take part in different activities of the financial market, such as credit operations, treasury operations, and transfer of funds from abroad, distribution and administration of investment funds, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Institution's business units, more than the legal entities in which the results generated are recorded.

(Continued)

BBVA Bancomer, S. A.,
Institución de Banca Múltiple,
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and Subsidiaries

Notes to the unaudited condensed consolidated interim financial information

(In millions of pesos)

Below we present the revenues obtained during the nine-month periods as of September 30, 2017 a
difference segments as indicated in the last paragraph of the preceding page.

2017 Concept		Total	Commercial bank	Corporate governm bankin
Financial margin	$	83,447	65,825	18,470
Allowance for loan losses		(25,569)	(23,556)	(2,013
Net interest income after allowance for loan losses		57,878	42,269	16,457
Commissions and fees, net		19,057	13,870	5,475
Result from intermediation		3,969	1,249	448
Other operating income (expenses)		1,107	666	228
Net operating revenues to the next page	$	82,011	58,054	22,608
		=====	=====	=====

BBVA Bancomer, S. A.,
Institución de Banca Múltiple,
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and Subsidiaries

Notes to the unaudited condensed consolidated interim financial information

(In millions of pesos)

2017 Concept		Total	Commercial bank	Corporate governm bankin
Net operating revenues from the previous page	$	82,011	58,054	22,60
Administration and promotion expenses		(42,147)		
Net operating revenues		39,864		
Equity results of unconsolidated subsidiaries and associated companies		26		
Income before income taxes		39,890		
Current income tax		(10,740)		
Deferred income tax		194		
Income before non-controlling interest		29,344		
Non-controlling interest		(1)		
Net income	$	29,343		

BBVA Bancomer, S. A.,
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Notes to the unaudited condensed consolidated interim financial information

(In millions of pesos)

2016 Concept		Total	Commercial bank	Corporate governm bankin
Financial margin	$	76,465	58,996	14,476
Allowance for loan losses		(24,401)	(22,951)	(1,450
Net interest income after allowance for loan losses		52,064	36,045	13,026
Commissions and fees, net		17,641	12,771	4,537
Net gain on financial assets and liabilities		2,492	1,197	341
Other operating income		1,713	1,285	153
Net operating revenues to the next page	$	73,910	51,298	18,057

(In millions of pesos)

2016 Concept		Total	Commercial bank	Corporate governm banki
Net operating revenues from the previous page	$	73,910	51,298	18,05
Administration and promotion expenses		(40,543)		
Net operating revenues		33,367		
Equity result of unconsolidated subsidiaries and associated companies		20		
Income before income taxes		33,387		
Current income tax		(7,171)		
Deferred income tax		(797)		
Income before discontinued operations		25,419		
Discontinued operations		872		
Net income	$	26,291		

Other segments include the results related to management of the loan portfolio assigned to the recovery

20. Contingencies

As of September 30, 2017 and December 31, 2016, legal proceedings are underway against the Institution for ordinary civil and commercial lawsuits, as well as payment requests issued by the tax authorities. However, in the opinion of its attorneys, the claims filed are without merit and, in the event of adverse rulings, would not significantly affect its financial position. Accordingly, the Institution has weighed up the effects of each one and has recorded a reserve of $337 and $298, respectively, for such disputes.

As of September 30, 2017 and December 31, 2016, there are labor lawsuits underway against the Institution. However, in the opinion of its attorneys, the claims filed are groundless and, in the event of adverse rulings, would not significantly impact its financial position. Accordingly, the Institution has weighed up the effects of each one and has recorded a reserve of $401 and $281, respectively, for such labor issues.

BBVA Bancomer, S.A.,
Instituci n de Banca
Mœltiple,
Grupo Financiero BBVA
Bancomer
and Subsidiaries
(Subsidiary of Grupo Financiero
BBVA Bancomer, S.A. de C.V.)

Consolidated Financial
Statements for the Years
Ended December 31, 2016
and 2015, and Independent
Auditors' Report Dated
February 24, 2017

Deloitte.

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Independent Auditors' Report to the Board of Directors and Stockholders of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer

Opinion

We have audited the accompanying consolidated financial statements of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries (subsidiary of Grupo Financiero BBVA Bancomer S.A. de C.V.) (the "Institution"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of income, changes in stockholder's equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries for the years ended December 31, 2016 and 2015 have been prepared, in all material respects, in accordance with the accounting criteria prescribed by the Mexican National Banking and Securities Commission (the "Commission") through the "General Regulations Applicable to Credit Institutions" ("the Accounting Criteria").

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor´s Responsibilities for the Audit of Consolidated Financial Statements" section of our report. We are independent of the Institution in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of users.

Key Audit Matters

Key audit matters are those which, in our professional judgment, have the greatest significance for our audit of the consolidated financial statements of the current period. They have been addressed in the context of our audit of the consolidated financial statements taken as a whole and in forming an opinion thereon. Accordingly, we do not express a separate opinion on these matters.

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We have determined that the issues described below are the key audit matters that should be included in our report.

- **Valuation of Derivative Financial Instruments and Hedging Transactions (See Notes 3 and 8 to the consolidated financial statements on pages 31 to 33, and 59 to 68)**

  The valuation of derivative financial instruments that are not listed on organized markets was considered to be a key audit matter because of Management's utilization of valuation techniques, which implies the use of methodologies, different inputs and certain judgments.

  In the Institution's accounting policies detailed in Note 3, Management describes the main sources of information for the estimates used to value derivative financial instruments and, more specifically, when fair value is determined by using a valuation technique due to the complexity of the instrument or the unavailability of market data.

  Our audit was focused on valuation tests, including those for the inclusion of collateral.

  The audit procedures we applied to address this key audit matter included the following:

  1. We tested the design and operating effectiveness of the key controls applied to identify, measure and supervise the valuation risk of the Institution's derivative financial instruments, including the controls used for data sources and the verification of prices and other inputs used in valuation models at December 31, 2016.
  2. We have tested the design and operating effectiveness of the controls utilized to approve models or changes to existing models.
  3. We analyzed the variables utilized in these models. This work included reviewing independent variables or the valuation of a sample of financial instruments at December 31, 2016.
  4. At December 31, 2016, we requested the assistance of internal specialists from our firm's valuation area to review valuations produced by models.
  5. At December 31, 2016, we validated the correct presentation and disclosure in the consolidated financial statements according to the Accounting Criteria.

  The results of our audit procedures were reasonable.

- **Allowances for Loan Losses (Internal Models) (See Notes 3 and 11 to the consolidated financial statements on pages 33 to 44, and 75 to 77)**

  The evaluation of the calculation performed for the allowance for loan losses requires the application of internal models for the Enterprises, Large Enterprises and Revolving Consumer portfolios, which are developed and approved by Management. Their application is subject to the Commission's validation, approval and authorization. This issue has been classified as a key audit matter due to the importance of the completeness and accuracy of the information used to determine and update risk parameters when performing the calculation, together with the correct application of approved internal methodologies.

The audit procedures we utilized for this key audit matter included the following:

1. We have tested the design and operating effectiveness of relevant controls, focusing on those utilized to review the credit approval processes and identify impaired loans, including the controls applied to determine the consistent application of internal models to estimate the credit risks arising for the portfolios discussed in the preceding paragraph.
2. We applied sample testing to verify the fair application of the methodologies approved for application by the Commission and validated the inputs used to calculate the estimate, which we matched with the respective sources. We applied sample testing to calculate and evaluate the reasonableness of the factors determined by Management, which we recalculated.
3. We requested the assistance of our firm's specialists to conclude on the proper application of the internal methodology, as well as the reasonableness of the criteria and considerations utilized by Management as part of its methodology. Likewise, we validated estimates based on their independent recalculation and compared our results with those obtained by Management to assess any indication of error or management bias.
4. We validated the correct presentation and disclosure in the consolidated financial statements according to the Accounting Criteria.

The results of our audit procedures were reasonable.

Other Information Included in the Document Containing the Audited Consolidated Financial Statements

Management is responsible for the other information. Such information will comprise the information that will be incorporated in the Annual Report that the Institution is obliged to prepare pursuant to Article 33, Section I, clause b) of Title Four, First Chapter of the General Provisions Applicable to Issuers and Other Stock Market Participants in Mexico, together with the accompanying Instructions (the "Provisions"). We expect the Annual Report to be available for our reading after the date of this audit report.

Our opinion on the consolidated financial statements does not extend to the other information and we do not offer any form of assurance in this regard.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Annual Report, when it is available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or appears to contain a material error. When we read the Annual Report, we will issue declarations surrounding the reading of the Annual Report, as required by Article 33, Section I, paragraph b), number 1.2 of the Provisions.

Responsibilities of Management and Those Charged with Corporate Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements in accordance with the Accounting Criteria, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Institution´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with corporate governance are responsible for overseeing the Institution's financial reporting process.

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and asses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management´s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors´ report. However, future events or conditions may cause the Institution to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provided the Institution's corporate governance officers with a declaration to the effect that we have fulfilled applicable ethical requirements regarding our independence and have reported all the relations and other issues that could be reasonably expected to bear on our independence and, when applicable, the respective safeguards.

Deloitte.

The issues we have reported to the Institution's governance officers include the matters that we consider to have the greatest significance for the audit of the consolidated financial statements of the current period and which, accordingly, are classified as key audit matters. We have described these matters in this audit report, unless legal or regulatory provisions prevent them from being disclosed or, under extremely infrequent circumstances, we conclude that a given matter should be excluded from our report because we can fairly expect that the resulting adverse consequences will exceed any possible benefits as regards the public interest.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Ernesto Pineda Fresán

February 24, 2017

BBVA Bancomer, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries
(Subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V.)
Av. Paseo de la Reforma 510, Col. Juárez, Ciudad de México, México, C.P. 06600

Consolidated Balance Sheets

At December 31, 2016 and 2015
(In millions of Mexican pesos)

Assets	2016	2015
Funds available	$ 186,749	$ 150,102
Margin accounts	8,998	2,774
Investment in securities:		
Trading	235,030	249,462
Available-for-sale	150,664	147,946
Held to maturity	15,656	16,877
	401,350	414,285
Receivables from repurchase agreements	289	11,231
Derivatives:		
Trading	148,957	95,854
Hedging	18,934	13,279
	167,891	109,133
Valuation adjustments arising from hedges of financial assets	262	2,137
Performing loans:		
Commercial loans-		
Business or commercial activity	409,974	343,955
Financial entities	19,606	15,869
Government entities	142,641	137,515
	572,221	497,339
Consumer loans	245,965	217,982
Mortgage loans:		
Residential and non-residential	166,694	150,959
Low income	14,821	16,883
	181,515	167,842
Total performing loans	999,701	883,163
Non-performing loans:		
Commercial loans-		
Business or commercial activity	6,000	5,159
Financial entities	322	499
Government entities	1	1
	6,323	5,659
Consumer loans	8,755	7,433
Mortgage loans:		
Residential and non-residential	6,828	7,208
Low income	853	1,105
	7,681	8,313
Total non-performing loans	22,759	21,405
Total loans	1,022,460	904,568
Allowance for loan losses	(30,005)	(27,386)
Total loans, net	992,455	877,182
Benefits receivable from securitization transactions	197	1,136
Receivables, sundry debtors and prepayments, net	80,807	61,072
Foreclosed assets, net	3,866	5,662
Property, furniture and equipment, net	42,563	39,641
Equity investments	1,207	1,518
Deferred taxes, net	14,998	12,309
Other assets:		
Deferred charges, prepaid expenses and intangibles	6,293	6,941
Other short and long term assets	756	1,010
	7,049	7,951
Total assets	$ 1,908,681	$ 1,696,133

Memorandum accounts (See note 3)

Contingent assets and liabilities
Credit commitments
Assets in trust or under mandate:
Trusts
Mandates

Assets in custody or under administration
Collateral received by the entity
Collateral received and sold or pledged as guarantee by the e
Investment banking transactions on behalf of third parties, ne
Uncollected earned interest derived from non-performing lo
Other record accounts

Historical paid-in capital

"These consolidated balance sheets were prepared according to the Accounting Criteria applicable to Credit Institutions of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the fina sound banking practices and applicable legal and administrative dispositions."

"These consolidated balance sheets were approved by the Board of Directors under the responsibility of the signatories

Eduardo Osuna Osuna
Chief Executive Officer

Luis Ignacio de la Luz Dávalos
Chief Financial Officer

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The accompanying notes are an integral part of these consolidated financial statements.

BBVA Bancomer, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries
(Subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V.)
Av. Paseo de la Reforma 510, Col. Juárez, Ciudad de México, México. C.P. 06600

Consolidated Statements of Income

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos)

	2016	2015
Interest income	$ 137,879	$ 119,831
Interest expense	(34,775)	(28,022)
Net interest income	103,104	91,809
Allowance for loan losses	(32,383)	(28,482)
Net interest income after allowance for loan losses	70,721	63,327
Commission and fee income	36,238	33,243
Commission and fee expense	(12,038)	(11,392)
Net gain on financial assets and liabilities	3,562	3,262
Other operating income	1,551	854
Administrative and promotional expenses	(57,743)	(51,959)
Net operating income	42,291	37,335
Share in net income of unconsolidated subsidiaries and associates	16	100
Income before income taxes	42,307	37,435
Current income tax	(10,974)	(13,516)
Deferred income tax	1,106	4,695
Income before discontinued operations	32,439	28,614
Discontinued operations	872	-
Income before non-controlling interest	33,311	28,614

	2016	2015
Non-controlling interest	-	(1)
Net income	$ 33,311	$ 28,613

"These consolidated statements of income were prepared according to the Accounting Criteria applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission, in conformity with Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the operations of the Institution for the years stated above, which were carried out and measured according to sound banking practices and applicable legal and administrative dispositions."

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

Eduardo Osuna Osuna
Chief Executive Officer

Luis Ignacio de la Luz Dávalos
Chief Financial Officer

Natalia Ortega Gómez
General Director, Internal Audit

José Homero Cal y Mayor García
Director, Corporate Accounting

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The accompanying notes are an integral part of these consolidated financial statements.

BBVA Bancomer, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries
(Subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V.)
Av. Paseo de la Reforma 510, Col. Juárez, México, D.F., C.P. 06600

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos)

	Subscribed Capital			
	Paid-in Capital	**Share Premium**	**Capital Reserves**	**Result Prior**
Balances at December 31, 2014	$ 24,138	$ 15,726	$ 6,881	$
Changes due to stockholders' decisions-				
Transfer of net income to results from prior years	-	-	-	
Cash dividends paid	-	-	-	(
Total	-	-	-	
Comprehensive income-				
Net income	-	-	-	
Result from valuation of securities available-for-sale	-	-	-	
Result from valuation of cash flow hedges	-	-	-	
Result from conversions of foreign subsidiaries	-	-	-	
Total	-	-	-	
Balances at December 31, 2015	24,138	15,726	6,881	
Changes due to stockholders' decisions-				
Transfer of net income to results from prior years	-	-	-	
Cash dividends paid	-	-	-	(
Total	-	-	-	
Comprehensive income-				
Net income	-	-	-	
Result from valuation of securities available-for-sale	-	-	-	
Result from valuation of cash flow hedges	-	-	-	
Result from conversion of foreign subsidiaries	-	-	-	
Accrued conversion effect	-	-	-	
Re-measurement of defined benefits to employees	-	-	-	
Total	-	-	-	
Balances at December 31, 2016	$ 24,138	$ 15,726	$ 6,881	$

"These consolidated statements of changes in stockholders' equity were prepared according to the Accounting Criteria applicable to and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the chang banking practices and applicable legal and administrative dispositions."

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

Eduardo Osuna Osuna Chief Executive Officer	Luis Ignacio de la Luz Dávalos Chief Financial Officer

www.bancomer.com/informacioninversionistas

The accompanying notes are an integral part of these consolidated financial statements.

BBVA Bancomer, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries
(Subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V.)
Av. Paseo de la Reforma 510, Col. Juárez, Ciudad de México, México, C.P. 06600

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos)

	2016	2015
Net income	$ 33,311	$ 28,613
Adjustments derived from items not involving cash flows:		
Profit or loss derived from the valuation of investment and financing activities	100	108
Depreciation of property, furniture and equipment	3,192	2,421
Amortization of intangible assets	1,879	1,453
Provisions	1,008	(2,246)
Current and deferred income taxes	9,868	8,821
Share in net income of unconsolidated subsidiaries and associates	(16)	(100)
Non-controlling interest	-	1
	49,342	39,071
Operating activities:		
Change in margin accounts	(5,925)	1,186
Change in investments in securities	15,860	618
Change in receivables from repurchase agreements	10,942	(11,087)
Change in derivatives (assets)	(53,103)	(10,784)
Change in loan portfolio (net)	(90,099)	(78,046)
Change in benefits receivable from securitization transactions	939	29
Change in foreclosed assets (net)	1,796	1,160
Change in other operating assets (net)	(18,137)	194
Change in deposits	55,395	138,955
Change in interbank loans and other loans from other entities	(1,916)	(29,164)
Change in payables from repurchase agreements	20,054	(14,311)
Change in collaterals sold or delivered in guarantee	(2,482)	(1,297)
Change in derivatives (liabilities)	47,798	6,283
Change in subordinated debt	(7)	(1,146)
Change in other operating liabilities	28,262	23,715
Change in hedging instruments (of hedged items related to operation activities)	(1,725)	(2,681)
Income taxes paid	(11,968)	(11,518)
Net cash used in operating activities	(4,316)	12,106
Investing activities:		
Proceeds from disposals of property, furniture and equipment	172	67
Payments for the acquisition of property, furniture and equipment	(6,286)	(13,183)
Proceeds from disposals of equity investments	259	-
Payments for the acquisition of equity investments	-	(121)
Collection of cash dividends	68	110
Proceeds from disposal of long-lived assets available-for-sale	-	376
Payments for the acquisition of intangible assets	(2,050)	(1,300)
Net cash used in investing activities	(7,837)	(14,051)

	2016	2015
Financing activities:		
Cash dividends paid	$ (17,411)	(15,800)
Net cash used in financing activities	(17,411)	(15,800)
Net increase in cash and cash equivalents	19,778	21,326
Cash flow adjustments from exchange rate fluctuations	16,869	4,586
Cash and cash equivalents at the beginning of the period	150,102	124,190
Cash and cash equivalents at the end of the period	$ 186,749	$ 150,102

"These consolidated statements of cash flows were prepared according to the Accounting Criteria applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission, in conformity with Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the cash flows of the Institution for the years stated above, which were carried out and measured according to sound banking practices and applicable legal and administrative dispositions."

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

Eduardo Osuna Osuna
Chief Executive Officer

Luis Ignacio de la Luz Dávalos
Chief Financial Officer

Natalia Ortega Gómez
Director General de Auditoría Interna

José Homero Cal y Mayor García
Director, Corporate Accounting

www.bancomer.com/informacioninversionistas

www.cnbv.gob.mx

The accompanying notes are an integral part of these consolidated financial statements.

BBVA Bancomer, S.A., Institución de Banca Múltiple,
Grupo Financiero BBVA Bancomer and Subsidiaries
(Subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V.)
Av. Paseo de la Reforma 510, Col. Juárez, Ciudad de México, México, C.P. 06600

Notes to Consolidated Financial Statements

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos)

1. Incorporation and corporate purpose

BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries (the "Institution") is a direct subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V. (the "Financial Group") and indirect subsidiary of Banco Bilbao Argentaria, S.A. ("BBVA") and is regulated by, among others, the Mexican Credit Institutions Law and general purpose regulations issued by Mexican National Banking and Securities Commission (the "Commission") and by Banco de México (the "Central Bank of Mexico" or "Banxico"). The Institution and its subsidiaries engage in full service banking activities, carried out in accordance with such laws, which activities mainly include receiving funds, accepting loans, granting credits, trading securities and derivatives and executing trust fund agreements.

The Commission, as regulator of financial institutions, is empowered to review the financial information of the Institution and can request changes thereto.

The main regulatory provisions require credit institutions to maintain a minimum capital ratio in relation to the credit and market risks of their operations, comply with certain limits with respect to deposit acceptance, debentures and other kinds of funding, which may be denominated in foreign currency, and establish minimum limits for paid-in capital and capital reserves, which the Institution complies with satisfactorily.

The Institution has no employees, except for the Chief Executive Officer. Personnel is provided by BBVA Bancomer Operadora, S.A. de C.V. and BBVA Bancomer Servicios Administrativos, S.A. de C.V., (related parties) which provide management advisory and personnel services, under the contract signed by the parties.

During 2016, the principal macroeconomic indicators underwent certain changes, among them, accumulated inflation in 2016 was 3.38% compared to 2.10% in 2015, and Gross National Product (GNP), which was expected to increase by between 2.5% and 1.9%, increased by 0.6% in 2016. Also, given the state of international oil prices, towards the end of 2016, the peso suffered a significant depreciation of 16.35% against the US dollar, going from $17.25 Mexican pesos per US dollar at the close of 2015 to $20.62 Mexican pesos per US dollar as of December 31, 2016.

Significant events 2016 –

During a meeting of the Board of Directors on December 14, 2016, agreement was reached to appoint KPMG Cárdenas Dosal, S.C. as the external auditor of the Institution to perform the audit of the consolidated financial statements from 2017. This decision was taken in line with corporate governance guidelines recommending periodic rotation of the external auditor, on the proposal of the Audit Committee.

Explanation added for translation into English

The accompanying consolidated financial statements have been translated from the original statements prepared in Spanish into English for use outside of Mexico. The accounting policies used to prepare the accompanying financial statements and used by the Institution are in accordance with the financial accounting and reporting requirements prescribed by the Commission but not in accordance with Mexican Financial Reporting Standards ("MFRS" or "NIF"), and may differ in certain significant respects from the financial reporting standards accepted in the country of use.

2. Basis of preparation of the financial statements

Monetary unit of the financial statements - The consolidated financial statements and notes as of December 31, 2016 and 2015 and for the years then ended include balances and transactions in pesos of different purchasing power.

Comprehensive income - This is composed of the net result of the year, plus other items representing a gain or loss from the same period, which, in accordance with the accounting practices followed by the Institution, are presented directly in stockholders' equity, such as the result from valuation of securities available-for-sale, the result from the valuation of cash flow hedges, and the result from conversion of foreign subsidiaries and the valuation effect of equity in subsidiaries.

Consolidation of financial statements - The accompanying consolidated financial statements include the financial statements of the Institution and those of its subsidiaries over which control is exercised, and its securitized transactions trusts. Equity investments are measured according to the equity method in conformity with the accounting criteria prescribed by the Commission. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2016 and 2015, the consolidated subsidiaries of the Institution are as follows:

Company	Participation	Location	Activity
Betese, S.A. de C.V. (before BBVA Bancomer USA, Inc.)	99.90%	México (before United States of America)	Holding company of companies engaged in the sale of notes denominated in U.S. dollars and other foreign currencies, as well as banking operations.
Opción Volcán, S.A. de C.V.	99.99%	México	Real estate leasing.
Desitel, Tecnología y Sistemas, S.A. de C.V.	99.99%	México	Provider of computer data transfer services.
Fideicomiso No. 29764-8, Socio Liquidador de Operaciones Financieras Derivadas Integral	100.00%	México	Offset and settle futures contracts on behalf of third parties and own position.
Adquira México, S.A. de C.V.	50.00%	México	Develop, administer, market and operate a shopping club, as well as markets by electronic means.
Financiera Ayudamos, S.A. de C.V., SOFOM, ER	99.99%	México	Granting of loans in accordance with the terms of article 87-B of the General Law on Credit Organizations and Auxiliary Activities.
Unidad de Avalúos México, S.A. de C.V. (Until 31 December 2015, since during the financial year 2016 it was sold).	99.99%	México	Appraisal services.
Fideicomiso Irrevocable para la emisión de Certificados Bursátiles Número 881	100.00%	México	Issuance of certificates through the Mexican Stock Market backed by mortgage loans.

Company	Participation	Location	Activity
Fideicomiso Irrevocable para la emisión de Certificados Bursátiles Número 989	100.00%	México	Issuance of certificates through the Mexican Stock Market backed by mortgage loans.
Fideicomiso Empresarial Irrevocable de Administración y pago No. F/1859	100.00%	México	Financing for the acquisition of modular drilling equipment, to subsequently grant it under finance lease with a purchase option to PEMEX Exploration and Production.
Fideicomiso Empresarial Irrevocable de Administración y Pago No. F/1860	100.00%	México	Financing for the acquisition of modular drilling equipment to subsequently grant it under finance lease with a purchase option to PEMEX Exploration and Production.

Conversion of financial statements of subsidiaries in foreign currency- To consolidate the financial statements of the foreign subsidiary, such financial statements denominated in the recording currency are adjusted to comply with the accounting criteria prescribed by the Commission. The financial statements are then converted to Mexican pesos, based on the following methodology:

- Foreign operations whose recording and functional currency are the same convert their financial statements using the following exchange rates:1) the closing rate for the assets and liabilities and 2) the historical rate for stockholders' equity and 3) the rate on the date of accrual for revenues, costs and expenses. The effects of conversion are recorded in stockholders' equity.

The recording and functional currency of the foreign transaction and the exchange rates used in the different conversion processes are as follows:

Entity	Recording and functional currency	Exchange rate to convert assets and liabilities from functional and recording currency to Mexican pesos	Exchange rate to convert net results from functional and recording currency to Mexican pesos
Betese, S.A. (before BBVA Bancomer USA, Inc.)	U.S. Dollars	$17.2487 Mexican pesos	$15.8662 Mexican pesos

The Institution's functional currency is the Mexican peso. Given that the Institution holds an investment in a subsidiary abroad whose functional currency is not the Mexican peso, it is exposed to foreign currency conversion risk. Furthermore, monetary assets and liabilities have been contracted in different currencies, principally the US dollar and the euro, and there is an exposure to exchange rates attributable to commercial operations and the supply of goods and services over the normal course of business.

Principal differences between the consolidated financial statements and the financial statements presented to BBVA (unaudited) – In conformity with article 182 of the Provisions, the main differences between the Provisions and International Financial Reporting Standards (IFRS), which are used to prepare the consolidated financial statements of BBVA (holding company), are as follows:

a) Effects of inflation: Under IFRS, the effects of inflation are recognized when the economic environment of a country is considered to be highly inflationary. Given the inflation rates in Mexico over recent years, the effects derived from the recognition of inflation under the criteria of the Commission up through 2007 are eliminated under IFRS.

b) Loan loss reserves: Under IFRS, the loan portfolio should be analyzed to determine the credit risk to which the Institution is exposed by estimating the need for reserves to cover impairments in value. Therefore, internal corporate criteria must be used to classify risks in the commercial portfolio; these criteria differ from those established by the Commission for the determination of loan loss reserves.

c) Variations in assumptions for labor obligations: Under IFRS, the variations in assumptions due to increases or reductions in the current value of the obligations or due to variations in the fair value of assets, are applied against stockholders' equity, whereas the accounting criteria of the Commission establishes that such variances should be recognized directly to results.

For further information on the monetary effects of these differences, please consult www.bancomer.com/informacioninversionistas.

3. Significant accounting policies

The accounting policies of the Institution, which are in conformity with the accounting criteria of the General Regulations Applicable to Credit Institutions (the "Regulations") prescribed by the Commission (the "Accounting Criteria"), and are considered as a general purpose framework for financial information, require that management makes certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures to be included therein. While the estimates and assumptions used may differ from their final results, management believes they were appropriate under the circumstances.

In conformity with Accounting Criterion A-1, Basic scheme of the collective accounting criteria applicable to credit institutions, issued by the Commission, the Institution's accounting shall be based on MFRS as defined by the Mexican Financial Reporting Standards Board ("CINIF"), except when in the Commission's judgment, a specific regulation or Accounting Criterion must be applied in order to appropriately reflect the specialized operations carried out by the Company.

The regulations of the Commission referred to in the preceding paragraph set forth standards for the recognition, valuation, presentation and, if applicable, disclosure, related to specific headings of the consolidated financial statements, as well as the standards applicable to their preparation.

In this regard, the Commission clarifies that the application of accounting criteria, or the concept of supplemental application, will not apply in the case of transactions which, by express provision of law, are not permitted or are prohibited or, moreover, are not expressly authorized.

The following is a description of the principal accounting policies followed by the Institution:

Changes in accounting policies –

Changes in the Commission's Accounting Criteria-

Amendments to the accounting criteria issued by the Commission

On November 9, 2015, various amendments to the accounting criteria for credit institutions were published in the Federal Official Gazette. The purpose of these amendments is to make the necessary adjustments to the accounting criteria for credit institutions for the operations they perform, in order to have reliable financial information. These amendments went into effect on January 1, 2016.

The most significant changes are described below:

a. Accounting Criterion C-5, *Consolidation of special purpose entities*, is eliminated.

b. The following standards are incorporated into the Commission's accounting criteria: NIF C-18, *Obligations Associated with the Retirement of Property, Plant and Equipment*, and NIF C-21, *Joint Arrangements,* due to the enactment of such standards by the CINIF.

c. For purposes of consolidated financial statements, the consolidation guidance of NIF B-8, *Combined or consolidated financial statements* is not required to be applied with regard to special purpose entities ("SPE") created prior to January 1, 2009 over which control was exercised.

d. Overdrafts in customer checking accounts which do not have a line of credit for such purposes, will be classified as past-due borrowings and an allowance for the total amount of the overdraft must be established simultaneously with such classification, at the time the event takes place.

e. The net asset for defined benefits to employees must be presented on the balance sheet under the heading of "Other assets".

f. The applicable Banxico regulation must be applied to classify the purchase of foreign currencies that are not considered derivatives, as "Funds available".

g. A net credit balance of offsetting foreign currencies to be received and foreign currencies to be delivered must be presented under the heading of "Other accounts payable".

h. If an item of restricted funds available has a negative balance, such item must be presented under the heading of "Other accounts payable". Previously the negative balance of restricted funds available was not considered for such presentation.

i. The definition of "Transaction costs" in Accounting Criterion B-2, *Investments in Securities* and in Accounting Criterion B-5, *Derivatives and Hedge Transactions,* is modified.

j. The definitions of "Borrower", "Appraisal Percentage Guarantees", "Payment capacity", "Extended Portfolio", "Assignment of Credit Rights", "Consolidation of Loans", "Debtor of Credit Rights", "Vendor of Discounted Receivables", "Financial Factoring", "Purchaser of Discounted Receivables", "Line of Credit", "Discount Transaction", "Special Repayment Regime", "Ordinary Repayment Regime" and "Housing Subaccount", are incorporated into Accounting Criterion B-6, *Loan Portfolio.*

k. The definition of "Renewal" is modified in Accounting Criterion B-6, *Loan Portfolio,* to now consider it as a transaction in which the loan balance is settled partially or totally, through an increase in the total amount of the loan, or using the proceeds derived from another loan contracted with the same entity, involving either the same debtor, a joint obligor of such debtor, or another party who, due to equity relationships, represents common risks.

l. "Mortgage Loans" are defined as those loans intended for remodeling or improvement of the home which are backed by the savings in the borrower's housing subaccount, or have a security interest granted by a development bank or a public trust established by the Federal Government for economic development.

m. Loans for financial factoring, discount and credit right assignment transactions are incorporated in the definition of "Commercial Loans".

n. A loan is not considered as renewed for any borrowings made during the effective term of a pre-established line of credit, provided that the borrower has settled the total amount of the payments that are due and payable under the original conditions.

o. When borrowings made under a line of credit are restructured or renewed independently from the line of credit which supports them, they must be assessed in accordance with the characteristics and conditions applicable to the restructured or renewed borrowing or borrowings.
When as a result of such evaluation it is concluded that one or more borrowings granted under a line of credit should be transferred to non-performing portfolio due to the effect of their restructuring or renewal and such borrowings, individually or collectively, represent at least 40% of the total outstanding balance of the line of credit at the date of the restructuring or renewal, such balance, as well as subsequent borrowings, must be transferred to non-performing portfolio as long as there is no evidence of sustained payment of the borrowings that originated the transfer to non-performing portfolio, and the total borrowings granted under the line of credit fulfilled the due and payable obligations at the date of transfer to performing portfolio.

The aforementioned percentage is applicable as of January 1, 2016, and will be reduced to 30% for the year 2017, and 25% for the year 2018 and thereafter.

In the case of loans acquired from INFONAVIT or the FOVISSSTE, where there is an obligation to maintain the original terms that the aforementioned agencies contracted with the borrowers, sustained payment of the loan is deemed to exist when the borrower has timely settled the total due and payable amount of principal and interest of at least one repayment for loans under the Ordinary Repayment Regime (ROA) and three repayments for loans under the Special Repayment Scheme (REA).

p. For restructurings of loans with periodic payments of principal and interest whose repayments are less than or equal to 60 days in which the periodicity of payment is modified to shorter periods, the number of repayments equivalent to three consecutive repayments under the original loan payment scheme must be considered.

q. Assumptions are established to consider that sustained payment exists for those loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, as follows:

   i. The borrower must have paid at least 20% of the original loan amount at the time of the restructuring or renewal, or,

   ii. The amount of the accrued interest must have been paid in accordance with the payment scheme for the respective restructuring or renewal at a term of 90 days.

r. With regard to consolidated loans, if two or more loans originated the transfer to non-performing portfolio of the total balance of the consolidated loan, to determine the repayments required to demonstrate sustained payment, the original loan payment scheme whose repayments are equal to the longest repayment period must be considered. Previously the practice was to give the treatment for the worst of the loans to the total balance of the restructuring or renewal.

s. Evidence must be made available to the Commission when demonstrating sustained payment to substantiate that the borrower has the appropriate payment capacity at the time the restructuring or renewal is performed, so as to meet the new loan conditions.

t. Advance payment of installments on restructured or renewed loans, different from those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, does not constitute sustained payment. This is the case with repayments of restructured or renewed loans which are paid before the calendar day’s equivalent to loans with repayments that cover periods greater than 60 calendar days have elapsed.

u. The extension of the loan term is incorporated as a restructuring event.

v. The respective standards for the recognition and valuation of financial factoring, discounting and credit right assignment transactions are included.

w. Commissions and fees different from those collected for granting the loan will be recognized in results of the year on the date that they are accrued, and if part or all of the consideration received for the collection of the respective commission or fee is received before the accrual of the respective income, such advance must be recognized as a liability.

x. The item stating that overdrafts in customer checking accounts should be reported as non-performing portfolio is eliminated.

y. Repayments which have not been fully settled under the originally agreed terms and are 90 days or more in arrears for acquired loans from the INFONAVIT or the FOVISSSTE under the REA or ROA payment regimes, as well as loans made to individuals for the remodeling or improvement of the home for non-speculative purposes which are backed by the savings from the borrower's housing subaccount, will be considered as non-performing portfolio.

z. The transfer to non-performing portfolio of the loans referred to in the preceding point will be subject to the exceptional deadline of 180 or more days in arrears as of the date on which:

    i. The loan resources are used for the purpose for which they were granted,
    ii. The borrower begins a new employment relationship with a new employer, or
    iii. The partial repayment was received. The exception under these circumstances will be applicable provided that it refers to loans under the ROA scheme, and each of the payments made during such period represents at least 5% of the repayment agreement.

aa. Loans with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, shall be classified as non-performing portfolio as long as there is no evidence of sustained payment.

bb. Loans granted under a new line of credit, revolving or otherwise, which are restructured or renewed at any time, may remain in performing portfolio provided that there are grounds to justify the payment capacity of the debtor. Furthermore, the borrower must have:

    i. Settled the total amount of due and payable interest;
    ii. Settled all of the payments for which he is liable under the terms of the contract at the date of the restructuring or renewal.

cc. When borrowings made under a line of credit are restructured or renewed independently from the line of credit that supports them, they must be assessed in accordance with the characteristics and conditions applicable to the restructured or renewed borrowing or borrowings.

    When as a result of such assessment it is concluded that one or more borrowings granted under a line of credit should be transferred to non-performing portfolio due to the effect of a restructuring or renewal, and such borrowings, individually or collectively, represent at least 25% of the total outstanding balance of the line of credit at the date of the restructuring or renewal, such balance, together with its subsequent borrowings, must be transferred to non-performing portfolio as long as there is no evidence of sustained payment on the borrowings which originated the transfer to non-performing portfolio, and the total of the borrowings granted under the line of credit have fulfilled the due and payable obligations at the date of the transfer to performing portfolio.

dd. The requirement that the borrower must have paid the total amount of accrued interest at the date of renewal or restructuring to consider that a loan remains within performing portfolio will be considered as fulfilled when after the interest accrued at the final cutoff date has been paid, the term elapsed between such date and the restructuring or renewal does not exceed the lesser of half of the elapsed payment period or 90 days.

ee. Performing loans with periodic partial payments of principal and interest that are restructured or renewed more than once may remain in performing portfolio if there are elements to justify the payment capacity of the debtor. It is specified that in the case of commercial loans, such elements must be duly documented and placed in the loan file.

ff. If different loans granted by the same entity to the same borrower are consolidated in a restructuring or renewal, each of the consolidated loans must be analyzed as if they were restructured or renewed separately and, if as a result of such analysis it is concluded that one or more of such loans would have been transferred to non-performing portfolio due to the effect of such restructuring or renewal, then the total balance of the consolidated loan must be transferred to non-performing portfolio.

gg. With regard to presentation standards in the balance sheet and the statement of income, it is established that:

i. Housing loans acquired from INFONAVIT or FOVISSSTE must be segregated within the performing portfolio, into ordinary portfolio and extended portfolio.
ii. The amount of loans for financial factoring, discount and credit rights assignment transactions shall be presented net of the respective appraisal percentage guarantee.
iii. Any commissions received before the accrual of the respective revenue shall be presented under the heading "Deferred credits and advance collections".
iv. The financial revenue accrued in financial factoring, discount and credit rights assignment transactions shall be considered as interest income.

hh. With regard to disclosure standards, new requirements are incorporated, such as:

i. Breakdown of the restricted performing portfolio and unrestricted and non-performing portfolio for the residential and non-residential portfolio, low income portfolio, remodeling or improvement secured by the housing subaccount and loans acquired from INFONAVIT or FOVISSSTE, segregated into ordinary portfolio and extended portfolio.
ii. Total amount and number of loans acquired from INFONAVIT or FOVISSSTE transferred to non-performing portfolio, as well as the total amount of loans that were not transferred to non-performing portfolio, segregated into loans that the entity acquired from INFONAVIT or FOVISSSTE, under the respective REA or ROA payment regimes, and loans granted to individuals for remodeling or home improvement for non-speculative purposes, which are backed by the savings of the borrower's housing subaccount.
iii. Principal characteristics of the loans acquired from INFONAVIT or FOVISSSTE, describing at least those related to their classification as extended portfolio, ROA and REA, together with those related to the assignment of such loans.
iv. Description of the obligation and rights held by INFONAVIT and FOVISSSTE in relation to the portfolio acquired by the entity.
v. Identification by type of loan for the residential and non-residential portfolio, low income portfolio, remodeling or improvement guaranteed by the housing subaccount, and loans acquired from INFONAVIT or FOVISSSTE of the balance of the non-performing portfolio as of the date on which it was classified as such, in the following terms: from 1 to 180 calendar days, from 181 to 365 calendar days, from 366 calendar days to two years, and more than two years in non-performing portfolio.

vi. Total amount of housing loans backed by the housing subaccount, broken down into performing and non-performing portfolio and specifying the percentage which it represents of the total housing loans.

vii. Total accumulated amount of the restructuring or renewal by type of loan, differentiating between those originated in the exercise of consolidated loans transferred to non-performing portfolio as the result of a restructuring or renewal, from those restructured loans to which the criteria for the transfer to non-performing portfolio were not applied.

ii. Accounting Criterion B-7, *Foreclosed Assets,* establishes that in the event that the valuation of assets at fair value is made through an appraisal, the latter must comply with the requirements established by the CNBV for providers of bank appraisal services.

jj. Accounting Criterion C-2, *Stock Market Transactions,* clarifies that in the case of stock market instruments executed and recognized in the consolidated financial statement prior to January 1, 2009, it will not be necessary to reevaluate the transfer of recognized financial assets prior to such date.

In this regard, the principal effects that this exception might have on such financial statements should be disclosed in the notes to the financial statements, as well as the effects of valuation adjustments on the profits on the remainder of the assignee (recognized in results or in stockholders' equity) and of the asset or liability recognized for administration of transferred financial assets.

kk. The definitions of "Joint Arrangement", "Joint Control" are incorporated, and the definitions of "Associate", "Control" "Holding Company", "Significant Influence", "Related Parties" and "Subsidiary" are modified in Accounting Criterion C-3, *Related Parties*.

    Individuals or business entities which, directly or indirectly, through one or more intermediaries exert significant influence on, are significantly influenced by, or are under significant influence of the entity, as well as joint arrangements in which the entity participates, are now considered to be related parties.

ll. The disclosure requirements contained in Accounting Criterion C-3, *Related Parties*, are extended to joint arrangements.

mm. As an amendment to Accounting Criterion C-4, *Information by Segments*, the purchase and sale of foreign currency is incorporated within the Treasury and investment banking operations segment.

nn. Different modifications are made to the presentation of the balance sheet to incorporate the opening of the performing and non-performing home loan portfolio in the following segments: residential and non-residential, low income, loans acquired from INFONAVIT or FOVISSSTE, and remodeling and improvement with collateral granted by the development bank or public trusts.

oo. The requirement is established to present on the balance sheet as a liability under the heading "Inactive global deposits account", the principal and interest on deposit instruments which do not have a date of maturity or, when they do, they are renewed automatically, as well as the transfers of expired or unclaimed investments referred to in article 61 of the Credit Institutions Law.

pp. The heading "Re-measurements of defined benefits to employees" is added as part of earned capital on the balance sheet, as a result of the enactment of NIF D-3, *Employee Benefits*.

qq. The heading "Collateral granted" is incorporated at the foot of the balance sheet within memorandum accounts.

rr. Insurance and bonding, technical assistance expenses, maintenance expenses, fees different from those paid to the IPAB and consumables and fixtures should be included in the statement of income.

ss. The statement of changes in stockholder's equity should include re-measurements of defined benefits to employees as part of changes inherent to the recognition of comprehensive income, as a result of the enactment of NIF D-3, *Employee Benefits.*

The adoption of the aforementioned accounting criteria did not have a material effect on the Institution's consolidated financial statements.

On July 23, 2015, the Federal Official Gazette published an amendment to the accounting criteria applicable to market participants to derivative contracts listed in stock markets. This amendment establishes that the derivatives markets and traders that participate in the markets for listed derivatives contracts should maintain their accounting in accordance with the applicable rules. For such purpose, clearinghouses and settlement partners which participate in the derivatives contracts market should observe the "Accounting Criteria for Clearinghouses," and "Accounting Criteria for Settlement Partners", respectively. These amendments went into effect on the day after their publication.

Changes in MFRS issued by the CINIF applicable to the Institution -

NIF D-3, *Employee Benefits*
Improvements to NIF 2016

NIF D-3, *Employee Benefits* - When there is a precedent of making payments for termination of the labor relationship, such payments must be accounted for as postemployment benefits. Furthermore, the prior service cost, plan amendments, personnel cuts, and the gains and losses from advanced settlements such as severance payments which qualify as termination benefits, are recognized in results immediately. In contrast, the actuarial gains and losses resulting from the re-measurements should be recognized in the OCI and recycled to the (comprehensive) statement of income over the average labor life. Such re-measurements derive from a comparison of the defined benefits obligations and the plan assets determined at the close of the year with the amounts projected at the beginning of the period for the current year. Another significant change consists of associating the discount rate of the benefits obligation with a rates based on high-quality corporate bonds in a deep market, or, in their absence, using government bond rates. These same rates will be used to calculate the projection of the plan assets (net rate).

The principal modifications derived from the application of this new NIF D-3 in the Financial Group's financial information are as follows:

- Discount rate for liabilities - Defined Benefits Obligation (OBD)

  The discount rate to calculate the OBD shall be determined based on the market rate of high-quality corporate bonds, provided that there is a deep market for such bonds. Otherwise, the market rate of the bonds issued by the federal government must be used.

- Recognition of actuarial gains and losses

  - The use of the corredor is eliminated for the deferral of actuarial gains and losses.
  - The accumulated balance of retained earnings and accumulated losses as of December 31, 2015 will be recognized as part of stockholders' equity and in liabilities as of January 1, 2016.
  - Any actuarial gains and losses generated as of January 1, 2016 will be treated as re-measurements of defined benefits to employees, and will be recognized in stockholders' equity and in liabilities.

- Amortization of actuarial gains and losses

  - The actuarial gains and losses recognized in stockholders' equity must be recycled to results in the Remaining Service Life of the Plan.

- Expected return on plan assets

  - The expected return on the plan assets will be estimated with the discount rate of the liabilities instead of the expected rate of return for the fund.

Due to the enactment of the NIF D-3, on December 31, 2015, the Commission issued various transitory articles to the "Resolution amending the General provisions applicable to credit institutions", published in the Federal Official Gazette on November 9, 2015.

These transitory articles establish that credit institutions may recognize the entire balance of plan amendments (past service) and the accumulated balance of the plan's unrecognized gains and losses for entities that used the corredor approach gradually at the latest on December 31 of each year.

If the option is taken to gradually apply the aforementioned balances, the recognition of such balances should begin in the year 2016, recognizing 20% in that year and another 20% in each of the subsequent years, until reaching 100% within a maximum term of five years.

The Institution did not opt for deferred payment within the period allowed by the Commission.

The re-measurements of gains and losses on the defined benefits plan which should be recognized at the end of each period, together with their respective recycling to results of the year, should be calculated on the total amount of the plan's gains or losses; i.e., on the aggregate of the plan's gains or losses, plus those not recognized on the balance sheet.

By the same token, if all or part of the residual effect is recognized before the established deadlines, the Commission must be informed within the 30 calendar days following the date on which the respective accounting entry is made. Entities may perform such recognition in advance, provided that at least 20% or the total residual amount is recognized in the respective year.

Credit institutions that apply any of the aforementioned options should disclose the adjustments derived from applying the option in question in the public financial reporting communications for the years 2016 and up to that in which the gradual recognition of the aforementioned effects is concluded.

Improvements to NIF 2016:

Improvements generating accounting changes -

NIF B-7, *Business Acquisitions* – Clarifies that the acquisition and/or merger of entities under common control, and the acquisition of noncontrolling equity or the sale without losing control of the subsidiary, are outside the scope of this NIF, regardless of how the amount of the consideration was determined.

NIF C-1, *Cash and Cash Equivalents* and NIF B-2, *Statement of cash flows* **–** Modified to consider foreign currency as cash and not as cash equivalents. Clarifies that both the initial and subsequent valuation of cash equivalents must be at fair value.

Bulletin C-2, *Financial Instruments and Document of Amendments to Bulletin C-2 –*

a) The definition of financial instruments available-for-sale is modified to clarify that they are those in which investment is made from time to time with the intention of trading them over the medium-term prior to maturity, so as to obtain profits based on changes in market value, and not only through their related returns.

b) Criteria for classifying a financial instrument as available-for-sale is clarified to prohibit such classification when i) the intention is to hold it for an indefinite period, ii) the entity is willing to sell the financial instrument, iii) it has a sale or redemption option on the instrument, and iv) the issuer of the instrument has the right to liquidate the financial instrument at an amount significantly lower than its amortized cost.

   The concept of acquisition costs is eliminated and the definition of transaction costs is incorporated.

c) The reversal of impairment losses from financial instruments held to maturity is allowed, in the net income or loss for the period.

NIF C-7, *Investments in Associates, Joint Ventures and Other Permanent Investments* – Establishes that contributions in kind should be recognized at the fair value that was negotiated between owners or shareholders, unless they are the result of debt capitalization, in which case they should be recognized for the capitalized amount.

Bulletin C-10, *Financial Derivatives and Hedge Transactions-*

a) The method to be used to measure the effectiveness should be defined, which should be evaluated at the beginning of the hedge, in the following periods and at the date of the financial statements.
b) Clarifies how to designate a primary position.

c) The accounting for the transaction costs of a financial derivative is modified to be recognized directly in the net income or loss of the period at acquisition, and not deferred and amortized during its effective term.

d) Clarifications are made on the recognition of embedded derivatives.

The following improvements were issued which do not generate accounting changes:

NIF C-19, *Financial Instruments Payable (FIP)* - Clarifications are made with regard to: i) the definition of transaction costs, ii) when amortization of the transaction costs should be recalculated, iii) the entity should demonstrate, as support for its accounting policy, that it complies with the conditions for designating a financial liability at fair value through net income or loss, and iv) disclosing the gain or loss when an FIP is derecognized and the fair values of significant long-term fixed-rate liabilities. Furthermore, an appendix is incorporated as support in the determination of the effective interest rate.

NIF C-20, *Financial Instruments Receivable* – Changes are incorporated to clarify and explain various concepts due to the issuance of the new NIF related to financial instruments and the final issuance of IFRS 9, *Financial Instruments*. The most important of these include: transaction costs and related amortization, effective interest rate, impairment, foreign-currency instruments, reclassification between fair value debt instruments and financial instruments receivable, the time value value of money and disclosure of qualitative and quantitative information.

The adoption of the aforementioned guidance did not have a material effect on the Institution's consolidated financial statements.

Changes in accounting estimates applicable in 2015

Methodology for the determination of the allowance for loan losses applicable to the consumer loan portfolio

On August 27, 2015, the Commission issued a Resolution which modifies the Provisions for Credit Institutions and results in various changes to the methodology for classifying consumer loan portfolio in order to adopt an expected loss model for such portfolio, as well as for certain guarantees.

For such consumer loans, the Commission believes it advisable to recognize the guarantee schemes known as pari passu, or first losses, for such portfolio classification in order to eliminate regulatory inconsistencies.

This change in estimate did not have a material effect on the Institution's consolidated financial statements as of December 31, 2015.

Methodology for the determination of the allowance for loan losses applicable to loans granted under the Commercial Bankruptcies Law

On August 27, 2015, the Commission issued a Resolution which modifies the Provisions for Credit Institutions, indicating the term during which credit institutions may continue to use the methodology for the allowance for expected losses due to credit risks related to loans granted to borrowers declared commercially bankrupt with a prior restructuring plan. This Resolution establishes that once an agreement is adopted between the borrower and the recognized lenders, or the bankruptcy of the borrower is determined in accordance with the Commercial Bankruptcies Law, such methodology can no longer be applied.

Authorization may be requested from the Commission to continue using the methodology to determine allowances for expected losses for loans granted to borrowers declared commercially bankrupt with a prior restructuring plan for a term not to exceed six months from the adoption of the agreement.

This change in estimate did not have a material effect on the Institution's consolidated financial statements as of December 31, 2015.

Special accounting criteria applicable in 2016

Support for loans to Petróleos Mexicanos ("PEMEX")

Through Document No. P021/2016 of May 2, 2016 and in relation to the systemic circumstances that arose as a result of the budgetary adjustments to which PEMEX has been subject, the Commission considers that this situation is temporary and therefore authorized the application of special accounting criteria to the following items:

- Consumer and housing loans.
- Commercial loans granted to individuals and entities with annual sales of less than $250 in 2015.
- Entities with domiciles in Campeche, Chiapas, Tabasco, Tamaulipas and Veracruz.
- Commercial loans with annual sales of less than $250 in 2015 and with revenues that are primarily derived from the domestic oil sector.

For accounting purposes, all the above cases must be classified as valid when the grace period is extended or granted.

Support for borrowers is comprised of the following:

- Establish support programs to defer payments, which must not exceed the original period by more than 12 months. Programs must be applied no later than December 31, 2016.
- Under the auspices of this Document, these transactions will not be considered as restructuring processes or renewals.
- Loans that are eligible to participate in this program must be classified as valid for accounting purposes at the date of execution, in conformity with paragraph 12 of Criterion B-6, "Loan Portfolio", of the Provisions issued by the Commission.

The special accounting criteria applicable to the Institution, by loan type, are as follows:

- Loans with a "*single principal payment at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity"*, which are restructured or renewed, will not be considered as part of the non-performing portfolio according to paragraph 79 of Criterion B-6, "Loan Portfolio".
- Loans with "*periodic principal and interest payments"* that are restructured or renewed shall be considered as performing when this act takes place, without applying the terms of paragraphs 82 and 84 of Criterion B-6, "Loan Portfolio".
- Loans granted under the auspices of a credit line, whether revolving or otherwise, which are restructured or renewed, shall not be considered as part of non-performing portfolio in conformity with paragraphs 80 and 81 of Criterion B-6, "Loan Portfolio".
- The loans referred to in the preceding items shall not be classified as restructured according to the terms of paragraph 40 of Criterion B-6, "Loan Portfolio".

Accordingly, at December 31, 2016, the performing portfolio would have decreased by the amount of $982, because the balances of the loans that received support would have been classified in the non-performing portfolio had they not been deferred. The effect on results derived from the creation of allowances for loan losses would have been approximately $430. The Delinquency Rate ("IMOR") would have generated an effect of 10 basis points, while the effect on the Capitalization Ratio ("ICAP") would have been insignificant.

The total balance, by loan type, of loans with balances at December 31, 2016, which will be deferred as of the date on which program application effects arise, is indicated below:

Item	**Number of Accounts**	**Balance**
Commercial portfolio	4	$ 32
Mortgage portfolio	1,635	935
Credit card	273	14
Non-revolving consumer	3,828	439
SME	171	148
Total	5,911	$ 1,568

Special accounting criteria applicable in 2015

Special accounting criteria applicable to the loans subject to the support resulting from the floods caused by the hurricane "Patricia"

Support offered in connection with natural disasters

In Official Notice No. P-071/2015 dated November 9, 2015, the Commission authorized credit institutions to apply special accounting criteria in order to support customers who reside in or whose income is sourced in places that have been declared "disaster zones" as a result of Hurricane "Patricia" and at the same time to ensure stability. It also indicates that the benefits must be documented within 120 days after the date of the incident.

The application of the support to the borrowers consists of the partial or total deferral of payment of principal and/or interest for up to three months, provided that the borrowers have been classified for accounting purposes as performing at the date of the incident, as established in Paragraph 8 of Accounting Criterion B-6 "Loan Portfolio" of the Regulations issued by the Commission.

The special accounting criteria applicable to the Institution, by type of loan, are as follows:

Loans with "a single payment of principal at maturity and periodic payments of interest, and loans with a single payment of principal and interest at maturity", which are restructured or renewed, will not be considered as non-performing portfolio in accordance with paragraph 56 of Criterion B-6 "Loan Portfolio".

Loans with "periodic payments of principal and interest", which are restructured or renewed, may be considered as performing at the time such event takes place, without having to apply the requirements of paragraphs 57 and 59 of Criterion B-6 "Loan Portfolio".

Loans classified as revolving from the start, which are restructured or renewed, will not be considered as non-performing portfolio under paragraph 61 of Criterion B-6 "Loan Portfolio".

The aforementioned loans will not be considered as restructured in accordance with paragraph 26 of Criterion B-6 "Loan Portfolio".

Without the relief offered by the special accounting criteria, the performing portfolio reported in the balance sheet would have been reduced by $16, while the allowance for loan losses would have increased by approximately $1, due to the fact that loans receiving support would have been classified in non-performing portfolio if the deferral had not been applied.

Below we detail, by type of loan, the amount subject to deferral and the total amount of the loans:

Type of portfolio	**No. of Cases**	**Amount deferred**	**Total amount of the loan**
Mortgage loans	17	$ 1	$ 27

Reclassifications - At December 31, 2015, the consolidated balance sheet was reclassified to reflect the presentation utilized for the following headings of the consolidated financial statements at December 31, 2016:

- From "Demand deposits", for the amount of $2,501, to the "Inactive global deposits account".
- From "Deposits", for the amount of $546, to the "Other payables" account, for receivable credit card balances.

The 2015 consolidated cash flow statement was modified to reflect these reclassifications.

Recognition of the effects of the inflation in the financial statements - Beginning January 1, 2008, the Institution discontinued recognition of the effects of inflation, in conformity with the guidance in NIF B-10. Through December 31, 2007, such recognition resulted mainly in inflationary gains or losses on non-monetary and monetary items, which are presented in the consolidated financial statements as an increase or decrease in stockholders' equity accounts, and also in nonmonetary items.

The accumulated inflation of the three years prior to 2016 and 2015, measured through the value of the Investment Units (UDI), is 10.39% and 12.34%, respectively, for which reason the economic environment in both years is classified as noninflationary. As discussed previously, the cumulative effects of inflation up to December 31, 2007 are maintained in the accounting records of the consolidated balance sheets as of December 31, 2016 and 2015.

The inflation percentages for the years ended December 31, 2016, 2015 and 2014 were 3.38%, 2.10% and 4.18%, respectively; therefore, the economic environment qualifies as non-inflationary in all of these years.

Offsetting of financial assets and financial liabilities- Financial assets and financial liabilities may be offset in such a way that the debit or credit balance, as the case may be, is presented on the consolidated balance sheet, if and only if, there is a contractual right to offset the amounts recognized and the intention to settle the net amount, or to realize the asset and cancel the liability simultaneously.

Funds available - Cash and cash equivalents are recorded at nominal value, except for silver and gold coins, which are stated at their fair value at each period-end. Cash held in foreign currency is valued at the exchange rate published at year end by the Central Bank of Mexico.

The foreign currencies acquired whose settlement is agreed at a date after the completion of the purchase and sale transaction will be recognized at such transaction date as restricted funds available (foreign currencies to be received), whereas the foreign currencies sold will be recorded as a disbursement of funds available (foreign currencies to be delivered). The counterparty must be a settlement account, either credit or debit, as the case may be. This heading also includes interbank loan transactions agreed at a term of less than or equal to three business days, as well as other funds available, such as correspondent funds and liquid notes and deposits with Central Bank of Mexico, the latter include the monetary regulation deposits that the Institution must maintain according to the provisions issued by the Bank of Mexico to regulate money market liquidity.

Margin accounts- The margin accounts granted in cash (and in other assets equivalent to cash) required from the entities as a result of performing transactions with financial derivatives in recognized markets or stock exchanges are recorded at their nominal value.

For those margin accounts assigned to the clearinghouse different from cash, as would be the case of debt instruments or share certificates, where the clearinghouse has the right to sell or pledge the financial assets which make up such margin accounts, the financial asset pledged is presented as restricted, and the valuation and disclosure standards are followed in conformity with the respective accounting treatment according to its nature.

Margin accounts are intended to procure compliance with the obligations derived from transactions with financial derivatives performed in recognized markets and stock exchanges and refer to the initial margin, contributions and subsequent retirements made during the effective term of the respective contracts.

Investment in securities –

– *Trading securities -*

Trading securities are those securities in which the Institution invests to take advantage of short-term market fluctuations. The transaction costs for the acquisition of the securities are recognized in results of the year on the acquisition date. These securities are stated at fair value (which includes the discount or markup, as the case may be) in conformity with the following guidelines:

Debt instruments –

Debt instruments are valued at fair value, which must include both the principal and accrued interest. Interest earned is determined based on the effective interest method.

Equity instruments-

Equity instruments are valued at their fair value. In the case of securities registered with the National Securities Registry (RNV) or authorized, registered or regulated in markets recognized by the Commission. Gains or losses resulting from valuation are recognized in the consolidated statement of income.

Value date transactions-

This heading records the "Value date transactions" which refer to purchase-sale transactions of securities assigned but not settled, which are valued and recorded as negotiable instruments, recording the reception and departure of the instrument subject matter of the transaction at the time it is performed against the respective debit or credit settlement account. If the amount of the negotiable instruments is insufficient to cover the amount of the securities to be delivered for these operations, the credit balance is presented under the heading "Securities assigned to be settled".

– *Securities available-for-sale:*

Securities available-for-sale consist of debt instruments and equity securities acquired with an intention other than obtaining gains from trading them on the market or holding them to maturity. The transaction costs for the acquisition of the securities are recognized as part of the investment. These securities are valued in the same manner as trading securities with unrealized valuation gains or losses recognized in stockholders' equity.

– *Securities held to maturity:*

Securities held to maturity are debt instruments with fixed or determinable payments or an established maturity acquired with both the intent and the capacity of holding them to maturity. These instruments are initially recorded at fair value, which presumably reflects the agreed price, plus the transaction costs for the acquisition of securities. They are subsequently accounted for using amortized cost, thus affecting the results of the year based on accrued interest and the discount or markup received or paid for their acquisition according to the effective interest method.

The Institution determines the increase or decrease from appraisal at fair value using restated prices provided by the price supplier, who uses different market factors in its determination.

Cash dividends of share certificates are recognized in the results for the year in the same period in which the right to receive the related payment is generated.

The exchange gain or loss on investments in securities in foreign currencies is recognized in results for the year.

The accounting criteria issued by the Commission permit the transfer of securities classified as "held to maturity" to the category of "securities available-for-sale", provided the Institution ceases to have the intention or capacity to hold them to maturity.

Also, such criteria allow for reclassifications to be made to the category of "Securities held to maturity", and from "Trading securities" to "Securities available-for-sale", under extraordinary circumstances, subject to the prior assessment and express authorization of the Commission.

Impairment - The Institution must assess whether there is objective evidence regarding the impairment of a security at the consolidated balance sheet date.

A security is only considered to be impaired and, accordingly, an impairment loss is only incurred when there is objective evidence of this impairment as a result of one or more events which occurred after its initial recognition, which affected estimated future cash flows and can be reliably determined. It is unusual that a single event is determined as the sole cause of impairment, and it is more common that impairment results from the combined effect of different events. The losses expected as the result of future events are not recognized, regardless of their probability.

The objective evidence that a credit instrument is impaired includes observable information, among others, about the following events:

a) Significant financial difficulties of the issuer of the security;
b) It is probable that the issuer of the security will be declared bankrupt or undergo another type of financial reorganization;
c) Default on contractual clauses, such as nonpayment of interest or principal;
d) The disappearance of an active market for the credit instrument in question due to financial difficulties or
e) Measurable reduction in the estimated future cash flows of the group of securities as of the initial recognition of such assets, although the reduction cannot be identified with the individual securities of the group, including:

    i. adverse changes in the payment status of the issuers in the group, or
    ii. local or national economic conditions which are correlated with defaults in the securities of the group.

As of December 31, 2016 and 2015, management has not identified objective evidence of impairment of any securities.

Repurchase transactions - Repurchase agreements are recorded as follows:

At the contracting date of the repurchase transaction, when the Institution is the selling party, the entry of cash or a debit settlement account, and an account payable at fair value, initially at the agreed-upon price, are recorded and represent the obligation to restitute cash to the repurchasing party. Subsequently, during the term of the repurchase transaction, the account payable is valued at amortized cost by recognizing the interest on the repurchase agreement using the effective interest method in results of the year.

In relation to the collateral granted, the Institution will reclassify the financial assets in its balance sheet as restricted, which will be valued based on the criteria described above in this note until the maturity of the repurchase transaction.

When the Institution acts as purchasing party, the withdrawal of funds available is recognized on the contracting date of the repurchase transaction or a credit settlement account, with an account receivable recorded at fair value, initially at the price agreed, which represents the right to recover the cash paid. The account receivable will be valued subsequently during the term of the repurchase agreement at amortized cost through the recognition of interest on the repurchase agreement based on the effective interest method in the results of the year.

The Institution recognizes the collateral received in memorandum accounts, following the guidelines for valuation established in accounting criterion B-9, “Custody and Administration of Assets (B-9)”, until the maturity of the transaction.

Collateral granted and received other than cash in repurchase agreements - In relation to the collateral in repurchase transactions granted by the seller to the buyer (other than cash), the buyer recognizes the collateral received in memorandum accounts, by following the guidelines on custody transactions established in accounting criterion B-9. The selling party reclassifies the financial asset on its consolidated balance sheet, and it is presented as restricted, for which purpose the standards for valuation, presentation and disclosure are followed in accordance with the respective accounting treatment.

When the buyer sells the collateral or provides it as a guarantee, the proceeds from the transaction are recognized, as well as an account payable for the obligation to repay the collateral to the selling party (measured initially at the price agreed), which is valued at fair value for its sale, or, if it is given as guarantee in another repurchase transaction, at its amortized cost, (any spread between the price received and the value of the account payable is recognized in results of the year).

Furthermore, if the buyer then becomes a seller for another repurchase transaction using the same collateral received as guarantee for the initial transaction, the repurchase interest agreed in the second transaction must be recognized in results of the year as it is accrued, in accordance with the effective interest method, adjusting the account payable valued at amortized cost as mentioned above.

The memorandum accounts recorded for collateral received by the buyer are cancelled when the repurchase transaction reaches maturity or there is a default on the part of the seller.

For transactions in which the buyer sells or in turn provides the collateral received as guarantee (for example, when another repurchase or securities loan transaction is agreed), the control of such sold or pledged collateral is performed in memorandum accounts, by applying for valuation purposes the standards for custody transactions established in accounting criterion B-9.

The memorandum accounts recorded for collateral received which were in turn sold or pledged by the buyer, are canceled when the collateral sold is acquired to repay it to the seller, or when the second transaction in which the collateral was granted reaches maturity or there is a default on the part of the counterparty.

Securities loans - Securities loans are transactions in which the transfer of securities is agreed from the lender to the borrower, with the obligation to return such securities or other substantially similar ones on a given date or as requested, in exchange for a premium as consideration. In these transactions, a collateral or guarantee is requested by the lender from the borrower.

At the contracting date of the securities loan, when the Institution acts as lender, it records the security subject matter of the loan transferred to the borrower as restricted, for which purpose the standards for valuation, presentation and disclosure, based on the respective accounting treatment, are followed. Furthermore, the collateral received that guarantees the securities loaned is recorded in memorandum accounts.

The amount of the premium earned is recognized in results of the year through the effective interest method during the term of the transaction.

When it acts as the borrower, at the contracting date of the securities loan, the Institution records the security subject matter of the loan received in memorandum accounts, following the valuation guidelines for the securities recognized, in the account “Assets in custody or under administration”.

The security subject matter of the transaction received and the collateral received are presented in memorandum the heading of “Collateral received by the Institution”. The collateral received from other transactions are presented under the heading of “Collateral received and sold or pledged as guarantee by the Institution”.

Derivatives - The Institution carries out two different types of transactions:

– *Trading* - Consists of the position assumed by the Institution as market participant for purposes other than hedging open risk positions.

– *Hedging* - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions.

The Institution's policies require that for purposes of entering into derivative transactions, both trading parties must belong to the Financial System and have authorization from the Central Bank of Mexico to carry out this type of transaction, classifying and, if applicable, determining risk exposure lines. Prior to carrying out these transactions, corporate customers must be granted a credit line authorized by the Credit Risk Committee or provide readily realizable guarantees through the pertinent bond contracts. Transactions involving mid-sized and small businesses, as well as individuals, are carried out through readily realizable guarantees established in bond contracts.

The assets and/or liabilities arising from transactions with derivative financial instruments are recognized or cancelled in the consolidated financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset.

The Institution initially recognizes all derivatives (including those forming part of hedges) as assets or liabilities (depending on the rights and/or obligations they embody) in the consolidated balance sheet at fair value, which presumably reflects the price at which the transaction was agreed. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results under "Net gain on financial assets and liabilities".

All derivatives are subsequently valued at fair value without deducting the transaction costs incurred for their sale or other types of disposal; this valuation effect is then recognized in the results of the period under "Net gain on financial assets and liabilities".

Derivatives must be presented under a specific asset or liability heading depending on whether their fair value (as a consequence of the rights and/or obligations they embody) results in a debit or credit balance, respectively. These debit or credit balances can be offset as long as they comply with the offsetting rules established by the applicable accounting criterion.

In the consolidated balance sheet, the heading derivatives must be split between those held for trading and hedging purposes.

Trading transactions

– *Optional securities ("Warrants"):*

Optional securities are documents which represent a temporary right acquired by the holders in exchange for the payment of a premium for the issue in Shares or Indexes, whereby such right expires at the end of the effective term. Therefore, holding such securities implies recognition that the intrinsic value and the market price of the optional security in the secondary market may vary based on the market price of the reference assets.

– *Forwards and futures contracts*:

The balance represents the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus value and presented under assets; if negative, it is considered as a deficit and presented under liabilities.

– *Options:*

The balance represents the fair value of future cash flows to be received, and the valuation effects are recognized in results of the year.

The balance represents the fair value of future cash flows to be delivered, and the valuation effects are recognized in results of the year.

– *Swaps:*

The balance represents the difference between the fair value of the swap asset and liability.

Hedging transactions

Hedge derivatives are valued at market value, and the effect is recognized depending on the type of accounting hedge, as follows:

a. If they are fair value hedges, the primary hedged position is valued at market and the net effect of the derivative hedge instrument is recorded in results of the period under the heading “Net gain on financial assets and liabilities”.

b. If they are cash flow hedges, the hedge derivative is valued at market and the valuation of the effective part of the hedge is recorded in the account “Result from valuation of cash flow hedges”. The ineffective part is recorded in results of the period under the heading “Net gain on financial assets and liabilities”.

c. Hedges of a net investment in a foreign transaction that complies with all the conditions are accounted for in manner similar to cash flow hedges; the effective portion is recognized in stockholders equity and the ineffective portion is recognized in results.

Embedded derivatives **-** The Institution separates the embedded derivatives of structured notes, whereby the reference underlying is based on the exchange rate, price indexes, interest rate options with extendable periods and UMS bond price options..

In the case of debt and bond contracts in which the reference underlying is an interest rate with implied cap, floor and collar. The reference underlying’s are considered to be closely related to the host contract, and consequently, these items are not bifurcated. Accordingly, the main contract issued for debt and bonds is recorded based on the applicable criteria to each contract, at the amortized cost in both cases.

Collateral granted and received in derivatives transactions not performed in recognized markets or stock exchanges - The account receivable generated for cash collateral provided in derivative transactions not performed in recognized markets or stock exchanges is presented under the heading “Other accounts receivable”, whereas the account payable generated for the reception of collateral provided in cash is presented under the heading “Sundry creditors and other accounts payable”.

Collateral delivered in credit instruments is recorded as restricted securities for guarantees, and collateral received in credit instruments for derivative transactions is recorded in memorandum accounts.

Loan portfolio **-** The balances in the loan portfolio represent the amounts disbursed to borrowers, less repayments made to date, plus accrued but unpaid interest. The “Allowance for loan losses” is presented as a deduction from the total loan balance

The Institution classifies its portfolio under the following headings:

a. *Commercial:* Direct or contingent loans, including bridge loans, denominated in Mexican pesos or foreign currency, as well as any accrued interest, granted to corporations or individuals with business activities and used in relation to commercial or financial activities; includes loans granted to financial institutions, excluding interbank loans with maturities of less than three business days, loans related to factoring transactions and loans related to finance lease transactions which are entered into with such corporations or individuals; loans granted to trustees who act on behalf of trusts and credit schemes commonly referred to as “structured” transactions in which there is a change in net assets that allows for the individual assessment of the risk associated with the scheme. Also included are loans granted to States, Municipalities and decentralized agencies.

b. *Home mortgages:* Direct loans denominated in Mexican pesos, foreign currency, Investment Units or multiples of the minimum wage ("VSM"), as well as any accrued interest, granted to individuals and used for the acquisition, construction, remodeling or improvement of housing, for non-businesss purposes; includes equity loans secured by the home of the borrower and home mortgage loans granted to former employees who rendered services to the credit institution.

c. *Consumer:* Direct loans, denominated in Mexican pesos or foreign currency, as well as any accrued interest, granted to individuals in relation to credit card operations, personal loans, payroll transactions (excluding those granted through a credit card), loans for the acquisition of consumer durables and finance lease transactions entered into with individuals; includes consumer loans granted to former employees who rendered services to the credit institution.

Performing loans – The Institution has the following criteria to classify the loans as performing portfolio:

- Loans that are current in the payments of both principal and interest.
- Loans that do not exhibit characteristics of non-performing portfolio.
- Restructured or renewed loans which have evidence of sustained payment.

Non-performing loan portfolio - The Institution applies the following criteria to classify outstanding 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.
- If debts are composed by revolving credits with two outstanding monthly billing periods or, if the billing period is not monthly, when payments have been outstanding for 60 or more days.
- Mortgage loans with periodic partial payments of principal and interest and are considered non-performing when a payment is 90 days or more in arrears.
- 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, except for the following:

  i. Loans on which the Institution continues to collect payments under the terms of the fraction VIII, article 43 of the Commercial Bankruptcy Law.
  ii. Loans that are granted under the terms of article 75 in relation with the fractions II and III of article 224 of the Commercial Bankruptcy Law.

- Immediate payment documents referred to by Accounting Criterion B-1, "Funds Available", of the Commission when not collected within the allotted period of time (2 or 5 days as appropriate).

Non-performing portfolio which are restructured or renewed will remain in non-performing portfolio until there is evidence of sustained payment; i.e., payment by the borrower without arrears for the total amount of principal and interest due and payable for at least three consecutive installments in accordance with the loan payment scheme, or, in the case of loans 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.

The loan payments referred to in the preceding paragraph must cover at least 20% of principal or the total amount of any interest accrued under payment restructuring or renewal schemes. However, accrued interest recognized in memoranda accounts is not considered for this purpose.

Furthermore, loans with a single payment of principal upon maturity and periodic payments of interest that are restructured or renewed during the credit term are classified as non-performing portfolio, until there is evidence of sustained payment. This includes loans for which at least 80% of the original term of the loan has not elapsed, loans for which payments received have not covered the total amount of accrued interest or covered the principal of the original amount of the loan, and loans that would have been settled as of the date of renewal or restructuring in question.

The accrual of interest is suspended at the time the loan is classified as non-performing portfolio, including those loans which, in accordance with the respective contract, capitalize interest to the amount of the debt. While a loan remains in the non-performing portfolio, accrued interest is recorded in memoranda accounts. When interest on non-performing portfolio is collected, it is recognized directly in the results of the year under the heading “Interest income”.

With regard to ordinary uncollected accrued interest on loans that are classified as non-performing portfolio, the Institution creates an allowance for the total amount of accrued interest outstanding at the time the loan is transferred to non-performing portfolio.

Acquisitions of loan portfolio - On the acquisition date, acquired loan portfolio must be measured based on the contractual value of the portfolio and the same portfolio classification used by the originator; any difference arising in relation to the acquisition price is recorded as follows:

a) When the acquisition price is lower than the portfolio’s contractual value, the difference is recognized in results of the year under the heading “Other operating income (expense)”, up to the amount of the allowance for loan losses recognized in accordance with the Commission’s rules, and any remaining amount as a deferred credit, which will be amortized on a proportional basis in relation to the contractual value of the loan;

b) When the acquisition price of the portfolio is higher than its contractual value, a deferred charge is recognized, which will be amortized on a proportional basis in relation to the contractual value of the loan;

c) Regarding the acquisition of revolving credits, such difference will be recognized directly to results of the year on the acquisition date.

Financial asset derecognition– The Institution only derecognizes a financial asset when the related contractual rights expire or when the Institution transfers the financial asset because: a) the contractual rights to receive the cash flows derived from the financial asset are transferred, or b) the contractual rights to receive the cash flows derived from the financial asset are retained, while assuming the contractual obligation to pay these cash flows to a third party.

When a portion of the financial asset is derecognized, the Institution must:

a) Derecognize the portion of the transferred financial asset based on the most recent book value, including, if applicable, the proportional part of the estimates and/or supplementary accounts associated with the financial asset. If applicable, the respective proportion of the unapplied or unrecognized effects associated with the financial asset must be recognized in the results of the year.
b) Recognize the payments received from or incurred by the transaction, while considering any new financial assets and assumed obligations at fair value.
c) For recognition purposes, the Institution utilizes an accounting criterion reflecting the nature of the payment in question.
d) The Institution recognizes in the results of the year the gain or loss derived from the difference between the book value of the eliminated portion of the financial asset and the sum of (i) the received or incurred payments (recognized at fair value) and (ii) the effect (profit or loss) resulting from the accrued valuation recognized in stockholders’ equity’ and attributable to this portion.

Allowance for loan losses -

The Institution recognizes the allowance for loan losses based on the following:

– *Commercial loan portfolio:*

The amount of the allowance for loan losses on each loan is determined by applying the following formula:

$$R_i = PI_i \times SP_i \times EI_i$$

In which:

Ri =	Amount of the allowance for loan losses to be created for the nth loan.
PIi =	Probability of Default of the nth loan.
SPi =	Severity of the Loss on the nth loan.
EIi =	*Exposure to Default on the nth loan.*

The amount of the allowance for loan losses on each loan is determined by applying the following formula:

$$PI_i = \frac{1}{1 + e^{-(500 - TotalCreditScore_i) \times \frac{\ln(2)}{40}}}$$

For purposes of the above:

The total credit score of each borrower will be obtained by applying the following formula:

$$TotalCreditScore_i = \alpha \times (QuantitativeCreditScore_i) + (1 - \alpha) \times (QualitativeCreditScore_i)$$

Where:

Quantitative credit score$_i$ =	Is the score obtained for the nth borrower when evaluating the risk factors.
Qualitative credit score$_i$ =	Is the score obtained for the nth borrower when evaluating the risk factors.
α =	Is the relative weight of the quantitative credit score.

Unsecured loans-

The Severity of the Loss (SP_i) of commercial loans which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a) 45%, for Preferred Positions.
b) 75%, for Subordinated Positions, in the case of syndicated loans, those which for purposes of their priority of payment are contractually subordinated in relation to other creditors.
c) 100%, for loans which are 18 months or more in arrears for the amount due and payable under the original terms.

The Exposure to Default of each loan (EIi) will be determined based on the following:

I. For disposed balances of uncommitted credit lines which may be canceled unconditionally or which in practice allow for an automatic cancellation at any time and without prior notice:

$$EI_i = S_i$$

II. For other credit lines:

$$EI_i = S_i * Max\left\{\left(\frac{S_i}{AuthorizedLineofCredit}\right)^{-0.5794}, 100\%\right\}$$

Where:

Si: The unpaid balance of the nth loan at the classification date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted. In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.

Authorized Line of Credit: The maximum authorized amount of the line of credit at the classification date.

The Institution may recognize the security interests in real property, or personal or credit-derived collateral in the estimate of the Severity of the Loss of the loans, with the aim of decreasing the reserves derived from the portfolio classification. In any case, it may elect not to recognize the credit enhancements if larger reserves are generated as a result. For such purpose, the Regulations established by the Commission are applied.

Loans granted under the terms of the Commercial Bankruptcy Law

This methodology mainly contemplates the consideration of collateral created under the terms of article 75 of the Commercial Bankruptcy Law for the determination of the Severity of the Loss by applying certain adjustment factors or discount percentages applicable to each type of admissible security interest based on personal or real property.

Pursuant to the foregoing, in the case of loans granted under the terms of section II of article 224 of the Commercial Bankruptcy Law, the Severity of the Loss will be subject to the following treatment:

$$\left(\left(\frac{\quad}{\quad} \right) \right)$$

Where:

Collateral = Any collateral created under the terms of article 75 of the Commercial Bankruptcy Law by applying, as the case may be, adjustment factors or discount percentages for each type of admissible security interest based on personal or real property.

Adjusted Estate = The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in article 224, section I of the aforementioned Law and applying a 40% discount to the resulting amount.

Si = Unpaid balance of the loans granted under the terms of article 224, section II of the Commercial Bankruptcy Law at the classification date.

In the case of loans granted under the terms of article 224, section III of the Commercial Bankruptcy Law, the Severity of the Loss will be subject to the following treatment:

$$\left(\left(\frac{\quad}{\quad} \right) \right)$$

Where:

Adjusted Estate' = The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in sections I and II of article 224 of the aforementioned Law and applying a 40% discount to the resulting amount.

Si = Unpaid balance of the loans granted under the terms of article 224, section III of the Commercial Bankruptcy Law at the classification date."

In Document 121-1/116843-2014 and 121-1/116844-2014 dated April 21, 2014, the Commission granted authorization to apply new parameters for the classification for the Business (with annual sales above 50 million pesos) and Other Enterprises portfolio, which were applied since April, 2014.

In Document 121-1/118709/2016 and 121-1/118708/2016 dated February 9 and 10, 2016, the Commission granted authorization to apply new parameters for the classification for the Business and Other Enterprises portfolio used in its "Expected Loss Internal Methodology", which were applied since February 2016.

The internally developed methodology consists of the calculation of the expected loss of 12 months with the following concepts:

- Probability of Default – Based on a rating determined based on the financial information of the companies and 100% for non-performing portfolio.

- Severity of Loss – Calculated based on the collateral and time in default.

The Institution records the respective allowances for loan losses monthly, applying the results of the classification made quarterly to the balance of the debt recorded on the final day of each month.

The allowances for the losses from the commercial loan portfolio created by the Institution as a result of the classification of each loan are classified in accordance with the following percentages:

Risk Level	Percentages Ranges Loss Reserves		
A1	0%	to	0.90%
A2	0.901%	to	1.50%
B1	1.501%	to	2.00%
B2	2.001%	to	2.50%
B3	2.501%	to	5.00%
C1	5.001%	to	10.00%
C2	10.001%	to	15.50%
D	15.001%	to	45.00%
E	More	to	45.00%

– *Portfolio of States and Municipalities:*

When classifying the loan portfolio of States and Municipalities, the Institution considers the Probability of Default, Severity of the Loss and Exposure to Default, while also classifying the aforementioned portfolio of States and Municipalities into different groups and establishing different variables for the estimation of the probability of default of the commercial portfolio in relation to loans granted to States and Municipalities.

The allowance for loan losses of each loan will be determined using the following formula:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

Ri =	The amount of the allowance for loan losses to be created for the nth loan.
PIi =	Probability of Default of the nth loan.
SPi =	Severity of the Loss of the nth loan.
EIi =	Exposure to Default of the nth loan.

The probability of default of each loan (PIi) will be calculated according to the following formula:

$$PI_i = \frac{1}{1 + e^{-(500 - TotalCreditScore_i) \times \frac{\ln(2)}{40}}}$$

For purposes of obtaining the respective PIi, the total credit score of each borrower is calculated by applying the following formula:

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 =	Average days in arrears with banking institutions (IFB) + % of on time payments with IFB + % of on time payments with non-bank financial institutions.
IB =	Number of ratings agencies recognized in accordance with the provisions which provide a classification to the State or Municipality.
IC =	Total debt to eligible participations + debt service to adjusted total revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + proprietary revenues to total revenues.
IIA =	Local unemployment rate + presence of financial services of regulated entities.
IIB =	Contingent obligations derived from retirement benefits to adjusted total revenues + operating balance sheet to local Gross Domestic Product + level and efficiency of collections + robustness and flexibility of the regulatory and institutional framework for budget approval and execution + robustness and flexibility of the regulatory and institutional framework for approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the stock market.

– *Unsecured loans -*

The Severity of the Loss (SPi) of the loans granted to States or Municipalities which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a. 45%, for Preferred Positions.
b. 100%, for Subordinated Positions or when the loan is 18 months or more in arrears for the amount due and payable under the original terms.

The Exposure to Default of each loan (EIi) will be determined based on the following:

$$EI_i = S_i * Max\left\{\left(\frac{S_i}{Autorized\ Line\ of\ Credit}\right)^{-0.5794}, 100\%\right\}$$

Si = The unpaid balance of the nth loan at the classification date, which represents the amount of loan granted to the borrower, adjusted for interest accrued, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted. In any case, the amount subject to the classification must not include uncollected accrued interest, recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.

Authorized Line of Credit = The maximum authorized amount of the credit line at the classification date.

The Institution may recognize the security interests in real property, or personal or credit-derived collateral in the estimation of the Severity of the Loss of the loans, for the purpose of reducing the allowance for loan losses derived from the portfolio classification. For such purpose, the provisions established by the Commission are applied.

Admissible security interests in real property may be financial and nonfinancial. Furthermore, only those security interests in real property which comply with the requirements established by the Commission are recognized.

– *Mortgage portfolio:*

The Institution determines the allowance for loan losses related to the mortgage portfolio based on criteria established by the Commission, calculating the Probability of Default, Severity of Loss and Exposure (expected loss model) as of the classification date, according to the following:

- Probability of default: For portfolio with less than four payments in arrears, it is determined based on the number of late payments, the maximum delay in the last four monthly periods, the average payment commitment of the last seven periods, as well as the value of the credit enhancements with respect to the loans and the currency; and 100% if there are four or more late payments.
- Severity of loss: This is determined based on the value of the credit enhancement with respect to the loans and the means of formalizing the credit enhancement, and, in the case of unemployment insurance coverage, the balance of the housing subaccount.

The allowances for loan losses on the mortgage portfolios established by the Institution as the result of classifying the loans will be based on the following risk levels and percentages:

Risk Level	**Allowance Percentage Ranges for Loan Losses**		
A1	0%	to	0.50%
A2	0.501%	to	0.75%
B1	0.751%	to	1.00%
B2	1.001%	to	1.50%
B3	1.501%	to	2.00%
C1	2.001%	to	5.00%
C2	5.001%	to	10.00%
D	10.001%	to	40.00%
E	40.001%	to	100.00%

– *Consumer loan portfolio that does not include credit card operations:*

The Institution determines the allowance for loan losses related to non-revolving consumer portfolio as established by the Commission, calculating the Probability of Default, Severity of Loss and Exposure (expected loss model) as of the classification date, as follows:

- Probability of default: Depending on the payment periodicity and the type of loan, it is determined using variables such as the number of payments in arrears, the maximum length of arrears, average payment compliance, the remaining term and the number of times that the loan is paid or financed.
- Severity of loss: This is 65% for up to 10 months in arrears and 100% thereafter.
- Exposure refers to the balance as of the classification date excluding accrued interest but not collected for loans in non-performing portfolio.

Allowances for loan losses in the consumer portfolio, excluding credit card operations, are classified based on the following degrees of risk and percentages:

Level of risk	Allowance Percentage Ranges for Loan Losses		
A1	0%	to	2.00%
A2	2.01%	to	3.00%
B1	3.01%	to	4.00%
B2	4.01%	to	5.00%
B3	5.01%	to	6.00%
C1	6.01%	to	8.00%
C2	8.01%	to	15.00%
D	15.01%	to	35.00%
E	35.01%	to	100.00%

For this portfolio, general reserves were considered in risk “A” rating. The specific reserves were the ones with risk rating of “B” or above.

– *Consumer credit card loan portfolio:*

The Commission approved the Institution’s request to apply an internal credit card rating model per Document 111-1/69930/2009 on June 22, 2009, which has been applied from the month of August 2009.

In Document 121-1/118710/2016 dated February 3, 2016, the Commission granted authorization to apply new parameters for the classification of revolving consumer loan portfolio used in its “Expected Loss Internal Methodology”, which were applied starting on February 2016.

The internally developed rating methodology involves calculating the expected 12-month loss based on the following:

- The internally developed rating methodology involves calculating the expected 12-month loss based on the following:
- Non-compliance probability - Based on variables including portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.
- Loss severity - Is calculated based on variables such as portfolio type, balance aging and noncompliance period.
- Exposure - Is determined according to the credit limit and current balance.

The allowance for credit card losses created by the Institution following this credit rating process is classified according to the following risk level and percentages:

Level of risk	Allowance Percentage Ranges for Loan Losses		
A1	0%	to	3.00%
A2	3.01%	to	5.00%
B1	5.01%	to	6.50%
B2	6.51%	to	8.00%
B3	8.01%	to	10.00%
C1	10.01%	to	15.00%
C2	15.01%	to	35.00%
D	35.01%	to	75.00%
E	More than	to	75.01%

As of December 31, 2016 and 2015, the classification and creation of the allowance for loan losses of the consumer loan portfolio is performed with figures as of the last day of each month and is presented to the Commission at the latest as of the 30 days following the month classified, in accordance with the reserve percentages applicable to each type of portfolio, as indicated above.

Additionally, a reserve is recognized for the total amount of the uncollected interest earned applicable to loans that are classified within non-performing portfolio.

Additional reserves:

The additional reserves established by the Institution reflect internal rating models, mainly for mortgage loans, which consists of applying specific percentages (expected loss) to the unpaid balance of the debtor.

Restructuring and renewal processes

A restructuring process is a transaction derived from any of the following situations:

a) The extension of credit enhancements given for the loan in question, or

b) The modification of original credit or payment scheme conditions, which include:

- the modification of the interest rate established for the remainder of the loan period;
- the change of currency or account unit, or
- the concession of a grace period regarding the payment obligations detailed
- in the original credit terms, unless this concession is granted after the originally- agreed period, in which case it is considered as a renewal.

Restructuring transactions do not include those which, at the restructuring date, indicate payment compliance for the total amount due for principal and interest and which only modify one or more of the following original credit conditions:

Credit enhancements: only when they imply the extension or substitution of credit enhancements for others of higher quality.

Interest rate: when the agreed interest rate improves.

Currency: provided the respective rate is applied to the new currency.

Payment date: only if the change does not mean exceeding or modifying payment periodicity. Modifying the payment date must not permit nonpayment in any given period.

A renewal is a transaction which extends the loan duration or maturity date or when the loan is paid at any time by using the proceeds of another loan contracted with the same entity in which one of the parties is the same debtor or another individual or entity with equity shareholding relationships thereby constituting a joint risk. A loan is not considered to be renewed when disbursements are made during the term of a pre-established credit line.

Restructured or renewed non-performing loans remain in the non-performing portfolio until evidence of sustained payment is obtained; i.e., timely borrower payment compliance in relation to the total principal and accrued interest due, with a minimum of three consecutive payments in accordance with the loan payment scheme or, in the case of loans with payment periods exceeding 60 calendar days, the settlement of one payment, as established by the accounting criterion issued by the Commission.

The loan payments referred to by the preceding paragraph must cover at least 20% of principal or any interest accrued under the restructuring or renewal payment scheme. Accrued interest recognized in memoranda accounts is not considered for this purpose.

If a restructuring or renewable process is used to consolidate different loans granted to the same borrower in a single loan the treatment applied to the total debt balance resulting from this restructuring or renewal process reflects the rating given to the lowest rated among the component loans.

Performing loans other than those with a single principal payment and the payment of interest accrued periodically or at maturity, which are restructured or renewed before at least 80% of the original credit period has elapsed are only considered as performing when the borrower has a) settled all accrued interest, and b) paid the principal of the original loan amount which was due at the renewal or restructuring date.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Performing loans other than those involving a single principal payment, the periodic payment of interest or at maturity and which are restructured or renewed during the final 20% of the original credit period are only classified as performing when the borrower has a) settled all accrued interest; b) paid the original loan amount due at the loan renewal or restructuring date and, c) paid 60% of the original loan amount.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Loans involving a single principal payment, the payment of interest periodically or at maturity and which are restructured during the credit period or renewed at any time are classified as non-performing portfolio until evidence of sustained payment is obtained.

Loans which are initially classified as revolving and which are restructured or renewed at any time are only considered as performing when the borrower has settled all accrued interest, the loan has no overdue billing periods and the elements needed to verify the borrower’s capacity to pay are available, i.e., it is highly likely that the borrower will settle the outstanding payment.

Securitization with transfer of ownership - By securitizing the mortgage portfolio with transfer of ownership, the Institution (the "Transferor") transfers the financial assets through a securitization vehicle (the "Trust"), to enable the latter to issue securities through an intermediary (the "Brokerage House"), for placement among small investors, which represent the right to the returns or the proceeds generated from the securitized financial asset, and as consideration the Transferor receives cash and a certification granting it the right to the remaining cash flows from the Trust after payment of the certificates to their holders.

The Transferor provides administrative services for the transfer of the financial assets and recognizes revenues derived from such services at the time they are earned. Such revenues are presented under the heading "Commissions and fee income". Any expenses incurred from managing the Trust will be reimbursed by the Trust itself with the prior authorization of the Common Representative, provided that the Trust has sufficient cash flows to make such reimbursement. The Transferor will hold any payments made on account of the Trust in debtor accounts until the latter reimburses such expenses.

On December 17, 2007, the Commission authorized the Institution, through Document 153/1850110/2007, registered in the National Securities Register of the Share Certificate Issuance Program up to the amount of $20,000 or its equivalent in UDIs with an effective term of five years computed as of the authorization date; such program is revolving.

The Institution recognized the securitized transactions performed during 2009 in accordance with the accounting criteria issued by the Commission in April 2009 regarding C-1 "Asset recognition and derecognition", C-2 "Securitized transactions" and C-5 "Consolidation of special-purpose entities". After applying these criteria, the Institution derecognized the securitized assets held by the trusts, which were subsequently consolidated on its balance sheet. Accordingly, these assets are recorded under assets in the balance sheet. The securitizations performed prior to 2009 are not consolidated, based on the treatment established by the Commission.

The benefit valuation methodology applied to the securitized transaction residual is detailed below:

- The Institution has tools to measure and quantify the impact of securitized transactions on the balance sheet and statement of income based on the cost of funding, release of capital, reserves and liquidity levels when structuring issuances and during the life of each.

- The valuation system measures the follow-up of certificate performance and the subordinated portions recorded by the Institution and, if applicable, it also values the bond position to consider its possible sale on a secondary market.

- The valuation model is used to calculate the Institution's constant historical prepayment rate computation, the mortality rate, current credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

Notwithstanding the above, the Institution has taken a conservative position and decided not to recognize the valuation of the benefits on the remaining securitization transactions of the trusts 711, 752, and 847 resulting from the application of the methodology explained above, and recognized only the amortization of the value of the confirmed cash flows received from such trusts, which are held at amortized cost.

The characteristics of securitization contracts are detailed in Note 12.

Other receivable, net - Balances of sundry debtors that are not settled within the 90 or 60 days following their initial recognition (the number of days depend on whether balances are identified or not) are reserved with a charge to results of the year, regardless of the probability of recovery.

The debit and credit balances of the transaction settlement accounts represent currency and security purchases and sales recorded on the date of transaction.

Foreclosed assets or assets received through payment in kind, net - Assets that are foreclosed or received through payment in kind are recorded at the lower of cost or fair value, less the direct and incremental costs and expenses incurred when they were awarded.

Property acquired through legal foreclosure are recognized on the date on which the foreclosure ruling is issued.

Property received as payment are recorded on the date on which the in-kind payment document is executed or when the delivery or transfer of ownership is formalized in a document.

On the recording date of the foreclosed assets or assets received through payment in kind, the value of the asset which originated the foreclosure, as well as its respective reserve, must be canceled from the balance sheet, or the portion involving accrued or overdue payments settled through the partial payments in kind referred to by accounting criterion B-6, “Loan Portfolio”.

If the value of the asset which originated the foreclosure, net of reserves, exceeds the value of the foreclosed assets, the difference will be recognized in results of the year under the heading “Other operating income (expenses)”.

When the value of the asset that originated the foreclosure, net of reserves, is less than the value of the foreclosed assets, the value of the latter must be adjusted to the net value of the asset.

Foreclosed assets are valued according to the type of asset in question, and such valuation must be recorded against results of the year as “Other operation income (expenses)”, as the case may be.

In accordance with the rules of the Commission, the mechanism to follow in determining the allowance for holding foreclosed assets or assets received as payment in kind, is as follows:

Allowance for personal property

Time elapsed as of the repossession or payment-in-kind (months)	Allowance percentage
Up to 6	0%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

Allowance for real estate property

Time elapsed as of the repossession or payment-in-kind (months)	Allowance percentage
Up to 12	0%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

Property, furniture and equipment, net - Are recorded at acquisition cost. Assets acquired prior to December 31, 2007 were restated by applying factors derived from UDIs up to that date. The related depreciation and amortization is recorded by applying a given percentage based on the estimated useful life of such assets to the cost restated to that date.

Depreciation is determined based on the cost or the cost restated until 2007, using the straight-line method as of the month following the acquisition date, applying the following rates:

	Rate
Real estate	2.5%
Construction	1.3%
Construction Components:	
Elevators	3.3%
Power plants	2.8%
Pipelines	2.8%
Air conditioner	2.8%
Computer equipment	25.0%
ATM’s	12.5%
Furniture and equipment	10.0%
Vehicles	25.0%
Machinery and equipment	10.0%

The estimated useful lives, residual value and depreciation method of construction and its components, are reviewed at the end of each year, and the effect of any change in estimate is recognized initially and recorded on a prospective basis.

Until December 31, 2015, the Institution capitalizes the interest from financing as part of construction in progress.

Impairment of long-lived assets in use- The Institution reviews the book value of long-lived assets in use, in the presence of any indicator of impairment which shows that the book value might not be recoverable, considering the higher of the present value of the future net cash flows or the net selling price. Impairment is recorded if the book value exceeds the higher of the aforementioned values. The indicators of impairment considered for such purposes are, among others, the losses from operations or negative cash flows in the period, if they are combined with a history or projection of losses, depreciation and amortization charged to results which, in percentage terms, in relation to revenues, are substantially higher than those of previous years, or the services rendered, competition and other economic and legal factors.

Equity investments- Are represented by those equity investments made by the Institution in entities over which it has significant influence but lacks control, and are initially recorded at acquisition cost and subsequently valued by the equity method. The dividends received are decreased from the equity investment.

Furthermore, there are other equity investments which are recorded at acquisition cost and the dividends received from these investments are recognized in results for the year, except when they refer to profits from periods before the acquisition, in which case they are recorded as a reduction to the equity investment.

Income Tax - Income Tax (“ISR”) is recorded in results of the year in which they are incurred. 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 results in temporary differences, both deductible and creditable, which are added to the tax credit for the undeducted allowance for loan losses, and the tax rate at which the items will reverse is then applied. The deferred tax asset is recorded only when it can very probably be recovered.

The effect of all the items above is presented net in the balance sheet within the caption “Deferred taxes, net”.
Asset tax paid which is expected to be recovered is recorded as a tax credit and is presented in the balance sheet under the heading of “Deferred charges, prepaid expenses and intangibles”.

Deferred taxes - Deferred taxes which are expected to be recovered are recorded as a tax credit and is presented in the balance sheet under the heading of “Deferred charges, prepaid expenses and intangibles”.

Other assets - Software, computer developments and intangible assets are recorded originally at the face value incurred, and were restated from that date of acquisition or disbursement until December 31, 2007, using the factor derived from UDIs.

The amortization of software, computer developments and intangible assets with a definite useful life is calculated by the straight-line method, applying the respective rates to the restated expense.

Direct employee benefits - Under Mexican Labor Law, the Institution is liable for the payment of severance indemnities and seniority premiums to employees terminated under certain circumstances.

The Institution records the liability for severance payments, seniority, pensions, comprehensive medical services and life insurance as it is accrued, in accordance with actuarial calculations based on the projected unit credit method, using nominal rates. The Institution recognizes the actuarial gains and losses against the result of the year, in accordance with NIF D-3 “Employee Benefits”.

Therefore, the liability is being recognized which, at present value, will cover the benefits obligation projected to the estimated date of retirement of the employees working at the Institution and its subsidiaries, as well as the obligation derived from the retired personnel.

Provisions - Provisions are recognized for present obligations as a result of past events, that are probable to result in the future use of economic resources and that can be reasonably estimated.

Foreign currency transactions - Foreign currency transactions are recorded at the exchange rate effective at the transaction date except for those generated by foreign branches. Assets and liabilities denominated in foreign currency are adjusted at the period end exchange rate published by the Central Bank of Mexico. Exchange fluctuations related to these assets and liabilities are charged to the income statement.

Financial margin - The Institution’s financial margin is comprised of the difference between total interest income less interest expense.

Interest income is comprised of the general returns generated by the loan portfolio based on the periods established in loans executed with borrowers and negotiated interest rates, the application of interest collected in advance, the premiums or interest accrued by deposits made with financial entities, bank loans, margin accounts, securities investments, repurchase agreements and securities loans. In addition, amortization of debt placement premiums and commissions collected for initially granting credit, as well as dividends of equity instruments are included in interest income.

Interest expense is comprised of the premiums, discounts and interest, bank loans, repurchase agreements, securities loans, debentures, debt placement issuance expenses and discounts. The amortization of costs and expenses incurred to originate loans is included within interest expense.

Commissions charged and associated costs and expenses - Commissions charged for initial loan origination 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.

Commissions collected on the restructuring or renewal of loans are added to the commissions originated and are recognized as a deferred loan that is amortized to results using the straight-line method throughout the new term of the loan.
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 incurred.

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 "Commission 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.

On the cancellation date of a credit line, the remaining unamortized balance of commission fees collected for credit lines cancelled before the end of the 12 month period are recognized directly in results for the year under the heading "Commissions and fees collected".

Memorandum accounts –

Memorandum accounts are used to record assets or commitments which do not form part of the Institution's balance sheet because the related rights are not acquired or such commitments are not recognized as a liability of the entities until such eventualities occur, respectively. The amounts accrued in the memorandum accounts have only been subject to audit tests when an accounting record arises from their information (the memorandum accounts that were not audited are indicated in each case):

– *Contingent assets and liabilities:*

  Any formal claims received by the Institution which involve some kind of liability are recorded in books.

– *Loan commitments:*

  Loan commitments represent the amount of letters of credit granted by the Institution which are considered as irrevocable commercial loans not utilized by the borrowers, and unused authorized credit lines.

  The items recorded in this account are subject to loan classification.

– *Assets in trust or under mandate (unaudited):*

  Assets in trust include the value of the goods received in trust, and the data related to the administration of each one is kept in separate records. Assets under mandate record the declared value of the goods subject to mandate contracts executed by the Institution.

– *Assets in custody or under administration (unaudited):*

This account is used to record the goods and securities which are received from third parties for custody or to be administered by the Institution.

Securities in custody and under administration are deposited in S.D. Indeval, Deposit Institution Securites, S.A. de C.V.

– *Collateral received by the Institution:*

This balance represents the total amount of collateral received in repurchase transactions and securities loans, with the Institution acting as the repurchasing party and borrower.

– *Collateral received and sold or given in guarantee by the Institution:*

This balance represents the total collateral received and sold or given in guarantee when the Institution acts as a repurchasing party and borrower.

– *Uncollected earned interest derived from non- performing loans:*

The interest earned is recorded in memorandum accounts once a performing portfolio loan is transferred to non-performing portfolio.

– *Other record accounts (unaudited):*

As of December 31, 2016 and 2015, the other recording accounts present a balance of $3,188,624 and $2,682,535 respectively.

Cash Flow Statement - The consolidated cash flow statement presents the Institution's ability to generate cash and cash equivalents, as well as how the organization uses those cash flows to meet their needs. The cash flow statement has been prepared using the indirect method based on the provisions of Criterion D-4 "Cash Flow Statements" of the Accounting Criteria.

The consolidated statement of cash flows, together with the rest of the consolidated financial statements provide information that enables the user to:

- Assess the changes in assets and liabilities of the Institution and on its financial structure.

- Evaluate collection and payment amounts and dates in order to adapt to circumstances and opportunities to generate and/or apply cash and cash equivalents.

4. Funds available

At December 31, 2016 and 2015, funds available consisted of the following:

	2016	2015
Cash	$ 54,211	$ 55,964
Banks	88,779	21,453
Restricted cash	42,864	72,188
Other quick funds	895	497
	$ 186,749	$ 150,102

Banks include deposits in domestic and foreign banks in Mexican pesos and U.S. dollars, translated at the exchange rate published by the Central Bank of Mexico of $20.6194 Mexican pesos and $17.2487 Mexican pesos per one U.S. dollar, as of December 31, 2016 and 2015, respectively, and are comprised as follows:

	Mexican pesos		U.S. Dollars (in Mexican pesos)		Total	
	2016	2015	2016	2015	2016	2015
Deposits with foreign credit institutions	$ 336	$ -	$ 73,115	$ 16,755	$ 73,451	$ 16,755
Central Bank of Mexico	14,692	4,664	636	34	15,328	4,698
	$ 15,028	$ 4,664	$ 73,751	$ 16,789	$ 88,779	$ 21,453

As of December 31, 2016 and 2015, restricted funds available are as follows:

	2016	2015
Monetary regulation deposits (1)	$ 40,250	$ 59,682
Foreign exchange to be received (2)	62,333	49,542
Foreign exchange to be delivered (2)	(60,285)	(42,418)
Interbank loans call money (3)	-	5,000
Other restricted deposits	566	382
	$ 42,864	$ 72,188

(1) As of December 31, 2016 and 2015, the sole account of the Central Bank of Mexico includes the Institution's Monetary Regulation Deposits in the Central Bank of Mexico, which amount to $40,250 and $59,682, respectively. These Monetary Regulation Deposits will have an indefinite duration, for which purpose the Central Bank of Mexico will provide timely notice of the date and the procedure for withdrawal of the respective balances. Interest on the deposit is payable every 28 days by applying the rate established in the Regulations issued by the Central Bank of Mexico.

On May 12, 2016 through Circular 9/2016, the Bank of Mexico issued rules for the auction of Reportable Monetary Regulation Bonds (BREMS R), which indicate that these instruments can be settled with monetary regulation deposit (DRM) resources. The current Provisions establish that the DRM may be comprised of cash, securities or both.

At December 31, 2016 and 2015, the Institution holds BREMS R for the amount of $28,950 and $13,210, respectively, which form part of the DRM. These amounts are recorded as restricted under the heading of "Investments in securities" in the category of securities available-for-sale. This is the case because the bond issuance prospectus establishes that they must only be sold directly or through repurchase transactions to the Bank of Mexico, when determined by the latter through its general provisions.

(2) Foreign currencies to be received and delivered for purchases and sales to be settled in 24 and 48 hours as of December 31, 2016 and 2015 are composed as follows:

	2016	
	Balance in foreign Currency (Millions of US dollars)	Mexican peso equivalent
Purchases of foreign currencies to be received at 24 and 48 hours	3,023	$ 62,333
Sales of foreign currencies to be settled at 24 and 48 hours	(2,924)	(60,285)
	99	$ 2,048

	2015	
	Balance in foreign Currency (Millions of US dollars)	Mexican peso equivalent
Purchases of foreign currencies to be received at 24 and 48 hours	2,872	$ 49,542
Sales of foreign currencies to be settled at 24 and 48 hours	(2,459)	(42,418)
	413	$ 7,124

When the foreign exchange deliverable or receivable on the purchases and sales are recorded under the heading of "Funds available", the settlement accounts for the equivalent value of these operations are recorded net in the balance sheet under the headings of "Other accounts receivable, net" and "Payables from settlement of operations".

(3) "Call money" operations granted to December 31, 2015, represent interbank loan transactions agreed at a term shorter than or equal to four business days, at a rate of 5.75% and 3.32%, respectively.

5. Margin accounts

At December 31, 2016 and 2015, margin accounts are comprised as follows:

	2016	2015
Derivatives margin in authorized markets	$ 8,998	$ 2,774

6. Investment in securities

At December 31, 2016 and 2015, financial instruments were as follows:

a. ***Trading -***

	2016				2015
Instrument	**Acquisition Cost**	**Accrued interest**	**Increase (decrease) due to valuation**	**Book value**	**Book value**
Securitized certificates	$ 6,255	$ 88	$ (40)	$ 6,303	$ 10,555
Sovereign debt Eurobonds	6,268	74	(178)	6,164	7,582
Net equity instruments	6,071	-	(321)	5,750	5,287
ADR's	7,384	-	(90)	7,294	1,168
Promissory notes with returns realizable at maturity (PRLV)	54	-	-	54	39
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	281	20	(4)	297	2,693
Corporate Eurobonds	2,472	24	39	2,535	1,636
Fixed-rate bonds	1,776	119	(24)	1,871	8,776
Certificates of Deposit (CEDES)	-	-	-	-	600

Instrument	2016 Acquisition Cost	2016 Accrued interest	2016 Increase (decrease) due to valuation	2016 Book value	2015 Book value
Mexican Bank Saving Protection Bonds (BPA´s)	7,963	109	(14)	8,058	1,216
Bank securitized certificates	384	6	-	390	2,372
Exchangeable securitization certificates (CBIC´s)	333	7	-	340	232
Federal Treasury Securities (CETES)	169	-	-	169	591
Federal Government Development Bonds (BONDES)	417	1	-	418	8,146
Treasury Bills	-	-	-	-	8,965
Treasury Notes	103	1	(2)	102	85
	39,930	449	(634)	39,745	59,943
Collateral granted (a.1.)	197,262	101	497	197,860	188,926
Value date purchases (a.2.)	15,154	75	(42)	15,187	6,149
Value date sales (a.3.)	(17,702)	(92)	32	(17,762)	(5,556)
Total	$ 234,644	$ 533	$ (147)	$ 235,030	$ 249,462

During 2016 and 2015, the Institution recognized in valuation gains (losses) for net amounts of $195 and ($276), respectively.

At December 31, 2016 and 2015, the remaining periods of these investments were as follows:

Instrument	2016 Less than 1 month	2016 Between 1 and 3 Months	2016 More than 3 Months	2016 Without a Fixed period	2016 Total acquisition cost
Securitization certificates	$ -	$ -	$ 6,255	$ -	$ 6,255
Sovereign debt Eurobond	-	-	6,268	-	6,268
Net equity instruments	-	-	-	6,071	6,071
ADR's	-	-	-	7,384	7,384
Promissory notes with returns realizable at maturity (PRLV)	-	-	54	-	54
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	-	-	281	-	281
Corporate Eurobonds	-	-	2,472	-	2,472
Fixed-rate bonds	-	-	1,776	-	1,776
Mexican Bank Saving Protection Bonds (BPA´s)	-	-	7,963	-	7,963
Bank securitized certificates	-	-	384	-	384
Exchangeable securitization certificates (CBIC´s)	-	-	333	-	333
Federal Treasury Securities (CETES)	-	19	150	-	169
Federal Government Development Bonds (BONDES)	-	-	417	-	417
Treasury Notes	-	-	103	-	103
Total	$ -	$ 19	$ 26,456	$ 13,455	$ 39,930

Instrument	2015 Less than 1 month	Between 1 and 3 Months	More than 3 Months	Without a Fixed period	Total Acquisition Cost
Securitization certificates	$ 70	$ 30	$ 10,351	$ -	$ 10,451
Sovereign debt Eurobond	380	-	7,368	-	7,748
Net equity instruments	-	-	-	5,578	5,578
ADR's	-	-	-	1,217	1,217
Promissory notes with returns realizable at maturity (PRLV)	-	-	39	-	39
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	-	-	2,692	-	2,692
Corporate Eurobonds	5	-	1,680	-	1,685
Fixed-rate bonds	-	-	8,678	-	8,678
Certificates of Deposit (CEDES)	-	300	300	-	600
Mexican Bank Saving Protection Bonds (BPA´s)	-	-	1,208	-	1,208
Bank securitized certificates	-	34	2,320	-	2,354
Exchangeable securitization certificates (CBIC´s)	-	-	228	-	228
Federal Treasury Securities (CETES)	-	591	-	-	591
Federal Government Development Bonds (BONDES)	-	-	8,142	-	8,142
Treasury Bills	-	-	8,970	-	8,970
Treasury Notes	-	-	86	-	86
Total	$ 455	$ 955	$ 52,062	$ 6,795	$ 60,267

a.1. The collateral granted as of December 31, 2016 and 2015 was comprised as follows:

Instrument	2016 Acquisition cost	2016 Accrued interest	2016 Valuation Increase (decrease)	2016 Book value	2015 Book value
Fixed-rate bonds	$ 14,504	$ 23	$ (43)	$ 14,484	$ -
Mexican Bank Saving Protection Bonds (BPA´s)	20,779	8	11	20,798	-
Federal Government Development Bonds (BONDES)	29	-	-	29	-
Federal Treasury Securities (CETES)	2	-	-	2	-

Instrument	2016 Acquisition cost	2016 Accrued interest	2016 Valuation Increase (decrease)	2016 Book value	2015 Book value
Security loans	35,314	31	(32)	35,313	-
Other collateral	-	-	-	-	40,020
Bank securitization certificates	1,863	-	-	1,863	72
Federal Government Development Bonds (BONDES)	15,286	2	(1)	15,287	3,450
Fixed rate bonds	22,637	7	36	22,680	26,963
Mexican Bank Saving Protection Bonds (BPA´s)	91,428	57	497	91,982	52,613
Federal Treasury Securities (CETES)	6,706	1	-	6,707	58,296

Instrument	2016 Acquisition cost	2016 Accrued interest	2016 Valuation Increase (decrease)	2016 Book value	2015 Book value
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	15,950	1	(11)	15,940	1,845
Exchangeable securitization certificates (CBIC´s)	4,061	1	8	4,070	4,574
Net equity instruments	36	-	1	37	-
Securitization certificates	3,981	1	(1)	3,981	1,093
Bonds received as repurchase agreement collateral	161,948	70	529	162,547	148,906
Total restricted securities	$ 197,262	$ 101	$ 497	$ 197,860	$ 188,926

a.2. Value date purchases at December 31, 2016, and 2015 was comprised as follows:

Instrument	2016 Acquisition Cost	2016 Accrued Interest	2016 Valuation Increase (Decrease)	2016 Book Value	2015 Book Value
Net equity instruments	$ 164	$ -	$ -	$ 164	$ 500
ADR's	748	-	(54)	694	66
Fixed rate bonds	10,450	61	7	10,518	4,142
Federal Treasury Securities (CETES)	150	-	-	150	596
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	3,075	6	(2)	3,079	541
Mexican Bank Saving Protection Bonds (BPA´s)	-	-	-	-	202
Securitization certificates	300	7	1	308	-
Sovereign debt Eurobond	267	1	6	274	102
	$ 15,154	$ 75	$ (42)	$ 15,187	$ 6,149

a.3. Value date sales at December 31, 2016, and 2015 were comprised as follows:

Instrument	2016 Acquisition Cost	2016 Accrued Interest	2016 Valuation Increase (Decrease)	2016 Book Value	2015 Book Value
Fixed rate bonds	$ (8,549)	$ (45)	$ (12)	$ (8,606)	$ (2,880)
Federal Treasury Securities (CETES)	(547)	-	-	(547)	(397)
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	(3,651)	(6)	2	(3,655)	(1,596)
Securitization certificates	8	(15)	-	(7)	(92)
Net equity instruments	(167)	-	1	(166)	(134)

Instrument	2016 Acquisition Cost	2016 Accrued Interest	2016 Valuation Increase (Decrease)	2016 Book Value	2015 Book Value
Federal Government Development Bonds (BONDES)	(846)	(1)	-	(847)	-
Mexican Bank Saving Protection Bonds (BPA´s)	(997)	(1)	-	(998)	-
ADR's	(102)	-	-	(102)	(17)
Sovereign debt Eurobonds	(2,851)	(24)	41	(2,834)	(440)
	$ (17,702)	$ (92)	$ 32	$ (17,762)	$ (5,556)

b. ***Available for sale -***

Instrument	2016 Acquisition Cost	2016 Accrued Interest	2016 Valuation Increase (Decrease)	2016 Book value	2015 Book value
Sovereign debt Eurobonds	$ 15,786	$ 332	$ 766	$ 16,884	$ 25,738
Securitization certificates	13,062	169	(383)	12,848	15,357
Corporate Eurobonds	10,248	154	(899)	9,503	3,061
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	-	-	-	-	314
Net equity instruments	814	-	(81)	733	610
ADR's	13	-	470	483	381
Certificates of Deposit (CEDES) UDI's	-	-	-	-	117
Bank Eurobonds	350	3	(2)	351	294
Banco de México's Monetary Regulation Bonds (BREMS)	3,720	1	-	3,721	-
	43,993	659	(129)	44,523	45,872
Restricted securities (b.1.)	110,040	33	(3,932)	106,141	102,074
Total	$ 154,033	$ 692	$ (4,061)	$ 150,664	$ 147,946

At December 31, 2016, the remaining scheduled maturities of the above instruments were as follows:

Instrument	Between 1 and 3 months	More than 3 months	Without a fixed period	Total acquisition cost
Bank Eurobonds	$ -	$ 15,786	$ -	$ 15,786
Securitization certificates	350	12,712	-	13,062
Corporate Eurobonds	187	10,061	-	10,248
Net equity instruments	-	-	814	814
ADR's	-	-	13	13
Bank Eurobonds	-	350	-	350
Banco de México's Monetary Regulation Bonds (BREMS)	-	3,720	-	3,720
Total	$ 537	$ 42,629	$ 827	$ 43,993

At December 31, 2015, the remaining scheduled maturities of the above instruments were as follows:

Instrument	Between 1 and 3 months	More than 3 months	Without a fixed period	Total acquisition cost
Net equity instruments	$ -	$ -	$ 803	$ 803
ADR's	-	-	11	11
Sovereign debt Eurobonds	-	25,561	-	25,561
Corporate Eurobonds	585	2,459	-	3,044
Bank Eurobonds	-	293	-	293
Securitization certificates	266	14,963	-	15,229
Certificates of Deposit (CEDES) UDI's	-	75	-	75
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	-	346	-	346
Total	$ 851	$ 43,697	$ 814	$ 45,362

b.1. Collateral granted (restricted securities) as of December 31, 2016 and 2015, were as follows:

	2016				2015
Instrument	Acquisition cost	Accrued interest	Increase (Decrease) due to valuation	Book value	Book value
Fixed rate bonds	$ 79,467	$ 24	$ (3,911)	$ 75,580	$ 87,567
Federal Government Development Bonds (BONDES)	-	-	-	-	143
Securitization certificates	28,942	8	-	28,950	13,210
Banco de México's Monetary Regulation Bonds (BREMS)	356	-	(21)	335	-
Total collateral receivable from repurchase agreements	108,765	32	(3,932)	104,865	100,920
Treasury Bills given as collateral	1,275	1	-	1,276	1,154
Total restricted securities	$ 110,040	$ 33	$ (3,932)	$ 106,141	$ 102,074

c. ***Held to maturity -***

The following securities have medium and long-term maturities:

Instrument	2016 Acquisition cost	2016 Accrued interest	2016 Book value	2015 Book value
Government bonds- Mortgage debtor support program	$ 15,656	$ -	$ 15,656	$ 15,052
Government bonds- State and Municipality debtor support program	-	-	-	1,774
U.S. Treasury securities	-	-	-	51
Total	$ 15,656	$ -	$ 15,656	$ 16,877

For the years ended December 31, 2016 and 2015, the yields related to the overall held to maturity portfolio, recorded in the result of the year, amounted to $661 and $487, respectively.

d. ***Collateral Received***

The terms and conditions for the delivery of securities as collateral are in line with the framework contracts of Repurchase Agreements, Securities Loans, and Derivatives (ISDA/CEMOF). These contracts establish the exchange of collateral, which will help mitigate the credit risk, in order to have a reasonable level of collateral; the collateral granted does not fulfill criteria for transfer of ownership, for which reason the entity providing the collateral retains the corporate and economic rights of such instruments, unless there is default on the secured obligations. However, these framework contracts stipulate the temporary use and enjoyment of such securities with the commitment to return them at maturity of the guarantee transaction or margin return calls due to a decrease in the secured value at risk.

As a result of the collateral exchange agreements of financial institutions which have a negative market value, a commitment is made to deliver to the other party (which therefore presents a positive market value) assets or cash to reduce the exposure for credit risk, under the terms stipulated in the aforementioned bilateral contract.

7. Repurchase transactions

As of December 31, 2016 and 2015, repurchase transactions were comprised as follows:

a. ***Repurchase agreement receivables*** –

As repurchasing party:

Instrument	2016 Asset Side Receivable under repurchase	2016 Liability Side Collateral sold or delivered	2016 Debit	2015 Asset Side Receivable under repurchase	2015 Liability Side Collateral Sold or delivered	2015 Debit
Federal Government Development Bonds (BONDES)	$ 1,220	$ 1,179	$ 41	$ 48,840	$ 48,665	$ 175
Fixed rate bonds	5,488	5,249	239	6,717	6,650	67
Mexican Bank Saving Protection Bonds (BPA´s)	1,400	1,400	-	10,973	10,922	51
Securitization certificates	2,323	2,314	9	12,000	1,062	10,938
Total	$ 10,431	$ 10,142	$ 289	$ 78,530	$ 67,299	$ 11,231

b. ***Repurchase payables –***

Security vendor:

Instrument	2016 Liability side payables under resale agreements	2015 Liability side payables under resale agreements
Fixed rate bonds	$ 98,205	$ 110,943
Mexican Bank Saving Protection Bonds (BPA´s)	89,180	51,434
Federal Government Development Bonds (BONDES)	15,288	3,049
Federal Treasury Securities (CETES)	6,706	57,914
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	16,304	1,847
Securitization certificates	4,259	1,376
Banco de México's Monetary Regulation Bonds (BREMS)	28,975	13,216
Bank Bonds	1,507	72
Exchangeable securitization certificates (CBIC´s)	4,061	4,580
Total	$ 264,485	$ 244,431

At December 31, 2016 and 2015, the interest (premiums) earned by the Institution were $14,629 and $13,744, respectively is recorded in the consolidated statements of income in the "Interest income". Also, at December 31, 2016 and 2015, the interest (premiums) charged to the Institution were $11,728 and $9,734, respectively.

c. ***Payables in transactions involving securities loans and derivatives***

	2016			2015		
	Memoranda accounts		Liability portion	Memoranda accounts		Liability portion
Instrument	Collateral received for securities loans	Collateral received for loans and sold or given in guarantee	Payables from collateral Sold or given in guarantee	Collateral received for securities loans	Collateral received for loans Sold or given in guarantee	Payables from collateral sold or given in guarantee
Borrower:						
Government securities -						
Fixed rate bonds	$ 20,490	$ 20,490	$ 20,490	$ 22,941	$ 22,941	$ 22,941
Net equity instruments	41	41	41	6,577	6,577	6,577
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	7,570	7,570	7,570	2,634	2,634	2,634
Federal Treasury Securities (CETES)	1,945	1,945	1,945	4,746	4,746	4,746
Net equity instruments	4,370	4,370	4,370	-	-	-
	34,416	34,416	34,416	36,898	36,898	36,898

Instrument	2016 Memoranda accounts Collateral received for securities loans	2016 Memoranda accounts Collateral received for loans and sold or given in guarantee	2016 Liability portion Payables from collateral Sold or given in guarantee	2015 Memoranda accounts Collateral received for securities loans	2015 Memoranda accounts Collateral received for loans Sold or given in guarantee	2015 Liability portion Payables from collateral sold or given in guarantee
Repurchase agreements:						
Securitization certificates	2,315	2,315	-	-	-	-
Federal Government Development Bonds (BONDES)	1,181	1,181	-	49,958	49,958	-
Net equity instruments	36	36	-	-	-	-
Fixed rate bonds	1,402	1,402	-	17,617	17,617	-
Mexican Bank Saving Protection Bonds (BPA´s)	5,439	5,439	-	10,929	10,929	-
	10,373	10,373	-	78,504	78,504	-
Total	$ 44,789	$ 44,789	$ 34,416	$ 115,402	$ 115,402	$ 36,898

Premiums payable were recognized in the results of 2016 and 2015 for the amount of $63 and $44, respectively.

At December 31, 2016 and 2015, the Institution has contracted repurchase agreements for an average period of 22 days, while transactions involving securities loans are performed over an average period of 8 days.

8. Derivatives

At December 31, 2016 and 2015, securities and derivative transactions were as follows:

a. ***Derivatives*** - The chart below shows the open derivative instrument transactions of the Institution as of December 31, 2016 and 2017. The currency position generated by these derivative instruments must be added to the position in the balance sheet in order to obtain the year-end position amount analyzed in Note 26.

Trading:

Transaction	2016 Notional amount Asset	2016 Notional amount Liability	2016 Balance Debit	2016 Balance Credit
Long-term futures position	$ 90,228	$ 90,228	$ -	$ -
Short-term futures position	8,459	8,459	-	-
Long-term forwards contracts	497,619	489,326	17,411	9,118
Short-term forwards contracts	484,231	501,706	1,742	19,217
Options acquired	6,200	-	6,200	-
Options sold	-	11,983	-	11,983
Swaps	1,013,433	997,538	123,604	107,709
	$ 2,100,170	$ 2,099,240	$ 148,957	$ 148,027

Transaction	2015 Notional amount Asset	Notional amount Liability	Balance Debit	Balance Credit
Long-term futures position	$ 25,864	$ 25,864	$ -	$ -
Short-term futures position	16,330	16,330	-	-
Long-term forwards contracts	381,528	381,837	8,779	9,088
Short-term forwards contracts	339,906	347,927	2,776	10,797
Options acquired	4,419	-	4,419	-
Options sold	-	7,813	-	7,813
Swaps	908,032	900,683	79,880	72,531
	$ 1,676,079	$ 1,680,454	$ 95,854	$ 100,229

Hedging:

Transaction	2016 Notional amount Asset	Notional amount Liability	Balance Debit	Balance Credit
Long-term forwards contracts	$ 2,778	$ 2,485	$ 293	$ -
Short-term forwards contracts	142	188	-	46
Swaps	93,980	86,302	18,641	10,963
	$ 96,900	$ 88,975	$ 18,934	$ 11,009

Transaction	2015 Notional amount Asset	Notional amount Liability	Balance Debit	Balance Credit
Long-term forwards contracts	$ 2,873	$ 2,779	$ 94	$ -
Short-term forwards contracts	314	297	38	21
Swaps	101,939	96,639	13,147	7,847
	$ 105,126	$ 99,715	$ 13,279	$ 7,868

b. ***Futures and forward contracts -*** For the year ended December 31, 2016, the Institution carried out transactions in recognized markets (Mexican Derivatives Market (Mex-Der) Chicago and ITAU), including an equity of $7,650 distributed in rates of $(13), currencies of $6,635, indexes of $867 and securities of $161.

For the year ended December 31, 2015, the Institution carried out transactions in recognized markets (Mexican Derivatives Market (Mex-Der) Chicago and ITAU), including an equity of $5,263 distributed in rates of $34, currencies of $4,939, indexes and securities of $290.

The Institution also entered into forward contracts with the principal foreign currencies. At the close of the year 2015, the following contracts are open:

Trading:

Type of Transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Deliverable	Book balance
Futures	M10 Bonds	$ 885	$ 885	$ -	$ -	$ -
	Index	2,981	2,981	3	3	-
	S&P	167	167	148	148	-
	U.S. dollars	4,426	4,426	90,077	90,077	-
		$ 8,459	$ 8,459	$ 90,228	$ 90,228	$ -
Forwards	U.S. dollars	$ 456,394	$ 474,167	$ 478,535	$ 470,069	$ (9,307)
	Index	17,771	17,598	17,910	18,088	(5)
	Equity	147	140	576	563	20
	Bonds	9,919	9,801	598	606	110
		$ 484,231	$ 501,706	$ 497,619	$ 489,326	$ (9,182)

Hedging:

Type of Transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Deliverable	Book balance
Forwards	U.S. dollars	$ 142	$ 188	$ 2,778	$ 2,485	$ 247

At the close of the year 2015, the following contracts are open:

Trading:

Type of transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Deliverable	Book balance
Futures	TIIE	$ 4,824	$ 4,824	$ -	$ -	$ -
	M10 Bonds	-	-	2,394	2,394	-
	BMF	20	20	472	472	-
	Index	4,319	4,319	300	300	-
	S&P	-	-	5,747	5,747	-
	U.S. dollars	7,167	7,167	16,951	16,951	-
		$ 16,330	$ 16,330	$ 25,864	$ 25,864	$ -
Forwards	U.S. dollars	$ 311,781	$ 320,009	$ 369,754	$ 369,858	$ (8,332)
	Index	11,715	11,509	6,091	6,303	(6)
	Equity	5,157	5,161	5,683	5,676	3
	Bonds	11,253	11,248	-	-	5
		$ 339,906	$ 347,927	$ 381,528	$ 381,837	$ (8,330)

Hedging:

Type of transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Deliverable	Book balance
Forwards	U.S. dollars	$ 314	$ 297	$ 2,873	$ 2,779	$ 111

c. ***Options*** - At December 31, 2016, option transactions were as follows:

Trading:

Type of transaction		Underlying	Notional amount	Fair Value
Purchases	OTC Options	Interest rates	$ 82,842	$ 2,374
		Equity securities and index	28,058	2,008
		U.S. dollars	51,595	1,147
	Market options	Equity securities and index	7,421	671
				$ 6,200
Sales	OTC Options	Interest rates	$ 198,528	$ 2,000
		Equity securities and index	19,473	8,310
		U.S. dollars	52,860	1,217
	Market options	Equity securities and index	12,183	456
				$ 11,983

At December 31, 2015, option transactions were as follows:

Trading:

Type of transaction		Underlying	Notional amount	Fair Value
Purchases	OTC Options	Interest rates	$ 35,898	$ 666
		Equity securities and index	16,065	1,852
		U.S. dollars	80,416	701
	Market options	Equity securities and index	6,804	1,200
				$ 4,419
Sales	OTC Options	Interest rates	$ 226,836	$ 956
		Equity securities and index	12,071	5,603
		U.S. dollars	83,261	262
	Market options	Equity securities and index	6,879	992
				$ 7,813

d. ***Swaps -*** At December 31, 2016, swaps transactions were as follows:

Trading:

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Currency	U.S. Dollar	$ 302,861	$ 244,825	$ 325,705	$ 256,489	$ 69,216
	Mexican Peso	197,706	180,798	287,031	291,844	(4,813)
	UDIS	91,196	107,613	-	-	-
	Euro	45,386	84,599	49,789	94,408	(44,619)
	Colombian Peso	2,182	875	-	-	-
	Pound Sterling	1,274	1,274	1,711	1,809	(98)
	Swiss Franc	-	4,059	-	4,404	(4,404)
	Chilean Peso	3,651	-	-	-	-
				664,236	648,954	15,282
Interest rates	Mexican Peso		1,784,178	$ 255,501	$ 252,846	$ 2,655
	U.S. Dollar		1,107,436	88,954	90,580	(1,626)
	Pound Sterling		510	15	30	(15)
	Euro		104,006	1,635	1,821	(186)
				346,105	345,277	828
Shares	U.S. Dollar		5,614	$ 3,457	$ 59	$ 3,398
	Mexican Peso		2,077	36	3,382	(3,346)
				3,493	3,441	52
CDS	U.S. Dollar		825	$ 29	$ 24	$ 5
CRA	Mexican Peso		-	$ (272)	$ -	$ (272)
Authorized markets	Mexican Peso		96,058	$ (158)	$ (158)	$ -
				$ 1,013,433	$ 997,538	$ 15,895

At December 31, 2015, swap transactions were as follows:

Trading:

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Currency	U.S. dollar	$ 248,490	$ 206,434	$ 267,706	$ 217,944	$ 49,762
	Mexican peso	172,766	156,591	271,080	264,092	6,988
	UDIS	88,944	101,460	-	-	-
	Euro	31,365	69,536	33,234	76,460	(43,226)
	Colombian peso	333	692	-	-	-
	Pound Sterling	1,272	1,272	1,647	1,719	(72)
	Swiss Franc	-	3,449	-	3,741	(3,741)
	Chilean Peso	2,890	-	-	-	-
				573,667	563,956	9,711

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Interest rates	Mexican peso		$ 2,362,155	$ 260,287	$ 261,581	$ (1,294)
	U.S. dollar		951,357	71,797	72,321	(524)
	Pound Sterling		509	39	37	2
	Euro		69,758	2,324	2,512	(188)
				334,447	336,451	(2,004)
Shares	U.S. dollar		$ 1,135	$ 53	$ 28	$ 25
	Mexican peso		84	2	1	1
				55	29	26
CDS	U.S. dollar		$ 1,380	$ 44	$ 35	$ 9
CRA	Mexican peso		$ -	$ (393)	$ -	$ (393)
Authorized markets	Mexican peso		$ 3,163	$ 212	$ 212	$ -
				$ 908,032	$ 900,683	$ 7,349

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions, at annual rates ranging from 1.80% to 20.26%. At December 31, 2015, the notional amount of swaps was $2,362,155.

Hedging:

At December 31, 2016 –

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Currency	Mexican peso	$ 18,400	$ 21,006	$ 20,046	$ 23,806	$ (3,760)
	U.S. dollar	33,067	8,294	40,005	9,438	30,567
	Pound Sterling	-	1,202	-	1,740	(1,740)
	Euro	-	15,390	-	18,723	(18,723)
				60,051	53,707	6,344
Interest rates	Mexican peso	$ -	$ 29,231	$ 13,135	$ 12,666	$ 469
	U.S. dollar	-	70,831	20,794	19,929	865
				33,929	32,595	1,334
				$ 93,980	$ 86,302	$ 7,678

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 5.02% to 8.91%. At December 31, 2016, the notional amount of swaps was $29,231.

At December 31, 2015 –

Hedging:

Underlying	Currency	Contract value receivable	Contract value deliverable	Receivable	Deliverable	Net position
Currency	Mexican peso	$ 22,949	$ 21,241	$ 25,430	$ 25,090	$ 340
	U.S. dollar	34,975	8,015	42,166	9,349	32,817
	Pound Sterling	-	1,200	-	1,693	(1,693)
	Euro	-	23,390	-	26,582	(26,582)
				67,596	62,714	4,882
Interest rates	Mexican peso	$ -	$ 30,713	$ 13,806	$ 14,861	$ (1,055)
	U.S. dollar	-	56,353	20,537	19,064	1,473
				34,343	33,925	418
				$ 101,939	$ 96,639	$ 5,300

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 3.33% to 8.91%. At December 31, 2015, the notional amount of swaps was $30,713.

Collateral received in OTC derivatives as of December 31, 2016 and 2015 is recorded under the heading "Payables for collateral received in cash" and is shown as follows:

Cash received as derivatives warranty	2016 Acquisition cost	2016 Accrued interest	2016 Book value	2015 Book value
Actimed, S.A. de C.V., SIID	$ -	$ -	$ -	$ 2
Banco Actinver, S.A., IBM	-	-	-	2
Banco Base, S.A., IBM	188	-	188	100
Banco Inbursa, S.A., IBM	1,531	-	1,531	1,483
Banco JP Morgan, S.A., IBM	778	1	779	510
Banco Nacional de Obras, S.N.C	-	-	-	654
Banco Regional de Monterrey, S.A., IBM	29	-	29	41
BBVA Banco Continental	27	-	27	161
BBVA Colombia	-	-	-	225
Banco Nacional Com Exterior, S.N.C.	544	3	547	510
Bimar Internacional	392	-	392	446
Credit Agricole CIB	2,042	1	2,043	1,626
Credit Suisse Securities	3,221	2	3,223	8,146
Deutsche Bank	7,103	5	7,108	2,542
Goldman Sachs Paris	5,921	4	5,925	3,795
HSBC Bank USA N.A N.Y	109	-	109	46
J. Aron and Company	1,129	1	1,130	1,065
Merrill Lynch Cap.S.E	1,111	1	1,112	569
Morgan Stanley & CO	188	-	188	393
Morgan Stanley SAS	2,071	1	2,072	1,294
Natixis	1,543	1	1,544	1,576
Sociedad Hipotecaria Federal, S.N.C.	-	-	-	1,373
Valores Mexicanos Casa de Bolsa, S.A. de C.V.	35	-	35	1

Cash received as derivatives warranty	2016 Acquisition cost	2016 Accrued interest	2016 Book value	2015 Book value
VECTOR Casa de Bolsa, S.A. de C.V.	7	-	7	22
Actiganamassa DCV SIID	1	-	1	-
Alsea SAB de CV	131	-	131	-
BBVA SERVEX	846	-	846	-
Banco Interacciones	201	1	202	-
Banco Santander (México), S.A.	2,511	12	2,523	-
Banco ve por mas S.A.	14	-	14	-
Banco Mercantil del Norte	3,447	2	3,449	-
Casa de Bolsa Finame	68	-	68	-
Morgan Stanley CAP S	729	-	729	-
XIGNUX, S.A. de C.V.	318	-	318	17
Total collateral received in cash	$ 36,235	$ 35	$ 36,270	$ 26,599

As of December 31 2016 and 2015, the Institution has not registered “Collateral received” in accounts.

e. ***Transactions with embedded derivative financial instruments –***

Held for trading purposes:

	2016			
	Book value		Balance	
Transaction type	Asset	Liability	Asset	Liability
Options acquired	$ 1,009	$ -	$ 1,009	$ -
Options sold	-	1,249	-	1,249
Swaps	18,993	17,498	5,541	4,045
	$ 20,002	$ 18,747	$ 6,550	$ 5,294

	2015			
	Book value		Balance	
Transaction type	Asset	Liability	Asset	Liability
Options acquired	$ 238	$ -	$ 238	$ -
Options sold	-	1,119	-	1,119
Swaps	18,869	17,524	5,195	3,850
	$ 19,107	$ 18,643	$ 5,433	$ 4,969

f. ***Embedded options (Underlying) -***

Held for trading purposes:

Transaction type		Underlying	2016 Face value	2016 Fair value
Purchases	OTC Options	U.S. dollar	$ 3,860	$ 12
		Interest rates	1,196	48
		Indexes	28,434	949
			$ 33,490	$ 1,009

Transaction type		Underlying	2016 Face value	2016 Fair value
Sales	OTC Options	Interest rates	$ 13,173	$ 14
		Indexes	14,413	1,195
		U.S. dollar	3,439	40
			$ 31,025	$ 1,249

Transaction type		Underlying	2015 Face value	2015 Fair value
Purchases	OTC Options	U.S. dollar	$ 257	$ 2
		Interest rates	33,293	178
		Indexes	2,991	58
			$ 36,541	$ 238
Sales	OTC Options	Interest rates	$ 13,506	$ 105
		Indexes	15,647	1,011
		U.S. dollar	107	3
			$ 29,260	$ 1,119

g. ***Embedded swaps (Underlying)***

Held for trading purposes:

Underlying	Currency	2016 Receivable face value	2016 Receivable market value	2016 Payable market value	2016 Fair value
Currency	Mexican peso	$ 4,509	$ 4,544	$ 4,622	$ (78)
	U.S. dollar	4,785	5,388	5,232	156
	Euro	381	438	432	6
		$ 9,675	$ 10,370	$ 10,286	$ 84
Interest rate	Mexican peso	$ 45,450	$ 8,478	$ 7,109	$ 1,369
	U.S. dollar	1,112	146	102	44
		$ 46,562	$ 8,624	$ 7,211	$ 1,413

Underlying	Currency	2015 Receivable face value	2015 Receivable market value	2015 Payable market value	2015 Fair value
Currency	Mexican peso	$ 5,272	$ 5,315	$ 5,403	$ (88)
	U.S. dollar	4,556	5,335	4,950	385
	Euro	358	419	411	8
		$ 10,186	$ 11,069	$ 10,764	$ 305
Interest rate	Mexican peso	$ 49,401	$ 7,618	$ 6,635	$ 983
	U.S. dollar	1,015	182	125	57
		$ 50,416	$ 7,800	$ 6,760	$ 1,040

As of December 31, 2016, the Institution has entered into the following hedge contracts:

Type of Hedge: Cash Flow Hedges

Description of coverage	Risk hedged	Hedge instrument	Maximum maturity date of hedge	Fair value instrum
Partial coverage of Monetary Regulation Deposit	Variable flows from the DRM	24 IRS FIJA/TIIE	Jun - 2020	$
Coverage of expenses and investment in EUR and USD	Exchange rate variation in estimated expense flows	12 FWD sale EUR/MXP	Jun - 2017	$
Coverage of sovereign bonds of the Brazilian government	Variable flows from the bond	1 FWD sale BRL/USD/MXN	January - 2017	$ -

* As of the date the cash flows prognosticated for the transactions occurred within the time initially agreed.

Type of Hedge: Fair Value

Description of coverage	Nature of the records covered	Hedge instrument	Maximum maturit hedge
Coverage of loans in USD and MXP From Fixed Rate to Floating-Rate	Fixed Rate Risk on Loans in USD And Fixed Rate in MXP	• 6 IRS Pays Variable Interest in USD and receives fixed interest • 2 IRS Pays Variable Interest in MXP and receives fixed interest	2040
Coverage of Mexican Sovereign Bonds in EUR/USD/GBP	Fixed Rate on Bonds UMS in EUR/ USD/GBP - V/F	70 CCS V/F	2025
Coverage Issuance of Subordinated Notes USD	Fixed Rate on Notes Issued USD V/F	31 IRS F/V	2024
Coverage Issuance of Subordinated Notes USD	Fixed Rate on Notes Issued USD V/F	24 CCS F/V	2024
Coverage of Corporate Bonds	Fixed Rate in Foreign Currency USD, EUR, UDI	54 CCS V/F	2025
Coverage of Corporate Bonds	Fixed Rate on Bonds USD	48 IRS V/F	2025

* The Fair value of the Cross Currency Swaps (CCS) do not include the exchange rate, as it is not part of the hedging.

IRS - Interest rate Swaps. CCS - Cross currency swaps.

9. Loan portfolio

Loans granted classified by type of loan at December 31, 2016 and 2015, were as follows:

	Performing portfolio		Non-performing portfolio		Total	
	2016	2015	2016	2015	2016	2015
Commercial loans-						
Denominated in Mexican pesos-						
Commercial	$ 254,914	$ 210,673	$ 5,578	$ 4,913	$ 260,492	$ 215,586
Rediscounted portfolio	13,203	8,119	49	44	13,252	8,163
Lease portfolio	1,831	1,311	21	6	1,852	1,317
Denominated in U.S. dollars- (equivalent in Mexican pesos)						
Commercial	138,285	122,355	324	137	138,609	122,492
Rediscounted portfolio	606	1,239	26	48	632	1,287
Lease portfolio	1,135	258	2	11	1,137	269
Total Commercial or business activity loans	409,974	343,955	6,000	5,159	415,974	349,114
Financial entities	19,606	15,869	322	499	19,928	16,368
Government entities	142,641	137,515	1	1	142,642	137,516
Total Commercial loans	572,221	497,339	6,323	5,659	578,544	502,998
Consumer loans-						
Credit card	102,712	95,280	4,016	3,789	106,728	99,069
Other consumer loans	143,253	122,702	4,739	3,644	147,992	126,346
Total consumer loans	245,965	217,982	8,755	7,433	254,720	225,415
Mortgage loans						
Residential and non-residential	166,694	150,959	6,828	7,208	173,522	158,167
Low income	14,821	16,883	853	1,105	15,674	17,988
Total mortgage loans	181,515	167,842	7,681	8,313	189,196	176,155
Total Loan portfolio	$ 999,701	$ 883,163	$ 22,759	$ 21,405	$ 1,022,460	$ 904,568

During 2016 and 2015, the Institution acquired portfolio in the amount of $0 and $158, respectively, with a corresponding book value at the time of the purchase of $0 and $1, respectively.

At December 2016 and 2015, housing loan portfolio includes restricted securitized performing portfolio of $4,689 and $5,663, respectively, and non-performing portfolio of $89 and $94, respectively.

Commercial loans are detailed below; the distressed and non-distressed performing and non-performing portfolios at December 31, 2016 and 2015, are also identified. This portfolio does not include guarantees and interest collected ahead of time, which are shown as part of the commercial portfolio on the consolidated balance sheet:

	2016				
	Distressed		Non-distressed		
Portfolio	Performing	Non performing	Performing	Non performing	Total
Business or commercial activity	$ -	$ 5,144	$ 380,172	$ 6	$ 385,322
Loans to financial entities	-	322	19,601	-	19,923
Loans to government entities	-	1	142,640	-	142,641
Business credit card	-	1,552	30,637	638	32,827
Company credit card	-	2	101	1	104
Total	$ -	$ 7,021	$ 573,151	$ 645	$ 580,817

Portfolio	2015 Distressed Performing	2015 Distressed Non performing	2015 Non-distressed Performing	2015 Non-distressed Non performing	Total
Business or commercial activity	$ -	$ 3,488	$ 316,189	$ 990	$ 320,667
Loans to financial entities	-	321	16,080	179	16,580
Loans to government entities	-	1	137,515	-	137,516
Business credit card	3	802	27,997	1,120	29,922
Company credit card	-	2	86	2	90
Total	$ 3	$ 4,614	$ 497,867	$ 2,291	$ 504,775

The restructured and renewed portfolio at December 31, 2016, and 2015 were as follows:

Restructured Portfolio	2016 Performing	2016 Non performing	2016 Total
Business or commercial activity	$ 62,279	$ 1,582	$ 63,861
Consumer loans	1,050	999	2,049
Mortgage loans	16,848	3,838	20,686
Total	$ 80,177	$ 6,419	$ 86.596

Restructured Portfolio	2015 Performing	2015 Non performing	2015 Total
Business or commercial activity	$ 55,558	$ 1,415	$ 56,973
Consumer loans	898	1,151	2,049
Mortgage loans	17,379	4,182	21,561
Total	$ 73,835	$ 6,748	$ 80,583

At December 31, 2016, the Institution has collateral in real property in the amount of $8,473, together with collateral in securities in the amount of $5,634, for restructured commercial loans.

At December 31, 2015, the Institution has collateral in real property in the amount of $9,589, together with warranties in securities in the amount of $4,973, for restructured commercial loans.

As of December 31, 2016 and 2015, aging of non-performing portfolio is as follows:

Portfolio	2016 Period 1 to 180 days	181 to 365 days	366 days to 2 years	Warranty	Total
Business or commercial activity	$ 1,855	$ 2,689	$ 3,109	$ (1,330)	$ 6,323
Consumer loans	8,337	418	-	-	8,755
Mortgage loans	1,641	1,981	4,059	-	7,681
Total	$ 11,833	$ 5,088	$ 7,168	$ (1,330)	$ 22,759

	2015				
	Period				
Portfolio	1 to 180 days	181 to 365 days	366 days to 2 years	Warranty	Total
Business or commercial activity	$ 3,128	$ 1,547	$ 2,224	$ (1,240)	$ 5,659
Consumer loans	7,134	314	-	(15)	7,433
Mortgage loans	1,452	2,286	4,575	-	8,313
Total	$ 11,714	$ 4,147	$ 6,799	$ (1,255)	$ 21,405

At December 31, 2016 and 2015, unaccrued commissions for initially granting credit, by type and average payment period, are as follows:

	2016			
	By amortization period			
	1 to 5 years	15 years	More than 15 years	Total
Business or commercial activity	$ 652	$ 553	$ 167	$ 1,372
Mortgage loans	-	15	194	209
Total	$ 652	$ 568	$ 361	$ 1,581

	2015			
	By amortization period			
	1 to 5 years	15 years	More than 15 years	Total
Business or commercial activity	$ 463	$ 447	$ 180	$ 1,090
Mortgage loans	-	21	217	238
Total	$ 463	$ 468	$ 397	$ 1,328

As of December 31, 2016 and 2015, the balances of non-performing loan portfolio fully reserved and eliminated from the balance sheet were as follows:

Concept	2016	2015
Business or commercial activity	$ 2,729	$ 3,866
Consumer loans:		
Credit card	3,273	3,316
Other consumer loans	3,037	3,783
	6,310	7,099
Mortgage loans	5,415	4,223
Total	$ 14,454	$ 15,188

As of December 31, 2016 and 2015, the amounts of portfolio sold without including securitization transactions, were as follows:

Concept	2016	2015
Business or commercial activity	$ -	$ 978
Credit card and consumer	10,683	12,392
Mortgage loans	1,182	1,335
Total	$ 11,865	$ 14,705

As of December 31, 2016 and 2015, the amount of lines of credit and letters of credit recorded in memoranda accounts comes to $553,195 and $458,700, respectively.

Revenues from interest and commissions recorded in the financial margin, segmented by type of loan, are comprised as follows:

Type of loan	2016 Interest	2016 Commissions	2016 Total	2015 Total
Commercial loans-				
Denominated in Mexican pesos-				
Commercial	$ 19,641	$ 1,021	$ 20,662	$ 15,616
Rediscounted portfolio	828	-	828	564
Lease portfolio	120	-	120	79
Denominated in U.S. dollars-				
Commercial	5,111	1	5,112	3,890
Rediscounted portfolio	72	-	72	56
Lease portfolio	46	-	46	7
Total commercial loans	25,818	1,022	26,840	20,212
Loans to financial entities	865	-	865	487
Loans to government entities	7,549	-	7,549	5,977
Total commercial loans	34,232	1,022	35,254	26,676
Consumer loans -				
Credit card	29,766	-	29,766	27,934
Other consumer loans	28,699	409	29,108	24,696
Total Consumer loans	58,465	409	58,874	52,630
Mortgage loans	18,306	61	18,367	17,408
Total	$ 111,003	$ 1,492	$ 112,495	$ 96,714

As of December 31, 2016 and 2015, the amount of the recoveries of loan portfolio written off or eliminated were $695 and $738, respectively, recognized in the heading, “Other operating income” in the consolidated statement of income.

At December 31, 2016 and 2015, loans classified by economic sectors were as follows:

	2016 Amount	2016 Concentration percentage	2015 Amount	2015 Concentration percentage
Private (companies and individuals)	$ 415,964	40.68%	$ 349,114	38.59%
Credit card and consumer	254,720	24.91%	225,415	24.92%
Mortgage	189,196	18.50%	176,155	19.47%
Government entities	142,642	13.95%	137,516	15.20%
Financial	17,490	1.71%	13,917	1.54%
Foreign (non-Mexican entities)	2,438	0.25%	2,450	0.28%
Other past-due loans	10	-	1	-
Total	$ 1,022,460	100.00%	$ 904,568	100.00%

Related-party loans - At December 31, 2016 and 2015, loans granted to related parties in accordance with the provisions of article 73 of the law of credit institutions, amounted to $39,962 and $39,750, respectively. The amount of related-party loans at December 31, 2016 and 2015 includes $16,716 and $13,984, respectively, of letters of credit, which are recorded in memorandum accounts.

Credit support program -

Early termination of debtor support programs:

On July 15, 2010, an agreement was signed between the Federal Government, through the Treasury Department (SHPC), and certain Credit Institutions, with the participation of the Mexican Bankers' Association, to early terminate the debtor support programs (the "Agreement").

The support programs in which the Institution participated, and which are the subject matter of this Agreement, are:

- Housing Loan Debtor Support Program

- Housing Loan Debtor Benefits Agreement

At December 31, 2010, the amount of the payment obligations of the Federal Government is comprised as follows:

Restructured loans under the Agreement	$	4,098
Non-performing portfolio which showed payment compliance as of March 31, 2011		37
Total base mount	$	4,135

General conditions of payment obligations of Federal Government:

The payment obligations of the Federal Government will be fulfilled through installments of $827 a year, adjusted for accrued interest and any excess amount between the 7.5% and the average of the indicators of arrears at the close of each of the months of the year immediately before the payment, for a period of five years, in accordance with the following:

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

The interest accruing shall be at the rate resulting from the arithmetic average of the annual rates of return based on discounted CETES within 91 days, issued during the immediately preceding month each period, led to a yield curve within 28 days, capitalized monthly, for the periods in which are not available with the observed rates, interest rates futures Cetes within 91 days of the month immediately preceding each period, which publishes Proveedor Integral de Precios, S.A.

As of December, 31, 2015, the annuities have been totally paid.

Position in special Cetes and special "C" Cetes which the Institution keeps under the heading of "Securities held to maturity":

As of December 31, 2016, the remnant of the special Cetes and special "C" Cetes is composed as follows:

	Special Cetes			Special "C" Cetes		
Trust of origin	No. of securities	Amount	Date of maturity	No. of securities	Amount	Date of maturity
421-5	18,511,119	$ 1,811	13/07/2017	2,109,235	$ 66	13/07/2017
422-9	128,738,261	12,595	07/07/2022	-	-	-
423-9	10,656,993	1,043	01/07/2027	468,306	15	01/07/2027
424-6	383,470	38	20/07/2017	96,876	3	20/07/2017
431-2	964,363	86	04/08/2022	1,800	-	04/08/2022
Total		$ 15,573			$ 84	

Loan granting policies and procedures - The Institution's credit manual regulates the granting, control and recovery of loans. This manual was authorized by the Board of Directors and outlines the parameters to be followed by officers involved in the credit process, which are based on the Credit Institutions Law, the conservative credit rules established by the Commission and sound banking practices.

Credit authorization under the Board of Directors' responsibility is centralized in empowered committees and officers.

In the credit management function the general process from promotion to recovery is defined, specifying, by business unit, the policies, procedures and responsibilities of the officers involved, as well as the tools to be used in each step of the process.

The credit process is based on a thorough analysis of loan applications, in order to determine the comprehensive risk of each debtor. For most loans, debtors must at least have an alternate repayment source.

The principal policies and procedures to determine concentrations of credit risk and which form part of the credit manuals are:

Common risk:

– Establish the criteria for determining the individuals or corporations that represent common risk for the Institution.
– Establish the criteria for determining whether individuals and/or corporations act in unison and are integrated into the same business group or consortium, in order to identify potential accumulated risk and the maximum limit of financing to be granted.

Maximum financing limit:

– Make known the maximum legal credit rules issued by the authorities.
– Communicate the updated maximum credit limit for the Institution, as well as the handling of exceptions.

Risk diversification:

At December 31, 2016, and 2015, the Institution disclosed that it maintains the following credit risk operations in compliance with the general risk diversification rules established in the Accounting Criteria and applicable to asset and liability transactions, as follows:

- At December 31, 2016, and 2015, the Institution has no loans with debtors or groups of entities or individuals representing a joint risk in which the individual amount exceeds 10% of its basic capital, respectively. As of December 31, 2015 it had a debtor of $17,216, representing 12% of the basic capital.
- As of December 31, 2016 and 2015, the maximum amount of financing with the three largest debtors amounts to $31,020 and $26,754, respectively and represent 19.8% of the basic capital.

Potential risk:

- Loan applications must be sanctioned in terms of the amount of the risk.
- Avoid risk exposure above the legal limit and other institutional limits established.

Consumer loans, mortgage loans and loans to small and micro-sized companies are subject to automated evaluation and follow-up mechanisms that have been implemented, based on certain standard factors which, under the Institution's criteria, are used to make decisions and allow greater efficiency in the handling of the high volume of loan applications.

10. UDI-denominated restructured loans

At December 31, 2016 and 2015, restructured loans denominated in UDIS amounted to $2,242 and $2,901, respectively.

11. Allowance for loan losses

The following table presents the results of basic loan ratings of the Institution made for the purpose of recording the loan loss allowance based on the requirements discussed in Note 3:

		2016			
		Allowance for loan losses			
Risk category	**Total loans**	**Commercial**	**Consumer**	**Mortgage**	**Total allowance**
A1	$ 747,109	$ 1,337	$ 1,408	$ 271	$ 3,016
A2	129,740	561	1,442	166	2,169
B1	60,570	161	1,460	53	1,674
B2	41,086	178	1,495	48	1,721
B3	26,107	217	1,254	29	1,500
C1	19,097	119	1,289	160	1,568
C2	20,105	77	2,965	312	3,354
D	17,819	1,379	1,655	1,742	4,776
E	15,224	2,595	5,880	1,298	9,773
	1,076,857	6,624	18,848	4,079	29,551
Excepted Additional	-	-	-	454	454
Total	$ 1,076,857	$ 6,624	$ 18,848	$ 4,533	$ 30,005

		2015			
		Allowance for loan losses			
Risk category	**Total loans**	**Commercial**	**Consumer**	**Consumer**	**Total allowance**
A1	$ 597,656	$ 726	$ 1,116	$ 234	$ 2,076
A2	120,489	573	1,220	169	1,962
B1	56,385	269	1,217	64	1,550
B2	46,717	160	1,657	32	1,849
B3	32,363	443	1,227	22	1,692
C1	17,703	239	1,008	135	1,382
C2	18,102	236	2,464	299	2,999
D	16,804	1,430	1,494	1,704	4,628
E	15,494	2,006	4,566	1,413	7,985
	921,713	6,082	15,969	4,072	26,123
Excepted	22,073	-	-	-	-
Additional	-	213		1,050	1,263
Total	$ 943,786	$ 6,295	$ 15,969	$ 5,122	$ 27,386

The total loan portfolio balance used for classification purposes includes amounts related to the irrevocable lines of credit granted, letters of credit and guarantees given, which are recorded in memorandum accounts.

The balance of the estimate at December 31, 2016 and 2015 is determined based on the balance of the portfolio at that date.

The allowance for loan losses at December 31, 2016 and 2015 covers 100% of non-performing accrued interest.

The amount of the allowance at December 31, 2016 and 2015 includes the classification of loans granted in foreign currency valued at the exchange rate in effect on December 31, 2016 and 2015.

At December 31, 2016, and 2015, the Institution has created additional mortgage portfolio reserves of $454 and $1,050, respectively, which represent the supplement required by the internal expected loss rating model.

At December 31, 2016, and 2015, the Institution has created additional commercial portfolio reserves of $0 and $213, respectively, which represent the supplement required by the internal expected loss rating model.

At December 31, 2016 and 2015, the allowance for loan losses represents 131.84% and 127.94%, respectively, of the non-performing loan portfolio.

At December 31, 2016 and 2015, allowance by type of portfolio risk estimates is comprised as follows:

Item	**2016**	**2015**
Commercial loans-		
Commercial	$ 5,740	$ 5,447
Financial entities	618	514
Government entities	266	334
	6,624	6,295
Consumer	18,847	15,969
Mortgage	4,534	5,122
Total allowance	$ 30,005	$ 27,386

Changes in the allowance for loan losses - Below is an analysis of the allowance for loan losses:

		2016		2015
Balance at beginning of year	$	27,386	$	26,081
Allowances charged to income statement		32,383		28,482
Applications and write-offs of the year		(29,938)		(27,329)
Exchange effect		174		152
Balance at end of year	$	30,005	$	27,386

12. Securitization operations

Mortgage portfolio securitizations –

The Institution has issued securitization certificates ("CB"), which have generally been formalized through the following contracts:

Irrevocable Trusts created between BBVA Bancomer – Invex, Grupo Financiero for the Issuance of Fiduciary Securitization Certificates –

– ***Transfer contract -***

This contract is entered into by and between the Institution ("Transferor"), Banco Invex, S.A. ("Transferee") and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative") for the purpose of assigning, on the part of the Transferor, performing portfolio, to the Irrevocable Fiduciary Certificate Issuance Trust ("the Stock Market Certificates"), free of all encumbrance and without reservation or limitation of title, together with all related benefits, proceeds and accessories applicable. The Transferor is liable only for the declarations included in such contract, for which reason non-compliance with any of the declarations will only mean that the "Transferor" replacing one or more of the ineligible loans or reimbursing in cash the proportional part of the consideration; consequently, the Transferor does not assume any obligation regarding the mortgage loans. Furthermore, the consideration was fixed as the right to receive the total amount obtained in the placement of the SMCs, less the respective issuance costs.

– ***Irrevocable Fiduciary Stock Market Certificate Issuance Trust Contract -***

This contract is entered into by and between the Institution ("Trustor" and "First Beneficiary"), Banco Invex, S.A. ("Trustee"), and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative"), which stipulates that the objective of the Trust is the acquisition of mortgage loans, free of all encumbrance and without any reservation or limitation of title, in terms of the Assignment Contract, the issuance of SMCs, which will have such mortgage loans as a source of payment and the placement of the SMCs among small investors; while the Trustee will have all those powers and obligations considered necessary to achieve such purpose.

The same contract established the initial value of guarantees with respect to the loan backing the certificate, which amount is recorded for accounting purposes under "Benefits receivable from securitized transactions" for the Institution.

– ***Portfolio Management and Collection Contract -***

This contract is entered into by and between the Institution ("Administrator"), Banco Invex, S.A. ("Trustee") and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative"). Under this contract, the Trustee contracted the Administrator to carry out the management and collection solely and exclusively in relation to the mortgage loan and any "Foreclosed assets" that were transferred in the assignment contract. Accordingly, to enable the Administrator to fulfill its obligations, the Trustee will pay a management commission to the Administrator equivalent to the amount resulting from multiplying the unpaid balance of the principal of the mortgage loans by the percentage stipulated and divided by 12.

Irrevocable Trust Number 989 created between BBVA Bancomer – CI Banco (formerly The Bank New York Mellon) for the Issuance of Securitization certificates -

On June 17, 2013, the Commission issued Document Number 153/6937/2013 to authorize the registration of the Institution with the National Securities Registry of the Program for the issuance of Securitization Certificates for amounts up to $20,000 or the equivalent in UDIS for a five-year period as of the authorization date.

On June 21, 2013, the sixth issuance of mortgage portfolio securitization certificates was made for the amount of $4,413, based on the program for the issuance of securitization certificates authorized by the Commission.

– ***Assignment Contract -***

On that same date, the Institution, in its capacity as trustor and final trust beneficiary, and the Trustee, in its capacity as trustee and through their Joint Representative, executed Irrevocable Trust No. F/00989 for the issuance of fiduciary securitization certificates to enable the Trustee to issue securitization certificates to be offered to investors through the Mexican Stock Exchange, Bolsa Mexicana de Valores, S.A.B. de C.V. (“BMV”), and which will be underwritten by mortgage loans.

– ***Irrevocable Trust Contract for the Issuance of Fiduciary Securitization Certificates -***

This contract was executed by the Institution; (Trustor and final Trust Beneficiary) CI Banco, S.A., Institución de Banca Múltiple (formerly The Bank of New York Mellon, S.A., Institución de Banca Múltiple), (Trustee) and Monex Casa de Bolsa, S.A. de C.V. (Joint Representative), which stipulates that the purpose of the trust is to acquire mortgage loans, free from liens or encumbrances and without any ownership reserves or limitations pursuant to the terms of the Assignment Contract, to issue securitization certificates. These securitization certificates will have the aforementioned mortgage loans as their source of payment and to allow them to be offered to investors. Meanwhile, the trustee will have all the powers and obligations needed to attain this objective.

– ***Portfolio Administration and Collection Contract -***

This contract was executed between the Institution (Administrator) and CI Bank, S.A., Institución de Banca Múltiple (formerly The Bank of New York Mellon, S.A., Institución de Banca Múltiple), (Trustee) and Monex Casa de Bolsa, S.A. de C.V. (Joint Representative). Under the terms of the contract, the Trustee contracted the Administrator to perform administration and collection activities exclusively related to the mortgage loans and any foreclosed real property transferred through the Assignment Contract. Accordingly and to enable the Administrator to fulfill its obligations, the Trustee will pay an administration commission to the Administrator.

The specific characteristics of each issue are detailed below:

	Trusts					
Concept	**711**	**752**	**781**	**847**	**881**	**989**
Execution date of trust contract	19-Dec-07	13-Mar-08	5-Aug-08	08-Dec-08	03-Aug-09	21-Jun-13
Number of loans assigned	2,943	1,587	9,071	18,766	15,101	10,830
Amount of portfolio	$ 2,644	$ 1,155	$ 5,696	$ 5,823	$ 6,545	$ 4,413
SMCs issued	25,404,498	11,143,185	11,955,854	55,090,141	59,101,116	41,920,673
Face value per SMC (in Mexican pesos)	$ 100 pesos	$ 100 pesos	100 UDIS	$ 100 pesos	$ 100 pesos	$ 100 pesos
Amount of issue of SMC	$ 2,540	$ 1,114	$ 4,830	$ 5,509	$ 5,910	$ 4,192
Series A1	-	-	$ 2,415	-	$ 562	-
Series A2	-	-	$ 2,415	-	$ 1,732	-

Concept	Trusts 711	752	781	847	881	989
Series A3	-	-	-	-	$ 3,616	-
Gross annual interest rate	9.05%	8.85%	-	9.91%		6.38%
Series A1	-	-	4.61%	-	6.14%	-
Series A2	-	-	5.53%	-	8.04%	-
Series A3	-	-	-	-	10.48%	-
Effective duration of the SMC (years)	20.5	20.42	24.84	22	20.08	20
Value of certification	$ 103	$ 40	$ 866	$ 314	$ 635	$ 221
Value of guarantees with respect to the loan %	3.9%	3.5%	15.2%	5.4%	9.7%	5.0%
Total cash flow received for the assignment	$ 2,507	$ 1,091	$ 4,751	$ 5,475	$ 5,733	$ 4,129

The third issue, which refers to Trust 781, was made in UDIS. The exchange rate of the UDI used at the issue date is $4.039765 Mexican pesos per UDI.

As of December 31, 2016 and 2015, amounts reported under "Benefits to be received in securitization operations", of $197 and $1,136 represent the outstanding trust certificates of unconsolidated securitizations.

The summarized financial information of unconsolidated securitization trusts as of December 31, 2016 and 2015, are shown below:

No. of Trust	711		752		781		847	
	2016	2015	2016	2015	2016	2015	2016	2015
Assets	$ 541	$ 698	$ 285	$ 357	$ -	$ 2,360	$ 1,473	$ 1,856
Liabilities	$ 494	$ 634	$ 261	$ 329	$ -	$ 259	$ 1,347	$ 1,690
Stockholders' equity	$ 47	$ 64	$ 24	$ 28	$ -	$ 2,101	$ 126	$ 166
Net result	$ 6	$ 1	$ 3	$ 2	$ -	$ 183	$ 19	$ 19

At the December 2016 close, Trust No.781 has a zero balance because, in April 2016, the securitization certificates pertaining to its securitized mortgage portfolio were settled ahead of time. At the settlement date, the net loan portfolio value was $2,093, which is equal to a total of 3,975 mortgage loans. The effect recognized in the Institution's results was a profit of $1,307.

In compliance with the order of rules and priority of distributions established in clause 11 of the Trust Contract described in this Note, the Assignee will distribute to the last Beneficiary, in proportion to the percentage represented by the respective certification, the residual or surplus of the Assignee (cash flows of principal and interest).

13. Receivables, sundry debtors and prepayments, net

The balance at December 31, 2016 and 2015, consists of the following:

Item	2016	2015
Debtors from transaction settlement (a)	$ 60,138	$ 32,106
Loans to officers and employees	10,954	10,240
Sundry debtors	2,802	3,376
Debtors from collateral provided through OTC derivatives (b)	5,795	14,213
Others	1,585	1,710
	81,274	61,645
Less – Allowance for uncollectible accounts	(467)	(573)
Total	$ 80,807	$ 61,072

(a) The receivables for settlement of transactions as of December 31, 2016 and 2015, are composed as follows:

	2016	2015
Foreign currencies	$ 46,218	$ 26,451
Investments in securities	12,832	4,455
Derivatives	1,088	1,200
Total	$ 60,138	$ 32,106

(b) Receivables for collateral granted on OTC derivatives as of December 31, 2016 and 2015 is comprised as follows:

	2016			2015
Collateral provided through derivatives	Acquisition cost	Accrued interest	Book value	Book value
BBVA Servex	$ -	$ -	$ -	$ 9,363
Banco INVEX	23	-	23	21
Banco Mercantil del Norte	-	-	-	359
Banco Monex	60	-	60	28
Banco Nacional de México, S.A., IBM	418	2	420	487
Barclays Bank PLC	138	-	138	267
BPN Paribas	1,425	1	1,426	1,373
HSBC México, S.A., IBM	926	1	927	1,491
JP Morganchase BK NY	89	-	89	438
Morgan Stanley & Co	-	-	-	81
Royal Bank of Scotland	91	-	91	39
Actinver Casa Bolsa GFA	4	-	4	-
Banca Afirme, S.A.	72	-	72	-
Banca Mifel, S.A IBM	6	-	6	-
Banco Actinver IBM	5	-	5	-
Banco Nacional de OB	1,730	8	1,738	-
BBVA Chile	98	-	98	-
BBVA Colombia SA	60	-	60	-
Societé Géneralé	638	-	638	256
Toronto Dominion Bank	-	-	-	10
Total	$ 5,783	$ 12	$ 5,795	$ 14,213

14. Foreclosed assets, net

Foreclosed assets at December 31, 2016 and 2015, were as follows:

Item	2016	2015
Buildings	$ 4,571	$ 5,296
Land	2,256	2,750
Securities	23	20
	6,850	8,066
Less - Allowance for impairment of foreclosed assets	(2,984)	(2,404)
Total	$ 3,866	$ 5,662

The changes in the reserve for decreases in real estate value are summarized below, for the years ended December 31, 2016 and 2015:

	2016	2015
Opening balance	$ 2,404	$ 1,669
Application to income statement	1,119	977
Termination of Trust 781 (Bursa 03)	34	-
Reserve application sale of asset and others	(573)	(242)
Ending balance	$ 2,984	$ 2,404

15. Property, furniture and equipment, net

Property, furniture and equipment at December 31, 2016 and 2015 were as follows:

Item	2016	2015
Furniture and equipment	$ 13,236	$ 14,347
Office space	8,947	9,023
Installation costs	16,157	15,747
Land	2,725	2,725
Construction	14,176	12,980
Construction in progress	36	172
	55,277	54,994
Less- Accumulated depreciation and amortization	(12,714)	(15,353)
Total	$ 42,563	$ 39,641

For the year ended December 31, 2016, depreciation and amortization are $3,192 and $ 1,879, respectively.

For the year ended December 31, 2015, depreciation and amortization are $2,421 and $1,453, respectively.

As part of the strategic project during 2015, the movement of staff to new corporate headquarters was made, and $11,149 was reclassified from construction process and its components.

16. Equity investments

Investments in associates were valued according to the equity method, while other permanent investments were recorded at their acquisition cost. The most significant of these investments are detailed below:

Entity	Equity participation 2016	Equity participation 2015	2016	2015
Fideicomiso No.1729 *INVEX* - Portfolio Disposal	32.25%	32.25%	$ 758	$ 758
I+D México, S.A. de C.V. (1)	-	50.00%	-	283
Compañía Mexicana de Procesamiento, S.A. de C.V.	50.00%	50.00%	136	124
Servicios Electrónicos Globales, S.A. de C.V.	46.14%	46.14%	125	120
Seguridad y Protección Bancarias, S.A. de C.V.	22.32%	26.14%	15	15
Unidad de Avalúos México, S.A. de C.V. "AVAMEX" (2)	-	99.99%	-	50
Others	Various	Various	173	168
Total			$ 1,207	$ 1,518

(1) On March 18, 2016, the Institution sold its shareholding in I+D México, S.A. de C.V.; the sale generated an effect of $131, which was recorded under the heading of "Discontinued operations" in the consolidated statement of income.

(2) On July 29, 2016, the Institution sold its shareholding in Unidad de Avalúos México, S.A. de C.V., ("AVAMEX"); the sale generated a gain of $421, which was recorded in the consolidated statement of income under the heading of "Discontinued operations".

The investment in shares of associates as of December 31, 2016 and 2015 was determined in some cases based on unaudited financial information, which is adjusted, if any differences arise, once the audited information becomes available.

At December 31, 2016 and 2015, the dividends received from associates and other permanent investments were $75 and $62, respectively.

At December 31, 2016 and 2015, the Institution earned equity in the results of associates for the amount of $16 and $100, respectively.

17. Deferred taxes

The Institution has recognized a net deferred income tax asset resulting from temporary differences between the book and tax bases of assets and liabilities and tax loss carryforwards at December 31, 2016 and 2015, of $14,998 and $12,309, respectively, as follows:

Item	2016 Temporary Difference		2015 Temporary Difference	
	Item	Deferred income taxes	Item	Deferred income taxes
Temporary differences - assets:				
Undeducted allowance for loan losses	$ 32,572	$ 9,772	$ 30,526	$ 9,158
Commissions and interest	9,036	2,711	9,403	2,821
Advance premium on swap	-	-	2,210	663
Provisions	6,416	1,925	5,186	1,556
Other assets	3,682	1,105	3,883	1,165

Item	2016 Temporary Difference Item	2016 Temporary Difference Deferred income taxes	2015 Temporary Difference Item	2015 Temporary Difference Deferred income taxes
Foreclosed assets	3,891	1,167	3,350	1,005
Tax loss carry	48	14	93	28
Valuation securities available-for-sale (capital)	5,667	1,700	986	296
Accounts Receivable and Payable	467	140	570	171
Total assets	61,779	18,534	56,207	16,863
Temporary differences - liabilities:				
Net gain in financial instruments	8,615	2,585	14,067	4,220
Valuation Hedging purposes	87	26	447	134
Advance premium on swap	1,977	593	-	-
Pension allowance	423	127	550	165
Other liabilities	684	205	116	35
Total liabilities	11,786	3,536	15,180	4,554
Net deferred tax asset	$ 49,993	$ 14,998	$ 41,027	$ 12,309

Based on financial projections, the deferred tax balance derived from the allowance for loan losses will be realized in the medium-term.

18. Other assets

Other assets at December 31, 2016 and 2015 were as follows:

Item	2016	2015
Software (net)	$ 3,796	$ 3,626
Prepaid expenses	2,152	2,906
Pension plan prepayment	756	1,010
Other unapplied expenses	345	409
Total	$ 7,049	$ 7,951

As of December 31, 2016 and 2015, the amortization of software is determined based on cost or restated cost up to 2007, using the straight-line method, as of the month following that of its purchase, by applying the 20% rate.

The amount of the historical cost and software amortization at December 31, 2016 and 2015 are detailed below:

Item	2016	2015
Historical cost	$ 13,469	$ 11,958
Amortization	(9,673)	(8,332)
Total	$ 3,796	$ 3,626

19. Deposits

Liquidity coefficient - The provisions of the Treatment for Admission of Liabilities and Investment for Foreign Currency Transactions, issued by the Central Bank of Mexico for credit institutions establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

Based on the above procedure, in 2016 and 2015 the Institution was subject to liquidity requirements of U.S. $51 and $4 million, respectively, and maintained investments in liquid assets of U.S. $3,551 and $979 million respectively, reflecting liquidity excesses of U.S. $3,649 million and U.S. $975 million, respectively.

At December 31, 2016 and based on short or long-term due dates, the average "Mexican peso" resource attraction rates are 0.83% and 3.62%, together with 0.02% and 0.39% for "Foreign Currency", respectively.

At December 31, 2015 and based on short or long-term due dates, the average "Mexican peso" resource attraction rates are 0.65% and 2.67%, together with 0.05% and 0.20% for "Foreign Currency", respectively.

	2016	2015
Demand deposits-		
Demand deposits	$ 754,858	$ 678,708
Time deposits-		
Notes with interest payable at maturity	161,540	144,310
Time deposits	36,066	35,516
Credit instruments issued (a)	79,990	91,220
Inactive global deposits account	3,170	2,501
Total	$ 1,035,624	$ 952,255

(a) Credit instruments issued

Description of the principal programs

As of December 31, 2016 and 2015, the Institution has placed short-term and long-term debt with a market value of $79,990 and $91,220, respectively, composed as follows:

Instrument	2016	2015	Period (days)	Rate
Bank bonds LP	$ 31,977	$ 30,951	1,474	5.81%
Bank bonds CP	3,198	6,989	323	5.84%
Securitized certificates MXP	10,338	8,858	2,366	6.73%
Securitized certificates UDIS	18,862	18,242	5,355	4.03%
Senior Notes	15,615	26,180	3,653	4.38%
Total	$ 79,990	$ 91,220		

20. Interbank loans and loans from other entities

At December 31, 2016 and 2015, interbank loans and loans from other entities were as follows:

Item	Mexican pesos		U.S. dollars in Mexican pesos		Total	
	2016	2015	2016	2015	2016	2015
Bank loans	$ 1,111	$ 6,711	$ 55	$ 94	$ 1,166	$ 6,805
Loans call money	413	450	-	1,121	413	1,571
Loans from other entities	15,960	11,049	1,665	1,413	17,625	12,462
Total	$ 17,484	$ 18,210	$ 1,720	$ 2,628	$ 19,204	$ 20,838

Interbank loans and loans from other entities in foreign currency were contracted by the Institution with terms ranging from three days to 4 years and annual rates ranging between 0.714% and 1.50% annual in 2016. Such loans are contracted with eight foreign financial institutions

Interbank loans and loans from other entities in foreign currency were contracted by the Institution with terms ranging from four days to 5 years and annual rates ranging between 0.55% and 1.50% annual in 2015. Such loans are contracted with eight foreign financial institutions.

The Institution maintains availability of liquidity in the central bank up to the amount of the Monetary Regulation Deposits (DRM), the balance were $40,230 and $59,676 (excluding interest) for 2016 and 2015 respectively. The amount of this line ready for the year 2016 and 2015 amounted to $1,120 and $702; respectively, while the balance of the overdraft amounted to $39,110 and $58,974, respectively.

21. Labor benefits

The Institution has liabilities from labor obligations related to severance payments, which will cover the pension, seniority premiums due upon retirement. The Institution also has a plan for integral medical services to pensioners and their economic dependents, as well as the payment of life insurance. The amount of such labor liabilities is determined based on calculations performed by independent actuaries using the projected unit credit method and in conformity with the methodology established in NIF D-3. The management of plan assets is made through an irrevocable trust.

As of January 1, 2007, following the execution of the employer substitution contract, all the Institution's employees (except the Chief Executive Officer) were transferred to the payroll of BBVA Bancomer Operadora, S. A. de C.V., a company belonging to the Financial Group. Employees retained all vested benefits and only personnel without vested benefits were transferred to a variable compensation scheme. Given the above, the Institution only has a labor obligation related to the retirees and only one active employee.

		Pension plan and seniority premiums		Integral medical services
The information on the projected net (liability) asset is presented below:				
Defined benefits obligations	$	(2,996)	$	(5,033)
Plan assets at fair value		3,481		4,858
Net defined benefits liability		485		(175)
At December 31, 2016, defined benefits liability were composed as follows:				
Opening balance January 1, 2016	$	3,111	$	4,963
Labor cost of the current service		-		-
Financial cost		269		442
Actuarial losses and gains generated in the period		80		70
Benefits actual payment during the year		(464)		(442)
Reductions		-		-
Net Assets (Liabilities) for benefits obligations	$	2,996	$	5,033
At December 31, 2016, plan assets ("AP") were as follows:				
Opening balance	$	3,770	$	4,899
Contributions made by the entity		-		218
Returns expected from plan assets		330		436
Actuarial losses and gains generated during the period		(155)		(253)
Benefits paid		(464)		(442)
Plan assets	$	3,481	$	4,858
Opening balance	$	659	$	(64)
Net interest		61		(6)
Fund contributions		-		218
Estimated payments		-		-
Re-measurements recognized in OCI		(235)		(323)
Net Assets (Liabilities) for benefits obligations	$	485	$	(175)
At December 31, 2016, obligations for defined benefits were composed as follows:				
Labor cost of the current service				
Current service	$	-	$	-
Past services from the early reduction of obligations		-		-
Net interest derived from the Net Liability or Net Asset of Defined Benefits				
Interest costs of Defined-Benefit Obligations		(269)		(442)
Interest income from Plan Assets		330		437
Net cost for the period	$	61	$	(5)

	Pension plan and seniority premiums	Integral medical services
At December 31, 2016, the remediation of the net defined-benefit liability and asset is composed as follows:		
Reconciliation of actuarial gains (losses)		
Opening balance of obligation gains (losses)	$ -	$ -
Obligation gains (losses)	(80)	(70)
Closing balance of obligation gains (losses)	$ (80)	$ (70)
Opening balance of asset return gains (losses)	$ -	$ -
Gains (losses) from the return of plan assets	(155)	(252)
Closing balance of obligation gains (losses)	$ (155)	$ (252)
Closing balance of net gains (losses)	$ (235)	$ (322)

	Pension plan and seniority premiums	Integral medical services
The information on the projected net liability (asset) is presented below:		
Defined benefit obligation	$ 3,111	$ 4,964
Plan assets	(3,769)	(4,899)
Unfunded liability (prepaid expense)	(658)	65
Current (liabilities) net asset derived from employee pensions	$ (658)	$ 65
At December 31, 2015, obligations for defined benefits were composed as follows		
Opening balance January 1, 2015	$ 3,275	$ 5,162
Financial cost	268	434
Actuarial losses and gains generated in the period	16	(223)
Benefits paid	(448)	(410)
Reductions	-	1
Obligations for defined benefits	$ 3,111	$ 4,964
Amount of obligations for benefit acquired	$ 3,111	$ 4,964
At December 31, 2015, plan assets were as follows:		
Opening balance	$ 4,181	$ 5,266
Returns expected from plan assets	347	444
Actuarial losses and gains generated during the period	(311)	(402)
Reductions	-	1
Benefits paid	(448)	(410)
Plan assets	$ 3,769	$ 4,899

Pension plan and seniority premiums	Integral medical services	Life insurance
The amortization period of the unamortized items is five years		
For the years ended December 31, 2015, the net cost of the period was as follows:		
Financial cost	$ 268	$ 434
Return on plan assets	(347)	(444)
Immediate recognition of actuarial losses for the year	327	178
Net cost of the period	$ 248	$ 168

The nominal interest rates utilized in the actuarial calculations were:

Item	2016	2015
Expected rate of return of assets	9.95%	9.30%
Discount rate	9.95%	9.30%
Wage increases rate	4.75%	4.75%
Medical services increase rate	6.75%	6.75%

Below is the effect of the one percentage point increase or reduction in the rate of the assumed variance trend of medical atten

	+ 1%	- 1%
In net cost of the period	$ 44	$ (38)
In the defined benefits obligations	$ 444	$ (385)

As of the year 2010, the plan entitled sports for retirees is established, due to the right of employees to continue receiving the sports service once they retire. Under this scheme the Institution pays part of the dues and the employee the rest.

At December 31, 2016 and 2015, the plans for indemnities and sports for retirees did not have assets to fund the obligations for defined benefits.

At December 31, 2016, assets of the various plans were invested in government securities. Also, the expected return on plan assets at December 31, 2016 was estimated by an amount of $884 and $901 of gains respectively, being the real at the same date in the amount of $500 and $(234) gains and handicapping performance.

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22. Subordinated debt

Item	2016	2015
Non-preferred capitalization notes for US $500 million, issued in May 2007 at an interest rate of 6.0080% issued May 17, 2017, payable semiannually and LIBOR + 1.81% as of May 18, 2017, payable quarterly, and maturing on May 17, 2022, the number of outstanding securities is 500,000 with a face value of $1,000 dollars each.	$ 10,310	$ 8,624
Non-preferred capitalization notes for USD 1,000 million, issued in April 2010, at an interest rate of 7.25% payable semiannually, beginning as of October 22, 2010, and maturing on April 22, 2020, the number of outstanding securities is 1,000,000 with a face value of $1,000 dollars each.	20,619	17,249
Preferred capitalization notes for USD 1,250 million, issued in March 2011, at an interest rate of 6.50% payable semiannually, starting at September 10, 2011 and maturing on March 10, 2021, the number of outstanding securities is 1,250,000 with a face value of $1,000 dollars each.	25,774	21,561
Preferred capitalization notes for USD 1,000 million, issued in July 2012, at an interest rate of 6.75% and additional issuances of USD 500 million on September 2012, at an interest rate of 5.45% payable semiannually starting on March 30, 2013, and maturing on September 30, 2022, the number of outstanding securities is 1,500,000 with a face value of $1,000 US dollars each.	30,929	25,873
Preferred capitalization notes for USD 200 million, issued in November 2014, at an interest rate of 5.35% payable semiannually, starting on May 12, 2015, and maturing on November 12, 2029, the number of outstanding securities is 200,000 with a face value of $1,000 dollars each.	4,124	3,450
Unpaid accrued interest	1,429	1,201
Total	$ 93,185	$ 77,958

The debt issuance costs related to these issues are amortized using the straight-line method over the term of the debt.

On December 31, 2015 the Institution exercised the early redemption option of the “Debentures BANCOMER 08-3” for the amount of $2,859, which were issued on December 11, 2008, with maturity on November 26, 2020.

23. Related parties

Balances and transactions with related parties, as established in Bulletin C-3 "Related Parties", issued by the Commission, are as follows:

	2016	2015
Banco Bilbao Vizcaya Argentaria, S.A.		
Derivative financial instruments	$ 378	$ (9,474)
Payables from repurchase agreements	$ (4,113)	$ (441)
Grupo Financiero BBVA Bancomer, S.A. de C.V.		
Account payable	$ 2,465	$ 4,426
BBVA Bancomer Operadora, S.A. de C.V.		
Fees paid for administrative services	$ 15,729	$ 12,058
Account payable	$ 2,837	$ 1,823
BBVA Bancomer Servicios Administrativos, S.A. de C.V.		
Fees paid for administrative services	$ 9,187	$ 7,480
Account payable	$ 2,072	$ 1,558
Seguros BBVA Bancomer, S.A. de C.V.		
Commissions income	$ 2,151	$ 1,746
Insurance premiums paid	$ 286	$ 916
BBVA Bancomer Gestión, S.A. de C.V.		
Commissions income	$ 2,477	$ 2,426
Aplica Tecnología Avanzada, S.A. de C.V.		
Deposits	$ 1,223	$ 18
Performing loans	$ 1,443	$ 604
Income:		
Interest	$ 29	$ 20
Commissions collected on loan originations	25	20
	$ 54	$ 40
Fees paid for administrative services	$ 32	$ 31
Expense:		
Processing and system development	$ 2,384	$ 2,252
Facileasing, S.A. de C.V.		
Deposits	$ 32	$ 46
Performing loans	$ 6,278	$ 7,802

	2016	2015
Income:		
Interest	$ 213	$ 229
Fees paid for administrative services	$ 65	$ 59
Facileasing Equipment, S.A. de C.V.		
Deposits	$ 265	$ 128
Performing loans	$ 6,476	$ 7,768
Income:		
Interest	$ 277	$ 301
Fees paid for administrative services	$ 43	$ 41

As of December 31, 2016 and 2015, there are other transactions and operations with related parties which are not material, and therefore have not been revealed.

24. Income taxes

The main changes affecting brought to the Institution:

a) *Income Tax*

The Institution is subject to ISR. In accordance with the Income Tax Law the rate for 2016 and 2015 was 30%.

ISR is calculated by considering as taxable or deductible certain effects of inflation, such as the depreciation calculated on values in constant pesos, and the effect of inflation is accrued or deducted on certain monetary assets and liabilities through the annual adjustment for inflation.

The Institution pays ISR and therefore recognizes deferred ISR. The provision in results is composed as follows:

	2016	2015
Current:		
ISR	$ (10,974)	$ (13,516)
Deferred:		
ISR	$ 1,106	$ 4,695

Taxable income - The principal items which affected the determination of the Institution's tax results were the annual adjustment for inflation, provisions for expenses, the result from markets valuation, the difference between book and tax depreciation and amortization and the deduction for bad debts, in relation to the accounting increase of the estimate.

The reconciliation of the statutory ISR rate and the effective rate, expressed as a percentage of income before income taxes, which is the tax incurred by the Institution, is as follows:

	2016	2015
Statutory rate	30.00%	30.00%
Add (deduct) -		
Effect of nondeductible items	1.01%	0.52%
Annual adjustment for inflation	(2.98%)	(2.62%)
Cancellation of income and expense provisions from previous years	(3.43%)	(3.27%)
Other effects	(1.27%)	(1.00%)
Effective rate	23.33%	23.63%

Recoverable IMPAC - As of December 31, 2016 and 2015, the Institution has recoverable IMPAC of $381 and $553, respectively.

Other Tax Matters:

The following balances are in effect at December 31, 2016 and 2015:

	2016	2015
Net tax income account	$ 75,616	$ 60,323
Contributed Capital Account	$ 62,538	$ 60,505

25. Stockholders' equity

Capital stock - The capital stock of the Institution at December 31, 2016 and 2015, was as follows:

	Number of shares at Par Value of $0.28 Mexican pesos per share					
	2016			2015		
	Authorized	Unsubscribed	Paid-in	Authorized	Unsubscribed	Paid-in
Series "F"	9,107,142,859	(1,378,926,692)	7,728,216,167	9,107,142,859	(1,378,926,692)	7,728,216,167
Series "B"	8,749,999,999	(1,324,851,134)	7,425,148,865	8,749,999,999	(1,324,851,134)	7,425,148,865
Total	17,857,142,858	(2,703,777,826)	15,153,365,032	17,857,142,858	(2,703,777,826)	15,153,365,032

	Historical Amount					
	2016			2015		
	Authorized	Unsubscribed	Paid-in	Authorized	Unsubscribed	Paid-in
Series "F"	$ 2,550	$ (386)	$ 2,164	$ 2,550	$ (386)	$ 2,164
Series "B"	2,450	(371)	2,079	2,450	(371)	2,079
Subtotal	$ 5,000	$ (757)	4,243	$ 5,000	$ (757)	4,243
Capitalization of restatement			10,971			10,971
Restatement to Mexican pesos as of December 2007			8,924			8,924
Total			$ 24,138			$ 24,138

At the Stockholders' Ordinary General Meeting held on February 26, 2016, agreement was reached that given the consolidated financial statements approved at such Meeting reported net income in fiscal year 2015 in the amount of $266,813, the following applications were made:

a) The net profit of the year of $26,813 was recorded in the "Result of Prior Years" account.

b) The distribution of dividends was authorized for up to the amount of $19,350, of which the amount of $15,450 was taken from the "Result of prior years" account at the rate of $1.019575517872 Mexican pesos per share. Of this amount, $3,145 was paid to stockholders on March 29, 2016, $6,035 on June 22, 2016, and $3,805 in September 21, 2016.

If profits are distributed without incurring tax attributable to the Institution, this will have to be paid when the dividend is distributed. Therefore, the Institution must track the income subject to each rate.

As of January 1, 2014, based on the LISR reforms, dividends paid by Mexican companies to individuals and residents abroad incur an additional 10% income tax; in the case of residents abroad, the respective tax treaties may be applied.

Capital reductions will incur tax on the excess of the amount distributed against tax value, determined in accordance with the LISR.

The net result of the institution is subject to the legal provision requiring that 5% of the profits of each year be transferred to the legal reserve until it equals 20% of the share capital. This reserve may not be distributed to stockholders during the existence of the Financial Group, except in the form of dividends.

Capitalization index (unaudited) - Current regulations establish requirements for specific net capital levels, as a percentage of risk assets, for both market and credit purposes. However, in order to determine net capital, deferred taxes represent a maximum of 10% of basic capital.

Based on the standard method, the transactions are classified in eight different groups depending on the counterparty, and must be weighted based on the degree of risk applicable to the respective loan classification assigned by one of the Ratings Agencies.

Furthermore, under this method a higher weighting factor is assigned to the non-performing portfolio (115% and 150%) and the mortgage loans will now have a factor of between 50% and 100%, depending on the level of down payment and the related guarantees provided.

– *Capitalization for operating risk:*

Based on the changes to the Banks Sole Circular published by the Commission on December 31, 2014, in order to calculate the capitalization requirement for operating risk, the Institution must utilize:

- The Alternative Standard Method, authorized by the Commission on November 27, 2015.

The capital requirement based on the Alternative Standard Method should be constructed within a term of three years; the weighting factor is considered according to the business line.

According to the amendments to the Capitalization rules issued in December 2014, which went into effect in October 2015, please note the following:

– *Capitalization due to market risk:*

According to the amendments to the capitalization rules which went into effect October 2015, the weighting factors applicable to the RC-01, RC-02, RC-03 and RC-04 reports were amended. Furthermore, in RC on the share positions (RC-05) the weighting factors for General Market Risk are being changed; the calculation for portfolio diversification is omitted to instead use 8% for specific market risk; and, finally, the calculation for Liquidation Risk is eliminated.

A new RC was added to the Market requirements, RC-18, which captures the Gamma and Vega effects on the Options positions and is reflected in the total Market Risk at the close of December 2018. This requirement is additional to the requirements generated in the rest of the RCs.

– *Capitalization for credit risk*

With regard to credit risk, the amendments to the capitalization rule meant that the counterparty risk would be divided into counterparty credit risk and risk with related parties, credit risk for adjustment of credit valuation and with related parties and exposure to the default fund in clearinghouses.

The capitalization ratio of the Institution as of December 31, 2016 amounted to 13.73% of total risk (market, credit and operational) and 19.75% credit risk, which are 3.23 and 9.25 points higher than the minimum required.

The amount of net capital, composed Complementary Basic Capital and is broken down below (the figures shown may differ in their presentation of the basic financial statements):

– *Basic capital:*

Concept	Account
Stockholders' equity	$ 158,506
Capitalization instruments	9,362
Subordinated debt instruments related to securitization schemes	(716)
Deductions equity investments in financial institutions	(3,880)
Organizational costs and other intangibles	(4,544)
Total	$ 158,728

The main characteristics of debt and capital notes were as follows:

Item	Appraised Amount	Maturity Date	Calculation Percentage	Weighted Average Amount
Non-convertible debt considered as basic capital:				
Eligible capital notes	$ 10,310	17/05/2022	60%	$ 6,186
Eligible capital notes	20,619	22/04/2020	60%	12,372
Total	$ 30,929			$ 18,558

– *Complementary capital:*

Item	Amount
Obligations and capitalization instruments	$ 32,399
Allowance for loan losses	7
Total	$ 32,406
Net capital	$ 191,134

The main characteristics of debt and capital notes were as follows:

Item	Appraised Amount	Maturity Date	Calculation Percentage	Weighted Average Amount
Non-convertible debt considered as complementary capital:				
BANCOMER-08-3				
Eligible capital notes	$ 25,774	10/03/2021	60%	$ 15,465
Eligible capital notes	20,619	30/09/2022	60%	12,372
Eligible capital notes	10,310	30/09/2022	60%	6,186
Total	$ 56,703			$ 34,023

Assets at risk are as follows:

– *Assets subject to market risk:*

Item	Risk-Weighted Positions	Capital Requirements
Transactions in Mexican pesos with a nominal rate	$ 200,035	$ 16,003
Transactions in Mexican pesos with real rate or rate denominated in UDIS	19,595	1,568
Rate of return based on the General Minimum Wage	16,336	1,307
Interest rate transactions in foreign currency with a nominal rate	44,564	3,565
Positions in UDIS and Mexican pesos with yield linked to NCPI	43	3
Positions in currencies with yield indexed to exchange rates	12,095	968
Positions in shares or with yield indexed to the price of a share or group of shares	32,757	2,621
Transactions based on the General Minimum Wage	128	10
Gamma (RC-18)	9,816	785
Vega (RC-18)	1,083	87
Surtax	8,236	659
Total market risk	$ 344,688	$ 27,576

– *Assets subject to credit risk:*

Item	Risk-Weighted Assets	Capital Requirements
Weighted at 10%	$ 1,255	$ 100
Weighted at 11.5%	1,837	147
Weighted at 20%	20,077	1,606
Weighted at 23%	3	-
Weighted at 50%	42,343	3,387
Weighted at 75%	39,251	3,140
Weighted at 100%	399,322	31,946
Item	**Risk-Weighted Assets**	**Capital Requirements**
Weighted at 115%	11,065	885
Weighted at 150%	1,150	92
Weighted at 1250%	817	65
Internal methodology TDC / E and C	384,899	30,792
CVA	32,322	2,586
ECC	32	3
Counterpart	17,808	1,425
Related	15,453	1,236
Repurchase	247	20
Total credit risk	$ 967,881	$ 77,430
Operational risk	$ 79,479	$ 6,358

Equity Management - Institution has the equipment, processes and systems required to correctly identify, measure, monitor, control and mitigate the risks to which it is exposed. Please see Note 33 for a more detailed explanation.

Likewise, periodic processes have been defined and established to ensure that financial reports disclose and reflect the risks to which the Institution is exposed.

As required by the Commission, the Institution performs exercises involving the preparation of annual financial projections for stress scenarios.

The Institution also performs an analysis that includes certain liquidity crisis scenarios. These stress scenarios estimate the magnitude of the effects generated for the self-financing ratio and the capacity of available explicit assets to cover maturities with a 12-month horizon so as to ascertain the Institution's survival horizon. The results of these activities show that the Institution has a satisfactory level of resistance as regards liquidity crisis scenarios.

Similarly, the Institution has different management mechanisms which it can activate in the event of different stress scenarios that could impair its solvency as regards capital and/or liquidity. Given the Institution's robust financial position and balance sheet structure, these resources allow it to access local and international wholesale markets to obtain financing and capital, dispose of high quality assets for sale and/or securitization, and discount securities on the market and with the Central Bank of Mexico.

Consequently, the Institution has the mechanisms needed to effectively mitigate stress scenarios which could impair its capital and liquidity.

For further detail, please consult "Exhibit 1-O" as required by the Provisions "Information supplemental to the fourth quarter 2016", in compliance with the obligation to disclose information on the Capitalization Ratio, which is located on the following Internet page www.bancomer.com/informacioninversionistas.

26. Position in foreign currency

At December 31, 2016 and 2015, the exchange rate determined by the Central Bank of Mexico and used by the Institution to value its assets and liabilities in foreign currency (translated to U.S. dollars) was $20.6194 Mexican pesos and $17.2487 Mexican pesos per U.S. dollar, respectively, and the position in foreign currency was as follows:

	Millions of U.S Dollars	
	2016	**2015**
Assets	13,970	13,291
Liabilities	(13,741)	(13,592)
Net liability position in U.S. dollars	229	(301)
Net liability position in Mexican pesos (nominal value)	$ 4,722	$ (5,192)

As of February 24, 2017, the foreign currency position (unaudited) is similar to that of the close of the year and the exchange rate as of that date is $19.8335 Mexican pesos per US$1.00.

According to the provisions of the Central Bank of Mexico, the position reported to that institution as of December 31, 2016 and 2015 was USD $129 and USD $72 million, respectively short, which includes delta FX options, and excludes assets and liabilities that are not computable.

The Institution performs transactions in foreign currency, primarily in US dollars, Euros and Japanese yen. The Institution does not disclose its position in currencies other than the US dollar, as it is largely immaterial. The parity of other currencies with the Mexican peso is referenced to the US dollar and is in compliance with the Central Bank of Mexico regulations. Consequently, the Institution's position in all foreign currencies is consolidated in US dollars at each monthly close.

27. UDI position

At December 31, 2016 and 2015, the Institution had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of $5.562883 Mexican pesos and $5.381175 Mexican pesos per UDI, respectively, as follows:

	Millions of UDIs	
	2016	**2015**
Assets	5,561	5,079
Liabilities	(5,085)	(5,096)
Net (liability) asset position in UDIS	476	(17)
Net (liability) assets position in Mexican pesos (nominal value)	$ 2,648	$ (92)

As of February 24, 2017 the position in UDIS (unaudited) is similar to that of the close of the year and the exchange rate as of that date is $5.681649 Mexican pesos per UDI.

28. Preventive and protective savings mechanism

The Bank Savings Protection Institute ("IPAB") was approved on January 19, 1999. It is intended to establish a bank savings protection system for individuals who perform any of the established guaranteed transactions, while regulating the financial support granted to Full-Service Banking Institutions to protect the public interest.

The IPAB has resources derived from the mandatory fees paid by financial institutions, which reflect their risk exposure levels based on their level of capitalization and other indicators determined by the internal regulations of the IPAB Governance Board. These fee s must be paid monthly for an amount equivalent to one twelfth of four thousandths of the monthly average of daily debit transactions of the month in question. During 2016 and 2015, contributions made by the Institution to IPAB for insurance to deposits amounted to $4,585 and $4,049, respectively.

29. Financial margin

For the years ended December 31, 2016 and 2015, the main items composing the financial margin were as follows:

	2016		
		Amount valued	
	Mexican pesos	Dollars	Total
Interest income:			
Loan portfolio interest and returns	$ 106,484	$ 4,519	$ 111,003
Securities interest and returns	20,030	583	20,613
Interest from quick assets	2,481	262	2,743
Interest and premiums from repurchase agreements and securities loans	700	-	700
Interest on margin accounts	172	-	172
Commissions collected on loan originations	1,480	12	1,492
Others	1,073	83	1,156
Total interest income	132,420	5,459	137,879
Interest expense:			
Deposit interest	(15,153)	(461)	(15,614)
Interest from loans provided by banks and other entities	(1,032)	(26)	(1,058)
Debenture interest	(221)	(3,775)	(3,996)
Interest and premiums from repurchase agreements and securities loans	(12,721)	-	(12,721)
Expenses incurred to initially grant loan	(393)	-	(393)
Others	(932)	(61)	(993)
Total interest expense	(30,452)	(4,323)	(34,775)
Financial margin	$ 101,968	$ 1,136	$ 103,104

	2015		
		Amount valued	
	Mexican pesos	Dollars	Total
Interest income:			
Loan portfolio interest and returns	$ 91,647	$ 3,723	$ 95,370
Securities interest and returns	4,855	346	5,201
Interest from quick assets	2,610	84	2,694
Interest and premiums from repurchase agreements and securities loans	13,693	-	13,693
Interest on margin accounts	86	-	86
Commissions collected for initially granting credit	1,288	79	1,367
Others	1,301	119	1,420
Total interest income	115,480	4,351	119,831
Interest expense:			
Deposit interest	(11,789)	(677)	(12,466)
Interest from loans provided by banks and other entities	(820)	(25)	(845)
Debenture interest	(1,073)	(2,125)	(3,198)
Interest and premiums from repurchase agreements and securities loans	(10,745)	-	(10,745)
Expenses incurred to initially grant credit	(142)	-	(142)
Others	(497)	(129)	(626)
Total interest expense	(25,066)	(2,956)	(28,022)
Financial margin	$ 90,414	$ 1,395	$ 91,809

30. Commissions and fee income

For the years ended December 31, 2016 and 2015, the main items for which the Institution recorded commissions and fee income in the consolidated statement of income were as follows:

Concept	2016	2015
Credit and debit cards	$ 18,812	$ 16,287
Bank commissions	6,847	7,722
Investment funds	2,477	2,426
Insurance	2,125	1,684
Others	5,977	5,124
Total	$ 36,238	$ 33,243

During 2016 and 2015, the amount of revenues received by the Institution in trust operations amounted to $341 and $292, respectively.

For the years ended December 31, 2016 and 2015, the main items for which the Institution recorded Commission and fee expense in the consolidated statement of income were as follows:

Concept	2016	2015
Credit card	$ (6,642)	$ (5,101)
Effective credit card reward points	(2,345)	(2,224)
Promotion fund warranties	(714)	(570)
Cash Management and fund transfer	(441)	(1,359)
Credit placement	(482)	(730)
Appraisals	(294)	(157)
Sale of foreclosed goods	(324)	(394)
Purchase-sale of securities	(268)	(194)
Others	(528)	(663)
Total	$ (12,038)	$ (11,392)

31. Net gain on financial assets and liabilities

For the years ended December 31, 2016 and 2015, the main items composing the Net gain on financial assets and liabilities were as follows:

	2016	2015
Valuation result:		
Derivatives	$ 8,527	$ 3,303
Foreign currency	(6,720)	(2,674)
Securities investments	(2,212)	1,507
	(405)	2,136
Purchase-sale result:		
Derivatives	(125)	1,417
Foreign currency	3,643	2,745
Securities investments	449	(3,036)
	3,967	1,126
Total	$ 3,562	$ 3,262

32. Segment information

The Institution and its subsidiaries take part in different activities of the financial system, such as credit operations, treasury operations, and transfer of funds from abroad, distribution and administration of investment funds, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Institution's business units, more than the legal entities in which the results generated are recorded.

Below we present the revenues obtained during the years 2016 and 2015, which show the difference segments as indicated in the preceding paragraph:

2016

Concept	Total	Commercial Bank
Financial margin	$ 103,104	$ 79,991
Allowance for loan losses	(32,383)	(30,292)
Net interest income after allowance for loan losses	70,721	49,699
Commissions and fees, net	24,200	17,553
Net gain on financial assets and liabilities	3,562	1,617
Other operating income (expenses)	1,551	1,412
Net operating revenues	100,034	$ 70,281
Administration and promotion costs	(57,743)	
Net operating revenues	42,291	
Share in net income of unconsolidated subsidiaries and affiliates	16	
Income before income taxes	42,307	
Current income tax	(10,974)	
Deferred income tax	1,106	
Income before discontinued operations	32,439	
Discontinued operations	872	
Net income	$ 33,311	

2015

Concept	Total	Commercial Bank
Financial margin	$ 91,809	$ 67,168
Allowance for loan losses	(28,482)	(28,363)
Net interest income after allowance for loan losses	63,327	38,805
Commissions and fees, net	21,851	16,444
Net gain on financial assets and liabilities	3,262	1,660
Other operating income (expenses)	854	430
Net operating revenues	89,294	$ 57,339
Administration and promotion costs	(51,959)	
Net operating revenues	37,335	

2015 Concept	Total	Commercial Bank
Share in net income of unconsolidated subsidiaries and affiliates	100	
Income before income taxes	37,435	
Current income tax	(13,516)	
Deferred income tax	4,695	
Income before non-controlling interest	28,614	
Non-controlling interest	(1)	
Net income	$ 28,613	

Other segments include the results related to management of the loan portfolio assigned to the recovery area.

33. Risk management and derivatives transaction (Unaudited figures)

Organizational structure

The Risk Department reports directly to senior management of the Financial Group, thus guaranteeing the independence of the Business Units and establishing the necessary autonomy to determine the functions and profile of the respective teams.

Generally speaking, based on national and international best practices, three specialized Credit Risk Teams have been created: one covering the wholesale portfolio, PyMEs and the other the retail portfolio, assuming the admission, follow-up and recovery functions. By the same token, the management of market, structural and liquidity risks is gathered into a single unit, to which is added the management of risks of non-bank businesses and asset handling.

As support for the above-mentioned units, the Technology and Methodologies unit has been created, with technical expertise which will help to meet the specialized needs of the Risks areas, while a Follow-Up and Reporting Unit has been established for the integration, follow-up and generation of the necessary reports for all the internal or external areas which have to participate in best risk management; this unit also plays an important role in the information disclosure processes and their strict adherence to national and international regulations.

Furthermore, the Internal Controllership unit has been established to guarantee the correct implementation and development of the Internal Control System of the Financial Group, while also including the Technical Unit.

Compliance in the area of Comprehensive Risk Management is based on the recognition of fundamental principles for the efficient and effective management of risks, evaluating them on quantifiable and non-quantifiable bases, with the aim of satisfying the basic processes of identification, measurement, monitoring, limitations, control and dissemination.

Furthermore, the regulatory entities of insurance companies, pension firms and retirement fund managers have issued provisions to this effect. By way of summary, below we present the main activities performed in this regard by the Institution.

Qualitative Information:

- *Participation of the governing bodies:*

  The Institution's risk management model is characterized by the direct influence of its corporate entities with regard to both the definition of the risk strategy and the follow-up and continuous supervision of its implementation.

  The Board of Directors establishes the general risk strategy. In accordance with this strategy, the Board of Directors' Risk Committee Representative proposes policies and specific risk limits for each risk type for the Board's approval, while also providing follow-up on compliance. In this way, the strategy approved by the Board of Directors includes the Institution's risk appetite, fundamental metrics and the basic structure of limits, risk types and asset classes, together with risk management control model bases.

  The Board of Directors' Risk Committee Representative is responsible for performing a risk analysis and providing periodic risk follow-up within the sphere of corporate entity attributes, while controlling and providing detailed follow-up on the risks affecting the Institution taken as a whole, which allows the integration of the risk management strategy and application of approved policies to be effectively monitored.

- *Policies and procedures:*

  Risk manuals with standard contents, including strategy, organization and operating, technological and methodological frameworks, and regulatory processes. Specific manual for legal risks, including related methodologies.

  Defined and limited third-party responsibilities, risk training programs and communication of policies and procedures.

- *Tactic decision making:*

  Independence of the Comprehensive Risk Management Unit, which establishes monitoring processes through reports and alerts to detect instances of impairment, together with business objective departures and the structure of limits defined by risk type.

  The Institution's different risk units participate in the preparation of the Risk Appetite that the Institution is willing to assume to attain its business objectives and which must be submitted for the approval of the Board of Directors, as regards general issues, and to the Risk Committee in the case of specific exposures and sub-limits.

  The Institution has adequate authorization processes for new products and/or services that imply risks and which include the ratification of each individual product and/or service by the Risk Committee.

- *Tools and analyses:*

  Continuous measurement of credit, market and liquidity risks under consistent methodologies and parameters. Budgets are prepared for these metrics, which serve as the basis for the Institution's risk management.

  Follow-up on the analysis of risks incurred by the Institution's different business units. This follow-up considers risk metrics, the risk appetite, the main risk concentrations, compliance with regulatory limits, the credit stress analysis, calculation of the regulatory capital requirement, structural risks, market risks, the liquidity risk, operating risk and legal risk.

The methodologies and parameters utilized to measure risks are periodically calibrated and submitted for the approval of the competent entities.

Establishment of periodic analyses of sensitivity, testing under extreme conditions and review and improvement of models.

Install monitoring and operational and legal risk control methodologies in conformity with international standards.

- *Information:*

  Information is the cornerstone of risk management and is utilized for anticipatory management purposes based on the definition and establishment of early warning indicators and metrics to anticipate risk profile movements - positive and negative - (customers, portfolios, products, asset classes). It is also used to avoid impairment and indicate departures and potential threats derived from all risks and defined axes during the different phases (current, impaired and in recovery), at all the organizational levels of the risk function (risk units in the different business areas, corporate area and specialized areas) and corporate entities, thereby ensuring its coherence and compliance with applicable regulatory requirements.

- *Technological platform:*

  Comprehensive review of all source and calculation systems for risk quantification, projects for the improvement, quality and sufficiency of data and automation.

- *Audit and comptrollership:*

  Participation of internal audit regarding compliance with Regulations on Comprehensive Risk Management and implementation of compliance plans by type and area of risk.

  The Audit Committee provides periodic follow-up on the recommendations resulting from each audit.

  Performance of audits in compliance with Regulations on Comprehensive Risk Management by a firm of independent experts, concluding that risk measurement models, systems, methodologies, assumptions, parameters and procedures comply with their functionality based on the characteristics of the risk operations, instruments, portfolios and exposures of the Institution.

  The Institution believes that at this date it fully complies with the provisions of Regulations on Comprehensive Risk Management, while projects continue to improve measurements and limitations, automation of processes and methodological refinements.

Methodological framework - Techniques for valuation, measurement and description of risks

For risk purposes, the Institution’s balance sheet is envisioned as follows:

- *Market risk:* Operations and investment portfolios- Investments in trading securities, securities, ledger of repurchase transactions and related derivative transactions.

  Structural balance - Available-for-sale, other assets, including securities held to maturity and derivatives for the management of interest rate risk.

- *Credit risk:*

Comercial Loans – Traditional wholesale loan portfolio, and exposures from investments in issues, and counterparts in derivative financial instruments.

Retail/consumer loans- Credit cards and non-revolving consumer loan portfolio.

Mortgage - Mortgage loan portfolio.

Internal parameters are utilized in all portfolios for management purposes. In order to calculate capital and reserves, the Institution utilizes advanced internal models for the Credit Card, Enterprises and Large Enterprises portfolios, which are the models approved by the Commission.

Within the Wholesale Portfolio, the definition of subgroups based on the sales figure function has been established as a global criterion:

Sales volume	Segment
>60 million mxp	Enterprises
>=50 million usd	Large Enterprises (Corporate)

Non-revolving consumer portfolios, mortgage portfolios and the commercial portfolio with a sales volume of less than $60 utilize standard models to calculate capital and reserves.

- *Liquidity risk:*

Banking business, with positions on and off the balance sheet, including loans, traditional deposits, investments in securities, derivatives, majority financing, etc.

Furthermore, if there is a contractual obligation, the follow-up and control over the liquidity risk of the banking business includes liquidity which might be required by its subsidiaries, entities belonging to the same Financial Group or relevant related parties, and liquidity which the banking business itself might require from some of such entities or related parties.

- ***Market Risk:***

The purpose of market risk management is as follows:

- The proper identification of the risks to which the Financial Group is exposed, by maintaining positions in financial instruments for operational or investment purposes.
- Measurement of exposures through the application of proven and reliable processes and methodologies.
- Continuous risk monitoring.
- Efficient limitation of exposures.
- Effective control over positions.
- Inform decision-making bodies of the risks assumed/profitability obtained within the portfolios controlled.

With regard to the process for market risk measurement and the operating and investment portfolios, the daily measurement of market risk is made through Value at Risk (VaR) statistical techniques, such as the central measurement:

1. Define the degree of sensitivity in the valuation of positions to changes in prices, interest rates or indexes.

2. Reasonably estimate the expected change for a specific time horizon with certain prices, rates, rates or indexes, considering it the degree to which they can be moved

3. Reevaluate the portfolio to such expected changes sets and thereby determine the maximum potential loss in terms of value.

In summary, the Value at Risk (VaR) has been fixed based on the view that one day's operation will not lose more than the amount calculated 99% of the time, in the positions that are within Global Markets, considering a horizon of 500 business days.

When significant risks are identified, they are measured and limits are assigned in order to ensure adequate control. The global measurement of risk is made through a combination of the methodology applied to the Trading Portfolios and the Structural Balance Sheet. Historical Simulation without smoothing is the official methodology currently utilized to calculate the VaR.

	4Q 2015	**3Q 2016**	**4Q 2016**
VaR of trading securities			
One-day VaR	$ 184	$ 148	$ 122
10-day VaR	582	468	386
	$ 766	$ 616	$ 508

	VaR 1 day	**VaR 10 days**
VaR of trading securities		
Interest rate	$ 108	$ 343
Variable income	$ 41	$ 132
Foreign currency	$ 30	$ 96
Interest rate Vega	$ 29	$ 93
Variable income Vega	$ 26	$ 83
Foreign currency Vega	$ 2	$ 7

Furthermore, daily simulations are performed of the losses or gains on the portfolios by means of reassessments under catastrophic scenarios (stress tests). These estimates are generated by applying percentage changes to the risk factors, which were observed in a specific period of the history, which covers significant market turbulence. Every month back testing is performed to compare the daily losses and gains that would have been observed if the same positions had been held, by considering only the change in value due to a market movement against the calculation of the value at risk, so that the models used can be calibrated.

Structural Balance Sheet

The market risk of the Structural Balance sheet or structural risk is defined as the potential change produced in the financial margin and/or in the net worth of an entity due to changes in interest rates and/or exchange rates.

In relation to the Structural Balance of interest rates and exchange rates, sensitivity of Economic Value and Financial Margin are calculated by virtue of movements parallel to an increase or drop in interest rates (+/- 100 basis points), as well as the estimate of expected losses in simulation scenarios of nonparallel movements in risk factors (interest rate and exchange rate), according to the methodology authorized by the Risks Committee. A system of alerts has been established for previous metrics; monthly follow-up is provided by the Risk Committee and is quarterly presented to the Board of Directors; mitigation measures have been established for those cases in which alert limits are exceeded.

The structural risk measurement system is QRM (Quantitative Risk Management), which in turn incorporates the characterization of the headings of the Structural Balance Sheet according to the financial characteristics of each heading.

The methodology behind the Economic Value consists of estimating the fair value of the positions on the Structural Balance Sheet, through the calculation of the current value of its net future flows (the flows expected from its assets less the flows expected from its liabilities) discounted at market interest rates. By the same token, the methodology behind the Financial Margin metrics is based on the projection of the interest income and expenses from the Structural Balance Sheet, month-to-month in a 12 month horizon, considering the projected growth of the business. Specifically, the principal assumptions behind the characterization of the headings of the Structural Balance Sheet are as follows:

- Prepayment rates: Supposes an advance payment of certain headings of the Structural Balance Sheet, such as mortgage loans, commercial portfolio, among others.

- Evolution of products which do not have a maturity date: for sight deposits and credit card, core or stable and volatile balances are calibrated, and subsequently their evolution over time is forecast.

The assumptions behind the characterization of the headings on the Structural Balance Sheet are modeled based on historical observations, of the same headings of the Structural Balance Sheet and the evolution of the risk factors. At least once a year there is a revision and validation of the adjustment of the models and systems comprising the risk metrics of the Structural Balance Sheet.

To monitor the structural balance risk interest rate and exchange rate, in which the Assets and Liabilities Committee is the executive body responsible for handling the situation. Such committee adopts investment and hedging strategies within the policies and risk limits approved by the Board of Directors and delegated Risk Committee of the Board. Figures are presented in annual terms.

Estimated Economic Value Sensitivity

Portfolio	-100 pb	+100 pb	Red flag use
Mexican pesos	$ 5,731	$ (5,809)	45.7 %
Foreign currency	(3,214)	2,973	50.6 %
Total	$ 2,517	$ (2,836)	19.8%

Financial Margin Sensitivity Projected to 12 Months

Portfolio	-100 pb	+100 pb	Red flag use
Mexican pesos	$ (1,168)	$ 1,108	25.7%
Foreign currency	(697)	692	40.9%
Total	$ (1,865)	$ 1,800	32.9%

4Q 16 Exposure to structural balance risk

The Economic Value sensitivity presents below the percentage of red flag use, on average at monthly closes.

The Financial Margin sensitivity projected to 12 months presents below the percentage of limit use, on average at monthly closes.

Portfolio	Red flag use	Limit use
Mexican pesos	35.2%	31.8%
Foreign currency	41.0%	30.2%

- ***Credit risk***

The measurement of credit risk is associated with volatility of expected revenues and has two basic measures: Expected Loss (PE) and Unexpected Loss (PNE).

The PE of a portfolio represents the average credit balance which was not paid, plus the net of the losses incurred for its recovery and is considered as an inevitable business loss from granting credit over time. The calculation of the Global PE of each portfolio first requires the determination of the PE for each borrower; for this reason, the model focuses initially on an individual situation.

- Expected Loss = Probability of Default x Severity of Loss x Exposure

- Exposure refers to the maximum amount of the balance at the time of the default; the elements which enable this factor to be determined are the size of the line, disposition of the line and type of product.

- Probability of Default is the likelihood that a customer may default on his obligations. The elements which enable the determination of this factor are risk classification by client, migration of credit quality and situation of non-performing portfolio.

- Severity of Loss is that net economic loss from the recovery of financing; the elements which enable this factor to be determined are recovery expenses (foreclosure and sale) and the type of collateral.

Portfolio *	Percentage
Commercial	0.7%
Consumer	6.0%
Mortgage	0.4%

Portfolio *	PI's	Severity
Commercial	1.7%	38.0%
Consumer	5.4%	87.1%
Mortgage	1.5%	25.4%

* The parameters are weighted on the current portion of each of the portfolios and are calculated based on internal models of the Institution.

Once the level of expected loss is determined, its volatility determines the amount of economic capital necessary to cover the identified risks. As the credit losses may vary significantly over time, it may be inferred that creating a fund with an amount equal to the average loss will have covered the credit loss in the long term; however, in the short-term the fluctuations and, therefore, the risk, remain in effect and generate uncertainty. Therefore, it should also be covered with a second fund that can be used as collateral to be paid when the latter exceed the average losses.

From our standpoint, the average losses can be supported with the creation of an allowance for loan losses which should be treated as a cost of the credit business.

The second fund created to cover unexpected losses should be assured by setting aside a specific amount of capital which may be used or not, but which assures the solvency of the Financial Group in the event of above average losses. This allocated capital therefore depends on how volatile the credit losses are over time and is known as economic capital, so as to give it a risk connotation.

The level of solvency desired by the Financial Group has to be established in the calculation of the PNE, in such a way that the amount allocated covers the volatility of the losses a specific number of times, thus assuring a specific credit quality for the bank at a certain level of probability. This solvency probability is determined by using the risk classification with which the institution wishes to operate; consequently, the economic capital will have to be equal to the amount necessary for the probability to materialize. Furthermore, the origination models (Scorings or Ratings) are defined for use in all the transaction and portfolio levels and in the behavior models they are established for the most important portfolio, which is Credit Cards. These models, apart from supporting the credit decision, are linked with the probability of default established above.

Every month an estimate is made of Expected Loss, Economic Capital and Regulatory Capital based on Internal Models.

Scope and nature of risk information and measurement systems and their reporting

The information systems are housed in a system developed internally for the Institution, which is run in a mainframe IBM environment (Host) as part of the ALTAMIRA unified bank management platform, DB2 databases, and is developed in COBOL.

The Institution ensures that the data used to prepare reports is taken from unified sources by risk type, which have been reconciled, are traceable and essentially automatic (or involve manual sources with controls). This data has a single definition to guarantee reporting frequency, distribution and confidentiality, among other aspects.

Internal model approval

The Institution applies internal methodologies to standardized portfolios; i.e., it does not partially adopt internal methods within portfolios.

The Commission authorized the use of advanced internal models for the first time on June 22, 2009 for the revolving consumer portfolio, and on April 21, 2014 in the case of Enterprises and Large Enterprises.

New parameters were authorized on January 28, 2016 and February 5, 2016 for the Credit Card, Enterprises and Large Enterprises portfolios, respectively.

Exposure to Default

The exposure to default (EAD) is defined as the calculation of the disposed balance in the period under analysis, plus the Available balance and line granted, adjusted for Credit Conversion Factors, (CCF1 and CCF2), respectively, CCF1 and CCF2 are calibrated from historic information.

EAD = Disposed Balance + CCF1*Undisposed Balance + CCF2 *Limits

Probability of default

In the calibrations of the probabilities of default, a definition of default based on 90 days is used, which matches the default definition used by Basel II.

Consequently, for the Institution, a transaction/customer will be considered as “bad” or in arrears when either of the following options arises:

- 90 days have elapsed since the day of the first nonpayment
- The amount should go through a materiality filter so that the transaction/customer may be considered in arrears.

The materiality filter is the only difference as regards the default definition established by Article 2 Bis 68 of the CUB.

Severity of Loss

The method used to estimate the severity or LGD is the so-called Workout LGD, based on the cash flow discount of exposures in arrears recovered at different moments in time derived from the portfolio recovery process. The recovery cycle is the process in which a contract goes into arrears and ends when it emerges from such situation. Once a contract goes into arrears, it begins a recovery process known as a recovery cycle in which those movements that increase the debt and which reduce the debt are accounted for. That part which could not be recovered is known as a Loss and if it is expressed as a percentage of the Exposure to Default, it is known as Severity of Loss.

Throughout this recovery process, there is a constant identification of the amounts entering capital accounts, recoveries in memorandum accounts and capital accounts, and the amount of exposure at the time of default. Therefore, the severity is calculated as the difference between the accrued deposits less discounted recoveries (carried to present value) at the opening date of the cycle, for the exposure to default.

Severity = LGD = (Σ entries in arrears - Σ recoveries)/EAD

- o *Coverage and/or mitigation policies by each type of risk*

  The establishment of personal guarantees or security interests in personal or real property, apart from improving the credit structure of the operation, allows the estimate of the Severity of the Loss to be mitigated in order to reduce the credit reserves derived from the regulatory portfolio classification.

  The Institution performs revaluations of the loans, depending on the type of collateral, using statistical methods or confirming the existence and physical condition of the collateral. The value of the personal and real estate guarantees is updated each year over the term of the loan, except for those which require an ongoing evaluation (shares listed on stock markets) or for discontinued periods (investment projects).

The Institution has a robust system in place to handle financial security interests in real or personal property and a calculation engine, which have been certified by the Commission, according to the integral method to recognize credit risk coverage, established in Articles 2 Bis 31, 2 Bis 36, 2 Bis 37 and 2 Bis 48 of the CUB.

The integral approach used for the hedge recognition is governed by the following points:

<u>Amount of adjusted collateral</u>: The adjusted amount of collateral decreases its market value to take into consideration the loss in value which it may suffer due to the effects of the fluctuation in its market price and fluctuation in exchange rates.

$$CA_i = \frac{C_i}{C_i^{**}} \cdot (1 - H_C^i - H_{FX}^i) \cdot \frac{(t-0.25)_i}{T-0.25}$$

Covered and uncovered exposure: The calculation of uncovered exposure (E*) is a cyclical process in which each iteration is incorporated into a new collateral (CAi) according to the prioritization determined, until there is no eligible collateral to be included in the process.

Internal ratings process: For the Companies and Large Companies internal model, the Institution considers Groups III and IV and certain cases from Group V of the Rules for the Capitalization Requirements of Full-Service Banks and National Credit Institutions and Development Banks of the Commission. Group IV excludes customers with Investment Projects, as well as Small and Medium Mortgage Promoters, and Small and Medium Companies (Pymes) according to the sales volume (customers with transactions valued at less than MX $ 60 million). Large Promoters are considered from Group III.

Description of portfolios with certified internal models:

A Description of the Wholesale Portfolio, which has been rated according to internal models, is provided below:

Close EYGE December 2016

Scale	Available	Balance	Exposure to Default	Weighted median severity	Weighted median risk	Exposure non-financial security interest	Exposure financial security interest
A1	$ 50,474	$ 312,517	$ 328,117	39%	1%	$ 180,822	$ 7,689
A2	633	17,133	17,308	38%	3%	14,122	72
B1	120	4,333	4,369	38%	5%	1,993	82
B2	643	2,765	2,907	37%	6%	3,428	55
B3	10	1,104	1,109	38%	8%	385	71
C1	1	122	122	40%	17%	-	-
E	5	2,474	2,477	77%	100%	10,417	-
Total	$ 51,886	$ 340,448	$ 356,409	39%*	1%*	$ 211,167	$ 7,969

Average weighted percentage

For the Credit Card internal model, the Institution considers Group VI (Consumer and Housing loans) in accordance with the Capitalization Rules of the CUB. Such Group matches the loans made to customers -Individuals - who were granted a revolving credit line for personal use.

A description of the credit card portfolio is detailed below:

Close TDC December 2016

Scale	Available	Balance	Exposure to Default	Weighted median severity	Weighting average weighted risk
A1	$ 42,803	$ 37,177	$ 56,131	76%	2%
A2	16,362	15,897	20,951	78%	4%
B1	10,011	9,848	12,709	79%	6%
B2	8,901	8,819	11,226	79%	7%
B3	9,316	9,219	11,758	79%	9%
C1	10,128	9,225	12,855	79%	11%
C2	11,817	10,848	15,380	77%	21%
D	2,659	1,844	3,429	78%	34%
E	3,311	2,275	4,005	83%	58%
Total	$ 115,308	$ 105,152	$ 148,444	78%*	8%*

Average weighted percentage

- *Analysis of estimated losses according to certified internal models*

  The Backtest exercise matches estimated losses calculated by using the internal model with incurred losses, so as to determine whether established parameters adequately predict their behavior during an annual timeframe.

  The level of reserves is considered to be adequate when, at the close of the annual timeframe, the amount of actual losses accrued for certified portfolios does not exceed the band established for estimated reserves.

  The result obtained for certified portfolios during the third quarter of 2016 is detailed below:

Backtesting 3Q16

Loan Portfolio	PE MI Sep16	Clean-up Oct15-Sep16	DIF $ (SMTO - PE)	% USE
Total	$ 11,601	$ 9,455	$ (2,146)	82

The loss use is 82%, which is acceptable.

Internal ratings systems and the relationship between internal and external credit risk ratings

The Institution utilizes two types of credit risk model, which are clearly differentiated by the portfolio to which they are applied and the informatics systems supporting the rating tools used for contracts and customers (Scoring and Rating, respectively). The rating institutions utilized to assign ratings to loan portfolio transactions are Standard & Poor's, Moody's and Fitch.

Scoring (retail portfolios) and Rating (wholesale portfolios) tools are utilized to ensure that the decisions made by the Institution’s entities maintain the portfolio’s profitability and the required quality level.

- *Rating*

  The Rating module is to provide tools for analysis and valuation which enable a loan classification to be given to a customer based on homogeneous data and criteria for the Financial Group. The Rating is a tool for customer classification, geared towards Company Banking and Corporate Banking.

  The Rating basically consists of classifying the customer based on a series of quantitative variables, which are obtained from the Financial Statements (Balance Sheet and Profit and Loss Account) and from a series of qualitative variables (sector, market position, etc.).

  Using these variables, a series of rules or red flag signals are established which enable the agent or analyst to clarify specific aspects which require a justification (elevated indebtedness, reduced level of proprietary funds, etc.) which, depending on their importance, might condition the result obtained for the loan to be granted.

- *Scoring*

  The Scoring module provides tools for analysis and valuation which enable a credit rating to be fixed with a focus on product based on homogeneous data and criteria for the financial group. There are two types of Scoring:

  - Origination Scoring, which is obtained at the time of contracting, based on proprietary information of the operation and information requested from the customer, generates a score for each operation.
  - Behavioral Scoring is obtained each month, based on payments behavior with the Institution. This model, which is used in the assignment of scores for each of the operations, is easy to understand, stable and enables the expert to use it in decision-making.

- *Profitability Measurement*

  Aside from calculating capital requirements derived from its credit risk, the Institution also utilizes internal estimates to measure the profitability of transactions awaiting acceptance and stock.

  In the case of loans granted to Enterprises, Large Enterprises, IFI, States and Sovereign Entities, Profitability and Added Economic Benefit indicators are calculated during the customer evaluation process.

  The Institution utilizes two methodologies to measure loan portfolio profitability. One of these involves measuring profitability based on the regulatory capital calculated according to risk-weighted assets (RoRC), while the other methodology measures profitability in relation to economic capital (RAROEC).

Liquidity Risk

a) Concentration limits regarding the different groups of collateral received and the principal sources of financing

Apart from the regulatory liquidity ratios, the liquidity risk control scheme of the Institution is based on the establishment of limits in three fundamental areas: a) Self-financing through the LtSCD ratio or Loan to Stable Customer Deposits (maximum relationship of the financing of the net credit investment with stable customer deposits); b) Diversification of the financing structure through a maximum amount of Short-Term (FCP); and c) Capacity to absorb liquidity shocks through the 30 day Basic Capacity (CB 30d – available liquidity buffer coefficient and net outlays of liquidity established within the respective unexpired deadline). There are also red flags to prevent the limits from being exceeded, including the follow-up on other unexpired deadlines. There are also metrics to identify possible threats in advance to allow for the adoption, as the case may be, of the necessary preventive measures, including indicators of concentration of financing or liquidity in foreign exchange or diversification of long-term financing, among others.

December 2016 Liquidity risk exposure: average monthly closes

Absolute margin in relation to the limit (positive without excess, negative with excess)

LtSCD	10%
FCP 12m	$171,762
CB 30d	45%

*Annual perspective

b) Exposure to liquidity risk and financing needs at Institution level, bearing in mind legal, regulatory and operational limitations and the transferability of liquidity

The Institution exposure to liquidity risk and its financing needs are based on the principle of decentralized and independent management of liquidity (including the Institution or any of its associated entities), so as to avoid dependencies or subsidies and eventual contagion due to crisis. At all times they take into account the legal, regulatory and operational limitations on the transferability of liquidity of the applicable rules in setting the liquidity risk policies of the Institution, including the regimes for admission of liabilities and investments for liability transactions in Foreign Currency of Banxico, operating rules of the payment systems, risk diversification in the performance of liability operation specified by the Provisions, among others.

In the case of the investment regime for liability operations in Foreign Currency, apart from the Shortfall regulatory limit, as a preventive measure there is also a red flag system in place which is stricter than the regulatory limit for the investment regime for liability operations in Foreign Currency of Banxico.

Balance sheet operations itemized by expiration deadlines and the resulting liquidity gaps, including operations recorded in memorandum accounts.

The following table details the liquidity gaps of Institution at different terms.

Millions of Mexican pesos	At sight	30 days	Six months	One year
Funds available	$ 148,356	$ 3,137	$ 2,114	$ 7,975
Loan portfolio	-	58,298	145,473	74,585
Securities portfolio	-	-	9,130	31,296
Repurchase agreements	-	5,320	5,015	-
Total Assets	$ 148,356	$ 66,755	$ 161,732	$ 113,856
Deposits	$ 1,799	$ 104,024	$ 68,438	$ 1,168
Issues and Debentures	-	3,720	22,215	2,217
Payables from repurchase agreements	-	252,653	24,240	-
Net rest of balance sheet	-	-	-	-
Total liabilities	$ 1,799	$ 360,398	$ 114,893	$ 3,385
Off-balance-sheet	$ -	$ 76	$ 248	$ (457)
Liquidity gaps	146,556	(293,567)	47,085	110,015
Accumulated gaps	146,556	(147,011)	(99,925)	10,089

** The figures in the preceding table only consider the Institution individually, not on a consolidated basis.*

o *Embedded derivatives-*

Under the programs for issuance of Structured Bank Bonds of the Institution, it has recorded foreign currency, ratios and interest-rate options, equivalent at an interest rate sensitivity of $(3.4) to a base point; also, the Institution has recorded interest rate and foreign currency swaps with an interest rate sensitivity of $(4.2) to a base point.

Qualitative information

(a) The liquidity risk is handled in the Institution by considering for such purpose the tolerance to such risk; the structure and responsibilities for liquidity risk management; internal liquidity reports; the liquidity risk strategy and the policies and procedures through the business lines and with the Board of Directors.

The handling of liquidity risk in the Institution is governed by the following principles: decentralized and independent liquidity management; self-financing of the credit activity of the banks; liquidity planning in the process of growth planning in the activity; clear segregation of functions to achieve a proactive management of liquidity risk, including intraday liquidity and management of collateral, establishment of a transfer pricing system and standards for internal use of liquidity; as well as alignment with regulatory requirements.

The structure and responsibilities for liquidity risk management are clearly segregated by function and area:

- *Setting of general policies, fundamental metrics and limits.* The risk liquidity policies are approved by the Board of Directors, with the prior favorable opinion of the Risk Committee; which bodies approve the liquidity risk limits scheme.

- *Risk identification, measurement and control*. Risks identifies, measures and establishes measurements to control liquidity risk to which the Financial Group is subject through the setting, follow-up and reporting of a limits scheme.

- *Management of investing and deposits activity*. This is performed by the business areas in accordance with the risks policy.

- Liquidity management and financing. This is performed by Finances, specifically in the Financial Management area, leaving short-term performance delegated (including the performance of intraday liquidity) in the Global Markets unit

- Generation of follow-up information. As much as possible, the Systems and Finances areas of the Financial Group supply the relevant information for purposes of liquidity risk. At the same time, Risks promotes the ongoing improvement of information quality to ensure a correct decision-making process.

The status of the limits and red flags is reported through daily internal reports to Senior Management, internal audit and the areas which handle risk, even more frequently in times of crisis

Strategies are outlined within the risk limits approved by the Board of Directors and Risks Committee delegated by the Board, and are agreed upon in the Assets and Liabilities Committee, always within the liquidity risk tolerance approved. Also, follow-up is given on the evolution of liquidity risk and excess risk in these bodies.

a) Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized

Every year the Financial Group prepares a growth plan of its activity, considering the business's growth projections, the maturities profile of assets and liabilities, the appetite for risk and projected market conditions. On such basis, the financing plan is prepared in the wholesale markets, seeking to maintain diversification in financing, thus ensuring that there is no excessive dependence on short-term financing.

b) Liquidity risk mitigation techniques used

The Institution liquidity risk model, based on the principles quoted in subsection (a) of this Section II, at all times takes into account the legal, regulatory and operational restrictions on the transferability of liquidity.

Specifically, one of the strengths of the Institution is based on the quality of its funding, which is diversified by type of customers, instruments and markets. With regard to deposits, there is an extensive network of retail and wholesale customers. This attraction of deposits is complemented and strengthened with local and international issues, maintaining constant access to debt markets.

If liquidity risk limits or red flags are triggered, specific action and communication procedures are established within the Financial Group, based on a clear definition of roles by the different areas and decision-making bodies, with the level of communication depending on whether a limit or red flag was triggered. Also, there is a Liquidity Contingency Plan, which when activated has an inventory of action measures classified by type, based on whether they are related with Banxico, the wholesale market or commercial activity. Mitigation techniques include internal and external liquidity sources, selected according to the situation of the current and forecast market, prudence in the activity, financial and reputational impact, among others.

c) Use of stress tests

Liquidity risk stress tests are performed under different scenarios, in each case evaluating the status of coverage of the available liquidity buffer with the liquidity needs of the scenario in question under different temporary horizons. The results of these tests form an integral part of the Liquidity Contingency Plan, given that the latter is activated by them.

Description of contingent financing plans

The Liquidity Contingency Plan or Contingency Financing Plan is considered a fundamental part of liquidity risk management at times of liquidity stress.

It contains concrete procedures to facilitate decision-making, a rapid adoption of contingent measures and efficient communication, specifying the functions and responsibilities in these situations, together with the authority to activate it. It is defined on the basis of four principles: coordination between the participating units, effective level of information, confidentiality of the actions and information and enforceability. It is authorized by the Board of Directors of the Institution, with the prior favorable opinion of its delegated Risk Committee; the proposal of the Liquidity Contingency Plan to the Board of Directors and its subsequent amendments is made by the Managing Director of the Institution.

Furthermore, the Financial Group has a Contingency Plan or Recovery Plan in place which establishes possible actions to be performed to restore its financial position in light of adverse scenarios which might affect its solvency and/or liquidity. This plan describes the situation of the Institution by detailing key business lines, recovery indicators, and corporate governance if adverse scenarios arise and the processes needed to implement recovery measures. This plan is also approved by the Board of Directors.

o *Liquidity Coverage Coefficient (CCL)*

The Liquidity Coverage Coefficient quantifies the potential capacity of the Institution to meet 30 day liquidity with available liquid assets in a stress scenario.

According to the information disclosure requirements specified in Exhibit 5 of the General Provisions on Liquidity Requirements for Full Service Banks, the following is the Liquidity Coverage Coefficient Disclosure Form, corresponding to the fourth Quarter of 2016.

Liquidity coverage coefficient (Millions of Mexican pesos)	Unweighted amount	Weighted amount
Computable liquid assets		
Total computable liquid assets	Not applicable	$ 225,058
Cash outlays		
Stable financing	$ 374,905	$ 18,745
Less stable financing	141,751	14,175
Unsecured retail financing	516,656	32,920
Operational deposits	103,701	25,023
Nonoperational deposits	252,383	105,355
Unsecured debt	3,186	3,186
Unsecured wholesale financing	359,270	133,564

Liquidity coverage coefficient (Millions of Mexican pesos)	Unweighted amount	Weighted amount
Secured wholesale financing	Not applicable	2,490
Outlays related to financial derivatives	11,604	11,604
Lines of credit and liquidity	489,551	29,836
Additional requirements	501,155	41,440
Other contingent financing obligations	11,280	11,280
Total cash outlays	Not applicable	221,694
Cash receipts		
Cash receipts from secured transactions	$ 8,684	$ 116
Cash receipts from unsecured transactions	69,042	39,036
Other cash receipts	1,868	1,868
Total cash receipts	$ 79,594	$ 41,020
Total computable liquid assets	Not applicable	$ 225,058
Net total cash outlays	Not applicable	$ 180,676
Liquidity coverage coefficient	Not applicable	124.46%

a) *Calendar days included in the quarter being disclosed*

The quarter reported includes 92 calendar days.

b) *The primary causes of the results of the Liquidity Coverage Coefficient and the evolution of its principal components.*

During the quarter, the CCL improves based on increased customer attraction, primarily retail customers, thereby improving the overall composition with more stable funding and exceeding the credit activity CCL.

The growth of customer attraction allowed the Institution to maintain a high level of liquid assets, most of which are of high quality (government debt and central bank deposits).

Description	1 Q	2 Q	3 Q	4 Q
Liquid assets	$ 200,218	$ 209,993	$ 219,014	$ 225,058
Outlays	$ 170,614	$ 172,388	$ 182,209	$ 180,676
CCL	118.72%	121.78%	120.57%	124.46%

Millions of Mexican pesos

c) *Changes in the principal components in the quarter reported*

Description	Changes 4T vs 3T
Liquid assets	$ 6,044
Outlays	$ 329
Receipts	$ 1,862
Net Outputs	$ 1,533
CCL	3.90%

Millions of Mexican pesos

d) *Evolution of the composition of Eligible and Computable Liquid Assets*

Eligible and Computable Liquid Assets Millions of Mexican pesos	3 Q	4 Q	Variance
N1 Cash	$ 118,806	$ 155,490	$ 36,684
N1 Securities	74,703	44,023	(30,680)
N2 A	19,102	19,168	66
N2 B	6,404	6,376	(28)
Total	$ 219,015	$ 225,057	$ 6,042

* Weighted amounts based on the CCL discount factor.

e) *Concentration of financing sources*

One of the great strengths of the Institution is the quality of its funding, which is diversified by type of customers, instruments and markets. With regard to deposits, there is an extensive network of both retail and wholesale customers. This attraction of deposits is supplemented and strengthened with local and international issues, over different terms, and constant access is maintained with debt markets.

The following table shows the principal financing sources at the close of the year.

Sources of financing (December 2016)	% of total liabilities
Customer deposits	66%
Collateralized financing	19%
Securities	6%
Debentures	7%
Money market	2%
Interbank	1%

f) *Exposures in financial derivatives and possible margin calls.*

The Institution's exposure, according to current local exposure guidelines regarding derivatives for the Liquidity Coverage Coefficient referenced to the net disbursements expected for the next 30 days, plus a contingent disbursement for transactions involving derivative financial instruments (LBA: lookback approach), is detailed below:

Description	December 2016
Net outlay of derivatives to 30 days plus contingent outlay (LBA)	$ 11,179

g) *Mismatch of foreign currencies*

The liquidity risk associated with foreign currency transactions is covered in conformity with the provisions of the Liquidity Coefficient in Foreign Currency, established by Banxico. Furthermore, the risk associated with the exchange rate is duly funded and is handled within the regulatory limits.

h) *Degree of centralization of liquidity management and interaction between the group's units*

The responsibility for handling liquidity is concentrated in the Financial Management unit, which reports directly to the CFO and is independent from the business units. It maintains a direct interaction with the business areas, defining strategies for how to use and attract liquidity. The strategies are applied within the risk limits approved by the Board of Directors and the Board's delegated Risk Committee, and are agreed upon in the Assets and Liabilities Committee, the executive body responsible for handling capital and the structural risks of the balance sheet with regard to interest rates, exchange rates and liquidity.

i) *Cash flow outlays and receipts that, if appropriate, are not captured in this framework but which the Institution considers relevant for its liquidity profile*

The Institution considers that all relevant flows are covered in the CCL metric, for which reason there are no additional flows to be considered.

The Institution has cash flow hedges to reduce exposure to variances in flows, changing such flows to a fixed rate in order to improve the sensitivity of the financial margin. The method used to evaluate prospective effectiveness is by sensitivity analysis; retrospective effectiveness is measured by comparing the change in the present value of the flows from the hedge instrument against the changes in the present value of the flows from the hedged position.

Operational Risk

The measurement and control of operational risk is the responsibility of a separate operational risk unit which manages market risk and credit risk, as well as audit units and compliance.

Aware of the importance of considering all aspects associated with operating risk, the Institution has implemented comprehensive risk management which not only includes the quantitative aspects of risk, but also seeks to measure other elements that require the introduction of qualitative evaluation mechanisms, without overlooking the objectivity of the systems utilized for this purpose. An operating risk is defined as one that cannot be classified as a credit or market risk. This is a broad definition which primarily includes the following risk classes: process, fraud, technological, human resources, commercial and legal practices, and suppliers and disasters.

The operating risk management model is based on a cause-effect model which identifies the operating risk associated with the Institution's processes through a continuous improvement circuit:

- <u>Identification</u>. Consists of determining which risk factors (circumstances which can become operating risk events) reside in the processes of each business/support unit. This is the most important part of the cycle because it determines the existence of all other parts.

- <u>Quantification.</u> The cost that can be generated by a risk factor is quantified by using historical data (database of operating losses) or estimated in the case of risks which have not arisen as past events. This quantification is based on two components: occurrence frequency and monitoring the impact generated in the event of occurrence.

- <u>Mitigation.</u> After having identified and quantified operating risk factors, if this risk exceeds desired levels, a mitigation process is implemented to reduce the risk level by either transferring it or modifying the processes which reduce the frequency or impact of an event. Mitigation decisions are made by the Operating Risk Committee created by each business/support unit.

- <u>Follow-up</u>. Qualitative follow-up is provided to analyze the evolution of the operating risk, which involves evaluating the implementation level of mitigation measures. Quantitative follow-up consists of measuring the evolution of causal operating risk indicators, while also analyzing the evolution of operating risk losses recorded in a database.

In the specific case of technological risks, aside from the general operating risk methodology, a technological Risk Committee has also been created to ensure that identified risks and mitigation plans are standardized throughout the Institution and are compliant with logical security, business continuity, data processing efficiency and technological evolution standards. Likewise, this Committee ensures the adequate management of the Institution's technological infrastructure.

In the case of legal risk, aside from the operating risk management circuit, the probability of an adverse verdict derived from administrative processes or legal proceedings in which the Institution is either plaintiff or defendant is also calculated.

Given that the different departments have doubts regarding compliance with certain operating processes established by Mexican and/or foreign laws, consultations are periodically requested from attorneys specializing in different areas to obtain a reliable legal opinion and guarantee compliance with legal provisions.

Based on the above, the institution considers that the main factors influencing the legal risk are: degree of non-compliance with local regulations types of judicial process which involves; lawsuit amount and likelihood of an unfavorable outcome.

Operating Risk events can arise in the Banking Business for different reasons such as: fraud, process operating errors, disasters, technological deficiencies and legal risks, etc. Accordingly, the Institution has established robust internal models to enable it to timely determine the occurrence of operating risk events. Operational risk derives from the probability that there will be human errors, inadequate or defective internal processes, systems failures and also external events which might represent a loss for the Institution. This definition includes legal risk and excludes strategic and/or business risk and reputational risk.

Operational risk is inherent to all the activities, products, systems and processes, and its origins are quite varied (processes, internal and external frauds, technological, human resources, commercial practices, disasters, suppliers). The management of operational risk is integrated into the global risk management structure of the Financial Group.

Throughout the Institution there is an integrated internal control and operational risk methodology. This methodology helps to identify risks in the organization's areas, generate analyses to prioritize risks according to their residual estimate (after including the effect of the controls), link the risks to the processes and establish an objective level for each risk which, by comparison with the residual risk, identifies weaknesses that can be managed. To provide the necessary support to this methodology, the Institution has a corporate application: STORM (Support Tool for Operational Risk Management), which includes indicator and scenario modules.

The framework of operational risk management defined by the Institution includes a governance structure based on three lines of defense with: clear demarcation of the responsibilities, policies and procedures common to the entire Institution, systems to identify, measure, monitor, control and mitigate the operational risks and losses, as well as tools and methodologies to quantify the operational risk in terms of capital

- **Framework of operational risk management: Three lines of defense**

  - *Business units*

    They manage the operational risk of their respective areas, coordinated by the GRO Business in the areas, and by the process owners and controls.

  - Internal Controllership, GRO Country and Internal Control Specialists

    The Internal Controllership function and GRO Country (Operational Risk Management Country) are responsible for designing, maintaining and updating the framework of operational risk and Internal Control in the Institution and confirming that it is correctly applied in the field of the business and support areas.

  - They define procedures, systems and tools.

  - Reporting to Senior Management.

    The Internal Control Specialists assess the effectiveness of the documented controls and assure the permanent updating of the internal control system, in adherence to the Internal Control objectives and guidelines defined by the Controllership and authorized by the Board of Directors at the behest of the Audit Committee.

    Internal Audit:

    In general it ascertains compliance with the framework of operational risk management, with independent review and testing of the controls, processes and systems of the Institución.

Operational risk management in the Institution is designed and coordinated from the Operational Risk Management function (GRO Country) in conjunction with the corporate criteria of the Institution. The business or support areas in turn have Operational Risk Managers (GRO Business) which for functional purposes report to GRO Country and are responsible for implementing the model in the day-to-day of the business areas. Accordingly, the Institution has an operational perspective, which is where the operational risks are identified and prioritized and mitigation decisions are taken.

To carry out this task, the Institution has tools in place to cover the qualitative and quantitative aspects of operational risk:

Operational Risk Management Tool - The STORM corporate tool documents the identification and management of the most important risks which constitute the reference to focus attention on the Operational Risk Management Committees of the business and support units, and on the delegated Risk Committees of the Board of Directors held during the year.

Indicators fixed in the principal operational risks and their controls: The indicators help measure the evolution of the risks and their controls over time, generate red flag signals and measure the effectiveness of the controls on an ongoing basis. These indicators are defined and followed up by the Internal Control Specialists.

SIRO Tool - Operational risk events almost always have a negative impact on the accounts of the Institution. To ensure detailed control over them, they are registered in a database known as SIRO (Operational Risk Integrated System). To ensure reliability it receives the information directly from accounting by automatic interfaces in 95% of the cases.

- *Capitalization for operational risk*

  Based on the changes to the Provisions published by the Commission on December 31, 2014, which define the methodological criteria to determine the capital requirement for operational risk through the Basic, Standard, and Alternative Standard approaches, the Financial Group requested and obtained authorization from the Commission on November 27, 2015, to use the Alternative Standard method to calculate the capital requirement for operational risk, based on the information as of October 2015.

  The Alternative Standard Method consists of a simple totaling of the net revenues for each of the eight business lines, multiplied by the factors related to each line, except when it involves the calculation of the capital requirements for Operational Risk of the retail banking and commercial banking business lines, for which the capital requirement will be calculated by substituting the monthly net revenue of each of these lines of business, for the amount exercised of monthly loans and advances for each business line, multiplied by a fixed factor “m”, which will be 0.035.

  The factors to be used by business line are as follows:

Business lines	% Applicable to each business line
Corporate finances	18
Transactions and sales	18
Retail banking	12
Commercial banking	15
Payments and settlements	18
Agency services	15
Asset management	12
Retail brokerage	12

  To calculate the net revenues and the amount exercised of loans and advances, it is essential to consider the amount applicable to the 36 months before the month for which the capital requirement is being calculated, which must be grouped into three periods of 12 months to determine the annual net revenues.

  The losses derived from operational risk in 2016 were $1,555, mainly due to frauds and operational errors.

34. Financial indicators (unaudited)

As of December 31, 2016 and 2015, according to article 182 of the Provisions, the Institution’s financial indicators are as follows:

Ratio	2016	2015
Ratio of default	2.23%	2.40%
Hedge ratio of portfolio of non-performing loans	131.84%	127.90%
Operating efficiency	3.68%	3.20%
ROE	17.74%	19.70%
ROA	1.50%	1.70%
Capitalization ratio credit and market risk	13.73%	14.90%
Basic capital 1 on credit, market and operational risk		10.90%
Liquidity	74.98%	78.60%
Net adjusted interest margin (MIN) /Average Productive Assets	4.36%	4.30%

35. Ratings

At December 31, 2016, the ratings assigned to the Institution are as follows:

	Global Scale ME		National Scale		
Ratings Agency	**Long Term**	**Short Term**	**Long Term**	**Short Term**	**Perspective**
Standard & Poor's	BBB+	A-2	mxAAA	mxA-1+	Stable
Moody's	A3	P-2	Aaa.mx	MX-1	Stable
Fitch	A-	F1	AAA (mex)	F1+ (mex)	Stable

36. Contingencies

As of December 31, 2016 and 2015, there are claims filed against the Institution in ordinary civil and commercial lawsuits, as well as payment requests issued by the tax authorities. However, according to its attorneys, the claims filed are considered without merit and, in the event of adverse rulings, its financial position would not be significantly affected. For such purpose, the Institution has weighted the impact of each one and has recorded a reserve for $298 and $300 in these cases.

At December 31, 2016 and 2015, certain labor lawsuits have been filed against the Institution. However, its attorneys consider that these claims are without merit and that an adverse outcome would not significantly affect the Institution's financial position. Consequently, at December 31, 2016 and 2015, the Institution has analyzed the effect of each of these lawsuits and has recorded a reserve of $281 and $229 for labor lawsuits.

37. Subsequent events

The Stockholders' Special Meeting of January 27, 2017 approved the merger of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as the absorbing company, with the entities denominated Hipotecaria Nacional, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero BBVA Bancomer; Desitel Tecnología y Sistemas, S.A. de C.V. and Betese, S.A. de C.V. as the absorbed entities. The merger took effect as of February 15, 2017.

Regarding the payment of a dividend for up to the amount of $19,350 approved by the Stockholders' Ordinary General Meeting of February 26, 2016, the fourth payment of the dividend declared on December 16, 2016 for $2,465, was made on January 25, 2017.

38. New accounting principles

NIF´s issued by the CINIF applicable to the Institution

At December 31, 2016, the CINIF has issued the following NIFs and Interpretations to FRS (INIF) that could have an impact on the consolidated financial statements of the Institution:

a. Improvements to NIF 2017 - The following improvements were issued which generate accounting changes effective as of January 1, 2017:

   NIF B-13, Events after the date of the financial statements, NIF B-6, Statement of financial position, NIF C-19, Financial instruments payable, and NIF C-20, Financial instruments receivable – If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted.

NIF D-3, Employee benefits – Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term labor liability should be a free market rate with a very low credit risk, which represents the value of money over time. Consequently, either the government bond market rate or the market rate for high-quality corporate bonds in absolute terms in a deep market, could be used, indistinctly, provided that the latter complies with the requirements established in Appendix B– Application guidance, B1– Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market. Early application is allowed.

b. Improvements to NIF 2017 – The following improvements do not generate accounting changes:

NIF C-2, Investment in financial instruments
NIF C-3, Accounts receivable
Bulletin C-15, Impairment in the value of long-lived assets and their disposal
NIF C-16, Impairment of financial instruments receivable
NIF C-20, Financial instruments to collect principal and interest

The improvements consist of outlining the scopes and definitions of these NIF to clearly indicate the appropriate application and accounting treatment; consequently, no effective date was established for these improvements. Furthermore, improvements were made to different NIF to change the acronyms used to identify certain receivable financial instruments.

c. The following NIF were issued and are effective January 1, 2018:

NIF C-2, Investments in financial instruments
NIF C-3, Accounts receivable
NIF C-9, Provisions, contingencies and commitments
NIF C-10, Financial derivatives and hedging relationships
NIF C-16, Impairment of financial instruments receivable
NIF C-19, Financial instruments payable
NIF C-20, Financial instruments receivable
NIF D-1, Revenues from contracts with customers
NIF D-2, Costs from contracts with customers
NIF B-17, Determination of fair value- *(Subject to the issuance of the NIF)*

NIF C-2, Investment in financial instruments (FI) – The main change in this standard is the classification of the FI in which the investment is made. The intention of acquisition and utilization of an investment in an FI is discarded for purposes of determining its classification, and is replaced by the business model concept for the management of investments in FI to procure cash flows, which may be obtaining a contractual return from an FI, from the collection of contractual returns and/or sale or obtaining profits from their purchase and sale, with the aim of classifying the different FI. Furthermore, the investments in FI cannot be reclassified between the different categories (loans and receivables, financial liabilities at fair value and trading), unless the business model changes, which is considered unlikely to occur.

NIF C-3, Accounts receivable – The main changes consist of specifying that: a) the accounts receivable based on a contract represent a financial instrument; b) the allowance for bad debts for commercial accounts is recognized from the time the revenue is accrued, based on the expected credit losses; c) the time value of money should be considered as of the initial recognition; consequently, if the effect of the present value of the account receivable is material based on its term, it should be adjusted based on such present value, and d) required disclosures include an analysis of the change between the opening and closing balances of the allowance for bad debts.

NIF C-9, Provisions, contingencies and commitments – The term probable replaced the term virtually avoidable in the definition of liabilities. The first-time application of this NIF does not generate accounting changes in the financial statements.

NIF C-10, Financial derivatives and hedging relationships - (Subject to the issuance of the NIF)

NIF C-16, Impairment of financial instruments receivable (FIR) – Determine when and how the expected losses from impairment of FIR should be recognized; this is when, as result of an increase in the credit risk, it is concluded that a part of the future cash flows from the FIR will not be recovered, and proposes that the expected loss should be recognized based on the historical experience of credit losses, current conditions and reasonable and sustainable forecasts of the various quantifiable future events that might affect the amount of the future recoverable cash flows of the FIR, which means that estimates must be made and should be periodically adjusted based on past experience. Furthermore, in relation to interest-bearing FIR, entities shall estimate the amount and timing for the cash flows expected to be recovered, as the recoverable amount must be recognized at present value.

NIF C-19, Financial instruments payable – Establishes: a) the possibility of valuing, after their initial recognition, certain financial liabilities at fair value, when certain exceptional conditions are fulfilled; b) the valuation of long-term liabilities at their present value at initial recognition, considering their present value when their term exceeds one year or outside normal credit conditions, and c) when a liability is restructured, but the future cash flows to settle the liability are not substantially modified, the costs and commissions disbursed in this process will affect the amount of the liability and will be amortized based on a modified effective interest rate, instead of directly affecting the net income or loss.

NIF C-20, Financial instruments receivable – Specifies the classification of financial instruments in the assets, based on the business model: a) if the intention is to generate a profit through a contractual return, predetermined in a contract, they are recognized at amortized cost; b) if they are also used to generate a profit based on their purchase and sale, they are recognized at fair value. Any embedded financial derivative that modifies the cash flows of principal and interest from the host instrument will not be separated; instead, all will be valued at fair value, as if it were a negotiable financial instrument.

NIF D-1, Revenues from contracts with customers – Previously there was no Mexican accounting standard for revenue recognition, for which reason the main changes focus on providing greater consistency in revenue recognition and eliminating weaknesses in the previous supplemental standards. The most important changes consist of establishing a model for revenue recognition based on the following steps: a) transfer of control, the basis for the timeliness of revenue recognition; b) the identification of the different performance obligations in a contract; c) the allocation of the transaction amount between the different unfulfilled obligations based on independent selling prices; d) the introduction of the concept conditional account receivable, when an unfulfilled obligation is satisfied and an unconditional right to the consideration is generated because only the passage of time is required for the payment of such consideration to become enforceable; e) the recognition of collection rights, where in certain cases there may be an unconditional right to the consideration before an unfulfilled obligation is satisfied, and f) the valuation of the revenue, considering aspects such as the recognition of significant financing components, the noncash consideration cash and the consideration payable to a customer.

NIF D-2, Costs from contracts with customers – Separates the standard for recognition of the costs from contracts with customers from that related to recognition of the revenues from contracts with customers, and expands the scope to include costs related to all types of contracts with customers.

(1) Early application of these NIF is permitted as of January 1, 2016, provided that it is done in conjunction.

At the date of issuance of these consolidated financial statements, the Institution has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

39. Authorization of the issuance of the consolidated financial statements

The consolidated financial statements were authorized for issuance on February 24, 2017, by the Board of Directors of the Institution and are subject to approval by the Annual General Meeting of Shareholders of the Institution who may be modified in accordance with the provisions in the General Law of Commercial Companies.

40. Review of the consolidated financial statements by the Commission

The accompanying consolidated financial statements at 31 December 2016 and 2015 are subject to review by the Commission, so that the same may be modified as a result of that review by this supervisory authority.

* * * * * *

BBVA Bancomer, S.A.,
Institución de Banca Múltiple,
Grupo Financiero BBVA Bancomer
and Subsidiaries
(Subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V.)

Consolidated Financial Statements for the Years Ended December 31, 2015 and 2014, and Independent Auditors' Report Dated February 25, 2016

Deloitte.

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Ruiz Urquiza, S.C.
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Independent Auditors' Report to the Board of Directors and Stockholders of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer

We have audited the accompanying consolidated financial statements of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries (subsidiary of Grupo Financiero BBVA Bancomer S.A. de C.V.) (the "Institution") which comprise the consolidated balance sheets as of December 31, 2015 and 2014 and the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements of the Institution

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting criteria established by the Mexican National Banking and Securities Commission (the "Commission") through the "General Regulations Applicable to Credit Institutions" (the "Regulations"), and for such internal controls as management deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

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

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

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

Deloitte

Opinion

In our opinion, the accompanying consolidated financial statements of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries for the years ended December 31, 2015 and 2014 have been prepared, in all material respects, in accordance with the accounting criteria of the Commission as issued in the Regulations.

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of users.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Ernesto Pineda Fresán

February 25, 2016

BBVA Bancomer, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries
(Subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V.)
Av. Paseo de la Reforma 510, Col. Juárez, México, D.F., C.P. 06600

Consolidated Balance Sheets
At December 31, 2015 and 2014
(In millions of Mexican pesos)

Assets		2015		2014
Cash and cash equivalents	$	150,102	$	124,190
Margin call accounts		2,774		3,810
Securities:				
Trading		249,462		242,970
Available for sale		147,946		152,187
Held to maturity		16,877		16,382
		414,285		411,539
Debtors from repurchase agreements		11,231		144
Derivatives:				
Trading		95,854		85,070
Hedging		13,279		6,925
		109,133		91,995
Valuation adjustments arising from hedges of financial assets		2,137		2,456
Performing loans:				
Commercial loans-				
Business or commercial activity		343,955		296,507
Financial entities		15,869		10,060
Government entities		137,515		127,988
		497,339		434,555
Consumer		217,982		193,411
Mortgage		167,842		159,466
Total performing loans		883,163		787,432
Non-performing loans:				
Commercial loans-				
Business or commercial activity		5,159		5,338
Financial entities		499		42
Government entities		1		2
		5,659		5,382
Consumer		7,433		7,487
Mortgage		8,313		9,082
Total non-performing loans		21,405		21,951
Total loans		904,568		809,383
Allowance for loan losses		(27,386)		(26,081)
Total loans, net		877,182		783,302
Benefits receivable from securitization transactions		1,136		1,165
Receivables, sundry debtors and prepayments, net		61,072		58,548
Long-lived assets available for sale		-		376
Repossessed assets, net		5,662		6,822
Property, furniture and equipment, net		39,641		28,946
Equity investments		1,518		1,377
Deferred taxes, net		12,309		6,958
Other assets:				
Deferred charges, prepaid expenses and intangibles		6,941		8,209
Other short and long term assets		1,010		1,415
		7,951		9,624
Total assets	$	1,696,133	$	1,531,252

Memorandum accounts (See note 3)

Contingent assets and liabilities
Credit commitments
Assets in trust or under mandate:
Trusts
Mandates

Assets in custody or under administration
Collateral received by the entity
Collateral received and sold or pledged as guarantee by the enti
Investment banking transactions on behalf of third parties, net
Uncollected earned interest derived from non-performing loans
Other record accounts

Historical paid-in capital

"These consolidated balance sheets were prepared according to the Accounting Criteria applicable to Credit Institutions iss of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the financ sound banking practices and applicable legal and administrative dispositions."

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

Eduardo Osuna Osuna Chief Executive Officer	Javier Malagón Navas Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

BBVA Bancomer, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries
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Av. Paseo de la Reforma 510, Col. Juárez, México, D.F., C.P. 06600

Consolidated Statements of Income

For the years ended December 31, 2015 and 2014
(In millions of Mexican pesos)

	2015	2014
Interest income	$ 119,831	$ 111,081
Interest expense	(28,022)	(27,126)
Net interest income	91,809	83,955
Allowance for loan losses	(28,482)	(25,526)
Net interest income after allowance for loan losses	63,327	58,429
Commission and fee income	33,243	30,204
Commission and fee expense	(11,392)	(9,412)
Trading income	3,262	3,291
Other operating income	854	475
Administrative and promotional expenses	(51,959)	(50,534)
Net operating income	37,335	32,453
Share in net income of unconsolidated subsidiaries and affiliates	100	142
Income before income taxes	37,435	32,595
Current income tax	(13,516)	(9,279)
Deferred income tax	4,695	1,430
Income before non-controlling interest	28,614	24,746

	2015	2014
Non-controlling interest	(1)	(1)
Net income	$ 28,613	$ 24,745

"These consolidated statements of income were prepared according to the Accounting Criteria applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission, in conformity with Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the operations of the Institution for the years stated above, which were carried out and measured according to sound banking practices and applicable legal and administrative dispositions."

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

Eduardo Osuna Osuna
Chief Executive Officer

Javier Malagón Navas
Chief Financial Officer

Natalia Ortega Gómez
General Director, Internal Audit

José Homero Cal y Mayor García
Director, Corporate Accounting

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2015 and 2014
(In millions of Mexican pesos)

	Subscribed Capital			
	Paid-in Capital	**Share Premium**	**Capital Reserves**	**Results from Prior Years**
Balances at December 31, 2013	$ 24,138	$ 15,726	$ 6,881	$ 45,7
Changes due to stockholders' decisions-				
Transfer of net income to results from prior years	-	-	-	30,8
Cash dividends paid	-	-	-	(15,9
Total	-	-	-	14,8
Comprehensive income-				
Net income	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-
Result from valuation of cash flow hedges	-	-	-	-
Adjustment from valuation of investments in subsidiaries	-	-	-	-
Result from conversion of foreign subsidiaries	-	-	-	-
Total	-	-	-	-
Balances at December 31, 2014	24,138	15,726	6,881	60,6
Changes due to stockholders' decisions-				
Transfer of net income to results from prior years	-	-	-	24,7
Cash dividends paid	-	-	-	(15,8
Total	-	-	-	8,9
Comprehensive income-				
Net income	-	-	-	-
Result from valuation of securities available for sale	-	-	-	-
Result from valuation of cash flow hedges	-	-	-	-
Result from conversion of foreign subsidiaries	-	-	-	-
Total	-	-	-	-
Balances at December 31, 2015	$ 24,138	$ 15,726	$ 6,881	$ 69,5

"These consolidated statements of changes in stockholders' equity were prepared according to the Accounting Criteria applicable to Credit the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the changes in stockholders' and applicable legal and administrative dispositions."

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

Eduardo Osuna Osuna Chief Executive Officer	Javier Malagón Navas Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014
(In millions of Mexican pesos)

	2015	2014
Net income	$ 28,613	$ 24,745
Adjustments derived from items not involving cash flows:		
Profit or loss derived from the valuation of investment and financing activities	108	93
Depreciation of property, furniture and equipment	2,421	1,912
Amortization of intangible assets	1,453	1,477
Provisions	(2,246)	943
Current and deferred income taxes	8,821	7,849
Share in net income of unconsolidated subsidiaries and affiliates	(100)	(142)
Non-controlling interest	1	1
	39,071	36,878
Operating activities:		
Change in margin call accounts	1,186	1,935
Change in investments in securities	618	(34,562)
Change in debtors from repurchase agreement	(11,087)	(95)
Change in derivatives (assets)	(10,784)	(24,627)
Change in loan portfolio (net)	(78,046)	(77,274)
Change in benefits receivable from securitization transactions	29	10
Change in repossessed assets (net)	1,160	808
Change in other operating assets (net)	194	(9,415)
Change in deposits	139,501	74,030
Change in interbank loans and other loans from other entities	(29,164)	17,287
Change in creditors from repurchase agreements	(14,311)	2,489
Change in collaterals sold or delivered in guarantee	(1,297)	(6,011)
Change in derivatives (liabilities)	6,283	32,560
Change in subordinated debt	(1,146)	(2,268)
Change in other operating liabilities	23,169	19,376
Change in hedging instruments (of hedged items related to operation activities)	(2,681)	(2,393)
Income taxes paid	(11,518)	(9,897)
Net cash provided (used in) by operating activities	12,106	(18,047)
Investing activities:		
Proceeds from disposals of property, furniture and equipment	67	37
Payments for the acquisition of property, furniture and equipment	(13,183)	(8,881)
Proceeds from disposals of equity investments	-	47
Payments for the acquisition of equity investments	(121)	(58)
Collection of cash dividends	110	132
Proceeds from disposal of long-lived assets available for sale	376	-
Payments for the acquisition of intangible assets	(1,300)	(1,172)
Net cash used in investing activities	(14,051)	(9,895)

	2015	2014
Financing activities:		
Cash dividends paid	(15,800)	(15,950)
Net cash used in financing activities	(15,800)	(15,950)
Net increase (decrease) in cash and cash equivalents	21,326	(7,014)
Cash flow adjustments from exchange rate fluctuations	4,586	2,908
Cash and cash equivalents at the beginning of the period	124,190	128,296
Cash and cash equivalents at the end of the period	$ 150,102	$ 124,190

"These consolidated statements of cash flows were prepared according to the Accounting Criteria applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission, in conformity with Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the cash flows of the Institution for the years stated above, which were carried out and measured according to sound banking practices and applicable legal and administrative dispositions."

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

Eduardo Osuna Osuna
Chief Executive Officer

Javier Malagón Navas
Chief Financial Officer

Natalia Ortega Gómez
General Director, Auditing

José Homero Cal y Mayor García
Director, Corporate Accounting

The accompanying notes are an integral part of these consolidated financial statements.

BBVA Bancomer, S.A., Institución de Banca Múltiple,
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Av. Paseo de la Reforma 510, Col. Juárez, México, D.F., C.P. 06600

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014
(In millions of Mexican pesos)

1. Incorporation and corporate purpose

BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries (the "Institution") is a direct subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V. (the "Financial Group") and indirect subsidiary of Banco Bilbao Argentaria, S.A. ("BBVA") and is regulated by, among others, the Mexican Credit Institutions Law and general purpose regulations issued by Mexican National Banking and Securities Commission (the "Commission") and by Banco de México (the "Central Bank of Mexico" or "Banxico"). The Institution and its subsidiaries engage in full service banking activities, carried out in accordance with such laws, which activities mainly include receiving funds, accepting loans, granting credits, trading securities and derivatives and executing trust fund agreements.

The Commission, as regulator of financial institutions, is empowered to review the financial information of the Institution and can request changes thereto.

The main regulatory provisions require credit institutions to maintain a minimum capital ratio in relation to the credit and market risks of their operations, comply with certain limits with respect to deposit acceptance, debentures and other kinds of funding, which may be denominated in foreign currency, and establish minimum limits for paid-in capital and capital reserves, which the Institution complies with satisfactorily.

The Institution has no employees, except for the Chief Executive Officer. Personnel is provided by BBVA Bancomer Operadora, S.A. de C.V. and BBVA Bancomer Servicios Administrativos, S.A. de C.V., (related parties) which provide management advisory and personnel services, under the contract signed by the parties.

During 2015, the principal macroeconomic indicators underwent certain changes, among them, accumulated inflation in 2015 was 2.10% compared to 4.18% in 2014, and Gross National Product (GNP), which was expected to increase by between 1.9% and 2.4%, increased by 1.1% in 2015. Also, given the world situation regarding international oil prices, towards the end of 2015, the peso suffered a significant depreciation of 17% against the US dollar, going from $14.74 Mexican pesos per US dollar at the close of 2014 to $17.25 Mexican pesos per US dollar as of December 31, 2015.

Explanation added for translation into English

The accompanying consolidated financial statements have been translated from the original statements prepared in Spanish into English for use outside of Mexico. The accounting policies used to prepare the accompanying financial statements and used by the Institution are in accordance with the financial accounting and reporting requirements prescribed by the Commission but not in accordance with Mexican Financial Reporting Standards ("MFRS" or "NIF"), and may differ in certain significant respects from the financial reporting standards accepted in the country of use.

2. Basis of preparation of the financial statements

Monetary unit of the financial statements- The consolidated financial statements and Notes as of December 31, 2015 and 2014 and for the years then ended include balances and transactions in pesos of different purchasing power.

Comprehensive income - This is composed of the net result of the year, plus other items representing a gain or loss from the same period, which, in accordance with the accounting practices followed by the Institution, are presented directly in stockholders' equity, such as the result from valuation of securities available for sale, the result from the valuation of cash flow hedges, and the result from conversion of foreign subsidiaries and the valuation effect of equity in subsidiaries.

Consolidation of financial statements - The accompanying consolidated financial statements include the financial statements of the Institution and those of its subsidiaries over which control is exercised, and its securitized transactions trusts. Equity investments are measured according to the equity method, in conformity with the accounting criteria prescribed by the Commission. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2015 and 2014, the consolidated subsidiaries of the Institution are as follows:

Entity	Ownership percentage	Location	Activity
BBVA Bancomer USA, Inc.	100.00%	United States of America	Holding company of companies engaged in the sale of notes denominated in U.S. dollars and other foreign currencies, as well as bank operations.
Opción Volcán, S.A. de C.V.	99.99%	Mexico	Real estate leasing.
Desitel, Tecnología y Sistemas, S.A. de C.V.	99.99%	Mexico	Provider of computer data transfer services.
Fideicomiso No. 29764-8 Socio Liquidador Integral de Operaciones Financieras Derivadas	100.00%	Mexico	Offset and settle futures contracts on behalf of third parties and own position.
Adquira México, S.A de C.V.	50.00%	Mexico	Develop, administer, market and operate a shopping club, as well as markets by economic means.
Financiera Ayudamos, S.A. de C.V., SOFOM, ER	99.99%	Mexico	Granting of loans in accordance with the terms of article 87-B of the General Law on Credit Organizations and Auxiliary Activities.
Unidad de Avalúos México, S.A. de C.V.	99.99%	Mexico	Appraisal services.
Fideicomiso Irrevocable para la emisión de Certificados Bursátiles Número 881	100.00%	Mexico	Issuance of certificates through the Mexican Stock Market backed by mortgage loans.
Fideicomiso Irrevocable para la emisión de Certificados Bursátiles Número 989	100.00%	Mexico	Issuance of certificates through the Mexican Stock Market backed by mortgage loans.
Fideicomiso Empresarial Irrevocable de Administración y Pago Identificado No. F/1859	100.00%	Mexico	Financing for the acquisition of modular drilling equipment, to subsequently grant it under capital lease with a purchase option to PEMEX Exploración y Producción.
Fideicomiso Empresarial Irrevocable de Administración y Pago Identificado No. F/1860	100.00%	Mexico	Financing for the acquisition of modular drilling equipment to subsequently grant it under capital lease with a purchase option to PEMEX Exploración y Producción.

Conversion of financial statements of subsidiaries in foreign currency- To consolidate the financial statements of the foreign subsidiary, such financial statements denominated in the recording currency are adjusted to comply with the accounting criteria prescribed by the Commission. The financial statements are then converted to Mexican pesos, based on the following methodology:

- Foreign transactions whose recording and functional currency are the same convert their financial statements using the following exchange rates: 1) the closing rate for the assets and liabilities and 2) the historical rate for stockholders' equity and 3) the rate on the date of accrual for revenues, costs and expenses. The effects of conversion are recorded in stockholders' equity.

The recording and functional currency of the foreign transaction and the exchange rates used in the different conversion processes are as follows:

Entity	Recording and functional currency	Exchange rate to convert assets and liabilities from functional and recording currency to Mexican pesos	Exchange rate to convert net results from functional and recording currency to Mexican pesos
BBVA Bancomer USA, Inc.	U.S. Dollars	$17.2487 Mexican pesos	$15.8662 Mexican pesos

The Institution's functional currency is the Mexican peso. Given that the Institution holds an investment in a subsidiary abroad whose functional currency is not the Mexican peso, it is exposed to a foreign currency conversion risk. Furthermore, monetary assets and liabilities have been contracted in different currencies, principally the US dollar and the euro, and there is an exposure to exchange rates, attributable to commercial operations and the supply of goods and services, over the normal course of business.

Principal differences between the consolidated financial statements and the financial statements presented to Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) (unaudited) – In conformity with article 182 of the Provisions, the main differences between the Provisions and International Financial Reporting Standards (IFRS), which are used to prepare the consolidated financial statements of BBVA (holding company), are as follows:

a) Effects of inflation: Under IFRS, the effects of inflation are recognized when the economic environment of a country is considered to be highly inflationary. Given the inflation rates in Mexico over recent years, the effects derived from the recognition of inflation under the criteria of the Commission up through 2007 are eliminated under IFRS.

b) Credit loss reserves: Under IFRS, the loan portfolio should be analyzed to determine the credit risk to which the Institution is exposed by estimating the need for reserves to cover impairments in value. Therefore, internal corporate criteria must be used to classify risks in the commercial portfolio; these criteria differ from those established by the Commission for the determination of credit loss reserves.

c) Variations in assumptions for labor obligations: Under IFRS, the variations in assumptions due to increases or reductions in the current value of the obligations or due to variations in the fair value of assets, are applied against stockholders' equity, whereas the accounting criteria of the Commission establishes that such variances should be recognized directly to results.

For further information on the monetary effects of these differences, please consult www.bancomer.com/informacioninversionistas.

3. Significant accounting policies

The accounting policies of the Institution, which are in conformity with the accounting criteria of the General Regulations Applicable to Credit Institutions (the "Regulations") prescribed by the Commission (the "Accounting Criteria"), and are considered as a general framework for financial information, require that management makes certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures to be included therein. While the estimates and assumptions used may differ from their final results, management believes they were appropriate under the circumstances.

In conformity with Accounting Criterion A-1, Basic scheme of the collective accounting criteria applicable to credit institutions, issued by the Commission, the Institution's accounting shall be based on MFRS defined by the Mexican Board for Financial Reporting Standards ("CINIF"), except when in the Commission's judgment, a specific regulation or Accounting Criterion must be applied in order to appropriately reflect the specialized operations carried out by the Company.

The regulations of the Commission referred to in the preceding paragraph, set forth standards for the recognition, valuation, presentation and, if applicable, disclosure, related to specific headings of the consolidated financial statements, as well as the standards applicable to their preparation.

In this regard, the Commission clarifies that the application of accounting criteria, or the concept of supplemental application, will not apply in the case of transactions which, by express provision of law, are not permitted or are prohibited or, by the same token, are not expressly authorized.

The following is a description of the principal accounting policies followed by the Institution:

Changes in accounting policies -

Changes in the Commission's Accounting Criteria-

On July 23, 2015, the Federal Official Gazette published an amendment to the accounting criteria applicable to market participants to derivative contracts listed in stock markets. This amendment establishes that the derivatives markets and traders that participate in the markets for listed derivatives contracts should maintain their accounting in accordance with the applicable rules. For such purpose, clearinghouses and settlement partners which participate in the derivatives contracts market should observe the "Accounting Criteria for Clearinghouses," and "Accounting Criteria for Settlement Partners", respectively. These amendments went into effect on the day after their publication.

Changes in MFRS issued by the CINIF applicable to the Institution -

Improvements to MFRS -

The objective of these improvements is to incorporate changes and clarifications in order to establish a more appropriate regulatory approach. Improvements to MFRS are classified between those improvements that result in accounting changes affecting the valuation, presentation or disclosure of items reported in the consolidated financial statements, and those improvements that do not result in accounting changes, but rather only serve to clarify existing standards.

On January 1, 2015, the Institution adopted the following improvements to MFRS that result in accounting changes:

NIF B-8, *Consolidated or Combined Financial Statements*– Clarifies the criteria to be evaluated in order to identify an investment entity and indicates that given the nature of the primary activity of an investment entity, it may be difficult for such an entity to exercise control over the entities in which it has invested; therefore, an analysis should be carried out in order to conclude whether the entity exercises control over its investees. If there is no control, it must identify the type of investment concerned and, apply the appropriate NIF for accounting recognition.

Bulletin C-9, *Liabilities, Provisions, Contingent Assets and Liabilities and Commitments*– Clarifies and modifies the accounting treatment for liabilities arising from customer advances denominated in foreign currency. When an entity receives advance collections for sales or services denominated in foreign currency, the changes in exchange rates between the functional currency and the transaction currency do not affect the amount of the advance collection. Accordingly, the balance of the customer advances liability should not be modified as a result of such changes in exchange rates.

On January 1, 2015, the Institution adopted the following improvements to NIFs that do not result in accounting changes:

NIF B-13, *Events Subsequent to the Date of the Financial Statements* and Bulletin C-9, *Liabilities, Provisions, Contingent Assets and Liabilities and Commitments* –NIF B-13 includes in a footnote the disclosures in the financial statements of an entity that are not prepared on a going concern basis in accordance with NIF A-7, *Presentation and Disclosure*. Such requirement was included as part of the regulatory text in the disclosure standards section of NIF B-13, and as part of Bulletin C-9 to disclose the contingencies arising from the fact that the entity is not operating on a going concern basis. Consequently, Circular 57 *Sufficient Disclosure* is repealed as a result of the Commercial Bankruptcy Law.

NIF B-15, *Conversion of Foreign Currencies* – The definition of foreign operations was modified to clarify that it not only refers to a legal entity or a cash generating unit whose operations are based on or carried out in an economic environment or currency different from those of the reporting entity, but also includes legal entities or cash generating units that operate in the same country as the reporting entity (parent or holding company), but use a currency different from that of the reporting entity.

The adoption of these improvements did not have a material effect on the Institution's financial information.

Changes in accounting estimates applicable in 2015

Methodology for the determination of the allowance for loan losses applicable to the consumer credit portfolio

On August 27, 2015, the Commission issued a Resolution which modifies the Provisions for Credit Institutions and results in various changes to the methodology for classifying consumer loan portfolio in order to adopt an expected loss model for such portfolio, as well as for certain guarantees.

For such consumer loans, the Commission believes it advisable to recognize the guarantee schemes known as *pari passu,* or first losses, for such portfolio classification in order to eliminate regulatory inconsistencies.

This change in estimate did not have a material effect on the Institution's consolidated financial statements as of December 31, 2015.

Methodology for the determination of the allowance for loan losses applicable to credits granted under the Commercial Bankruptcies Law

On August 27, 2015, the Commission issued a Resolution which modifies the Provisions for Credit Institutions, indicating the term during which credit institutions may continue to use the methodology for the allowance for expected losses due to credit risks related to loans granted to borrowers declared commercially bankrupt with a prior restructuring plan. This Resolution establishes that once an agreement is adopted between the borrower and the recognized lenders, or the bankruptcy of the borrower is determined in accordance with the Commercial Bankruptcies Law, such methodology can no longer be applied.

Authorization may be requested from the Commission to continue using the methodology to determine allowances for expected losses for loans granted to borrowers declared commercially bankrupt with a prior restructuring plan for a term not to exceed six months from the adoption of the agreement.

This change in estimate did not have a material effect on the Institution's consolidated financial statements as of December 31, 2015.

Changes in accounting estimates applicable in 2014

Methodology for the determination of the allowance for loan losses applicable to loans granted under the Commercial Bankruptcies Law

On March 26, 2014, the Commission issued a Resolution which modifies the Provisions for Credit Institutions, adjusting the methodology applicable to the classification of credit portfolio for loans granted in accordance with article 224, sections II and III of the Commercial Bankruptcies Law, in order to make it consistent with the amendments made on January 10, 2014 to such provision.

This methodology mainly covers the consideration of collateral established in accordance with article 75 of the Commercial Bankruptcies Law for the determination of the Severity of the Loss, by applying certain adjustment factors or discount percentages applicable to each type of admissible security interest.

This change in estimate did not have a material effect on the Institution's consolidated financial statements as of December 31, 2014.

Special accounting criteria applicable in 2015

Special accounting criteria applicable to the loans subject to the support resulting from the floods caused by hurricane "Patricia"

Support offered in connection with natural disasters

In Official Notice No. P-071/2015 dated November 9, 2015, the Commission authorized credit institutions to apply special accounting criteria in order to support customers who reside in or whose income is sourced in places that have been declared "disaster zones" as a result of Hurricane "Patricia" and at the same time to ensure stability. It also indicates that the benefits must be documented within 120 days after the date of the incident.

The application of the support to the borrowers consists of the partial or total deferral of payment of principal and/or interest for up to three months, provided that the borrowers have been classified for accounting purposes as current at the date of the incident, as established in Paragraph 8 of Accounting Criterion B-6 "Credit Portfolio" of the Regulations of Credit Institutions issued by the Commission.

The special accounting criteria applicable to BBVA Bancomer, by type of loan, are as follows:

Loans with "a single payment of principal at maturity and periodic payments of interest, and loans with a single payment of principal and interest at maturity", which are restructured or renewed, will not be considered as overdue portfolio in accordance with that established in paragraph 56 of Criterion B-6 "Loan Portfolio"of the Regulations for Credit Institutions.

Loans with "periodic payments of principal and interest", which are restructured or renewed, may be considered as current at the time such event takes place, without having to apply the requirements of paragraphs 57 and 59 of Criterion B-6 "Loan Portfolio".

Loans classified as revolving from the start, which are restructured or renewed, will not be considered as overdue portfolio under the terms established in paragraph 61 of Criterion B-6 "Loan Portfolio "of the Regulations of Credit Institutions.

The aforementioned loans will not be considered as restructured in accordance with that established in paragraph 26 of Criterion B-6 "Loan Portfolio "of the Regulations of Credit Institutions.

Without the relief offered by the special accounting criteria, the current portfolio reported in the balance sheet would have been reduced by $16 while the allowance for loan losses would have increased by approximately $1, due to the fact that loans receiving the support would have been classified in non-performing portfolio if the deferral had not been applied.

Below we detail, by type of loan, the amount subject to deferral and the total amount of the loans:

Type of portfolio	No. of cases	Amount deferred	Total amount of the credit
Mortgage loans	17	$ 1	$ 27

Special accounting criteria applicable in 2014

Special accounting criteria applicable to the credits subject to the support resulting from the floods caused by the hurricane "Odile"

Support offered in connection with natural disasters

In Official Notice No. P110/2014 dated September 19, 2014, the Commission authorized credit institutions to apply special accounting criteria in order to support customers who reside in or whose income is sourced in places that have been declared "disaster zones" as a result of Hurricane "Odile" and at the same time to ensure stability. It also indicates that the benefits must be documented within120 days after the date of the incident.

The application of the support to the borrowers consists of the partial or total deferral of payment of principal and/or interest for up to three months, provided that the borrowers have been classified for accounting purposes as current at the date of the incident, as established in Paragraph 8 of Accounting Criterion B-6 "Credit Portfolio" of the Regulations issued by the Commission.

The special accounting criteria applicable to the Institution, by type of loan, are as follows:

Loans with "a single payment of principal at maturity and periodic payments of interest, and loans with a single payment of principal and interest at maturity", which are restructured or renewed, will not be considered as overdue portfolio in accordance with paragraph 56 of Criterion B-6 "Loan Portfolio".

Loans with "periodic payments of principal and interest", which are restructured or renewed, may be considered as current at the time such event takes place, without having to apply the requirements of paragraphs 57 and 59 of Criterion B-6 "Loan Portfolio".

Loans classified as revolving from the start, which are restructured or renewed, will not be considered as overdue portfolio under paragraph 61 of Criterion B-6 "Loan Portfolio".

The aforementioned loans will not be considered as restructured in accordance with paragraph 26 of Criterion B-6 "Loan Portfolio".

Without the relief offered by the special accounting criteria, the performing portfolio reported in the balance sheet would have been reduced by $1,451, while the allowance for loan losses would have increased by approximately $679, due to the fact that loans receiving support would have been classified in non-performing portfolio if the deferral had not been applied.

Below we detail, by type of loan, the amount subject to deferral and the total amount of the loans:

Type of portfolio	No. of Cases	Amount deferred	Total amount of the credit
Mortgage loans	4,555	$ 83	$ 2,581
Consumer and automobile loans	2,378	11	149
Credit card	10,881	183	263
PyMEs	393	8	85
Total	18,207	$ 285	$ 3,078

Reclassifications - As of December 31, 2014, the Institution presented "Assigned securities to be settled" of $5,157, within liabilities. In accordance with NIF B-1, *Accounting changes and error corrections,* to improve the clarity of the financial information, the Institution has reclassified such "Assigned securities to be settled" to the heading, "Investment in securities" under the category of Trading securities in the amount of $5,157, to make the presentation of such amounts consistent with that presented as of December 31, 2015. The effects of the aforementioned reclassification, in the headings of the consolidated balance sheet, are as follows:

	Increase (decrease) due to the reclassifications	Reclassified retrospectively	Originally reported
Assigned securities to be settled	$ (5,157)	$ (5,157)	$ 5,157
Investments in securities	$ (5,157)	$ -	$ 248,127

Recognition of the effects of the inflation in the financial statements - Beginning January 1, 2008, the Institution discontinued recognition of the effects of inflation, in conformity with the guidance in NIF B-10. Through December 31, 2007, such recognition resulted mainly in inflationary gains or losses on non-monetary and monetary items, which are presented in the consolidated financial statements as an increase or decrease in stockholders' equity accounts, and also in nonmonetary items.

The accumulated inflation of the three years prior to 2015 and 2014, measured through the value of the Investment Units (UDI), is 12.34% and 11.76%, respectively, for which reason the economic environment in both years is classified as noninflationary. As discussed previously, the cumulative effects of inflation up to December 31, 2007 are maintained in the accounting records of the consolidated balance sheets as of December 31, 2015 and 2014.

The inflation percentages for the years ended December 31, 2015, 2014 and 2013 were 2.10%, 4.18% and 3.78%, respectively; therefore, the economic environment qualifies as non-inflationary in all of these years.

Offsetting of financial assets and financial liabilities- Financial assets and financial liabilities may be offset in such a way that the debit or credit balance, as the case may be, is presented on the consolidated balance sheet, if and only if, there is a contractual right to offset the amounts recognized and the intention to settle the net amount, or to realize the asset and cancel the liability simultaneously.

Cash and cash equivalents- Cash and cash equivalents are recorded at nominal value, except for silver and gold coins, which are stated at their fair value at each period-end. Cash held in foreign currency is valued at the exchange rate published at year end by the Central Bank of Mexico.

The foreign currencies acquired whose settlement is agreed at a date after the completion of the purchase and sale transaction will be recognized at such transaction date as restricted funds available (foreign currencies to be received), whereas the foreign currencies sold will be recorded as a disbursement of funds available (foreign currencies to be delivered). The counterparty must be a settlement account, either credit or debit, as the case may be.

This heading also includes interbank loan transactions agreed at a term of less than or equal to three business days, as well as other funds available, such as correspondent funds and liquid notes.

Margin accounts- The margin accounts granted in cash (and in other assets equivalent to cash) required from the entities as a result of performing transactions with financial derivatives in recognized markets or stock exchanges are recorded at their nominal value.

For those margin accounts assigned to the clearinghouse different from cash, as would be the case of debt instruments or share certificates, where the clearinghouse has the right to sell or pledge the financial assets which make up such margin accounts, the financial asset pledged is presented as restricted, and the valuation and disclosure standards are followed in conformity with the respective accounting treatment according to its nature.

Margin accounts are intended to procure compliance with the obligations derived from transactions with financial derivatives performed in recognized markets and stock exchanges and refer to the initial margin, contributions and subsequent retirements made during the effective term of the respective contracts.

Securities -

– *Trading securities:*

Trading securities are those securities in which the Institution invests to take advantage of short-term market fluctuations. The transaction costs for the acquisition of the securities are recognized in results of the year on the acquisition date. These securities are stated at fair value (which includes the discount or markup, as the case may be) in conformity with the following guidelines:

Debt instruments-

Debt instruments are valued at fair value, which must include both the principal and accrued interest. Interest earned is determined based on the effective interest method.

Equity instruments-

Equity instruments are valued at their fair value. In the case of securities registered with the National Securities Registry (RNV) or authorized, registered or regulated in markets recognized by the Commission. Gains or losses resulting from valuation are recognized in the consolidated statement of income.

Value date transactions-

This heading records the "Value date transactions" which refer to purchase-sale transactions of securities assigned but not settled, which are valued and recorded as negotiable instruments, recording the reception and departure of the instrument subject matter of the transaction at the time it is performed against the respective debit or credit settlement account. If the amount of the negotiable instruments is insufficient to cover the amount of the securities to be delivered for these operations, the credit balance is presented under the heading "Securities assigned to be settled".

– *Securities available for sale:*

Securities available-for-sale consist of debt instruments and equity securities acquired with an intention other than obtaining gains from trading them on the market or holding them to maturity. The transaction costs for the acquisition of the securities are recognized as part of the investment. These securities are valued in the same manner as trading securities with unrealized valuation gains or losses recognized in stockholders' equity.

– *Securities held to maturity:*

Securities held to maturity are debt instruments with fixed or determinable payments or an established maturity acquired with both the intent and the capacity of holding them to maturity. These instruments are initially recorded at fair value, which presumably reflects the agreed price, plus the transaction costs for the acquisition of securities. They are subsequently accounted for using amortized cost, thus affecting the results of the year based on accrued interest and the discount or markup received or paid for their acquisition according to the effective interest method.

The Institution determines the increase or decrease from appraisal at fair value using restated prices provided by the price supplier, who uses different market factors in its determination.

Cash dividends of share certificates are recognized in the results for the year in the same period in which the right to receive the related payment is generated.

The exchange gain or loss on investments in securities in foreign currencies is recognized in results for the year.

The accounting criteria issued by the Commission permit the transfer of securities classified as "held to maturity" to the category of "securities available for sale", provided the Institution ceases to have the intention or capacity to hold them to maturity.

Also, such criteria allow for reclassifications to be made to the category of "Securities held to maturity", and from "Trading securities" to "Securities available for sale", under extraordinary circumstances, subject to the prior assessment and express authorization of the Commission.

Impairment - The Institution must assess whether there is objective evidence regarding the impairment of a security at the consolidated balance sheet date.

A security is only considered to be impaired and, accordingly, an impairment loss is only incurred when there is objective evidence of this impairment as a result of one or more events which occurred after its initial recognition, which affected estimated future cash flows and can be reliably determined. It is unusual that a single event is determined as the sole cause of impairment, and it is more common that impairment results from the combined effect of different events. The losses expected as the result of future events are not recognized, regardless of their probability.

The objective evidence that a credit instrument is impaired includes observable information, among others, about the following events:

a) Significant financial difficulties of the issuer of the security
b) It is probable that the issuer of the security will be declared bankrupt or undergo another type of financial reorganization;
c) Default on contractual clauses, such as nonpayment of interest or principal;
d) The disappearance of an active market for the credit instrument in question due to financial difficulties or
e) Measurable reduction in the estimated future cash flows of the group of securities as of the initial recognition of such assets, although the reduction cannot be identified with the individual securities of the group, including:

i. adverse changes in the payment status of the issuers in the group, or
ii. local or national economic conditions which are correlated with defaults in the securities of the group.

As of December 31, 2015 and 2014, management has not identified objective evidence of impairment of any securities.

Repurchase transactions - Repurchase agreements are recorded as follows:

At the contracting date of the repurchase transaction, when the Institution is the selling party, the entry of cash or a debit settlement account, and an account payable at fair value, initially at the agreed-upon price, are recorded and represent the obligation to restitute cash to the repurchasing party. Subsequently, during the term of the repurchase transaction, the account payable is valued at amortized cost by recognizing the interest on the repurchase agreement using the effective interest method in results of the year.

In relation to the collateral granted, the Institution will reclassify the financial assets in its balance sheet as restricted, which will be valued based on the criteria described above in this note until the maturity of the repurchase transaction.

When the Institution acts as purchasing party, the withdrawal of funds available is recognized on the contracting date of the repurchase transaction or a credit settlement account, with an account receivable recorded at fair value, initially at the price agreed, which represents the right to recover the cash paid. The account receivable will be valued subsequently during the term of the repurchase agreement at amortized cost through the recognition of interest on the repurchase agreement based on the effective interest method in the results of the year.

The Institution recognizes the collateral received in memorandum accounts, following the guidelines for valuation established in accounting criterion B-9, "Custody and Administration of Assets (B-9)", until the maturity of the transaction.

Collateral granted and received other than cash in repurchase agreements - In relation to the collateral in repurchase transactions granted by the seller to the buyer (other than cash), the buyer recognizes the collateral received in memorandum accounts, by following the guidelines on custody transactions established in accounting criterion B-9. The selling party reclassifies the financial asset on its consolidated balance sheet, and it is presented as restricted, for which purpose the standards for valuation, presentation and disclosure are followed in accordance with the respective accounting treatment.

When the buyer sells the collateral or provides it as a guarantee, the proceeds from the transaction are recognized, as well as an account payable for the obligation to repay the collateral to the selling party (measured initially at the price agreed), which is valued at fair value for its sale, or, if it is given as guarantee in another repurchase transaction, at its amortized cost, (any spread between the price received and the value of the account payable is recognized in results of the year).

Furthermore, if the buyer then becomes a seller for another repurchase transaction using the same collateral received as guarantee for the initial transaction, the repurchase interest agreed in the second transaction must be recognized in results of the year as it is accrued, in accordance with the effective interest method, adjusting the account payable valued at amortized cost as mentioned above.

The memorandum accounts recorded for collateral received by the buyer are cancelled when the repurchase transaction reaches maturity or there is a default on the part of the seller.

For transactions in which the buyer sells or in turn provides the collateral received as guarantee (for example, when another repurchase or securities loan transaction is agreed), the control of such sold or pledged collateral is performed in memorandum accounts, by applying for valuation purposes the standards for custody transactions established in accounting criterion B-9.

The memorandum accounts recorded for collateral received which were in turn sold or pledged by the buyer, are canceled when the collateral sold is acquired to repay it to the seller, or when the second transaction in which the collateral was granted reaches maturity or there is a default on the part of the counterparty.

Securities loans - Securities loans are transactions in which the transfer of securities is agreed from the lender to the borrower, with the obligation to return such securities or other substantially similar ones on a given date or as requested, in exchange for a premium as consideration. In these transactions, a collateral or guarantee is requested by the lender from the borrower.

At the contracting date of the securities loan, when the Institution acts as lender, it records the security subject matter of the loan transferred to the borrower as restricted, for which purpose the standards for valuation, presentation and disclosure, based on the respective accounting treatment, are followed. Furthermore, the collateral received that guarantees the securities loaned is recorded in memorandum accounts.

The amount of the premium earned is recognized in results of the year through the effective interest method during the term of the transaction.

When it acts as the borrower, at the contracting date of the securities loan, the Institution records the security subject matter of the loan received in memorandum accounts, following the valuation guidelines for the securities recognized, in the account "Assets in custody or under administration".

The security subject matter of the transaction received and the collateral received are presented in memorandum the heading of "Collateral received by the Institution". The collateral received from other transactions are presented under the heading of "Collateral received and sold or pledged as guarantee by the Institution".

Derivatives - The Institution carries out two different types of transactions:

- *Trading* - Consists of the position assumed by the Institution as market participant for purposes other than hedging open risk positions.

- *Hedging* - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions.

The Institution's policies require that for purposes of entering into derivative transactions, both trading parties must belong to the Financial System and have authorization from the Central Bank of Mexico to carry out this type of transaction, classifying and, if applicable, determining risk exposure lines. Prior to carrying out these transactions, corporate customers must be granted a credit line authorized by the Credit Risk Committee or provide readily realizable guarantees through the pertinent bond contracts. Transactions involving mid-sized and small businesses, as well as individuals, are carried out through readily realizable guarantees established in bond contracts.

The assets and/or liabilities arising from transactions with derivative financial instruments are recognized or cancelled in the consolidated financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset.

The Institution initially recognizes all derivatives (including those forming part of hedges) as assets or liabilities (depending on the rights and/or obligations they embody) in the consolidated balance sheet at fair value, which presumably reflects the price at which the transaction was agreed. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results under "Trading income".

All derivatives are subsequently valued at fair value without deducting the transaction costs incurred for their sale or other types of disposal; this valuation effect is then recognized in the results of the period under "Trading income".

Derivatives must be presented under a specific asset or liability heading depending on whether their fair value (as a consequence of the rights and/or obligations they embody) results in a debit or credit balance, respectively. These debit or credit balances can be offset as long as they comply with the offsetting rules established by the applicable accounting criterion.

In the consolidated balance sheet, the heading derivatives must be split between those held for trading and hedging purposes.

Trading transactions

– *Optional securities ("Warrants")*:

  Optional securities are documents which represent a temporary right acquired by the holders in exchange for the payment of a premium for the issue in Shares or Indexes, whereby such right expires at the end of the effective term. Therefore, holding such securities implies recognition that the intrinsic value and the market price of the optional security in the secondary market may vary based on the market price of the reference assets.

– *Forwards and futures contracts*:

  The balance represents the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus value and presented under assets; if negative, it is considered as a deficit and presented under liabilities.

– *Options:*

  The balance represents the fair value of future cash flows to be received, and recognizes the valuation effects in results of the year.

  The balance represents the fair value of future cash flows to be delivered, and recognizes the valuation effects in results of the year.

– *Swaps:*

  The balance represents the difference between the fair value of the swap asset and liability.

Hedging transactions

Hedge derivatives are valued at market value, and the effect is recognized depending on the type of accounting hedge, as follows:

a. If they are fair value hedges, the primary position covered is valued at market and the net effect of the derivative hedge instrument is recorded in results of the period under the heading "Trading income".

b. If they are cash flow hedges, the hedge derivative is valued at market and the valuation of the effective part of the hedge is recorded in the account "Result from valuation of cash flow hedges". The ineffective part is recorded in results of the period under the heading "Trading income".

c. In hedges of a net investment in a foreign transaction that complies with all the conditions, they are accounted for in similar fashion to cash flow hedges; the effective portion is recognized in stockholders equity and the ineffective portion is recognized in results.

Embedded derivatives - The Institution separates the embedded derivatives of structured notes, whereby the reference underlying is based on the exchange rate, price indexes, interest rate options with extendable periods and UMS bond price options.

In the case of debt and bond contracts in which the reference underlying is an interest rate with implied cap, floor and collar. The reference underlying's are considered to be closely related to the host contract, and consequently, these items are not bifurcated. Accordingly, the main contract issued for debt and bonds is recorded based on the applicable criteria to each contract, at the amortized cost in both cases.

Collateral granted and received in derivatives transactions not performed in recognized markets or stock exchanges - The account receivable generated for cash collateral provided in derivative transactions not performed in recognized markets or stock exchanges is presented under the heading "Other accounts receivable", whereas the account payable generated for the reception of collateral provided in cash is presented under the heading "Sundry creditors and other accounts payable".

Collateral delivered in credit instruments is recorded as restricted securities for guarantees, and collateral received in credit instruments for derivative transactions is recorded in memorandum accounts.

Loan portfolio - The balances in the loan portfolio represent the amounts disbursed to borrowers, less repayments made to date, plus accrued but unpaid interest. The "Allowance for loan losses" is presented as a deduction from the total loan balance.

The Institution classifies its portfolio under the following headings:

a. *Commercial:* Direct or contingent loans, including bridge loans, denominated in Mexican pesos or foreign currency, as well as any accrued interest, granted to corporations or individuals with business activities and used in relation to commercial or financial activities; includes loans granted to financial institutions, excluding interbank loans with maturities of less than three business days, loans related to factoring transactions and loans related to finance lease transactions which are entered into with such corporations or individuals; loans granted to trustees who act on behalf of trusts and credit schemes commonly referred to as "structured" transactions in which there is a change in net assets that allows for the individual assessment of the risk associated with the scheme. Also included are loans granted to States, Municipalities and decentralized agencies.

b. *Home mortgages:* Direct loans denominated in Mexican pesos, foreign currency, Investment Units or multiples of the minimum wage ("VSM"), as well as any accrued interest, granted to individuals and used for the acquisition, construction, remodeling or improvement of housing, for non-businesss purposes; includes equity loans secured by the home of the borrower and home mortgage loans granted to former employees who rendered services to the credit institution.

c. *Consumer:* Direct loans, denominated in Mexican pesos or foreign currency, as well as any accrued interest, granted to individuals in relation to credit card operations, personal loans, payroll transactions (excluding those granted through a credit card), loans for the acquisition of consumer durables and finance lease transactions entered into with individuals; includes consumer loans granted to former employees who rendered services to the credit institution.

Performing loans – The Institution has the following criteria to classify the loans as performing portfolio:

– Loans that are current in the payments of both principal and interest.
– Loans that do not exhibit characteristics of non-performing portfolio.
– Restructured or renewed loans which have evidence of sustained payment.

Non-performing loan portfolio - The Institution applies the following criteria to classify outstanding 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.
– If debts are composed by revolving credits with two outstanding monthly billing periods or, if the billing period is not monthly, when payments have been outstanding for 60 or more days.
– Mortgage loans with periodic partial payments of principal and interest and are considered non-performing when a payment is 90 days or more in arrears.
– 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, except for the following:

i. Loans on which the Institution continues to collect payments under the terms of the fraction VIII, article 43 of the Commercial Bankruptcy Law.
ii. Loans that are granted under the terms of article 75 in relation with the fractions II and III of article 224 of the of the Commercial Bankruptcy Law.

- Immediate payment documents referred to by Accounting Criterion B-1, "Cash and Cash Equivalents", of the Commission when not collected within the allotted period of time (2 or 5 days as appropriate)

Non-performing portfolio which are restructured or renewed will remain in non-performing portfolio until there is evidence of sustained payment; i.e., payment by the borrower without arrears for the total amount of principal and interest due and payable for at least three consecutive installments in accordance with the loan payment scheme, or, in the case of loans 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.

The loan payments referred to in the preceding paragraph must cover at least 20% of principal or the total amount of any interest accrued under payment restructuring or renewal schemes. However, accrued interest recognized in memoranda accounts is not considered for this purpose.

Furthermore, loans with a single payment of principal upon maturity and periodic payments of interest that are restructured or renewed during the credit term are classified as non-performing portfolio, until there is evidence of sustained payment. This includes loans for which at least 80% of the original term of the loan has not elapsed, loans for which payments received have not covered the total amount of accrued interest or covered the principal of the original amount of the loan, and loans that would have been settled as of the date of renewal or restructuring in question.

The accrual of interest is suspended at the time the loan is classified as non-performing portfolio, including those loans which, in accordance with the respective contract, capitalize interest to the amount of the debt. While a loan remains in the non-performing portfolio, accrued interest is recorded in memoranda accounts. When interest on non-performing portfolio is collected, it is recognized directly in the results of the year under the heading "Interest income".

With regard to ordinary uncollected accrued interest on loans that are classified as non-performing portfolio, the Institution creates an allowance for the total amount of accrued interest outstanding at the time the loan is transferred to non-performing portfolio.

Acquisitions of loan portfolio - On the acquisition date, acquired loan portfolio must be measured based on the contractual value of the portfolio and the same portfolio classification used by the originator; any difference arising in relation to the acquisition price is recorded as follows:

a) When the acquisition price is lower than the portfolio's contractual value, the difference is recognized in results of the year under the heading "Other operating income (expense)", up to the amount of the allowance for loan losses recognized in accordance with the Commission's rules, and any remaining amount as a deferred credit, which will be amortized on a proportional basis in relation to the contractual value of the loan;
b) When the acquisition price of the portfolio is higher than its contractual value, a deferred charge is recognized, which will be amortized on a proportional basis in relation to the contractual value of the loan;

c) Regarding the acquisition of revolving credits, such difference will be recognized directly to results of the year on the acquisition date.

Allowance for loan losses -

The Institution recognizes the allowance for loan losses based on the following:

- *Commercial loan portfolio:*

The Institution, when classifying the commercial loan portfolio, considers the Probability of Default, Severity of the Loss and Exposure to Default, and also classifies the aforementioned commercial loan portfolio into different groups and establishes different variables for the estimation of the probability of default.

The amount of the allowance for loan losses on each loan is determined by applying the following formula:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

Ri =	Amount of the allowance for loan losses to be created for the nth credit.
PIi =	Probability of Default of the nth credit.
SPi =	Severity of the Loss on the nth credit.
EIi =	Exposure to Default on the nth credit.

The probability of default of each loan (PIi) will be calculated according to the following formula:

$$PI_i = \frac{1}{1 + e^{-(500 - TotalCreditScore_i) \times \frac{\ln(2)}{40}}}$$

For purposes of the above:

The total credit score of each borrower will be obtained by applying the following formula:

$$TotalCreditScore_i = \alpha \times (QuantitativeCreditScore_i) + (1 - \alpha) \times (QualitativeCreditScore_i)$$

Where:

Quantitative credit score$_i$ =	Is the score obtained for the nth borrower when evaluating the risk factors.
Qualitative credit score$_i$ =	Is the score obtained for the nth borrower when evaluating the risk factors.
α =	Is the relative weight of the quantitative credit score.

Unsecured loans-

The Severity of the Loss (SP_i) of commercial loans which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a. 45%, for Preferred Positions.
b. 75%, for Subordinated Positions, in the case of syndicated loans, those which for purposes of their priority of payment are contractually subordinated in relation to other creditors.
c. 100%, for loans which are 18 months or more in arrears for the amount due and payable under the original terms.

The Exposure to Default of each loan (EI_i) will be determined based on the following:

I. For disposed balances of uncommitted credit lines which may be canceled unconditionally or which in practice allow for an automatic cancellation at any time and without prior notice:

$$EI_i = S_i$$

II. For other credit lines:

$$EI_i = S_i * Max\left\{\left(\frac{S_i}{Authorized\ LineofCred\ it}\right)^{-0.5794}, 100\ \%\right\}$$

Where:

S_i: The unpaid balance of the nth credit at the classification date, which represents the amount of loan granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted. In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.

Authorized Line of Credit: The maximum authorized amount of the line of credit at the classification date.

The Institution may recognize the security interests in real property, or personal or credit-derived collateral in the estimate of the Severity of the Loss of the loans, with the aim of decreasing the reserves derived from the portfolio classification. In any case, it may elect not to recognize the credit enhancements if larger reserves are generated as a result. For such purpose, the Regulations established by the Commission are applied.

Loans granted under the terms of the Commercial Bankruptcy Law

On March 26, 2014, the Commission issued a Ruling which amends the Provisions, whereby it modifies the methodology applicable to the classification of commercial loan portfolio for loans granted under the terms of sections II and III of article 224 of the Commercial Bankruptcy Law in order to make it consistent with the amendments to such statute on January 10, 2014.

This methodology mainly contemplates the consideration of collateral created under the terms of article 75 of the Commercial Bankruptcy Law for the determination of the Severity of the Loss by applying certain adjustment factors or discount percentages applicable to each type of admissible security interest based on personal or real property.

Pursuant to the foregoing, in the case of loans granted under the terms of section II of article 224 of the Commercial Bankruptcy Law, the Severity of the Loss will be subject to the following treatment:

$$SP = Max\left(Min\left(1 - \frac{Collateral + Adjusted\ Estate}{Si}, 45\%\right), 5\%\right)$$

Where:

Collateral = Any collateral created under the terms of article 75 of the Commercial Bankruptcy Law by applying, as the case may be, adjustment factors or discount percentages for each type of admissible security interest based on personal or real property.

Adjusted Estate = The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in article 224, section I of the aforementioned Law and applying a 40% discount to the resulting amount.

S_i = Unpaid balance of the credits granted under the terms of article 224, section II of the Commercial Bankruptcy Law at the classification date.

In the case of loans granted under the terms of article 224, section III of the Commercial Bankruptcy Law, the Severity of the Loss will be subject to the following treatment:

$$SP = Max\left(Min\left(1 - \frac{Adjusted\ Estate}{Si}, 45\%\right), 5\%\right)$$

Where:

Adjusted Estate = The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in sections I and II of article 224 of the aforementioned Law and applying a 40% discount to the resulting amount

S_i = Unpaid balance of the loans granted under the terms of article 224, section III of the Commercial Bankruptcy Law at the classification date."

Commercial loan portfolio of financial institutions (up to May 31, 2014)

In accordance with the Provisions regarding the classification methodology of the loan portfolio up to such dates, the Institution individually classified the commercial loan portfolio, for the loans or group of loans owed by the same debtor whose balance equals or exceeds an amount equal to 4 million UDIS at the classification date. The remainder was classified in parametric form based on the number of months elapsed as of the first default. Portfolio owed by the Federal Government or with an express federal guarantee was exempted.

In 2001, the Institution certified its internal classification scheme for debtor risk, Bancomer Risk Classification ("CRB"), before the Commission to comply with the requirements for classification of risk and the creation of allowances for loan losses.

CRB determined a client's creditworthiness through the weighted result of ratings based on five risk criteria, which include: performance, historical payment capacity, indebtedness capacity, projected payment capacity and macroeconomic conditions. These criteria represent the valuation of the client's profile, the financial position of the borrower and the economic status of the industry, which are measured through the grading of various quantitative and qualitative credit risk factors, weighted through the application of a single algorithm and fixed weighting parameters. The design of this algorithm and its associated weighting factors are the result of statistical and econometric analyses applied to historical data over several years.

The internal classification system presented different levels of risk, which identified loans on a level of acceptable risk, loans under observation and loans of unacceptable risk or in default. The risks included in the CRB model are summarized in the following list:

Level

1. Exceptional
2. High
3. Good
4. Adequate
5. Potential weakness
6. Actual weakness
7. Critical weakness
8. Loss

The comparability of the CRB with Regulatory Risk Classification was based upon an analysis of equivalency of default probabilities between the CRB and the Debtor's Risk Classification according to the Commission, and is as follows:

CRB	Payment Experience	Commission's Classification Equivalent	
		Commercials	Promoters
1		A1	A1
2		A1	A1
3	Non-payment for less than 30 days	A2	A2
3	Non-payment for 30 days or more	A2	B1
4	Non-payment for less than 30 days	B1	B1
4	Non-payment for 30 days or more	B2	B2
5	Non-payment for less than 30 days	B3	B2
5	Non-payment for 30 days or more	C1	B3
6	Non-payment for less than 30 days	C1	C1
6	Non-payment for 30 days or more	C2	C2
7		D	D
8		E	E

In Document 121-1/116843-2014 and 121-1/116844-2014 dated April 21, 2014, the Commission granted authorization to apply new parameters for the classification for the Business (with annual sales above 50 million pesos) and Other Enterprises portfolio, which were applied since April, 2014.

In Document 121-1/18705/2015 and 121-1/18706/2015 dated May 13, 2015, the Commission granted authorization to apply new parameters for the classification for the Business and O portfolio used in its "Expected Loss Internal Methodology", which were applied since May 2015.

The internally developed methodology consists of the calculation of the expected loss of 12 months with the following concepts:

- Probability of Default – Based on a rating determined based on the financial information of the companies and 100% for non-performing portfolio.

- Severity of Loss – Calculated based on the collateral and time in default.

  The Institution records the respective allowances for loan losses monthly, applying the results of the classification made quarterly to the balance of the debt recorded on the final day of each month.

  The allowances for the losses from the commercial loan portfolio created by the Institution as a result of the classification of each loan are classified in accordance with the following percentages:

Risk Level	Percentages Ranges Loss Reserves		
A1	0%	to	0.90%
A2	0.901%	to	1.50%
B1	1.501%	to	2.00%
B2	2.001%	to	2.50%
B3	2.501%	to	5.00%
C1	5.001%	to	10.00%
C2	10.001%	to	15.50%
D	15.001%	to	45.00%
E	More than	to	45.00%

– *Portfolio of States and their Municipalities:*

When classifying the loan portfolio of States and Municipalities, the Institution considers the Probability of Default, Severity of the Loss and Exposure to Default, while also classifying the aforementioned portfolio of States and Municipalities into different groups and establishing different variables for the estimation of the probability of default of the commercial portfolio in relation to loans granted to States and Municipalities.

The allowance for loan losses of each loan will be determined using the following formula:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

$R_i =$	The amount of the allowance for loan losses to be created for the nth credit.
$PI_i =$	Probability of Default of the nth credit.
$SP_i =$	Severity of the Loss of the nth credit.
$EI_i =$	Exposure to Default of the nth credit.

The probability of default of each credit (PIi) will be calculated according to the following formula:

$$PI_i = \frac{1}{1 + e^{-(500 - TotalCredi\ tScore_i) \times \frac{\ln(2)}{40}}}$$

For purposes of obtaining the respective PIi, the total credit score of each borrower is calculated by applying the following formula:

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 =	Average days in arrears with banking institutions (IFB) + % of on time payments with IFB + % of on time payments with non-bank financial institutions.
IB =	Number of ratings agencies recognized in accordance with the provisions which provide a classification to the State or Municipality.
IC =	Total debt to eligible participations + debt service to adjusted total revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + proprietary revenues to total revenues.
IIA =	Local unemployment rate + presence of financial services of regulated entities.
IIB =	Contingent obligations derived from retirement benefits to adjusted total revenues + operating balance sheet to local Gross Domestic Product + level and efficiency of collections + robustness and flexibility of the regulatory and institutional framework for budget approval and execution + robustness and flexibility of the regulatory and institutional framework for approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the stock market.

– *Unsecured loans -*

The Severity of the Loss (SP_i) of the loans granted to States or Municipalities which are not covered by security interests in real property, or personal or credit-derived collateral will be:

a. 45%, for Preferred Positions.

b. 100%, for Subordinated Positions or when the loan is 18 months or more in arrears for the amount due and payable under the original terms.

The Exposure to Default of each loan (EIi) will be determined based on the following:

$$EI_i = S_i * Max\left\{\left(\frac{S_i}{Autorized\ Line\ of\ Credit}\right)^{-0.5794}, 100\%\right\}$$

Si = The unpaid balance of the nth credit at the classification date, which represents the amount of loan granted to the borrower, adjusted for interest accrued, less payments of principal and interest, as well as any reduction, forgiveness, rebate and discount granted. In any case, the amount subject to the classification must not include uncollected accrued interest, recognized in memorandum accounts on the balance sheet for loans classified within non-performing portfolio.

Authorized Line of Credit = The maximum authorized amount of the credit line at the classification date.

The Institution may recognize the security interests in real property, or personal or credit-derived collateral in the estimation of the Severity of the Loss of the loans, for the purpose of reducing the allowance for loan losses derived from the portfolio classification. For such purpose, the provisions established by the Commission are applied.

Admissible security interests in real property may be financial and nonfinancial. Furthermore, only those security interests in real property which comply with the requirements established by the Commission are recognized.

– *Mortgage portfolio:*

The Institution determines the allowance for loan losses related to the mortgage portfolio based on criteria established by the Commission, calculating the Probability of Default, Severity of Loss and Exposure (expected loss model) as of the classification date, according to the following:

– Probability of default: For portfolio with less than four payments in arrears, it is determined based on the number of late payments, the maximum delay in the last four monthly periods, the average payment commitment of the last seven periods, as well as the value of the credit enhancements with respect to the loans and the currency; and 100% if there are four or more late payments.

– Severity of loss: This is determined based on the value of the credit enhancement with respect to the loans and the means of formalizing the credit enhancement, and, in the case of unemployment insurance coverage, the balance of the housing subaccount.

The allowances for loan losses on the mortgage portfolios established by the Institution as the result of classifying the loans will be based on the following risk levels and percentages:

Risk Level	Allowance Percentage Ranges for Loan Losses		
A1	0%	to	0.50%
A2	0.501%	to	0.75%
B1	0.751%	to	1.00%
B2	1.001%	to	1.50%
B3	1.501%	to	2.00%
C1	2.001%	to	5.00%
C2	5.001%	to	10.00%
D	10.001%	to	40.00%
E	40.001%	to	100.00%

– *Consumer loan portfolio that does not include credit card operations:*

The Institution determines the allowance for loan losses related to non-revolving consumer portfolio as established by the Commission, calculating the Probability of Default, Severity of Loss and Exposure (expected loss model) as of the classification date, as follows:

- Probability of default: Depending on the payment periodicity and the type of loan, it is determined using variables such as the number of payments in arrears, the maximum length of arrears, average payment compliance, the remaining term and the number of times that the loan is paid or financed.

- Severity of loss: This is 65% for up to 10 months in arrears and 100% thereafter.

- Exposure refers to the balance as of the classification date excluding accrued interest but not collected for loans in non-performing portfolio.

Allowances for loan losses in the consumer portfolio, excluding credit card operations, are classified based on the following degrees of risk and percentages:

Level of risk	**Allowance Percentage Ranges for Loan Losses**		
A1	0%	to	2.00%
A2	2.01%	to	3.00%
B1	3.01%	to	4.00%
B2	4.01%	to	5.00%
B3	5.01%	to	6.00%
C1	6.01%	to	8.00%
C2	8.01%	to	15.00%
D	15.01%	to	35.00%
E	35.01%	to	100.00%

For this portfolio, general reserves were considered in risk "A" rating. The specific reserves were the ones with risk rating of B or above.

– *Consumer credit card loan portfolio:*

The Commission approved the Institution's request to apply an internal credit card rating model per Document 111-1/69930/2009 on June 22, 2009, which has been applied from the month of August 2009.

In Document 121-1/116801/2014 dated January 13, 2014, the Commission granted authorization to apply new parameters for the classification of revolving consumer loan portfolio used in its "Expected Loss Internal Methodology", which were applied for the year 2014 and in Document 121-1/18702-2015 dated February 13, 2015, the Commission granted authorization to apply new parameters for the classification of revolving consumer loan portfolio used in its "Expected Loss Internal Methodology", which were applied starting on February 2015.

The internally developed rating methodology involves calculating the expected 12-month loss based on the following:

- Non-compliance probability - Based on variables including portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.

- Loss severity - Is calculated based on variables such as portfolio type, balance aging and noncompliance period.

- Exposure - Is determined according to the credit limit and current balance.

The allowance for credit card losses created by the Institution following this credit rating process is classified according to the following risk level and percentages:

Level of risk	Allowance Percentage Ranges for Loan Losses		
A1	0%	to	3.00%
A2	3.01%	to	5.00%
B1	5.01%	to	6.50%
B2	6.51%	to	8.00%
B3	8.01%	to	10.00%
C1	10.01%	to	15.00%
C2	15.01%	to	35.00%
D	35.01%	to	75.00%
E	More than	to	75.01%

As of December 31, 2015 and 2014, the classification and creation of the allowance for loan losses of the consumer loan portfolio is performed with figures as of the last day of each month and is presented to the Commission at the latest as of the 30 days following the month classified, in accordance with the reserve percentages applicable to each type of portfolio, as indicated above.

Additionally, a reserve is recognized for the total amount of the uncollected interest earned applicable to loans that are classified within non-performing portfolio.

Additional reserves:

The additional reserves established by the Institution reflect internal rating models, mainly for mortgage loans, which consists of applying specific percentages (expected loss) to the unpaid balance of the debtor.

Restructuring and renewal processes

A restructuring process is a transaction derived from any of the following situations:

a) the extension of credit enhancements given for the loan in question, or

b) the modification of original credit or payment scheme conditions, which include:

- the modification of the interest rate established for the remainder of the loan period;
- the change of currency or account unit, or
- the concession of a grace period regarding the payment obligations detailed in the original credit terms, unless this concession is granted after the originally- agreed period, in which case it is considered as a renewal.

Restructuring transactions do not include those which, at the restructuring date, indicate payment compliance for the total amount due for principal and interest and which only modify one or more of the following original credit conditions:

Credit enhancements: only when they imply the extension or substitution of credit enhancements for others of higher quality.

Interest rate: when the agreed interest rate improves.

Currency: provided the respective rate is applied to the new currency.

Payment date: only if the change does not mean exceeding or modifying payment periodicity. Modifying the payment date must not permit nonpayment in any given period.

A renewal is a transaction which extends the credit duration or maturity date or when the loan is paid at any time by using the proceeds of another loan contracted with the same entity in which one of the parties is the same debtor or another individual or entity with equity shareholding relationships thereby constituting a joint risk. Credit is not considered to be renewed when disposals are made during the term of a pre-established credit line.

Restructured or renewed non-performing loans remain in the non-performing portfolio until evidence of sustained payment is obtained; i.e., timely borrower payment compliance in relation to the total principal and accrued interest due, with a minimum of three consecutive payments in accordance with the loan payment scheme or, in the case of loans with payment periods exceeding 60 calendar days, the settlement of one payment, as established by the accounting criterion issued by the Commission.

The loan payments referred to by the preceding paragraph must cover at least 20% of principal or any interest accrued under the restructuring or renewal payment scheme. Accrued interest recognized in memoranda accounts is not considered for this purpose.

If a restructuring or renewable process is used to consolidate different loans granted to the same borrower in a single loan the treatment applied to the total debt balance resulting from this restructuring or renewal process reflects the rating given to the lowest rated among the component loans.

Performing loans other than those with a single principal payment and the payment of interest accrued periodically or at maturity, which are restructured or renewed before at least 80% of the original credit period has elapsed are only considered as performing when the borrower has a) settled all accrued interest, and b) paid the principal of the original loan amount which was due at the renewal or restructuring date.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Performing loans other than those involving a single principal payment, the periodic payment of interest or at maturity and which are restructured or renewed during the final 20% of the original credit period are only classified as performing when the borrower has a) settled all accrued interest; b) paid the original loan amount due at the loan renewal or restructuring date and, c) paid 60% of the original loan amount.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Loans involving a single principal payment, the payment of interest periodically or at maturity and which are restructured during the credit period or renewed at any time are classified as non-performing portfolio until evidence of sustained payment is obtained.

Loans which are initially classified as revolving and which are restructured or renewed at any time are only considered as performing when the borrower has settled all accrued interest, the loan has no overdue billing periods and the elements needed to verify the borrower's capacity to pay are available, i.e., it is highly likely that the borrower will settle the outstanding payment.

Securitization with transfer of ownership - By securitizing the mortgage portfolio with transfer of ownership, the Institution (the "Transferor") transfers the financial assets through a securitization vehicle (the "Trust"), to enable the latter to issue securities through an intermediary (the "Brokerage House"), for placement among small investors, which represent the right to the returns or the proceeds generated from the securitized financial asset, and as consideration the Transferor receives cash and a certification granting it the right to the remaining cash flows from the Trust after payment of the certificates to their holders.

The Transferor provides administrative services for the transfer of the financial assets and recognizes revenues derived from such services at the time they are earned. Such revenues are presented under the heading "Commissions and fee income". Any expenses incurred from managing the Trust will be reimbursed by the Trust itself with the prior authorization of the Common Representative, provided that the Trust has sufficient cash flows to make such reimbursement. The Transferor will hold any payments made on account of the Trust in debtor accounts until the latter reimburses such expenses.

On December 17, 2007, the Commission authorized the Institution, through Document 153/1850110/2007, registered in the National Securities Register of the Share Certificate Issuance Program up to the amount of $20,000 or its equivalent in UDIs with an effective term of five years computed as of the authorization date; such program is revolving.

The Institution recognized the securitized transactions performed during 2009 in accordance with the accounting criteria issued by the Commission in April 2009 regarding C-1 "Asset recognition and derecognition", C-2 "Securitized transactions" and C-5 "Consolidation of special-purpose entities". After applying these criteria, the Institution derecognized the securitized assets held by the trusts, which were subsequently consolidated on its balance sheet. Accordingly, these assets are recorded under assets in the balance sheet. The securitizations performed prior to 2009 are not consolidated, based on the treatment established by the Commission.

The benefit valuation methodology applied to the securitized transaction residual is detailed below:

– The Institution has tools to measure and quantify the impact of securitized transactions on the balance sheet and statement of income based on the cost of funding, release of capital, reserves and liquidity levels when structuring issuances and during the life of each.

– The valuation system measures the follow-up of certificate performance and the subordinated portions recorded by the Institution and, if applicable, it also values the bond position to consider its possible sale on a secondary market.

– The valuation model is used to calculate the Institution's constant historical prepayment rate computation, the mortality rate, current credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

Notwithstanding the above, the Institution has taken a conservative position and decided not to recognize the valuation of the benefits on the remaining securitization transactions of the trusts 711, 752, 781 and 847 resulting from the application of the methodology explained above, and recognized only the amortization of the value of the confirmed cash flows received from such trusts, which are held at amortized cost.

The characteristics of securitization contracts are detailed in Note 12.

Other receivable, net - Balances of sundry debtors that are not settled within the 90 or 60 days following their initial recognition (the number of days depend on whether balances are identified or not) are reserved with a charge to results of the year, regardless of the probability of recovery.

The debit and credit balances of the transaction settlement accounts represent currency and security purchases and sales recorded on the date of transaction.

Repossessed assets or assets received through payment in kind, net - Assets that are foreclosed or received through payment in kind are recorded at the lower of cost or fair value, less the direct and incremental costs and expenses incurred when they were awarded.

Property acquired through legal foreclosure are recognized on the date on which the foreclosure ruling is issued.

Property received as payment are recorded on the date on which the in-kind payment document is executed or when the delivery or transfer of ownership is formalized in a document.

On the recording date of the repossessed assets or assets received through payment in kind, the value of the asset which originated the foreclosure, as well as its respective reserve, must be canceled from the balance sheet, or the portion involving accrued or overdue payments settled through the partial payments in kind referred to by accounting criterion B-6, "Loan Portfolio".

If the value of the asset which originated the foreclosure, net of reserves, exceeds the value of the repossessed assets, the difference will be recognized in results of the year under the heading "Other operating income (expenses)".

When the value of the asset that originated the foreclosure, net of reserves, is less than the value of the repossessed assets, the value of the latter must be adjusted to the net value of the asset.

Repossessed assets are valued according to the type of asset in question, and such valuation must be recorded against results of the year as "Other operation income (expenses)", as the case may be.

In accordance with the rules of the Commission, the mechanism to follow in determining the allowance for holding repossessed assets or assets received as payment in kind, is as follows:

Allowance for personal property

Time elapsed as of the repossession or payment-in-kind (months)	**Allowance percentage**
Up to 6	0%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

Allowance for real estate property

Time elapsed as of the repossession or payment-in-kind (months)	**Allowance percentage**
Up to 12	0%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

Property, furniture and equipment, net - They are recorded at acquisition cost. Assets acquired prior to December 31, 2007 were restated by applying factors derived from UDIs up to that date. The related depreciation and amortization is recorded by applying a given percentage based on the estimated useful life of such assets to the cost restated to that date.

Depreciation is determined based on the cost or the cost restated until 2007, using the straight-line method as of the month following the acquisition date, applying the following rates:

	Rate
Real estate	2.5%
Construction	1.3%
Construction Components:	
Elevators	3.3%
Power plants	2.8%
Pipelines	2.8%
Air conditioner	2.8%
Computer equipment	25.0%
ATM's	12.5%
Furniture and equipment	10.0%
Vehicles	25.0%
Machinery and equipment	10.0%

The estimated useful lives, residual value and depreciation method of construction and its components, are reviewed at the end of each year, and the effect of any change in estimate is recognized initially and recorded on a prospective basis.

The Institution capitalizes the interest from financing as part of construction in progress.

Impairment of long-lived assets in use - The Institution reviews the book value of long-lived assets in use, in the presence of any indicator of impairment which shows that the book value might not be recoverable, considering the higher of the present value of the future net cash flows or the net selling price. Impairment is recorded if the book value exceeds the higher of the aforementioned values. The indicators of impairment considered for such purposes are, among others, the losses from operations or negative cash flows in the period, if they are combined with a history or projection of losses, depreciation and amortization charged to results which, in percentage terms, in relation to revenues, are substantially higher than those of previous years, or the services rendered, competition and other economic and legal factors.

Equity investments- Are represented by those equity investments made by the Institution in entities over which it has significant influence but lacks control, and are initially recorded at acquisition cost and subsequently valued by the equity method. The dividends received are decreased from the equity investment.

Furthermore, there are other equity investments which are recorded at acquisition cost and the dividends received from these investments are recognized in results for the year, except when they refer to profits from periods before the acquisition, in which case they are recorded as a reduction to the equity investment.

Income Tax - Income Tax ("ISR") is recorded in results of the year in which they are incurred. 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 results in temporary differences, both deductible and creditable, which are added to the tax credit for the undeducted allowance for loan losses, and the tax rate at which the items will reverse is then applied. The deferred tax asset is recorded only when it can very probably be recovered.

The effect of all the items above is presented net in the balance sheet within the caption "Deferred taxes, net".

Asset tax paid which is expected to be recovered is recorded as a tax credit and is presented in the balance sheet under the heading of "Deferred charges, prepaid expenses and intangibles".

Deferred taxes – Deferred taxes which are expected to be recovered are recorded as a tax credit and is presented in the balance sheet under the heading of "Deferred charges, prepaid expenses and intangibles".

Other assets - Software, computer developments and intangible assets are recorded originally at the face value incurred, and were restated from that date of acquisition or disbursement until December 31, 2007, using the factor derived from UDIs.

The amortization of software, computer developments and intangible assets with a definite useful life is calculated by the straight-line method, applying the respective rates to the restated expense.

Labor liabilities - Under Mexican Labor Law, the Institution is liable for the payment of severance indemnities and seniority premiums to employees terminated under certain circumstances.

The Institution records the liability for severance payments, seniority, pensions, comprehensive medical services and life insurance as it is accrued, in accordance with actuarial calculations based on the projected unit credit method, using nominal rates. The Institution recognizes the actuarial gains and losses against the result of the year, in accordance with NIF D-3 "*Employee Benefits*".

Therefore, the liability is being recognized which, at present value, will cover the benefits obligation projected to the estimated date of retirement of the employees working at the Institution and its subsidiaries, as well as the obligation derived from the retired personnel.

Provisions - Provisions are recognized for present obligations as a result of past events, that are probable to result in the future use of economic resources and that can be reasonably estimated.

Foreign currency transactions - Foreign currency transactions are recorded at the exchange rate effective at the transaction date except for those generated by foreign branches. Assets and liabilities denominated in foreign currency are adjusted at the period end exchange rate published by the Central Bank of Mexico. Exchange fluctuations related to these assets and liabilities are charged to the income statement.

Financial margin - The Institution's financial margin is comprised of the difference between total interest income less interest expense.

Interest income is comprised of the general returns generated by the loan portfolio based on the periods established in loans executed with borrowers and negotiated interest rates, the application of interest collected in advance, the premiums or interest accrued by deposits made with financial entities, bank loans, margin call accounts, securities investments, repurchase agreements and securities loans. In addition, amortization of debt placement premiums and commissions collected for initially granting credit, as well as dividends of equity instruments are included in interest income.

Interest expense is comprised of the premiums, discounts and interest, bank loans, repurchase agreements, securities loans, debentures, debt placement issuance expenses and discounts. The amortization of costs and expenses incurred to originate loans is included within interest expense.

Commissions charged and associated costs and expenses - Commissions charged for initial loan origination 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.

Commissions collected on the restructuring or renewal of loans are added to the commissions originated and are recognized as a deferred loan that is amortized to results using the straight-line method throughout the new term of the loan.

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 incurred.

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 "Commission 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.

On the cancellation date of a credit line, the remaining unamortized balance of commission fees collected for credit lines cancelled before the end of the 12 month period are recognized directly in results for the year under the heading "Commissions and fees collected".

Memorandum accounts -

Memorandum accounts are used to record assets or commitments which do not form part of the Institution's balance sheet because the related rights are not acquired or such commitments are not recognized as a liability of the entities until such eventualities occur, respectively. The amounts accrued in the memorandum accounts have only been subject to audit tests when an accounting record arises from their information (the memorandum accounts that were not audited are indicated in each case):

– *Contingent assets and liabilities:*

  Any formal claims received by the Institution which involve some kind of liability are recorded in books.

– *Credit commitments:*

  Credit commitments represent the amount of letters of credit granted by the Institution which are considered as irrevocable commercial credits not utilized by the borrowers, and unused authorized credit lines.

  The items recorded in this account are subject to credit classification.

– *Assets in trust or under mandate (unaudited):*

Assets in trust include the value of the goods received in trust, and the data related to the administration of each one is kept in separate records. Assets under mandate record the declared value of the goods subject to mandate contracts executed by the Institution.

– *Assets in custody or under administration (unaudited):*

This account is used to record the goods and securities which are received from third parties for custody or to be administered by the Institution.

Securities in custody and under administration are deposited in S.D. Indeval, Deposit Institution Securites, S.A. de C.V.

– *Collateral received by the Institution:*

This balance represents the total amount of collateral received in repurchase transactions and securities loans, with the Institution acting as the repurchasing party and borrower.

– *Collateral received and sold or given in guarantee by the Institution:*

This balance represents the total collateral received and sold or given in guarantee when the Institution acts as a repurchasing party and borrower.

– *Uncollected earned interest derived from non- performing loans:*

The interest earned is recorded in memorandum accounts once a current portfolio credit is transferred to overdue portfolio all.

– *Other record accounts (unaudited):*

As of December 31, 2015 and 2014, the other recording accounts present a balance of $2,682,535 and $1,993,588, respectively.

Cash Flow Statement **-** The consolidated Cash flow statement presents the Institution's ability to generate cash and cash equivalents, as well as how the organization uses those cash flows to meet their needs. The cash flow Statement has been prepared using the indirect method based on the provisions of Criterion D-4 "Cash Flow Statements" of the Accounting Criteria.

The consolidated statement of cash flows, together with the rest of the consolidated financial statements provide information that enables the user to:

– Assess the changes in assets and liabilities of the Institution and on its financial structure.

– Evaluate collection and payment amounts and dates in order to adapt to circumstances and opportunities to generate and/or apply cash and cash equivalents.

4. Cash and cash equivalents

At December 31, 2015 and 2014, cash and cash equivalents consisted of the following:

	2015	2014
Cash	$ 55,964	$ 47,433
Banks	21,879	15,961
Restricted cash	72,188	60,723
Other quick funds	71	73
	$ 150,102	$ 124,190

Banks include deposits in domestic and foreign banks in Mexican pesos and U.S. dollars, translated at the exchange rate published by the Central Bank of Mexico of $17.2487 Mexican pesos and $14.7414 Mexican pesos per one U.S. dollar, as of December 31, 2015 and 2014, respectively, and are comprised as follows:

	Mexican pesos		U.S. Dollars (in Mexican pesos)		Total	
	2015	2014	2015	2014	2015	2014
Deposits with foreign credit institutions	$ -	$ -	$ 16,755	$ 14,854	$ 16,755	$ 14,854
Central Bank of Mexico	4,664	-	34	158	4,698	158
Domestic banks	436	955	(10)	(6)	426	949
	$ 5,100	$ 955	$ 16,779	$ 15,006	$ 21,879	$ 15,961

As of December 31, 2015 and 2014, restricted funds available are as follows:

	2015	2014
Monetary regulation deposits (1)	$ 59,682	$ 59,681
Foreign exchange to be received (2)	49,542	41,159
Foreign exchange to be delivered (2)	(42,418)	(40,531)
Interbank loans call money (3)	5,000	67
Other restricted deposits	382	347
	$ 72,188	$ 60,723

(1) As of December 31, 2015 and 2014, the only account of the Central Bank of Mexico includes the Institution's Monetary Regulation Deposits in the Central Bank of Mexico, which amount to $59,682 and $59,681, respectively. These Monetary Regulation Deposits will have an indefinite duration, for which purpose the Central Bank of Mexico will provide timely notice of the date and the procedure for withdrawal of the respective balances. Interest on the deposit is payable every 28 days by applying the rate established in the Regulations issued by the Central Bank of Mexico.

On June 9, 2014, through Circular 9/2014, the Central Bank of Mexico modified the interest rate paid on the Monetary Regulation Deposits to reference it to the one-day Interbank Interest Rate, which the Board of Governance of the Central Bank of Mexico determined as a target rate for monetary policy purposes. As a result, the Central Bank of Mexico established new rules applicable to the Monetary Regulation Deposits which include the following:

a) The Central Bank of Mexico terminated the Monetary Regulation Deposits which the credit institutions had established based on Circular 30/2008, issued by the Central Bank of Mexico on July 9, 2008, and its amendment disseminated through Circular 36/2008 issued on August 1, 2008.

b) On June 19, 2014, at the opening of operations of SIAC- the Central Bank of Mexico made the deposits necessary in the Sole Account kept by each credit institution.

c) It also indicated the procedure which the Institution must follow for the establishment of Monetary Regulation Deposits, with regard to the amount, term, yield and composition.

Furthermore, on June 27, 2014, through Circular 11/2014, the Central Bank of Mexico increased the required Monetary Regulation Deposit on a proportional basis, in accordance with figures reported for May 2014. The proportional amount applicable to the Institution was $59,681.

(2) Foreign currencies to be received and delivered for purchases and sales to be settled in 24 and 48 hours as of December 31, 2015 and 2014 are composed as follows:

	2015		
	Balance in foreign Currency (Millions of US dollars)		**Mexican peso equivalent**
Purchases of foreign currencies to be received at 24 and 48 hours	2,872	$	49,542
Sales of foreign currencies to be settled at 24 and 48 hours	(2,459)		(42,418)
	413	$	7,124

	2014		
	Balance in foreign Currency (Millions of US dollars)		**Mexican peso equivalent**
Purchases of foreign currencies to be received at 24 and 48 hours	2,792	$	41,159
Sales of foreign currencies to be settled at 24 and 48 hours	(2,749)		(40,531)
	43	$	628

When the foreign exchange deliverable or receivable on the purchases and sales are recorded under the heading of "Funds available", the settlement accounts for the equivalent value of these operations are recorded net in the balance sheet under the headings of "Other accounts receivable, net" and "Creditors from settlement of operations".

(3) "Call money" operations granted to December 31, 2015 and 2014, represent interbank loan transactions agreed at a term shorter than or equal to four business days, respectively, at a rate of 3.32% and 2.93%, respectively.

5. Margin call accounts

At December 31, 2015 and 2014, margin call accounts are comprised as follows:

	2015	2014
Derivatives margin in authorized markets	$ 2,774	$ 3,810

6. Securities

At December 31, 2015 and 2014, financial instruments were as follows:

a. ***Trading -***

	2015				2014
Instrument	Acquisition Cost	Accrued interest	Increase (decrease) due to valuation	Book value	Book value
Securitized certificates	$ 10,451	$ 77	$ 27	$ 10,555	$ 10,673
Sovereign debt Eurobonds	7,748	87	(253)	7,582	6,891
Net equity instruments	5,578	-	(291)	5,287	4,427
ADR's	1,217	-	(49)	1,168	5,587
Commercial paper companies	-	-	-	-	798
Promissory notes with returns realizable at maturity	39	-	-	39	3,477
Udibonos	2,692	16	(15)	2,693	5,213
Corporate Eurobonds	1,685	13	(62)	1,636	1,853
Fixed-rate bonds	8,678	119	(21)	8,776	4,953
CEDES	600	-	-	600	1
BPA´s (Savings Protection Bonds)	1,208	8	-	1,216	-
Bank securitized certificates	2,354	1	17	2,372	1,777
Exchangeable securitization certificates (CBIC´s)	228	4	-	232	560
CETES	591	-	-	591	99
Bondes	8,142	4	-	8,146	-
Treasury Bills	8,970	-	(5)	8,965	7,814
Treasury Notes	86	1	(2)	85	72
	60,267	330	(654)	59,943	54,195
Collateral granted (a.1)	186,765	(320)	2,481	188,926	192,175
Value date purchases (a.2)	6,142	25	(18)	6,149	15,390
Value date sales (a.3)	(5,526)	(30)	-	(5,556)	(18,790)
Total	$ 247,648	$ 5	$ 1,809	$ 249,462	$ 242,970

During 2015 and 2014, valuation losses for net amounts of ($276) and ($477), respectively, were recorder in results of the year.

At December 31, 2015 and 2014, the remaining periods of these investments were as follows:

	2015				
Instrument	**Less than 1 month**	**Between 1 and 3 Months**	**More than 3 Months**	**Without a Fixed period**	**Total acquisition cost**
Securitization certificates	$ 70	$ 30	$ 10,351	$ -	$ 10,451
Sovereign debt Eurobond	380	-	7,368	-	7,748
Net equity instruments	-	-	-	5,578	5,578
ADR's	-	-	-	1,217	1,217
Promissory notes with returns realizable at maturity	-	-	39	-	39
Udibonos	-	-	2,692	-	2,692
Corporate Eurobonds	5	-	1,680	-	1,685
Fixed-rate bonds	-	-	8,678	-	8,678
CEDES	-	300	300	-	600
BPA´s (Savings Protection Bonds)	-	-	1,208	-	1,208
Bank securitized certificates	-	34	2,320	-	2,354
Exchangeable securitization certificates (CBIC´s)	-	-	228	-	228
CETES	-	591	-	-	591
Bondes	-	-	8,142	-	8,142
Treasury Bills	-	-	8,970	-	8,970
Treasury Notes	-	-	86	-	86
Total	$ 455	$ 955	$ 52,062	$ 6,795	$ 60,267

	2014				
Instrument	**Less than 1 month**	**Between 1 and 3 months**	**More than 3 months**	**Without a fixed period**	**Total acquisition cost**
Securitization certificates	$ 212	$ 252	$ 10,096	$ -	$ 10,560
Sovereign debt Eurobond	-	102	6,738	-	6,840
Net equity instruments	-	-	-	4,634	4,634
ADR's	-	-	-	5,760	5,760
Commercial paper companies	411	387	-	-	798
Promissory notes with returns realizable at maturity	-	3,477	-	-	3,477
Udibonos	-	-	5,206	-	5,206
Corporate Eurobonds	7	-	1,871	-	1,878
Fixed-rate bonds	-	-	4,848	-	4,848
Bank securitized certificates	-	-	1,754	-	1,754
Exchangeable securitization certificates (CBIC´s)	-	-	552	-	552
CETES	2	97		-	99
Treasury Bills	-	-	7,814	-	7,814
CEDES	-	1	-	-	1
Treasury Notes	-	-	74	-	74
Total	$ 632	$ 4,316	$ 38,953	$ 10,394	$ 54,295

a.1. The collateral granted as of December 31, 2015 and 2014 was comprised as follows:

Instrument	2015 Acquisition cost	2015 Accrued interest	2015 Valuation Increase (decrease)	2015 Book value	2014 Book value
BPA's (Savings Protection Bonds)	$ 51,420	$ 58	$ 1,135	$ 52,613	$ 45,112
Fixed rate bonds	26,374	(319)	908	26,963	37,663
Bank securitization certificates	72	-	-	72	-
CETES	57,855	105	336	58,296	4,709
Bondes	3,449	-	1	3,450	51,434
Udibonos	1,847	-	(2)	1,845	4,856
Securitization certificates	1,091	-	2	1,093	1,938
CEDES	-	-	-	-	1,000
Exchangeable securitization certificates (CBIC's)	4,580	-	(6)	4,574	4,900
Bonds received as repurchase agreement warranties	146,688	(156)	2,374	148,906	151,612
Fixed rate bonds	30,859	(172)	94	30,781	36,914
Udibonos	6,130	-	(3)	6,127	-
BPA's (Savings Protection Bonds)	1,514	4	16	1,534	2,922
Bondes	-	-	-	-	727
CETES	1,574	4	-	1,578	-
Other warranties	40,077	(164)	107	40,020	40,563
Total restricted securities	$ 186,765	$ (320)	$ 2,481	$ 188,926	$ 192,175

a.2 Value date purchases at December 31, 2015, and 2014 was comprised as follows:

Instrument	2015 Acquisition Cost	2015 Accrued Interest	2015 Valuation Increase (Decrease)	2015 Book Value	2014 Book Value
Fixed rate bonds	$ 4,112	$ 22	$ 8	$ 4,142	$ 11,287
CETES	596	-	-	596	566
Udibonos	541	1	(1)	541	2,826
Net worth instruments	503	-	(3)	500	457
BPA's (Savings Protection Bonds)	201	1	-	202	-
ADR's	89	-	(23)	66	16
Corporate Eurobonds	-	-	-	-	6
Securitization certificates	-	-	-	-	35
Sovereign debt Eurobonds	100	1	1	102	197
Total	$ 6,142	$ 25	$ (18)	$ 6,149	$ 15,390

a.3 Value date sales at December 31, 2015, and 2014 were comprised as follows:

	2015				2014
Instrument	Acquisition cost	Accrued interest	Valuation Increase (Decrease)	Book value	Book value
Fixed rate bonds	$ (2,851)	$ (24)	$ (5)	$ (2,880)	$ (11,917)
CETES	(397)	-	-	(397)	(2,560)
Udibonos	(1,595)	(3)	2	(1,596)	(2,775)
Securitization certificates	(90)	(1)	(1)	(92)	(544)
Net worth instruments	(139)	-	5	(134)	(517)
BPA's (Savings Protection Bonds)	-	-	-	-	(207)
ADR's	(17)	-	-	(17)	(46)
Sovereign debt Eurobonds	(437)	(2)	(1)	(440)	(224)
	$ (5,526)	$ (30)	$ -	$ (5,556)	$ (18,790)

b. ***Available for sale -***

	2015				2014
Instrument	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
Sovereign debt Eurobonds	$ 25,561	$ 507	$ (330)	$ 25,738	$ 18,986
Securitization certificates	15,229	122	6	15,357	17,230
Corporate Eurobonds	3,044	45	(28)	3,061	3,251
Udibonos	346	-	(32)	314	-
Net worth instruments	803	-	(193)	610	714
ADR's	11	-	370	381	288
CEDES UDIs	75	45	(3)	117	115
Bank Eurobonds	293	2	(1)	294	-
Brem´s	-	-	-	-	10
	45,362	721	(211)	45,872	40,594
Restricted securities (b.1)	102,905	(461)	(370)	102,074	111,593
Total	$ 148,267	$ 260	$ (581)	$ 147,946	$ 152,187

At December 31, 2015, the remaining scheduled maturities of the above instruments were as follows:

Instrument	Between 1 and 3 months	More than 3 months	Without a fixed period	Total acquisition cost
Net worth instruments	$ -	$ -	$ 803	$ 803
ADR's	-	-	11	11
Sovereign debt Eurobonds	-	25,561	-	25,561
Corporate Eurobonds	585	2,459	-	3,044
Eurobonos bancarios	-	293	-	293
Bank Eurobonds	266	14,963	-	15,229
CEDES UDI's	-	75	-	75
Udibonos	-	346	-	346
Total	$ 851	$ 43,697	$ 814	$ 45,362

At December 31, 2014, the remaining scheduled maturities of the above instruments were as follows:

Instrument	Between 1 and 3 months	More than 3 months	Without a fixed period	Total acquisition cost
Sovereign debt Eurobonds	$ -	$ 18,258	$ -	$ 18,258
Securitization certificates	499	16,249	-	16,748
Corporate Eurobonds	-	3,163	-	3,163
Brem´s	-	10	-	10
Net worth instrument	-	-	807	807
CEDES UDI´s	-	75	-	75
ADR's	-	-	10	10
Total	$ 499	$ 37,755	$ 817	$ 39,071

b.1 Collateral granted (restricted securities) as of December 31, 2015 and 2014, were as follows:

	2015				2014
Instrument	Acquisition cost	Accrued interest	Increase (Decrease) due to valuation	Book value	Book value
Fixed rate bonds	$ 88,368	$ (434)	$ (367)	$ 87,567	$ 95,056
Bondes	-	-	-	-	1,113
Securitization certificates	147	(1)	(3)	143	943
Brem's	13,236	(26)	-	13,210	13,200
Udibonos	-	-	-	-	323
Total warranties receivable from repurchase agreements	101,751	(461)	(370)	100,920	110,635
Treasury Bills given as warranties	1,154	-	-	1,154	958
Total other warranties	1,154	-	-	1,154	958
Total restricted securities	$ 102,905	$ (461)	$ (370)	$ 102,074	$ 111,593

c. ***Held to maturity -***

The following securities have medium and long-term maturities:

	2015			2014
Instrument	Acquisition cost	Accrued interest	Book value	Book value
Government bonds- Mortgage debtor support program	$ 15,052	$ -	$ 15,052	$ 14,616
Government bonds- State and Municipality debtor support program	1,774	-	1,774	1,722
U.S. Treasury securities	51	-	51	44
Total	$ 16,877	$ -	$ 16,877	$ 16,382

For the years ended December 31, 2015 and 2014, the yields related to the overall held to maturity portfolio, recorded in the result of the year, amounted to $487 and $489, respectively.

d. ***Collateral Received***

The terms and conditions for the delivery of securities as collateral are in line with the framework contracts of Repurchase Agreements, Securities Loans, and Derivatives (ISDA/CEMOF). These contracts establish the exchange of collateral, which will help mitigate the credit risk, in order to have a reasonable level of collateral; the collateral granted does not fulfill criteria for transfer of ownership, for which reason the entity providing the collateral retains the corporate and economic rights of such instruments, unless there is default on the secured obligations. However, these framework contracts stipulate the temporary use and enjoyment of such securities with the commitment to return them at maturity of the guarantee transaction or margin return calls due to a decrease in the secured value at risk.

As a result of the collateral exchange agreements of financial institutions which have a negative market value, a commitment is made to deliver to the other party (which therefore presents a positive market value) assets or cash to reduce the exposure for credit risk, under the terms stipulated in the aforementioned bilateral contract.

7. Repurchase transactions

As of December 31, 2015 and 2014, repurchase transactions were comprised as follows:

a. ***Repurchase agreement debtors –***

As repurchasing party:

	2015			2014		
	Asset Side	Liability Side		Asset Side	Liability Side	
Instrument	Receivable under repurchase	Collateral sold or delivered	Debit	Receivable under repurchase	Collateral Sold or delivered	Debit
Bondes	$ 48,840	$ 48,665	$ 175	$ 144	$ -	$ 144
Fixed rate bonds	6,717	6,650	67	-	-	-
BPA's (saving protection bonds)	10,973	10,922	51	-	-	-
Securitization certificates	12,000	1,062	10,938	-	-	-
Total	$ 78,530	$ 67,299	$ 11,231	$ 144	$ -	$ 144

b. ***Repurchase creditors -***

Security vendor:

	2015	2014
	Liability Side	Liability Side
Instrument	Payables under resale agreements	Payables under resale agreements
Fixed rate bonds	$ 110,943	$ 129,007
BPA's (Savings Protection Bonds)	51,434	44,400
Federal Government Development Bonds (Bondes)	3,049	52,032
CETES	57,914	4,709
Udibonos	1,847	5,173
Securitization certificates	1,376	3,780

Instrument	2015 Liability Side Payables under resale agreements	2014 Liability Side Payables under resale agreements
BREMS	13,216	13,195
Bank Bonds	72	546
CBIC's	4,580	4,900
CEDES	-	1,000
Total	$ 244,431	$ 258,742

At December 31, 2015 and 2014, the interest (premiums) earned by the Institution were $744 and $265, respectively. Also, at December 31, 2015 and 2014, the interest (premiums) charged to the Institution were $9,734 and $10,393, respectively.

c. ***Creditors in transactions involving securities loans and derivatives***

	2015			2014		
	Memoranda accounts		Liability portion	Memoranda accounts		Liability portion
Instrument	Collateral received for securities loans	Collateral received for loans and sold or given in guarantee	Creditors from collateral Sold or given in guarantee	Collateral received for securities loans	Collateral received for loans Sold or given in guarantee	Creditors from collateral sold or given in guarantee
Borrower:						
Government securities -						
Fixed rate bonds	$ 22,941	$ 22,941	$ 22,941	$ 20,949	$ 20,949	$ 20,949
Net worth instruments	-	-	-	14	14	14
Investment unit bonds (Udibonos)	6,577	6,577	6,577	3,564	3,564	3,564
CETES	2,634	2,634	2,634	8,292	8,292	8,292
CBIC's	4,746	4,746	4,746	5,375	5,375	5,375
	36,898	36,898	36,898	38,194	38,194	38,194
Repurchase agreements:						
Federal Government Development Bonds (Bondes)	49,958	49,958	-	10,507	10,507	-
Fixed rate bonds	17,617	17,617	-	4,352	4,352	-
BPA's (saving protection bonds)	10,929	10,929	-	4,005	4,005	1
	78,504	78,504	-	18,864	18,864	1
Total	$ 115,402	$ 115,402	$ 36,898	$ 57,058	$ 57,058	$ 38,195

Premiums payable were recognized in the results of 2014 and 2013 for the amount of $44 and $67, respectively.

At December 31, 2015 and 2014, the Institution has contracted repurchase agreements for an average period of 20 days, while transactions involving securities loans are performed over an average period of 15 days.

8. Derivatives

At December 31, 2015 and 2014, securities and derivative transactions were as follows:

a. ***Derivatives*** - The chart below shows the open derivative instrument transactions of the Institution as of December 31, 2015 and 2014. The currency position generated by these derivative instruments must be added to the position in the balance sheet in order to obtain the year-end position amount analyzed in Note 26.

Trading:

	2015			
	Notional amount		Balance	
Transaction	Asset	Liability	Debit	Credit
Long-term futures position	$ 25,864	$ 25,864	$ -	$ -
Short-term futures position	16,330	16,330	-	-
Long-term forwards contracts	381,528	381,837	8,779	9,088
Short-term forwards contracts	339,906	347,927	2,776	10,797
Options acquired	4,419	-	4,419	-
Options sold	-	7,813	-	7,813
Swaps	908.032	900.683	79.880	72.531
	$ 1.676.079	$ 1,680,454	$ 95,854	$ 100,229

	2014			
	Notional amount		Balance	
Transaction	Asset	Liability	Debit	Credit
Long-term futures position	$ 57,819	$ 57,819	$ -	$ -
Short-term futures position	25,404	25,404	-	-
Long-term forwards contracts	404,530	395,604	13,132	4,206
Short-term forwards contracts	447,146	464,632	2,776	20,262
Options acquired	5,405	-	5,405	-
Options sold	-	9,913	-	9,913
Swaps	820,225	816.033	63.757	59.565
	$ 1.760.529	$ 1,769,405	$ 85,070	$ 93,946

Hedging:

	2015			
	Notional amount		Balance	
Transaction	Asset	Liability	Debit	Credit
Long-term forwards contracts	$ 2,873	$ 2,779	$ 94	$ -
Short-term forwards contracts	314	297	38	21
Swaps	101,939	96,639	13,147	7,847
	$ 105,126	$ 99,715	$ 13,279	$ 7,868

	2014			
	Notional amount		Balance	
Transaction	Asset	Liability	Debit	Credit
Swaps	$ 89,681	$ 88,234	$ 6,925	$ 5,478

b. ***Futures and forward contracts*** - For the year ended December 31, 2015, the Institution carried out transactions in recognized markets (Mexican Derivatives Market (Mex-Der) Chicago and ITAU), including an equity of $5,263 distributed in rates of $34, currencies of $4,939, indexes and securities of $290.

The Institution also entered into forward contracts with the principal foreign currencies. At the close of the year 2015, the following contracts are open:

Trading:

		Sales		Purchases		
Type of Transaction	Underlying	Receivable	Contract value	Contract value	Deliverable	Book balance
Futures	TIIE	$ 4,824	$ 4,824	$ -	$ -	$ -
	Bono M10	-	-	2,394	2,394	-
	BMF	20	20	472	472	-
	Index	4,319	4,319	300	300	-
	S&P	-	-	5,747	5,747	-
	U.S. dollars	7,167	7,167	16,951	16,951	-
		$ 16,330	$ 16,330	$ 25,864	$ 25,864	$ -
Forwards	U.S. dollars	$ 311,781	$ 320,009	$ 369,754	$ 369,858	$ (8,332)
	Index	11,715	11,509	6,091	6,303	(6)
	Equity	5,157	5,161	5,683	5,676	3
	Bonds	11,253	11,248	-	-	5
		$ 339,906	$ 347,927	$ 381,528	$ 381,837	$ (8,330)

Hedging:

		Sales		Purchases		
Type of transaction	Underlying	Receivable	Contract value	Contract value	Deliverable	Book balance
Forwards	U.S. dollars	$ 314	$ 297	$ 2,873	$ 2,779	$ 111
		$ 314	$ 297	$ 2,873	$ 2,779	$ 111

At the close of the year 2014, the following contracts are open:

Trading:

		Sales		Purchases		
Type of transaction	Underlying	Receivable	Contract value	Contract value	Deliverable	Book balance
Futures	TIIE	$ 4,822	$ 4,822	$ 7,827	$ 7,827	$ -
	Bond M10	2,452	2,452	1,485	1,485	-
	Cetes	-	-	500	500	-
	Index	1,400	1,400	697	697	-
	U.S. dollars	16,730	16,730	47,310	47,310	-
		$ 25,404	$ 25,404	$ 57,819	$ 57,819	$ -
Forwards	U.S. dollars	$ 393,077	$ 410,416	$ 378,991	$ 369,933	$ (8,281)
	Index	6,302	6,294	4,777	4,877	(92)
	Equity	3,206	3,321	3,251	3,128	8
	Bonds	44,561	44,601	17,511	17,666	(195)
		$ 447,146	$ 464,632	$ 404,530	$ 395,604	$ (8,560)

Options - At December 31, 2015, option transactions were as follows:

Trading:

Type of transaction		Underlying	Notional amount	Fair value
Purchases	OTC Options	Interest rates	$ 35,898	$ 666
		Equity securities and index	16,065	1,852
		U.S. dollars	80,416	701
	Market options	Equity securities and index	6,804	1,200
				$ 4,419
Sales	OTC Options	Interest rates	$ 226,836	$ 956
		Equity securities and index	12,071	5,603
		U.S. dollars	83,261	262
	Market options	Equity securities and index	6,879	992
				$ 7,813

At December 31, 2014, option transactions were as follows:

Trading:

Type of transaction		Underlying	Notional amount	Fair value
Purchases	OTC Options	Interest rates	$ 26,364	$ 762
		Equity securities and index	102,518	2,406
		U.S. dollars	57,995	1,628
	Market options	Equity securities and index	3,612	609
				$ 5,405
Sales	OTC Options	Interest rates	$ 208,186	$ 983
		Equity securities and index	92,962	7,425
		U.S. dollars	60,810	1,098
	Market options	Equity securities and index	5,891	407
				$ 9,913

c. ***Swaps*** – At December 31, 2015, swaps transactions were as follows:

Trading:

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Currency	U.S. Dollar	$ 248,490	$ 206,434	$ 267,706	$ 217,944	$ 49,762
	Mexican Peso	172,766	156,591	271,080	264,092	6,988
	UDIS	88,944	101,460	-	-	-
	Euro	31,365	69,536	33,234	76,460	(43,226)
	Colombian Peso	333	692	-	-	-
	Pound Sterling	1,272	1,272	1,647	1,719	(72)
	Swiss Franc	-	3,449	-	3,741	(3,741)
	Chilean Peso	2,890	-	-	-	-
				573,667	563,956	9,711
Interest rates	Mexican Peso		$ 2,362,155	$ 260,287	$ 261,581	$ (1,294)
	U.S. Dollar		951,357	71,797	72,321	(524)
	Pound Sterling		509	39	37	2
	Euro		69,758	2,324	2,512	(188)
				334,447	336,451	(2,004)
Shares	U.S. Dollar		$ 1,135	$ 53	$ 28	$ 25
	Mexican Peso		84	2	1	1
				55	29	26
CDS	U.S. Dollar		$ 1,380	$ 44	$ 35	$ 9
CRA	Mexican Peso		$ -	$ (393)	$ -	$ (393)
Authorized markets	Mexican Peso		$ 3,163	$ 212	$ 212	$ -
				$ 908,032	$ 900,683	$ 7,349

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions, at annual rates ranging from 1.80% to 20.26%. At December 31, 2015, the notional amount of swaps was $2,362,155.

At December 31, 2014, swap transactions were as follows:

Trading:

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Currency	U.S. dollar	$ 189,851	$ 160,762	$ 210,000	$ 177,305	$ 32,695
	Mexican peso	150,987	144,700	255,933	258,309	(2,376)
	UDIS	85,893	96,616	-	-	-
	Euro	21,102	41,440	22,669	46,268	(23,599)
	Colombian peso	380	790	-	-	-
	Peruvian nuevo sol	212	147	-	-	-
	Pound Sterling	1,149	1,149	1,569	1,592	(23)
	Development Unit – Chile	1,247	1,258	-	-	-
	Chilean Peso	1,277	-	-	-	-
				490,171	483,474	6,697

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Interest rates	Mexican peso	$ -	$ 1,644,916	$ 280,044	$ 282,157	$ (2,113)
	U.S. dollar		615,053	1,474	1,796	(322)
	Euro		30,758	48,363	48,317	46
				329,881	332,270	(2,389)
Shares	U.S. dollar		$ 5,030	$ 125	$ 9	$ 116
CDS	U.S. dollar		$ 1,253	$ 40	$ 38	$ 2
CRA	Mexican peso		$ -	$ (234)	$ -	$ (234)
Authorized markets	Mexican peso		$ 3,263	$ 242	$ 242	$ -
				$ 820,225	$ 816,033	$ 4,192

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions, at annual rates ranging from 1.77% to 20.26%. At December 31, 2014, the notional amount of swaps was $1,644,916.

Hedging:

At December 31, 2015 -

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Currency	Mexican peso	$ 22,949	$ 21,241	$ 25,430	$ 25,090	$ 340
	U.S. dollar	34,975	8,015	42,166	9,349	32,817
	Pound Sterling	-	1,200	-	1,693	(1,693)
	Euro	-	23,390	-	26,582	(26,582)
				67.596	62.714	4.882
Interest rates	Mexican peso	$ -	$ 30,713	$ 13,806	$ 14,861	$ (1,055)
	U.S. dollar	-	56,353	20.537	19.064	1.473
				34.343	33.925	418
				$ 101.939	$ 96.639	$ 5.300

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 3.33% to 8.91%. At December 31, 2015, the notional amount of swaps was $30,713.

At December 31, 2014-

Hedging:

Underlying	Currency	Valor value receivable	Contract value deliverable	Receivable	Deliverable	Net position
Currency	Mexican peso	$ 17,437	$ 21,227	$ 19,462	$ 25,790	$ (6,328)
	U.S. dollar	29,225	5,549	35,839	6,529	29,310
	Pound Sterling	-	970	-	1,440	(1,440)
	Euro	-	17,185	-	19,763	(19,763)
				55,301	53,522	1,779
Interest rates	Mexican peso		29,378	$ 14,062	$ 15,408	$ (1,346)
	U.S. dollar		48,313	20,318	19,304	1,014
				34,380	34,712	(332)
				$ 89,681	$ 88,234	$ 1,447

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 3.29% to 9.29%. At December 31, 2014, the notional amount of swaps was $29,378.

Collateral received in OTC derivatives as of December 31, 2015 and 2014 is recorded under the heading "Creditors for collateral received in cash" and is shown as follows:

	2015			2014
Cash received as derivatives warranty	**Acquisition cost**	**Accrued interest**	**Book value**	**Book value**
Actimed, S.A. de C.V., SIID	$ 2	$ -	$ 2	$ -
Banco Actinver, S.A., IBM	2	-	2	-
Banco Base, S.A., IBM	100	-	100	-
Banco Inbursa, S.A., IBM	1,482	1	1,483	865
Banco JP Morgan, S.A., IBM	510	-	510	120
Banco Nacional de Obras, S.N.C	652	2	654	709
Banco Regional de Monterrey, S.A., IBM	41	-	41	-
BBVA Banco Continental	161	-	161	-
BBVA Colombia	225	-	225	-
Banco Nacional Com Exterior, S.N.C.	509	1	510	275
Bimar Internacional	446	-	446	-
Credit Agricole CIB	1,625	1	1,626	960
Credit Suisse Securities	8,143	3	8,146	7,520
Deutsche Bank	2,541	1	2,542	-
Docuformas S.A.P.I de C.V.	-	-	-	4
Fondo Alterna S.A. de C.V. SIID	-	-	-	1
Goldman Sachs Paris	3,794	1	3,795	1,205
HSBC Bank USA N.A N.Y	46	-	46	-
J. Aron and Company	1,065	-	1,065	1,197
Merrill Lynch Cap.S.E	569	-	569	-
Morgan Stanley & CO	393	-	393	546
Morgan Stanley SAS	1,294	-	1,294	-
Natixis	1,575	1	1,576	573
Royal Bank of Scotland	-	-	-	24
Sociedad Hipotecaria Federal, S.N.C.	1,369	4	1,373	1,479
Valores Mexicanos, S.A. de C.V.	1	-	1	-
VECTOR Casa de Bolsa, S.A. de C.V.	22	-	22	-
XIGNUX, S.A. de C.V.	17	-	17	-
Total warranties received in cash	$ 26,584	$ 15	$ 26,599	$ 15,478

As of December 31 2015 and 2014, the Institution has not registered "Collateral received" in accounts.

d. ***Transactions with embedded derivative financial instruments -***

Held for trading purposes:

	2015			
	Book value		Balance	
Transaction type	Asset	Liability	Asset	Liability
Options acquired	$ 238	$ -	$ 238	$ -
Options sold	-	1,119	-	1,119
Swaps	18,869	17,524	5,195	3,850
	$ 19,107	$ 18,643	$ 5,433	$ 4,969

	2014			
	Book value		Balance	
Transaction type	Asset	Liability	Asset	Liability
Options acquired	$ 476	$ -	$ 476	$ -
Options sold	-	1,193	-	1,193
Swaps	27,777	26,837	5,258	4,318
	$ 28,253	$ 28,030	$ 5,734	$ 5,511

e. ***Embedded options (Underlying) -***

Held for trading purposes:

			2015	
Transaction type		Underlying	Face value	Fair value
Purchases	OTC Options	U.S. dollar	$ 257	$ 2
		Interest rates	33,293	178
		Indexes	2,991	58
			$ 36,541	$ 238
Sales	OTC Options	Interest rates	$ 13,506	$ 105
		Indexes	15,647	1,011
		U.S. dollar	107	3
			$ 29,260	$ 1,119

			2014	
Transaction type		Underlying	Face value	Fair value
Purchases	OTC Options	U.S. dollar	$ 1,546	$ 6
		Interest rates	28,192	100
		Indexes	15,861	370
			$ 45,599	$ 476
Sales	OTC Options	Interest rates	$ 3,722	$ 27
		Indexes	13,536	1,160
		U.S. dollar	1,536	6
			$ 18,794	$ 1,193

f. ***Embedded swaps (Underlying) -***

Held for trading purposes:

		2015			
Underlying	**Currency**	**Receivable face value**	**Receivable market value**	**Payable market value**	**Fair value**
Currency	Mexican peso	$ 5,272	$ 5,315	$ 5,403	$ (88)
	U.S. dollar	4,556	5,335	4,950	385
	Euro	358	419	411	8
		$ 10,186	$ 11,069	$ 10,764	$ 305
Interest rate	Mexican peso	$ 49,401	$ 7,618	$ 6,635	$ 983
	U.S. dollar	1,015	182	125	57
		$ 50,416	$ 7,800	$ 6,760	$ 1,040

		2014			
Underlying	**Currency**	**Receivable face value**	**Receivable market value**	**Payable market value**	**Fair value**
Currency	Mexican peso	$ 10,222	$ 10,337	$ 10,575	$ (238)
	U.S. dollar	8,611	10,253	9,458	795
	Euro	346	408	413	(5)
		$ 19,179	$ 20,998	$ 20,446	$ 552
Interest rate	Mexican peso	$ 30,721	$ 6,581	$ 6,249	$ 332
	U.S. dollar	881	198	142	56
		$ 31,602	$ 6,779	$ 6,391	$ 388

As of December 31, 2015, the Institution has entered into the following hedge contracts:

Type of Hedge: Cash Flow Hedges

Description of coverage	Risk hedged	Hedge instrument	Maximum maturity date of hedge	Fair value hedg instrument
Partial coverage of Monetary Regulation Deposit	Variable flows from the DRM	24 IRS FIJA/TIIE	June-2020	$ 2
Coverage corporate credits Euro / Libor	Variable flows from the credit	5 CCS Basis EUR/USD	July-2020	$ 1,2
Coverage of expenses and investment in EUR and USD	Exchange rate variation in estimated expense flows	23 FWD sale EUR/MXP	November-2016	$
Coverage of sovereign bonds of the Brazilian government	Variable flows from the bond	5 FWD sale BRL/USD/MXN	January-2017	$

* As of the date the cash flows prognosticated for the transactions occurred within the time initially agreed.

Type of Hedge: Fair Value

Description of coverage	Nature of the records covered	Hedge instrument	Maximum maturity of hedge
Coverage of credits in USD and MXP From Fixed Rate to Floating-Rate	Fixed Rate Risk on Credits in USD And Fixed Rate in MXP	• 3 IRS Pays Variable Interest in USD and receives fixed interest • 2 IRS Pays Variable Interest in MXP and receives fixed interest	2040
Coverage of Mexican Sovereign Bonds in EUR/USD/GBP	Fixed Rate on Bonds UMS in EUR/ USD/GBP - V/F	93 CCS V/F	2025
Coverage Issuance of Subordinated Notes USD	Fixed Rate on Notes Issued USD V/F	31 IRS F/V	2024
Coverage Issuance of Subordinated Notes USD	Fixed Rate in Notes USD V/F	24 CCS F/V	2024
Coverage of Corporate Bonds	Fixed Rate in Foreign Currency USD, EUR, UDI	67 CCS V/F	2025
Coverage of Corporate Bonds	Fixed Rate on Bonds USD	62 IRS V/F	2027

* The Fair value of the Cross Currency Swaps (CCS) do not include the exchange rate, as it is not part of the hedging.
IRS – Interest rate Swaps. CCS - Cross currency swaps.

9. Loan portfolio

Loans granted classified by type of loan at December 31, 2015 and 2014, were as follows:

	Performing portfolio		Non-performing portfolio		Total	
	2015	2014	2015	2014	2015	2014
Commercial loans-						
Denominated in Mexican pesos-						
Commercial	$ 208,486	$ 181,726	$ 4,907	$ 4,964	$ 213,393	$ 186,690
Rediscounted portfolio	10,306	8,464	50	171	10,356	8,635
Lease portfolio	1,311	1,078	6	45	1,317	1,123
Denominated in U.S. dollars- (equivalent in Mexican pesos)						
Commercial	122,355	104,128	137	109	122,492	104,237
Rediscounted portfolio	1,239	955	48	41	1,287	996
Lease portfolio	258	156	11	8	269	164
Total commercial loans	343,955	296,507	5,159	5,338	349,114	301,845
Financial entities	15,869	10,060	499	42	16,368	10,102
Government entities	137,515	127,988	1	2	137,516	127,990
Total trade loans	497,339	434,555	5,659	5,382	502,998	439,937
Consumer-						
Credit card	95,280	93,200	3,789	4,148	99,069	97,348
Other consumer loans	122,702	100,211	3,644	3,339	126,346	103,550
Total consumer loans	217,982	193,411	7,433	7,487	225,415	200,898
Mortgage	167,842	159,466	8,313	9,082	176,155	168,548
Total loans	$ 883,163	$ 787,432	$ 21,405	$ 21,951	$ 904,568	$ 809,383

During 2015 and 2014, the Institution acquired portfolio in the amount of $158 and $5,585, respectively. with a corresponding book value at the time of the purchase of $1 and $21, respectively.

At December 2015 and 2014, housing loan portfolio includes restricted securitized current portfolio of $5,663 and $6,748, respectively, and non-performing portfolio of $94 and $103, respectively.

Commercial loans are detailed below; the distressed and non-distressed performing and non-performing portfolios at December 31, 2015 and 2014, are also identified. This portfolio does not include guarantees and interest collected ahead of time, which are shown as part of the commercial portfolio on the consolidated balance sheet:

	2015				
	Distressed		Non-distressed		
Portfolio	Performing	Non performing	Performing	Non performing	Total
Business or commercial activity	$ -	$ 3,488	$ 316,189	$ 990	$ 320,667
Credits to financial entities	-	321	16,080	179	16,580
Credits to government entities	-	1	137,515	-	137,516
Business credit card	3	802	27,997	1,120	29,922
Company credit card	-	2	86	2	90
Total	$ 3	$ 4,614	$ 497,867	$ 2,291	$ 504,775

	2014				
	Distressed		Non-distressed		
Portfolio	Performing	Non performing	Performing	Non performing	Total
Business or commercial activity	$ 355	$ 2,137	$ 275,448	$ 2,672	$ 280,612
Credits to financial entities	12	38	9,585	-	9,635
Credits to government entities	-	1	125,559	-	125,560
Business credit card	550	1,620	23,496	14	25,680
Company credit card	4	6	87	-	97
Total	$ 921	$ 3,802	$ 434,175	$ 2,686	$ 441,584

The restructured and renewed portfolio at December 31, 2015, and 2014 were as follows:

	2015		
Restructured Portfolio	Performing	Non performing	Total
Business or commercial activity	$ 55,558	$ 1,415	$ 56,973
Consumer loans	898	1,151	2,049
Residential mortgage loans	17,379	4,182	21,561
Total	$ 73,835	$ 6,748	$ 80,583

	2014		
Restructured Portfolio	Performing	Non performing	Total
Business or commercial activity	$ 49,138	$ 1,386	$ 50,524
Consumer loans	669	1,106	1,775
Residential mortgage loans	18,477	4,843	23,320
Total	$ 68,284	$ 7,335	$ 75,619

At December 31, 2015, the Institution has collateral in real property in the amount of $9,589, together with collateral in securities in the amount of $4,973, for restructured commercial loans.

At December 31, 2014, the Institution has collateral in real property in the amount of $25,079, together with warranties in securities in the amount of $25,064, for restructured commercial loans.

As of December 31, 2015, and 2014 aging of non-performing portfolio is as follows:

	2015				
	Period				
Portfolio	1 to 180 days	181 to 365 days	366 days to 2 years	Warranty	Total
Business or commercial activity	$ 3,128	$ 1,547	$ 2,224	$ (1,240)	$ 5,659
Consumer loans	4,763	1,620	1,050	-	7,433
Mortgage loans	1,452	2,286	4,575	-	8,313
Total	$ 9,343	$ 5,453	$ 7,849	$ (1,240)	$ 21,405

2014

Portfolio	Period: 1 to 180 days	181 to 365 days	366 days to 2 years	Credit Enhancement	Total
Business or commercial activity	$ 2,611	$ 771	$ 3,111	$ (1,111)	$ 5,382
Consumer loans	7,208	304	-	(25)	7,487
Mortgage loans	1,756	2,803	4,523	-	9,082
Total	$ 11,575	$ 3,878	$ 7,634	$ (1,136)	$ 21,951

At December 31, 2015 and 2014, unaccrued commissions for initially granting credit, by type and average payment period, are as follows:

	2015			
	By amortization period			
	1 to 5 years	15 years	More than 15 years	Total
Business or commercial activity	$ 463	$ 447	$ 180	$ 1,090
Mortgage loans	-	21	217	238
Total	$ 463	$ 468	$ 397	$ 1,328

	2014			
	By amortization period			
	1 to 5 years	15 years	More than 15 years	Total
Business or commercial activity	$ 466	$ 396	$ 125	$ 987
Mortgage loans	-	28	263	291
Total	$ 466	$ 424	$ 388	$ 1,278

As of December 31, 2015 and 2014, the balances of non-performing loan portfolio fully reserved and eliminated from the balance sheet were as follows:

Concept	2015	2014
Business or commercial activity	$ 3,866	$ 3,160
Consumer loans:		
Credit card	3,316	3,611
Other consumer loans	3,783	2,968
	7,099	6,579
Mortgage	4,223	2,654
Total	$ 15,188	$ 12,393

As of December 31, 2015 and 2014, the amounts of portfolio sold without including securitization transactions, were as follows:

Concept	2015	2014
Business or commercial activity	$ 978	$ -
Credit card and consumer	12,392	14,250
Mortgage	1,335	884
Total	$ 14,705	$ 15,134

As of December 31, 2015 and 2014, the amount of lines of credit and letters of credit recorded in memoranda accounts comes to $458,700 and $384,121, respectively.

Revenues from interest and commissions recorded in the financial margin, segmented by type of credit, are comprised as follows:

	2015			2014
Type of loan	Interest	Commissions	Total	Total
Commercial loans-				
Denominated in Mexican pesos-				
Commercial	$ 14,635	$ 1,004	$ 15,639	$ 14,396
Rediscounted portfolio	564	-	564	479
Lease portfolio	79	-	79	74
Denominated in U.S. dollars-				
Commercial	3,889	1	3,890	3,084
Rediscounted portfolio	56	-	56	52
Lease portfolio	7	-	7	6
Total commercial loans	19,230	1,005	20,235	18,091
Credits to financial entities	487	-	487	477
Credits to government entities	5,977	-	5,977	4,575
Total commercial credits	25,694	1,005	26,699	23,143
Consumer credits -				
Credit card	27,934	-	27,934	26,110
Other consumer credits	24,398	299	24,697	20,834
Total Consumer credits	52,332	299	52,631	46,944
Mortgage	17,344	63	17,407	16,908
Total	$ 95,370	$ 1,367	$ 96,737	$ 86,995

As of December 31, 2015 and 2014, the amount of the recoveries of credit portfolio written off or eliminated were $738 and $592, respectively, recognized in the heading, “Other operating income” in the consolidated statement of income.

At December 31, 2015 and 2014, loans classified by economic sectors were as follows:

	2015		2014	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	$ 349,114	38.59%	$ 301,845	37.29%
Credit card and consumer	225,415	24.92%	200,898	24.82%
Residential mortgage	176,155	19.47%	168,548	20.82%
Government entities	137,516	15.20%	127,990	15.82%
Financial	13,917	1.54%	9,302	1.15%
Foreign (non-Mexican entities)	2,450	0.28%	794	0.10%
Other past-due loans	1	-	6	-
Total	$ 904,568	100.00%	$ 809,383	100.00%

Related-party loans - At December 31, 2015 and 2014, loans granted to related parties in accordance with the provisions of article 73 of the law of credit institutions, amounted to $39,750 and $34,980, respectively. The amount of related-party loans at December 31, 2015 and 2014 includes $13,984 and $10,378, respectively, of letters of credit, which are recorded in memorandum accounts.

Credit support program -

Early termination of debtor support programs:

On July 15, 2010, an agreement was signed between the Federal Government, through the Treasury Department (SHPC), and certain Credit Institutions, with the participation of the Mexican Bankers' Association, to early terminate the debtor support programs (the "Agreement").

The support programs in which the Institution participated, and which are the subject matter of this Agreement, are:

- Housing Loan Debtor Support Program
- Housing Loan Debtor Benefits Agreement

At December 31, 2010, the amount of the payment obligations of the Federal Government is comprised as follows:

Restructured loans under the Agreement	$ 4,098
Non-performing portfolio which showed payment compliance as of March 31, 2011	37
Total base mount	$ 4,135

General conditions of payment obligations of Federal Government:

The payment obligations of the Federal Government will be fulfilled through installments of $827 a year, adjusted for accrued interest and any excess amount between the 7.5% and the average of the indicators of arrears at the close of each of the months of the year immediately before the payment, for a period of five years, in accordance with the following:

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

The interest accruing shall be at the rate resulting from the arithmetic average of the annual rates of return based on discounted CETES within 91 days, issued during the immediately preceding month each period, led to a yield curve within 28 days, capitalized monthly, for the periods in which are not available with the observed rates, interest rates futures Cetes within 91 days of the month immediately preceding each period, which publishes Proveedor Integral de Precios, S.A.

As of December, 31, 2015, the annuities have been totally paid.

Position in special Cetes and special "C" Cetes which the Institution keeps under the heading of "Securities held to maturity":

As of December 31, 2015, the remnant of the special Cetes and special "C" Cetes is composed as follows:

	Special Cetes			Special "C" Cetes		
Trust of origin	No. of securities	Amount	Date of maturity	No. of securities	Amount	Date of maturity
421-5	18,511,119	$ 1,741	13/07/2017	2,109,235	$ 63	13/07/2017
422-9	128,738,261	12,109	07/07/2022	-	-	-
423-9	10,656,993	1,003	01/07/2027	468,306	14	01/07/2027
424-6	383,470	36	20/07/2017	96,876	3	20/07/2017
431-2	964,363	83	04/08/2022	1,800	-	04/08/2022
Total		$ 14,972			$ 80	

Loan granting policies and procedures - The Institution's credit manual regulates the granting, control and recovery of loans. This manual was authorized by the Board of Directors and outlines the parameters to be followed by officers involved in the credit process, which are based on the Credit Institutions Law, the conservative credit rules established by the Commission and sound banking practices.

Credit authorization under the Board of Directors' responsibility is centralized in empowered committees and officers.

In the credit management function the general process from promotion to recovery is defined, specifying, by business unit, the policies, procedures and responsibilities of the officers involved, as well as the tools to be used in each step of the process.

The credit process is based on a thorough analysis of loan applications, in order to determine the comprehensive risk of each debtor. For most loans, debtors must at least have an alternate repayment source.

The principal policies and procedures to determine concentrations of credit risk and which form part of the credit manuals are:

Common risk:

- Establish the criteria for determining the individuals or corporations that represent common risk for the Institution.
- Establish the criteria for determining whether individuals and/or corporations act in unison and are integrated into the same business group or consortium, in order to identify potential accumulated risk and the maximum limit of financing to be granted.

Maximum financing limit:

- Make known the maximum legal credit rules issued by the authorities.
- Communicate the updated maximum credit limit for the Institution, as well as the handling of exceptions.

Risk diversification:

At December 31, 2015, and 2014, the Institution disclosed that it maintains the following credit risk operations in compliance with the general risk diversification rules established in the Accounting Criteria and applicable to asset and liability transactions, as follows:

- At December 31, 2015, and 2014, the Institution has no loans with debtors or groups of entities or individuals representing a joint risk in which the individual amount exceeds 18.5% of its basic capital, respectively.

As of December 31, 2015 and 2014, the maximum amount of financing with the three largest debtors comes to $26,754 and $27,020, respectively.

Potential risk:

- Loan applications must be sanctioned in terms of the amount of the risk.
- Avoid risk exposure above the legal limit and other institutional limits established.

Consumer loans, mortgage loans and loans to small and micro-sized companies are subject to automated evaluation and follow-up mechanisms that have been implemented, based on certain standard factors which, under the Institution's criteria, are used to make decisions and allow greater efficiency in the handling of high volume of loan applications.

10. UDI-denominated restructured loans

At December 31, 2015 and 2014, restructured loans denominated in UDIS amounted to $2,901 and $3,496, respectively.

11. Allowance for loan losses

The following table presents the results of basic loan ratings of the Institution made for the purpose of recording the loan loss allowance based on the requirements discussed in Note 3:

2015

Risk category	Total loans	Allowance for the losses: Commercial	Consumer	Mortgage	Total allowance
A1	$ 597,656	$ 726	$ 1,116	$ 234	$ 2,076
A2	120,489	573	1,220	169	1,962
B1	56,385	269	1,217	64	1,550
B2	46,717	160	1,657	32	1,849
B3	32,363	443	1,227	22	1,692
C1	17,703	239	1,008	135	1,382
C2	18,102	236	2,464	299	2,999
D	16,804	1,430	1,494	1,704	4,628
E	15,494	2,006	4,566	1,413	7,985
	921,713	6,082	15,969	4,072	26,123
Excepted	22,073	-	-	-	-
Additional	-	213		1,050	1,263
Total	$ 943,786	$ 6,295	$ 15,969	$ 5,122	$ 27,386

2014

Risk category	Total loans	Allowance for the losses: Commercial	Consumer	Mortgage	Total allowance
A1	$ 506,135	$ 727	$ 1,050	$ 220	$ 1,997
A2	109,714	577	1,103	147	1,827
B1	46,114	220	1,211	46	1,477
B2	32,320	141	1,233	35	1,409
B3	28,410	464	863	28	1,355
C1	17,698	332	816	145	1,293
C2	16,043	77	2,279	301	2,657
D	18,515	1,586	1,574	1,944	5,104
E	12,420	1,977	4,408	1,437	7,822
	787,369	6,101	14,537	4,303	24,941
Excepted	51,381	-	-	-	-
Additional	-	61	-	1,079	1,140
Total	$ 838,750	$ 6,162	$ 14,537	$ 5,382	$ 26,081

The total loan portfolio balance used for classification purposes includes amounts related to the irrevocable lines of credit granted, letters of credit and guarantees given, which are recorded in memorandum accounts.

The balance of the estimate at December 31, 2015 and 2014 is determined based on the balance of the portfolio at that date.

The allowance for loan losses at December 31, 2015 and 2014 covers 100% of non-performing accrued interest.

The amount of the allowance at December 31, 2015 and 2014 includes the classification of the loan granted in foreign currency valued at the exchange rate in effect on December 31, 2015 and 2014.

At December 31, 2015, and 2014, the Institution has created additional mortgage portfolio reserves of $1,050 and $1,079, respectively, which represent the supplement required by the internal expected loss rating model.

At December 31, 2015, and 2014, the Institution has created additional mortgage portfolio reserves of $213 and $61, respectively, which represent the supplement required by the internal expected loss rating model.

At December 31, 2015 and 2014, the allowance for loan losses represents 127.94% and 118.81%, respectively, of the non-performing loan portfolio.

At December 31, 2015 and 2014, allowance by type of portfolio risk estimates is comprised as follows:

Item	2015	2014
Commercial loans-		
Commercial	$ 5,447	$ 5,337
Financial entities	514	203
Government entities	334	622
	6,295	6,162
Consumer	15,969	14,537
Mortgage	5,122	5,382
Total allowance	$ 27,386	$ 26,081

Changes in the allowance for loan losses - Below is an analysis of the allowance for loan losses:

	2015	2014
Balance at beginning of year	$ 26,081	$ 27,336
Allowances charged to income statement	28,482	25,526
Applications and write-offs of the year	(27,329)	(26,960)
Exchange effect	152	179
Balance at end of year	$ 27,386	$ 26,081

12. Securitization operations

Mortgage portfolio securitizations -

The Institution has issued securitization certificates ("CB"), which have generally been formalized through the following contracts:

Irrevocable Trusts created between BBVA Bancomer – Invex, Grupo Financiero for the Issuance of Fiduciary Securitization Certificates -

– ***Transfer contract -***

This contract is entered into by and between the Institution ("Transferor"), Banco Invex, S.A. ("Transferee") and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative") for the purpose of assigning, on the part of the Transferor, current portfolio, to the Irrevocable Fiduciary Certificate Issuance Trust ("the Stock Market Certificates"), free of all encumbrance and without reservation or limitation of title, together with all related benefits, proceeds and accessories applicable. The Transferor is liable only for the declarations included in such contract, for which reason non-compliance with any of the declarations will only mean that the "Transferor" replacing one or more of the ineligible loans or reimbursing in cash the proportional part of the consideration; consequently, the Transferor does not assume any obligation regarding the mortgage loans. Furthermore, the consideration was fixed as the right to receive the total amount obtained in the placement of the SMCs, less the respective issuance costs.

– ***Irrevocable Fiduciary Stock Market Certificate Issuance Trust Contract -***

This contract is entered into by and between the Institution ("Trustor" and "First Beneficiary"), Banco Invex, S.A. ("Trustee"), and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative"), which stipulates that the objective of the Trust is the acquisition of mortgage loans, free of all encumbrance and without any reservation or limitation of title, in terms of the Assignment Contract, the issuance of SMCs, which will have such mortgage loans as a source of payment and the placement of the SMCs among small investors; while the Trustee will have all those powers and obligations considered necessary to achieve such purpose.

The same contract established the initial value of guarantees with respect to the loan backing the certificate, which amount is recorded for accounting purposes under "Benefits receivable from securitized transactions" for the Institution.

– ***Portfolio Management and Collection Contract -***

This contract is entered into by and between the Institution ("Administrator"), Banco Invex, S.A. ("Trustee") and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative"). Under this contract, the Trustee contracted the Administrator to carry out the management and collection solely and exclusively in relation to the mortgage loan and any "repossessed assets" that were transferred in the assignment contract. Accordingly, to enable the Administrator to fulfill its obligations, the Trustee will pay a management commission to the Administrator equivalent to the amount resulting from multiplying the unpaid balance of the principal of the mortgage loans by the percentage stipulated and divided by 12.

Irrevocable Trust Number 989 created between BBVA Bancomer – CI Banco (formerly The Bank New York Mellon) for the Issuance of Securitization certificates -

On June 17, 2013, the Commission issued Document Number 153/6937/2013 to authorize the registration of the Institution with the National Securities Registry of the Program for the issuance of Securitization Certificates for amounts up to $20,000 or the equivalent in UDIS for a five-year period as of the authorization date.

On June 21, 2013, the sixth issuance of mortgage portfolio securitization certificates was made for the amount of $4,413, based on the program for the issuance of securitization certificates authorized by the Commission.

– *Assignment Contract -*

On that same date, the Institution, in its capacity as trustor and final trust beneficiary, and the Trustee, in its capacity as trustee and through their Joint Representative, executed Irrevocable Trust No. F/00989 for the issuance of fiduciary securitization certificates to enable the Trustee to issue securitization certificates to be offered to investors through the Mexican Stock Exchange, Bolsa Mexicana de Valores, S.A.B. de C.V. ("BMV"), and which will be underwritten by mortgage credits.

– *Irrevocable Trust Contract for the Issuance of Fiduciary Securitization Certificates -*

This contract was executed by the Institution; (Trustor and final Trust Beneficiary) CI Banco, S.A., Institución de Banca Múltiple (formerly The Bank of New York Mellon, S.A., Institución de Banca Múltiple), (Trustee) and Monex Casa de Bolsa, S.A. de C.V. (Joint Representative), which stipulates that the purpose of the trust is to acquire mortgage credits, free from liens or encumbrances and without any ownership reserves or limitations pursuant to the terms of the Assignment Contract, to issue securitization certificates. These securitization certificates will have the aforementioned mortgage loans as their source of payment and to allow them to be offered to investors. Meanwhile, the trustee will have all the powers and obligations needed to attain this objective.

– *Portfolio Administration and Collection Contract -*

This contract was executed between the Institution (Administrator) and CI Bank, S.A., Institución de Banca Múltiple (formerly The Bank of New York Mellon, S.A., Institución de Banca Múltiple), (Trustee) and Monex Casa de Bolsa, S.A. de C.V. (Joint Representative). Under the terms of the contract, the Trustee contracted the Administrator to perform administration and collection activities exclusively related to the mortgage loans and any foreclosed real property transferred through the Assignment Contract. Accordingly and to enable the Administrator to fulfill its obligations, the Trustee will pay an administration commission to the Administrator.

The specific characteristics of each issue are detailed below:

	Trusts					
Concept	**711**	**752**	**781**	**847**	**881**	**989**
Execution date of trust contract	19-Dic-07	13-Mar-08	05-Ago-08	08-Dic-08	03-Ago-09	21-Jun-13
Number of credits assigned	2,943	1,587	9,071	18,766	15,101	10,830
Amount of portfolio	$ 2,644	$ 1,155	$ 5,696	$ 5,823	$ 6,545	$ 4,413
SMCs issued	25,404,498	11,143,185	11,955,854	55,090,141	59,101,116	41,920,673
Face value per SMC (in Mexican pesos)	$ 100.00	$ 100.00	100 UDIS	$ 100.00	$ 100.00	$ 100.00
Amount of issue of SMC	$ 2,540	$ 1,114	$ 4,830	$ 5,509	$ 5,910	$ 4,192
Series A1	-	-	$ 2,415	-	$ 562	-
Series A2	-	-	$ 2,415	-	$ 1,732	-
Series A3	-	-	-	-	$ 3,616	-
Gross annual interest rate	9.05%	8.85%	-	9.91%	-	6.38%
Series A1	-	-	4.61%	-	6.14%	-
Series A2	-	-	5.53%	-	8.04%	-
Series A3	-	-	-	-	10.48%	-
Effective duration of the SMC (years)	20.5	20.42	24.84	22	20.08	20
Value of certification	$ 103	$ 40	$ 866	$ 314	$ 635	$ 221
Value of guarantees with respect to the loan %	3.9%	3.5%	15.2%	5.4%	9.7%	5.0%
Total cash flow received for the assignment	$ 2,507	$ 1,091	$ 4,751	$ 5,475	$ 5,733	$ 4,129

The third issue, which refers to Trust 781, was made in UDIS. The exchange rate of the UDI used at the issue date is $4.039765 Mexican pesos per UDI.

As of December 31, 2015 and 2014, amounts reported under "Benefits to be received in securitization operations", of $1,136 and $1,165 represent the outstanding trust certificates of unconsolidated securitizations.

The summarized financial information of unconsolidated securitization trusts as of December 31, 2015 and 2014, are shown below:

No. of Trust	711		752		781		847	
	2015	2014	2015	2014	2015	2014	2015	2014
Assets	$ 698	$ 890	$ 357	$ 438	$ 2,360	$ 2,893	$ 1,856	$ 2,302
Liabilities	$ 634	$ 826	$ 329	$ 405	$ 259	$ 975	$ 1,690	$ 2,108
Stockholders' equity	$ 64	$ 64	$ 28	$ 33	$ 2,101	$ 1,918	$ 166	$ 194
Net result	$ 1	$ (1)	$ 2	$ 5	$ 183	$ 145	$ 19	$ 19

In compliance with the order of rules and priority of distributions established in clause 11 of the Trust Contract described in this Note, the Assignee will distribute to the last Beneficiary, in proportion to the percentage represented by the respective certification, the residual or surplus of the Assignee (cash flows of principal and interest).

13. Receivables, sundry debtors and prepayments, net

The balance at December 31, 2015 and 2014, consists of the following:

Item	2015	2014
Debtors from transaction settlement (a)	$ 32,106	$ 32,720
Loans to officers and employees	10,240	8,810
Sundry debtors	3,376	2,798
Debtors from collateral provided through OTC derivatives (b)	14,213	13,275
Others	1,710	1,424
	61,645	59,027
Less – Allowance for uncollectible accounts	(573)	(479)
Total	$ 61,072	$ 58,548

(a) The debtors for settlement of transactions as of December 31, 2015 and 2014, are composed as follows:

	2015	2014
Foreign currencies	$ 26,451	$ 23,019
Investments in securities	4,455	8,975
Derivatives	1,200	726
Total	$ 32,106	$ 32,720

(b) Debtors for collateral granted on OTC derivatives as of December 31, 2015 and 2014 is comprised as follows:

Collateral provided through derivatives	2015 Acquisition cost	2015 Accrued interest	2015 Book value	2014 Book value
BBVA Servex	$ 9,363	$ -	$ 9,363	$ 102
Banco INVEX	21	-	21	-
Banco Mercantil del Norte	359	-	359	-
Banco Monex	28	-	28	-
Banco Nacional de México, S.A., IBM	486	1	487	15
Banobras, S.N.C.	-	-	-	162
Barclays Bank PLC	267	-	267	284
BPN Paribas	1,372	1	1,373	-
Deutsche Bank	-	-	-	5,813
Goldman Sachs París	-	-	-	514
HSBC México, S.A., IBM	1,490	1	1,491	1,511
JP Morganchase BK NY	438	-	438	415
Morgan Stanley & Co	81	-	81	3,207
Morgan Stanley Capital	-	-	-	423
Natixis	-	-	-	27
Royal Bank of Scotland	39	-	39	566
Societé Generalé	256	-	256	236
Toronto Dominion Bank	10	-	10	-
Total	$ 14,210	$ 3	$ 14,213	$ 13,275

14. Repossessed assets, net

Repossessed assets at December 31, 2015 and 2014, were as follows:

Item	2015	2014
Buildings	$ 5,296	$ 5,472
Land	2,750	2,999
Securities	20	20
	8,066	8,491
Less - Allowance for impairment of repossessed assets	(2,404)	(1,669)
Total	$ 5,662	$ 6,822

The movements of the reserve for a decrease in real estate value are summarized below, for the years ended December 31, 2015 and 2014:

	2015	2014
Opening balance	$ 1,669	$ 1,448
Application to income statement	977	1,288
Reserve application sale of asset and others	(242)	(1,067)
Ending balance	$ 2,404	$ 1,669

15. Property, furniture and equipment, net

Property, furniture and equipment at December 31, 2015 and 2014 were as follows:

Item		2015		2014
Furniture and equipment	$	14,347	$	10,651
Office space		9,023		9,109
Installation costs		15,747		10,752
Land		2,725		2,627
Construction		12,980		-
Construction in progress		172		8,695
		54,994		41,834
Less- Accumulated depreciation and amortization		(15,353)		(12,888)
Total	$	39,641	$	28,946

For the year ended December 31, 2015, depreciation and amortization are $2,421 and $1,453, respectively. For the year ended December 31, 2014, depreciation and amortization are $1,912 and $1,477, respectively.

As part of the strategic housing project during 2015 staff moving to new corporate headquarters was made, reclassified $11,149 works in construction process and its components.

16. Equity investments

Investments in associate companies were valued according to the equity method, while other permanent investments were recorded at their acquisition cost. The most significant of these investments are detailed below:

Entity	Equity participation					
	2015	2014		2015		2014
Fideicomiso No.1729 *INVEX* - Enajenación de Cartera (1)	32.25%	32.25%	$	758	$	758
I+D México, S.A. de C.V.	50.00%	50.00%		283		298
Compañía Mexicana de Procesamiento, S.A. de C.V.	50.00%	50.00%		124		115
Servicios Electrónicos Globales, S.A. de C.V.	46.14%	46.14%		120		94
Seguridad y Protección Bancarias, S.A. de C.V.	26.14%	22.14%		15		15
Others	Various	Various		218		97
Total			$	1,518	$	1,377

(1) On October 24, 2013 and in conjunction with other banks, the Institution created Irrevocable Trust Number 1729 for portfolio sale purposes with credit portfolio (factoring) and cash contributions. The Trustee is Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero. At the close of the year 2014, the Trust assets are composed of real estate property and cash, and the total value of the Trust as of December 31, 2015 is $3,875, of which the Institution's contributions come to $758.

The investment in shares of associate companies as of December 31, 2015 and 2014 was determined in some cases based on unaudited financial information, which is adjusted, if any differences arise, once the audited information becomes available.

At December 31, 2015 and 2014, the dividends received from associate companies and other permanent investments were $62 and $122, respectively.

At December 31, 2015 and 2014, the Institution holds equity in the results of associate companies for the amount of $100 and $142, respectively.

17. Deferred taxes

The Institution has recognized a net deferred income tax asset resulting from temporary differences between the book and tax bases of assets and liabilities and tax loss carryforwards at December 31, 2015 and 2014, of $12,309 and $6,958, respectively, as follows:

	2015		2014	
	Temporary Difference		Temporary Difference	
Item	Base	Deferred income taxes	Item	Deferred income taxes
Temporary differences - assets:				
Allowance for loan losses	$ 30,526	$ 9,158	$ 25,665	$ 7,699
Commissions and interest	9,403	2,821	7,086	2,126
Advance premium on swap	2,210	663	-	-
Provisions	5,186	1,556	6,241	1,872
Other assets	3,883	1,165	247	75
Repossessed assets	3,350	1,005	2,353	706
Tax loss carry	93	28	97	29
Valuation securities available for sale (capital)	986	296	-	-
Other debtors and creditors	570	171	363	109
Total assets	56,207	16,863	42,052	12,616
Temporary differences - liabilities:				
Valuation of investments at fair value	14,067	4,220	9,257	2,777
Available for sale securities valuation	-	-	1,282	385
Valuation derivatives coverage	447	134	357	107
Advance premium on swap	-	-	6,776	2,033
Pension allowance	550	165	677	203
Other liabilities	116	35	511	153
Total liabilities	15,180	4,554	18,860	5,658
Net deferred tax asset	$ 41,027	$ 12,309	$ 23,192	$ 6,958

Based on financial projections, the deferred tax balance derived from the allowance for loan losses will be realized in the medium-term.

18. Other assets

Other assets at December 31, 2015 and 2014 were as follows:

Item	2015	2014
Software (net)	$ 3,626	$ 3,789
Prepaid expenses	2,906	3,316
Pension plan prepayment	1,010	1,414
Other unapplied expenses	409	487
IETU and ISR (net)	-	618
Total	$ 7,951	$ 9,624

As of December 31, 2015 and 2014, the amortization of software is determined based on cost or restated cost up to 2007, using the straight-line method, as of the month following that of its purchase, by applying the 20% rate.

The amount of the historical cost and software amortization at December 31, 2015 and 2014 are detailed below:

Item	2015	2014
Historical cost	$ 11,958	$ 10,698
Amortization	(8,332)	(6,909)
Total	$ 3,626	$ 3,789

19. Deposits

Liquidity coefficient - The provisions of the Treatment for Admission of Liabilities and Investment for Foreign Currency Transactions, issued by the Central Bank of Mexico for credit institutions establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

Based on the above procedure, in 2015 and 2014 the Institution was subject to liquidity requirements of U.S. $4 and $636 million, respectively, and maintained investments in liquid assets of U.S. $979 and $999 million respectively, reflecting liquidity excesses of U.S.$975 million and U.S.$363 million, respectively.

	2015	2014
Demand deposits-		
Demand deposits	$ 681,755	$ 578,150
Time deposits-		
Notes with interest payable at maturity	144,310	140,616
Time deposits	35,516	7,793
Credit instruments issued (a)	91,220	71,128
Total	$ 952,801	$ 797,687

(a) Credit instruments issued

Description of the principal programs

As of December 31, 2015 and 2014, the Institution has placed short-term and long-term debt with a market value of $91,220 and $71,128, respectively, composed as follows:

Instrument	2015	2014	Period (days)	Rate
Bank bonds LP	$ 30,951	$ 23,589	1,499	3.40%
Bank bonds CP	6,989	3,395	334	3.42%
Securitized certificates MXP	8,858	3,906	3,003	6.93%
Securitized certificates UDI,s	18,242	17,864	5,355	4.03%
Senior Notes	26,180	22,374	2,740	4.44%
Total	$ 91,220	$ 71,128		

20. Interbank loans and loans from other entities

At December 31, 2015 and 2014, interbank loans and loans from other entities were as follows:

Item	Mexican pesos		U.S. dollars in Mexican pesos		Total	
	2015	2014	2015	2014	2015	2014
Bank loans	$ 6,711	$ 31,459	$ 94	$ 571	$ 6,805	$ 32,030
Loans call money	450	5,113	1,121	2,192	1,571	7,305
Loans from other entities	11,049	9,185	1,413	1,101	12,462	10,286
Total	$ 18,210	$ 45,757	$ 2,628	$ 3,864	$ 20,838	$ 49,621

Interbank loans and loans from other entities in foreign currency were contracted by the Institution with terms ranging from four days to 5 years and annual rates ranging between 0.55% and 1.50% annual in 2015. Such loans are contracted with eight foreign financial institutions.

Interbank loans and loans from other entities in foreign currency were contracted by the Institution with terms ranging from two days to 6 years and annual rates ranging between 0.10% and 7.16% annual in 2014. Such loans are contracted with six foreign financial institutions.

The Institution maintains availability of liquidity in the central bank up to the amount of the Deposit of Monetary Regulation (DRM), the balance was $59,676 (excluding interest) for both years. The amount of this line ready for the year 2015 and 2014 amounted to $702 and $26,438; respectively, while the balance of the overdraft amounted to $58,974 and $33,238, respectively.

21. Labor liabilities

The Institution has liabilities from labor obligations related to severance payments, which will cover the pension, seniority premiums due upon retirement. The Institution also has a plan for integral medical services to pensioners and their economic dependents, as well as the payment of life insurance. The amount of such labor liabilities is determined based on calculations performed by independent actuaries using the projected unit credit method and in conformity with the methodology established in NIF D-3. The management of plan assets is made through an irrevocable trust.

As of January 1, 2007, following the execution of the employer substitution contract, all the Institution's employees (except the Chief Executive Officer) were transferred to the payroll of BBVA Bancomer Operadora, S. A. de C.V., a company belonging to the Financial Group. Employees retained all vested benefits and only personnel without vested benefits were transferred to a variable compensation scheme. Given the above, the Institution only has a labor obligation related to the retirees and only one active employee.

The Institution made the necessary adjustments in the profit and loss account as a result of the actuarial variations that are included in the amount recorded for the liabilities and assets using the assumptions as of the close of each year. For this reason it recorded a charge to results, in 2015 and 2014, for $529 and $482, respectively, both effects were recognized in the headings of "Other operating income" in the consolidated statement of income.

	Pension plan a seniority premiu
At December 31, 2015, obligations for defined benefits were composed as follows:	
Opening balance January 1, 2015.	$ 3,2
Financial cost	2
Actuarial losses and gains generated in the period	
Benefits paid	(4
Reductions	-
Obligations for defined benefits	$ 3,1
Amount of obligations for benefit acquired	$ 3,1
At December 31, 2015, plan assets were as follows:	
Opening balance	$ 4,1
Returns expected from plan assets	3
Actuarial losses and gains generated during the period	(3
Reductions	-
Benefits paid	(4
Plan assets	$ 3,7
The information on the projected net liability (asset) is presented below:	
Defined benefit obligation	$ 3,1
Plan assets	(3,7
Unfunded liability (prepaid expense)	(6
Current (liabilities) net asset derived from employee pensions	$ (6
The amortization period of the unamortized items is five years	
For the years ended December 31, 2014, the net cost of the period was as follows:	
Financial cost	$ 2
Return on plan assets	(3
Immediate recognition of actuarial losses for the year	3
Net cost of the period	$ 2

		Pension plan a… seniority premi…
At December 31, 2014, obligations for defined benefits were composed as follows:		
Opening balance	$	3,
Financial cost		
Actuarial losses and gains generated in the period		
Benefits paid		(
Amortization of past services and Plan Amendments		-
Reductions		-
Obligations for defined benefits	$	3,
Amount of obligations for benefit acquired	$	3,
At December 31, 2014, plan assets were as follows:		
Opening balance	$	3,
Returns expected from plan assets		
Actuarial losses and gains generated during the period		
Contributions made by the Institution		
Paid benefits		(
Plan assets	$	4,
The information on the projected net liability (asset) is presented below:		
Defined benefit obligation	$	3,
Plan assets		(4,
Unfunded liability (prepaid expense)		(
Current (liabilities) net asset derived from employee pensions	$	(
The amortization period of the unamortized items is five years		
For the years ended December 31, 2014, the net cost of the period was as follows:		
Financial cost	$	
Return on plan assets		(
Immediate recognition of actuarial losses for the year		
Advance amortization of actuarial losses in other proceeds (expenses)		-
Net cost of the period	$	

The nominal interest rates utilized in the actuarial calculations were:

Item	2015	2014
Actual return on plan assets rate	9.30%	8.75%
Interest rate	9.30%	8.75%
Salary increase rate	4.75%	4.75%
Medical services increase rate	6.75%	6.75%

Below is the effect of the one percentage point increase or reduction in the rate of the assumed variance trend of medical attention costs as of December 31, 2015.

	+ 1%	- 1%
In net cost of the period	$ 11	$ (9)
In the defined benefits obligations	$ 461	$ (399)

As of the year 2010, the plan entitled sports for retirees is established, due to the right of employees to continue receiving the sports service once they retire. Under this scheme the Institution pays part of the dues and the employee the rest.

At December 31, 2015 and 2014, the plans for indemnities and sports for retirees did not have assets to fund the obligations for defined benefits.

At December 31, 2015, assets of the various plans were invested in government securities. Also, the expected return on plan assets at December 31, 2015 was estimated by an amount of $901 of goodwill, being the real at the same date in the amount of $(234) handicapping performance.

22. Subordinated debt

Item	2015	2014
Bancomer 08-3 debentures at the TIIE rate + 1.00%, payable every 28 days and with maturity on November 26, 2020, the number of outstanding securities is 28,591,672 with a face value of $100 Mexican pesos each.	$ -	$ 2,859
Non-preferred capitalization notes for US $500 million, issued in May 2007 at an interest rate of 6.0080% issued May 17, 2017, payable semiannually and LIBOR + 1.81% as of May 18, 2017, payable quarterly, and maturing on May 17, 2022 the number of outstanding securities is 500,000 with a face value of $1,000 dollars each.	8,624	7,371

Item	2015	2014
Non-preferred capitalization notes for USD 1,000 million, issued in April 2010, at an interest rate of 7.25% payable semiannually, beginning as of October 22, 2010, and maturing on April 22, 2020, the number of outstanding securities is 1,000,000 with a face value of $1,000 dollars each.	17,249	14,741
Preferred capitalization notes for USD 1,250 million, issued in March 2011, at an interest rate of 6.50% payable semiannually, starting at 10 of September 2011 and maturing on March 10, 2021, the number of outstanding securities is 1,250,000 with a face value of $1,000 dollars each.	21,561	18,427
Preferred capitalization notes for USD 1,000 million, issued in July 2012, at an interest rate of 6.75% and additional issuances of USD 500 million on September 2012, at an interest rate of 5.45% payable semiannually starting on March 30, 2013, and maturing on September 30, 2022, the number of outstanding securities is 1,500,000 with a face value of $1,000 US dollars each.	25,873	22,112
Preferred capitalization notes for USD 200 million, issued in November 2014, at an interest rate of 5.35% payable semiannually, starting on May 12, 2015, and maturing on November 12, 2029, the number of outstanding securities is 200,000 with a face value of $1,000 dollars each.	3,450	2,949
Unpaid accrued interest	1,201	1,036
Total	$ 77,958	$ 69,495

The debt issuance costs related to these issues are amortized using the straight-line method over the term of the debt.

On December 31, 2015 the Institution exercised the early redemption option of the "Debentures BANCOMER 08-3" for the amount of $2,859, which were issued on December 11, 2008, with maturity on November 26, 2020.

On July 11, 2014 the Institution exercised the early redemption option of the "Debentures BANCOMER 09" for the amount of $2,729, which were issued on June 19, 2009, with maturity on June 7, 2019.

On September 18, 2014, the Institution made the payment derived from the maturity of the "Debentures BANCOMER 06" in the amount of $2,500, which were issued on September 28, 2006.

23. Related parties

Balances and transactions with related parties, as established in Bulletin C-3 Related Parties, issued by the Commission, are as follows:

	2015	2014
Banco Bilbao Vizcaya Argentaria, S.A.		
Derivative financial instruments	$ (9,474)	$ (6,424)
Creditors from repurchase agreements	$ (441)	$ (694)
Grupo Financiero BBVA Bancomer, S.A. de C.V.		
Account payable	$ 4,426	$ 5,197
BBVA Bancomer Operadora, S.A. de C.V.		
Fees paid for administrative services	$ 12,058	$ 14,259
Account payable	$ 1,823	$ 2,018
BBVA Bancomer Servicios Administrativos, S.A. de C.V.		
Fees paid for administrative services	$ 7,480	$ 6,232
Account payable	$ 1,558	$ 1,297
Seguros BBVA Bancomer, S.A. de C.V.		
Commissions income	$ 1,746	$ 1,452
Insurance premiums paid	$ 916	$ 774
BBVA Bancomer Gestión, S.A. de C.V.		
Commissions income	$ 2,426	$ 2,452
Aplica Tecnología Avanzada, S.A. de C.V.		
Deposits	$ 18	$ 608
Performing loans	$ 604	$ 968
Income:		
Interest	$ 20	$ 30
Fees paid for administrative services	$ 43	$ 104
Expense:		
Processing and system development	$ 2,252	$ 1,880

	2015	2014
Facileasing, S.A. de C.V.		
Deposits	$ 46	$ 44
Performing loans	$ 7,802	$ 11,343
Income:		
Interest	$ 229	$ 343
Fees paid for administrative services	$ 59	$ 67
Facileasing Equipment, S.A. de C.V.		
Deposits	$ 128	$ 106
Performing loans	$ 7,768	$ 7,800
Income:		
Interest	$ 301	$ 319
Fees paid for administrative services	$ 41	$ 45

As of December 31, 2015 and 2014, there are other transactions and operations with related parties which are not material.

24. Income taxes

The main changes affecting brought to the Institution:

a) *Income Tax*

The Institution is subject to ISR. In accorandance with the Income Tax Law 2014 (law 2014) the rate for 2015 and 2014 was 30%, and will continue for subsecuent years.

An additional income tax of 10% is established on dividends paid when they are distributed to individuals and residents abroad. Income tax is paid by means of withholding and is a final payment. In the case of residents abroad they can apply double treaty agreements. This tax will be applicable on the distribution of income generated as of the year 2014.

The reforms to the LISR which went into effect on January 1, 2014 substitute the deduction of increases to the allowance for loan losses of banks for the deduction of those write-offs approved by the Commission for credit portfolio generated as of the year 2014

b) *Value-Added Tax*

The applicable rate of Value-Added Tax ("IVA") is standardized nationwide by increasing the rate in the border zone from 11% to 16%.

ISR is calculated by considering as taxable or deductible certain effects of inflation, such as the depreciation calculated on values in constant pesos, and the effect of inflation is accrued or deducted on certain monetary assets and liabilities through the annual adjustment for inflation.

The provision in results is composed as follows:

	2015	2014
Current:		
ISR	$ 13,516	$ 9,279
Deferred:		
ISR	$ (4,695)	$ (1,430)

Taxable income - The principal items which affected the determination of the Institution's tax results were the annual adjustment for inflation, provisions for expenses, the result from markets valuation, the difference between book and tax depreciation and amortization and the deduction for bad debts, in relation to the accounting increase of the estimate.

The LISR reforms as of the year 2014 considered the deduction of the increases made to the allowance for loan losses of banks for the deduction of those write-offs approved by the Commission in relation to credit portfolio.

The reconciliation of the statutory ISR rate and the effective rate, expressed as a percentage of income before income taxes, which is the tax incurred by the Institution, is as follows:

	2015	2014
Statutory rate	30.00%	30.00%
Add (deduct) -		
Effect of nondeductible items	0.52%	0.97%
Annual adjustment for inflation	(2.62%)	(5.62%)
Cancellation provisions from previous years	(3.27%)	(0.94%)
Other effects	(1.00%)	(0.22%)
Effective rate	23.63%	24.19%

Recoverable IMPAC - As of December 31, 2015 and 2014, the Institution has recoverable IMPAC of $553 and $721, respectively.

25. Stockholders' equity

Capital stock - The capital stock of the Institution at December 31, 2015 and 2014, was as follows:

	Number of shares at Par Value of $0.28 Mexican pesos per share					
	2015			2014		
	Authorized	Unsubscribed	Paid-in	Authorized	Unsubscribed	Paid-in
Series "F"	9,107,142,859	(1,378,926,692)	7,728,216,167	9,107,142,859	(1,378,926,692)	7,728,216,167
Series "B"	8,749,999,999	(1,324,851,134)	7,425,148,865	8,749,999,999	(1,324,851,134)	7,425,148,865
Total	17,857,142,858	(2,703,777,826)	15,153,365,032	17,857,142,858	(2,703,777,826)	15,153,365,032

	Historical Amount					
	2015			2014		
	Authorized	Unsubscribed	Paid-in	Authorized	Unsubscribed	Paid-in
Series "F"	$ 2,550	$ (386)	$ 2,164	$ 2,550	$ (386)	$ 2,164
Series "B"	2,450	(371)	2.079	2,450	(371)	2.079
Subtotal	$ 5,000	$ (757)	4,243	$ 5,000	$ (757)	4,243
Capitalization of restatement			10,971			10,971
Restatement to Mexican pesos as of December 2007			8.924			8,924
Total			$ 24,138			$ 24,138

At the Stockholders' Ordinary General Meeting held on February 26, 2015, a cash dividend was authorized in the amount of $17,100 from the account "Results from previous years", which was distributed in proportion to ownership interest at the rate of $1.08227848101266 pesos per share, and paid to shareholders during 2015, as follows: $2,222 on March 25, 2015; $5,426 on June 24, 2015; $3,726 on September 23, 2015 and $4,426 on January 20, 2016.

At the Stockholders' Ordinary General Meeting held on February 26, 2015, agreement was reached that given the consolidated financial statements approved at such Meeting reported net income in fiscal year 2014 in the amount of $24,745, and given the fact that the Institution has the respective legal reserve fully established, the income for the year was transferred to the account, "Result from previous years".

If profits are distributed without incurring tax attributable to the Institution, this will have to be paid when the dividend is distributed. Therefore, the Institution has to keep an account for the income subject to each rate.

As of January 1, 2014, based on the LISR reforms, dividends paid by Mexican companies to individuals and residents abroad incur an additional 10% income tax; in the case of residents abroad, the respective tax treaties may be applied.

Capital reductions will incur tax on the excess of the amount distributed against tax value, determined in accordance with the LISR.

The net result of the institution is subject to the legal provision requiring that 5% of the profits of each year be transferred to the legal reserve until it equals 20% of the share capital. This reserve may not be distributed to stockholders during the existence of the Financial Group, except in the form of dividends.

Capitalization index (**unaudited*****) -*** Current regulations establish requirements for specific net capital levels, as a percentage of risk assets, for both market and credit purposes. However, in order to determine net capital, deferred taxes represent a maximum of 10% of basic capital.

Based on the standard method, the transactions are classified in eight different groups depending on the counterparty, and must be weighted based on the degree of risk applicable to the respective credit classification assigned by one of the Ratings Agencies.

Furthermore, under this method a higher weighting factor is assigned to the overdue portfolio (115% and 150%) and the mortgage credits will now have a factor of between 50% and 100%, depending on the level of down payment and the related guarantees provided.

– *Capitalization for operating risk:*

To calculate the capital requirement form exposure to operating risk, the Institution must use:

- The Institution is using the Alternative Standard Method, authorized by the Commission on November 27, 2015.

The capital requirement based on the Alternative Standard Method should be constructed within a term of three years; the weighting factor is considered according to the business line.

According to the amendments to the Capitalization rules issued in December 2014, which went into effect in October 2015, please note the following:

– *Capitalization due to market risk:*

According to the amendments to the capitalization rules which went into effect October 2015, the weighting factors applicable to the RC-01, RC-02, RC-03 and RC-04 reports were amended. Furthermore, in RC on the share positions (RC-05) the weighting factors for General Market Risk are being changed; the calculation for portfolio diversification is omitted to instead use 8% for specific market risk; and, finally, the calculation for Liquidation Risk is eliminated.

A new RC was added to the Market requirements, RC-18, which captures the Gamma and Vega effects on the Options positions and is reflected in the total Market Risk at the close of December 2018. This requirement is additional to the requirements generated in the rest of the RCs.

– *Capitalization for credit risk*

With regard to credit risk, the amendments to the capitalization rule meant that the counterparty risk would be divided into counterparty credit risk and risk with related parties, credit risk for adjustment of credit valuation and with related parties and exposure to the default fund in clearinghouses.

The capitalization ratio of the Institution as of December 31, 2015 amounted to 14.92% of total risk (market, credit and operational) and 21.06% credit risk, which are 4.42 and 10.56 points higher than the minimum required.

The amount of net capital, composed Complementary Basic Capital and is broken down below (the figures shown may differ in their presentation of the basic financial statements):

– *Basic capital:*

Concept	Account
Stockholders' equity	$ 144,795
Capitalization instruments	10,923
Subordinated debt instruments related to securitization schemes	(1,722)
Deductions equity investments in financial institutions	(4,080)
Organizational costs and other intangibles	(5,403)
Total	$ 144,513

The main characteristics of debt and capital notes were as follows:

Item	Appraised Amount	Maturity Date	Calculation Percentage	Weighted Average Amount
Non-convertible debt considered as basic capital:				
Eligible capital notes	$ 8,264	17/05/2022	70%	$ 6,037
Eligible capital notes	17,249	22/04/2020	70%	12,074
Total	$ 25,513			$ 18,111

– *Complementary capital:*

Item	Amount
Obligations and capitalization instruments	$ 37,355
Allowance for loan losses	103
Total	$ 37,458
Net capital	$ 181,971

The main characteristics of debt and capital notes were as follows:

Item	Appraised Amount	Maturity Date	Calculation Percentage	Weighted Average Amount
Non-convertible debt considered as complementary capital:				
BANCOMER-08-3				
Eligible capital notes	$ 21,561	10/03/2021	80%	$ 17,249
Eligible capital notes	17,249	22/04/2020	80%	13,799
Eligible capital notes	8,264	17/05/2022	80%	6,899
Total	$ 47,074			$ 37,947

Assets at risk are as follows:

– *Assets subject to market risk:*

Item		Risk-Weighted Positions		Capital Requirements
Transactions in Mexican pesos with a nominal rate	$	174,403	$	13,952
Transactions in Mexican pesos with real rate or rate denominated in UDIs		20,795		1,664
Rate of return based on the General Minimum Wage		17,798		1,424
Interest rate transactions in foreign currency with a nominal rate		42,767		3,421
Positions in UDIs and Mexican pesos with yield linked to NCPI		25		2
Positions in currencies with yield indexed to exchange rates		4,208		337
Positions in shares or with yield indexed to the price of a share or group of shares		18,869		1,509
Transactions based on the General Minimum Wage		219		17
Gamma (RC-18)		3,563		285
Vega (RC-18)		2,049		164
Surtax		3,369		270
Total market risk	$	288,065	$	23,045

– *Assets subject to credit risk:*

Item		Risk-Weighted Assets		Capital Requirements
Weighted at 10%	$	1,101	$	88
Weighted at 11.5%		1,560		125
Weighted at 20%		23,840		1,907
Weighted at 50%		47,465		3,797
Weighted at 75%		19,249		1,540
Weighted at 100%		353,946		28,316
Weighted at 115%		10,823		866
Weighted at 150%		1,466		117
Weighted at 1250%		5,105		408
Internal methodology TDC / E and C		347,014		27,762
CVA		18,849		1,508
ECC		17		1
Counterpart		18,275		1,462
Related		15,182		1,215
Repurchase		29		2
Total credit risk	$	863,921	$	69,114
Operational risk	$	67,425	$	5,394

Equity Management - The Institution has the equipment, processes and systems required to correctly identify, measure, monitor, control and mitigate the risks to which it is exposed. Please see Note 33 for a more detailed explanation.

Likewise, periodic processes have been defined and established to ensure that financial reports disclose and reflect the risks to which the Institution is exposed.

As required by the Commission, the Institution performs exercises involving the preparation of annual financial projections for stress scenarios.

The Institution also performs an analysis that includes certain liquidity crisis scenarios. These stress scenarios estimate the magnitude of the effects generated for the self-financing ratio and the capacity of available explicit assets to cover maturities with a 12-month horizon so as to ascertain the Institution's survival horizon. The results of these activities show that the Institution has a satisfactory level of resistance as regards liquidity crisis scenarios.

Similarly, the Institution has different management mechanisms which it can activate in the event of different stress scenarios that could impair its solvency as regards capital and/or liquidity. Given the Institution's robust financial position and balance sheet structure, these resources allow it to access local and international wholesale markets to obtain financing and capital, dispose of high quality assets for sale and/or securitization, and discount securities on the market and with the Central Bank of Mexico.

Consequently, the Institution has the mechanisms needed to effectively mitigate stress scenarios which could impair its capital and liquidity.

For further detail, please consult "Exhibit 1-O" as required by the Provisions "Information supplemental to the fourth quarter 2015", in compliance with the obligation to disclose information on the Capitalization Ratio, which is located on the following Internet page www.bancomer.com/informacioninversionistas.

26. Position in foreign currency

At December 31, 2015 and 2014, the exchange rate determined by the Central Bank of Mexico and used by the Institution to value its assets and liabilities in foreign currency (translated to U.S. dollars) was $17.2487 Mexican pesos and $14.7414 Mexican pesos per U.S. dollar, respectively, and the position in foreign currency was as follows:

	Millions of U.S Dollars	
	2015	**2014**
Assets	13,291	13,388
Liabilities	(13,592)	(13,965)
Net liability position in U.S. dollars	(301)	(577)
Net liability position in Mexican pesos (nominal value)	$ (5,192)	$ (8,505)

As of February 25, 2016, the foreign currency position (unaudited) is similar to that of the close of the year and the exchange rate as of that date is $18.2893 Mexican pesos per US$1.00.

According to the provisions of the Central Bank of Mexico, the position reported to that H. Institution as of December 31, 2015 and 2014 was USD $72 and USD $459 million, respectively short, which includes delta FX options, and excludes assets and liabilities that are not computable.

The Institution performs transactions in foreign currency, primarily in US dollars, Euros and Japanese yen. The Institution does not disclose its position in currencies other than the US dollar, as it is largely immaterial. The parity of other currencies with the Mexican peso is referenced to the US dollar and is in compliance with the Central Bank of Mexico regulations. Consequently, the Institution's position in all foreign currencies is consolidated in US dollars at each monthly close.

27. UDI position

At December 31, 2015 and 2014, the Institution had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of $5.381175 Mexican pesos and $5.270368 Mexican pesos per UDI, respectively, as follows:

	Millions of UDIs	
	2015	2014
Assets	5,079	6,157
Liabilities	(5,096)	(4,512)
Net (liability) asset position in UDIs	(17)	1,645
Net (liability) assets position in Mexican pesos (nominal value)	$ (92)	$ 8,669

As of February 25, 2016 the position in UDIS (unaudited) is similar to that of the close of the year and the exchange rate as of that date is $5.429602 Mexican pesos per UDI.

28. Preventive and protective savings mechanism

The Bank Savings Protection Institute ("IPAB") was approved on January 19, 1999. It is intended to establish a bank savings protection system for individuals who perform any of the established guaranteed transactions, while regulating the financial support granted to Full-Service Banking Institutions to protect the public interest.

The IPAB has resources derived from the mandatory fees paid by financial institutions, which reflect their risk exposure levels based on their level of capitalization and other indicators determined by the internal regulations of the IPAB Governance Board. These fee s must be paid monthly for an amount equivalent to one twelfth of four thousandths of the monthly average of daily debit transactions of the month in question.

During 2015 and 2014, contributions made by the Institution to IPAB for insurance to deposits amounted to $4,049 and $3,389, respectively.

29. Financial margin

For the years ended December 31, 2015 and 2014, the main items composing the financial margin were as follows:

	2015		
		Amount valued	
	Mexican pesos	Dollars	Total
Interest income:			
Credit portfolio interest and returns	$ 91,647	$ 3,723	$ 95,370
Securities interest and returns	4,855	346	5,201
Interest from quick assets	2,610	84	2,694
Interest and premiums from repurchase agreements and securities loans	13,693	-	13,693
Memoranda account interest	86	-	86
Commissions collected for initially granting credit	1,288	79	1,367
Others	1,301	119	1,420
Total interest income	115,480	4,351	119,831
Interest expense:			
Deposit interest	(11,789)	(677)	(12,466)
Interest from loans provided by banks and other entities	(820)	(25)	(845)
Debenture interest	(1,073)	(2,125)	(3,198)
Interest and premiums from repurchase agreements and securities loans	(10,745)	-	(10,745)
Expenses incurred to initially grant credit	(142)	-	(142)
Others	(497)	(129)	(626)
Total interest expense	(25,066)	(2,956)	(28,022)
Financial margin	$ 90,414	$ 1,395	$ 91,809

	2014		
		Amount valued	
	Mexican pesos	Dollars	Total
Interest income:			
Credit portfolio interest and returns	$ 82,666	$ 3,145	$ 85,811
Securities interest and returns	4,568	472	5,040
Interest from quick assets	2,857	73	2,930
Interest and premiums from repurchase agreements and securities loans	14,264	-	14,264
Memoranda account interest	178	-	178
Commissions collected for initially granting credit	1,184	-	1,184
Others	1,623	51	1,674
Total interest income	107,340	3,741	111,081
Interest expense:			
Deposit interest	(9,895)	(553)	(10,448)
Interest from loans provided by banks and other entities	(927)	(20)	(947)
Debenture interest	(114)	(2,888)	(3,002)
Interest and premiums from repurchase agreements and securities loans	(11,800)	(18)	(11,818)
Expenses incurred to initially grant credit	(98)	-	(98)
Others	(706)	(107)	(813)
Total interest expense	(23,540)	(3,586)	(27,126)
Financial margin	$ 83,800	$ 155	$ 83,955

30. Commissions and fee income

For the years ended December 31, 2015 and 2014, the main items for which the Institution recorded commissions and fee income in the consolidated statement of income were as follows:

Concept	2015	2014
Credit and debit cards	$ 16,287	$ 14,735
Bank commissions	7,722	7,124
Investment funds	2,426	2,452
Insurance	1,684	1,460
Others	5,124	4,433
Total	$ 33,243	$ 30,204

During 2015 and 2014, the amount of revenues received by the Institution in trust operations amounted to $292 and $252, respectively.

31. Trading income

For the years ended December 31, 2015 and 2014, the main items composing the trading income were as follows:

	2015	2014
Valuation result:		
Derivatives	$ 3,303	$ (3,060)
Foreign currency	(2,674)	3,224
Securities investments	1,507	(3,011)
	2,136	(2,847)
Purchase-sale result:		
Derivatives	1,417	(727)
Foreign currency	2,745	1,858
Securities investments	(3,036)	5,007
	1,126	6,138
Total	$ 3,262	$ 3,291

32. Segment information

The Institution and its subsidiaries take part in different activities of the financial system, such as credit operations, treasury operations, and transfer of funds from abroad, distribution and administration of investment funds, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Institution's business units, more than the legal entities in which the results generated are recorded.

Below we present the revenues obtained during the years 2015 and 2014, which show the difference segments as indicated in the preceding paragraph:

2015

Concept	Total	Commerc Bank
Financial margin	$ 91,809	$ 6
Allowance for loan losses	(28,482)	(2
Net interest income after allowance for loan losses	63,327	3
Commissions and fees, net	21,851	1
Trading income	3,262	
Other operating income (expenses)	854	
Net operating revenues	89,294	$ 5
Administration and promotion costs	(51,959)	
Net operating revenues	37,335	
Share in net income of unconsolidated subsidiaries and affiliates	100	
Income before income taxes	37,435	
Current income tax	(13,516)	
Deferred income tax	4,695	
Income before non-controlling interest	28,614	
Non-controlling interest	(1)	
Net income	$ 28,613	

2014

Concept	Total	Commer Bank
Financial margin	$ 83,955	$ 6
Allowance for loan losses	(25,526)	(2
Net interest income after allowance for loan losses	58,429	3
Commissions and fees, net	20,792	1
Trading income	3,291	
Other operating income (expenses)	475	
Net operating revenues	82,987	$ 5
Administration and promotion costs	(50,534)	
Net operating revenues	32,453	
Share in net income of unconsolidated subsidiaries and affiliates	142	
Income before income taxes	32,595	
Current income tax	(9,279)	
Deferred income tax	1,430	
Income before non-controlling interest	24,746	
Non-controlling interest	(1)	
Net income	$ 24,745	

Other segments include the results related to management of the credit portfolio assigned to the recovery area.

33. Risk management and derivatives transaction (Unaudited figures)

Organizational structure

The Risk Department reports directly to senior management of the Financial Group, thus guaranteeing the independence of the Business Units and establishing the necessary autonomy to determine the functions and profile of the respective teams.

Generally speaking, based on national and international best practices, two specialized Credit Risk Teams have been created: one covering the wholesale portfolio and the other the retail portfolio, assuming the admission, follow-up and recovery functions. By the same token, the management of market, structural and liquidity risks is gathered into a single unit, to which is added the management of risks of non-bank businesses and asset handling.

As support for the above-mentioned units, the Technology and Methodologies unit has been created, with technical expertise which will help to meet the specialized needs of the Risks areas, while a Follow-Up and Reporting Unit has been established for the integration, follow-up and generation of the necessary reports for all the internal or external areas which have to participate in best risk management; this unit also plays an important role in the information disclosure processes and their strict adherence to national and international regulations.

Furthermore, the Internal Controllership unit has been established to guarantee the correct implementation and development of the Internal Control System of the Financial Group, while also including the Technical Unit and the Appraisal Unit of the Institution.

In conformity with the Commission's regulatory requirements for the disclosure of the policies and procedures established by credit institutions for comprehensive risk management, below we present the measures established for such purpose by management, as well as the respective quantitative information.

Compliance in the area of Comprehensive Risk Management is based on the recognition of fundamental principles for the efficient and effective management of risks, evaluating them on quantifiable and non-quantifiable bases, with the aim of satisfying the basic processes of identification, measurement, monitoring, limitations, control and dissemination.

Furthermore, the regulatory entities of insurance companies, pension firms and retirement fund managers have issued provisions to this effect. By way of summary, below we present the main activities performed in this regard by the Institution.

Qualitative Information:

– *Participation of the governing bodies:*

  The Board of Directors is responsible for establishing the objectives of risk exposure and fixing capital related limits, as well as authorizing the policies and procedures manuals related to risks.

  The Risk Committee is responsible for monitoring the position and compliance with the risk limits to which the Institution is exposed, and for ensuring adherence to Board of Directors' resolutions.

– *Policies and procedures:*

  Risk manuals with standard contents, including strategy, organization and operating, technological and methodological frameworks, and regulatory processes. Specific manual for legal risks, including related methodologies.

  Defined and limited third-party responsibilities, risk training programs and communication of policies and procedures.

– *Tactic decision making:*

  Independence of the Comprehensive Risk Management Unit.

  Interaction of this unit with operating committees.

  Establishment of monitoring processes and daily and monthly reports.

  Limits structure in terms of economic capital for each business unit and type of risk.

Establishment, by the Risk Committee, of the authorization and ratification of process for new products and/or services involving risk for the Institution.

– *Tools and analyses:*

Continuous measurement of credit, market and liquidity risks under consistent methodologies and parameters.

Indicators of diversification levels (correlations).

Establishment of periodic analyses of sensitivity, testing under extreme conditions and review and improvement of models.

Install monitoring and operational and legal risk control methodologies in conformity with international standards.

Risk integration by defining capital requirements to absorb them.

– *Information:*

Periodic reports to the Risk Committee, Board of Directors, risk taking units, finance and senior management.

– *Technological platform:*

Comprehensive review of all source and calculation systems for risk quantification, projects for the improvement, quality and sufficiency of data and automation.

– *Audit and comptrollership:*

Participation of internal audit regarding compliance with Regulations on Comprehensive Risk Management and implementation of compliance plans by type and area of risk.

Performance of audits in compliance with Regulations on Comprehensive Risk Management by a firm of independent experts, concluding that risk measurement models, systems, methodologies, assumptions, parameters and procedures comply with their functionality based on the characteristics of the risk operations, instruments, portfolios and exposures of the Institution.

The Institution believes that at this date it fully complies with the provisions of Regulations on Comprehensive Risk Management, while projects continue to improve measurements and limitations, automation of processes and methodological refinements.

Methodological framework - Techniques for valuation, measurement and description of risks

For risk purposes, the Institution's balance sheet is envisioned as follows:

– *Market risk:*

Operations and investment portfolios- Investments in trading securities, securities, ledger of repurchase transactions and related derivative transactions.

Structural balance, Available for sale, Other assets, including securities held to maturity and derivatives for the management of interest rate risk.

– *Credit risk:*

Domestic and foreign financial institutions, companies and corporate- Traditional loan portfolio, including small and medium companies, and exposures from investments in issues, and counterparts in derivative financial instruments.

Retail/consumer loans- Credit cards, financing plans.

Mortgage - Mortgage portfolio.

– *Liquidity risk:*

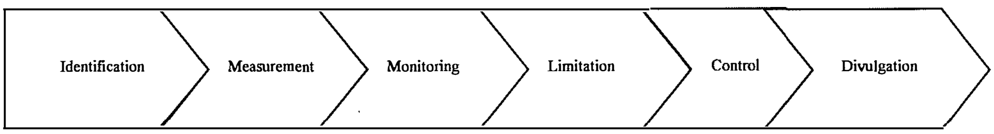
Banking business, with positions on and off the balance sheet, including credits, traditional deposits, investments in securities, derivatives, majority financing, etc.

Furthermore, if there is a contractual obligation, the follow-up and control over the liquidity risk of the banking business includes liquidity which might be required by its subsidiaries, entities belonging to the same Financial Group or relevant related parties, and liquidity which the banking business itself might require from some of such entities or related parties.

– *Market Risk:*

The purpose of market risk management is as follows:

- The proper identification of the risks to which the Financial Group is exposed, by maintaining positions in financial instruments for operational or investment purposes.
- Measurement of exposures through the application of proven and reliable processes and methodologies.
- Continuous risk monitoring.
- Efficient limitation of exposures.
- Effective control over positions.
- Inform decision-making bodies of the risks assumed/profitability obtained within the portfolios controlled.



With regard to the process for market risk measurement and the operating and investment portfolios, the daily measurement of market risk is made through Value at Risk (VaR) statistical techniques, such as the central measurement:

1) Define the degree of sensitivity in the valuation of positions to changes in prices, interest rates or indexes.
2) Reasonably estimate the expected change for a specific time horizon with certain prices, rates, rates or indexes, considering it the degree to which they can be moved
3) Reevaluate the portfolio to such expected changes sets and thereby determine the maximum potential loss in terms of value.

In summary, the Value at Risk (VaR) has been fixed based on the view that one day's operation will not lose more than the amount calculated 99% of the time, in the positions that are within Global Markets, considering a horizon of 500 business days.

When significant risks are identified, they are measured and limits are assigned in order to ensure adequate control. The global measurement of risk is made through a combination of the methodology applied to the Trading Portfolios and the Structural Balance Sheet.

– *Trading portfolios*

In the specific case of the Financial Group, the VaR is calculated by Historical Simulation and based on the view that within a one-day horizon not more than such VaR will be lost 99% of the time.

Two methodologies are used with or without "Exponential Smoothing": one which very strongly weights the last market data and the other which gives the same weight to the information from a full year of trends.

	4T 2014	3T 2015	4T 2015
VaR of trading securities			
One-day VaR	$ 148	$ 192	$ 184
10-day VaR	468	602	587
Total risk	$ 616	$ 794	$ 771

	VaR 1 day	VaR 10 days
VaR of trading securities		
Fixed-income	$ 161	$ 523
Variable income	$ 36	$ 116
Foreign currency	$ 52	$ 150
Vega	$ 39	$ 123

Furthermore, daily simulations are performed of the losses or gains on the portfolios by means of reassessments under catastrophic scenarios (*stress tests*). These estimates are generated by applying percentage changes to the risk factors, which were observed in a specific period of the history, which covers significant market turbulence. Every month back testing is performed to compare the daily losses and gains that would have been observed if the same positions had been held, by considering only the change in value due to a market movement against the calculation of the value at risk, so that the models used can be calibrated.

– *Structural Balance Sheet*

The market risk of the Structural Balance sheet or structural risk is defined as the potential change produced in the financial margin and/or in the net worth of an entity due to changes in interest rates and/or exchange rates.

The objectives of structural risk management are to guarantee the business sustainability in the long term and maintain the continuous generation of results.

The measurement of interest rate and exchange rate risk on the Structural Balance sheet includes the calculation of Economic Value and Financial Margin sensitivities by virtue of movements parallel to an increase or drop in interest rates (+/- 100 basis points), as well as the estimate of expected losses in simulation scenarios of nonparallel movements in risk factors (interest rate and exchange rate), according to the methodology authorized by the Risks Committee.

The structural risk measurement system is QRM (Quantitative Risk Management), which in turn incorporates the characterization of the headings of the Structural Balance Sheet according to the financial characteristics of each heading. The methodology behind the Economic Value consists of estimating the fair value of the positions on the Structural Balance Sheet, through the calculation of the current value of its net future flows (the flows expected from its assets less the flows expected from its liabilities) discounted at market interest rates. By the same token, the methodology behind the Financial Margin metrics is based on the projection of the interest income and expenses from the Structural Balance Sheet, month-to-month in a 12 month horizon, considering the projected growth of the business. Specifically, the principal assumptions behind the characterization of the headings of the Structural Balance Sheet are as follows:

- Prepayment rates: Supposes an advance payment of certain headings of the Structural Balance Sheet, such as mortgage loans, commercial portfolio, among others.

- Evolution of products which do not have a maturity date: for sight deposits and credit card, core or stable and volatile balances are calibrated, and subsequently their evolution over time is forecast.

The assumptions behind the characterization of the headings on the Structural Balance Sheet are modeled based on historical observations, of the same headings of the Structural Balance Sheet and the evolution of the risk factors. At least once a year there is a revision and validation of the adjustment of the models and systems comprising the risk metrics of the Structural Balance Sheet.

The Structural Risk policies include a red flag scheme for the Economic Value and Financial Margin metrics, in which follow-up is provided each month in the Risks Committee and is presented quarterly to the Board of Directors; if the red flag limits are exceeded, mitigation measures are established according to the situation of the current and forecast market, prudence in the activity, financial and reputational impact, among others, in which the Assets and Liabilities Committee is the executive body responsible for handling the situation. Such committee adopts investment and hedging strategies within the policies and risk limits approved by the Board of Directors and delegated Risk Committee of the Board.

Estimated Economic Value Sensitivity

Portfolio	**-100 pb**	**+100 pb**
Mexican pesos	$ 4,246	$ (4,844)
Foreign currency	(1,304)	1,241
Total	$ 2,942	$ (3,603)

Financial Margin Sensitivity Projected to 12 Months

Portfolio	**-100 pb**	**+100 pb**
Mexican pesos	$ (1,226)	$ 1,203
Foreign currency	(348)	357
Total	$ (1,574)	$ 1,560

The Economic Value sensitivity presents below the percentage of red flag use, on average at monthly closes.

The Financial Margin sensitivity projected to 12 months presents below the percentage of limit use, on average at monthly closes.

4T 15 Risk Exposure Structural Balance Sheet

Portfolio	Red flag use	Limit use
Mexican pesos	42.8%	29.5%
Foreign currency	16.5%	15.5%

– *Credit risk*

The measurement of credit risk is associated with volatility of expected revenues and has two basic measures: Expected Loss (PE) and Unexpected Loss (PNE).

The PE of a portfolio represents the average credit balance which was not paid, plus the net of the losses incurred for its recovery and is considered as an inevitable business loss from granting credit over time. The calculation of the Global PE of each portfolio first requires the determination of the PE for each borrower; for this reason, the model focuses initially on an individual situation.

Expected Loss = Probability of Default x Severity of Loss x Exposure

Portfolio *	Percentage
Commercial	0.8%
Consumer	6.3%
Mortgage	0.5%

Portfolio *	PD's	Severity
Commercial	2.0%	36.4%
Consumer	6.3%	87.7%
Mortgage	2.1%	22.3%

*The parameters are weighted on the current portion of each of the portfolios and are calculated based on internal models of the Institution.

Probability of Default is the likelihood that a customer may default on his obligations. The elements which enable the determination of this factor are risk classification by client, migration of credit quality and situation of overdue portfolio.

Severity of Loss is that net economic loss from the recovery of financing; the elements which enable this factor to be determined are recovery expenses (foreclosure and sale) and the type of collateral.

Exposure refers to the maximum amount of the balance at the time of the default; the elements which enable this factor to be determined are the size of the line, disposition of the line and type of product.

Once the level of expected loss is determined, its volatility determines the amount of economic capital necessary to cover the identified risks. As the credit losses may vary significantly over time, it may be inferred that creating a fund with an amount equal to the average loss will have covered the credit loss in the long term; however, in the short-term the fluctuations and, therefore, the risk, remain in effect and generate uncertainty. Therefore, it should also be covered with a second fund that can be used as collateral to be paid when the latter exceed the average losses.

From our standpoint, the average losses can be supported with the creation of an allowance for loan losses which should be treated as a cost of the credit business, whereas the second fund created to cover unexpected losses should be assured by setting aside a specific amount of capital which may be used or not, but which assures the solvency of the Financial Group in the event of above average losses. This allocated capital therefore depends on how volatile the credit losses are over time and is known as economic capital, so as to give it a risk connotation.

The level of solvency desired by the Financial Group has to be established in the calculation of the PNE, in such a way that the amount allocated covers the volatility of the losses a specific number of times, thus assuring a specific credit quality for the bank at a certain level of probability. This solvency probability is determined by using the risk classification with which the institution wishes to operate; consequently, the economic capital will have to be equal to the amount necessary for the probability to materialize. Furthermore, the origination models (Scorings or Ratings) are defined for use in all the transaction and portfolio levels and in the behavior models they are established for the most important portfolio, which is Credit Cards. These models, apart from supporting the credit decision, are linked with the probability of default established above.

Scope and nature of risk information and measurement systems and their reporting

The information systems for the internal model are housed in a system developed internally for the Institution, which is run in a mainframe IBM environment (Host) as part of the ALTAMIRA unified bank management platform, DB2 databases, and is developed in COBOL.

The ratings agencies which use the Standard Method and, as the case may be, the causes of possible modifications are: Standard & Poor's and Moody's, Fitch, and they are used to assign weighting factors to the credit portfolio and derivatives operations.

The process to assign ratings of public issues to comparable assets is performed through consulting of the credits and/or counterparties, supplementing and updating the historical file of our institution.

Coverage and/or mitigation policies by each type of risk

Risk Mitigation Techniques Method to value guarantees and revaluations for the Companies and Large Companies portfolio.

The establishment of personal guarantees or security interests in personal or real property, apart from improving the credit structure of the operation, allows the estimate of the Severity of the Loss to be mitigated in order to reduce the credit reserves derived from the regulatory portfolio classification.

The Institution performs revaluations of the credits, depending on the type of collateral, using statistical methods or confirming the existence and physical condition of the collateral. The value of the personal and real estate guarantees is updated each year over the term of the credit, except for those which require an ongoing evaluation (shares listed on stock markets) or for discontinued periods (investment projects).

The Institution applies internal methodologies to homogeneous portfolios; i.e., it does not partially adopt internal methods inside the portfolios. The Credit Card, Companies and Large Companies portfolios are certified by using this methodology.

Internal ratings systems and the relationship between internal and external ratings

In the Financial Group, the credit risk models comprise two clearly differentiated types in computer applications which support the ratings tools for contracts and customers (Scoring and Rating, respectively).

Companies and Large Companies Portfolios

The objective of the Rating module is to provide tools for analysis and valuation which enable a credit classification to be given to a customer based on homogeneous data and criteria for the Financial Group. The Rating is a tool for customer classification, geared towards Company Banking and Corporate Banking

The Rating basically consists of classifying the customer based on a series of quantitative variables, which are obtained from the Financial Statements (Balance Sheet and Profit and Loss Account) and from a series of qualitative variables (sector, market position, etc.).

Using these variables, a series of rules or red flag signals are established which enable the agent or analyst to clarify specific aspects which require a justification (elevated indebtedness, reduced level of proprietary funds, etc.) which, depending on their importance, might condition the result obtained for the credit to be granted.

The Rating forms part of the information used in the decision-making process of an operation and is the essential support for the setting of pricing policies which take into account the risk-profitability binomial.

Credit card

The Scoring module provides tools for analysis and valuation which enable a credit rating to be fixed with a focus on product based on homogeneous data and criteria for the financial group. There are two types of Scoring:

Origination Scoring, which is obtained at the time of contracting, based on proprietary information of the operation and information requested from the customer, generates a score for each operation.

Behavioral Scoring is obtained each month, based on payments behavior with the Institution. This model, which is used in the assignment of scores for each of the operations, is easy to understand, stable and enables the expert to use it in decision-making.

The Institution uses internal estimates for purposes different from the calculation of capital requirements for credit risk of the internal model in the following processes:

Admission: Based on the Scoring and Rating tools (for Credit card and Companies, respectively) a debtor risk rating is obtained, which determines the solvency of the credit applicant to determine whether it should be granted by standardizing the decision-making, as well as the use of automatic evaluation models. It also ensures that the decision taken by the authorized bodies maintain the profitability and quality of the portfolio.

Calculation of Expected Loss and Capital: Every month an estimate is made of Expected Loss, Economic Capital and Regulatory Capital based on Internal Models for the portfolios of credit card and Companies and Large Companies.

Measurement of RAR: The RAR is determined for credit cards based on accounting balances and risk parameters (CER). For credits granted to Companies and Large Companies, the Risk-Adjusted Profitability (RAR) and Added Economic Benefit indicators are obtained.

Management and recognition process of the credit risk coverage

The Institution has a robust system in place to handle financial security interests in real or personal property and a calculation engine, which have been certified by the Commission, according to the integral method to recognize credit risk coverage, established in Articles 2 Bis 31, 2 Bis 36, 2 Bis 37 and 2 Bis 48 of the CUB.

The integral approach used for the hedge recognition is governed by the following points:

Amount of adjusted collateral: The adjusted amount of collateral decreases its market value to take into consideration the loss in value which it may suffer due to the effects of the fluctuation in its market price and fluctuation in exchange rates.

$$CA_i = \frac{C_i}{C_i^{**}} \cdot (1 - H_C^i - H_{FX}^i) \cdot \frac{(t-0.25)_i}{T-0.25}$$

Covered and uncovered exposure: The calculation of uncovered exposure (E*) is a cyclical process in which each iteration is incorporated into a new collateral (CAi) according to the prioritization determined, until there is no eligible collateral to be included in the process.

Internal ratings process:

For the Companies and Large Companies internal model, the Institution considers Groups III and IV and certain cases from Group V of the Rules for the Capitalization Requirements of Full-Service Banks and National Credit Institutions and Development Banks of the Commission. Group IV excludes customers with Investment Projects, as well as Small and Medium Mortgage Promoters, and Small and Medium Companies (Pymes) according to the sales volume (customers with transactions valued at less than MX $ 60 million). Large Promoters are considered from Group III.

Within the Wholesale Portfolio, the global criterion has been defined that segmentation into subgroups should be performed based on the sales figure, according to the following table:

Sales volume	Segment
> 50 mill usd	Large companies (Corporate)
<=50 mill usd	Large companies (Corporate)
>60 mill mxp	Companies

Close EYGE December 2015

Scale	Available	Balance	Exposure	Weighted median severity	Weighted median risk	Exposure non-financial security interest	Exposure financial security interest
A	$ 6,036	$ 57,760	$ 60,054	43.00%	0.03%	$ -	$ -
A-	-	2,504	2,504	31.64%	0.03%	2,442	-
BBB+	1,619	4,091	4,426	43.09%	0.05%	-	-
BBB	4,937	13,619	15,339	43.03%	0.08%	597	-
BBB-	2,685	36,113	36,925	42.94%	0.11%	-	-
BB+	1,766	55,215	55,654	42.20%	0.15%	3,787	311
BB	1,270	26,180	26,546	41.32%	0.29%	5,489	27
BB-	3,745	34,224	35,264	40.12%	0.44%	8,045	57
B+	771	26,935	27,156	38.98%	0.66%	11,083	465
B	886	17,988	18,215	40.36%	1.03%	6,213	77
B-	242	11,696	11,768	39.63%	1.75%	3,836	248
C	70	4,134	4,158	40.31%	2.48%	1,502	23
D	5	2,468	2,470	10.39%	66.24%	784	-
Total general	$ 24,032	$ 292,927	$ 300,479			$ 43,778	$ 1,208

<u>Consumer Portfolio:</u>

For the Credit Card internal model, the Institution considers Group VI (Consumer and Housing loans) in accordance with the Capitalization Rules of the CUB. Such Group matches the loans made to customers -Individuals - who were granted a revolving credit line for personal use.

Probability of default

In the calibrations of the probabilities of default, a definition of default based on 90 days is used, which matches the default definition used by Basel II.

Consequently, for the Institution, a transaction/customer will be considered as "bad" or in arrears when either of the following options arises:

- 90 days have elapsed since the day of the first nonpayment
- The amount should go through a materiality filter so that the transaction/customer may be considered in arrears.

Severity of Loss

The method used to estimate the severity or LGD is the so-called Workout LGD, based on the cash flow discount of exposures in arrears recovered at different moments in time derived from the portfolio recovery process. The recovery cycle is the process in which a contract goes into arrears and ends when it emerges from such situation. Once a contract goes into arrears, it begins a recovery process known as a recovery cycle in which those movements that increase the debt and which reduce the debt are accounted for. That part which could not be recovered is known as a Loss and if it is expressed as a percentage of the Exposure to Default, it is known as Severity of Loss.

Throughout this recovery process, there is a constant identification of the amounts entering capital accounts, recoveries in memorandum accounts and capital accounts, and the amount of exposure at the time of default. Therefore, the severity is calculated as the difference between the accrued deposits less discounted recoveries (carried to present value) at the opening date of the cycle, for the exposure to default.

Severity = LGD = (Σ entries in arrears - Σ recoveries)/EAD

Exposure to Default

The exposure to default (EAD) is not a parameter that is estimated, but is considered as the calculation of the disposed balance in the period under analysis, plus the Available balance and line granted, adjusted for Credit Conversion Factors, (CCF1 and CCF2), respectively. In other words the EAD is calculated as the disposed balance plus a conversion factor multiplied by the undisposed balance of the line, plus another conversion factor multiplied by the credit limit.

EAD = Disposed Balance + CCF1*Undisposed Balance + CCF2 *Limits

Departures from the definition of default established in Article 2 Bis 68 of these provisions are reflected in the fact that filters are used for the internal models on defaulting borrowers at 90 days with the concept of materiality filter described in the preceding point.

The Credit Card and Companies and Large Companies parameters which make up the Expected Loss (PE) are estimated each year and are applied to the portfolio each month, so that the estimated Expected Loss is used to predict the reserves that the Institution should have. These estimated reserve levels (PE) are compared to the real losses observed, in order to assess whether the parameters adequately predict the behavior of the losses which are presented throughout the year, because the amount of Estimated Expected Loss in one month should be sufficient to cover the losses from defaults of the following year.

To perform the comparison, the level of reserves presented in the portfolio in one month is taken as reference and compared with the sum of the incurred (real) losses accumulated throughout the year. It is considered that the level of reserves is adequate when at the close of the year the accumulated amount of real losses does not exceed the estimated reserve.

For the Credit Card portfolio this comparison was made with seven annual windows beginning December 2013 to June 2014, based on which the result is that the amount of the incurred losses is lower than that of the Expected Loss, so we may conclude that the establishment of reserves for the Credit Card portfolio is sufficient to meet the risks required therein.

For the Companies and Large Companies portfolio, this comparison was made with three annual windows, from April 2014 through June 2014, on which basis the result is that the amount of the incurred losses is less than that of the Expected Loss, so we may conclude that the establishment of reserves for the Companies and Large Companies portfolio is sufficient to meet the risks required therein. Such comparison is illustrated below:

Close TDC December 2015					
Scale	**Available**	**Balance**	**Exposure**	**Weighted median severity**	**Weighting average weighted risk**
BBB+	$ -	$ -	$ -	35.65%	0.15%
BBB	1	-	-	35.65%	0.21%
BBB-	2	1	2	35.60%	0.31%
BB+	25,869	6,023	9,467	75.46%	0.52%
BB	36,735	9,414	15,408	76.25%	0.88%
BB-	31,021	10,645	16,572	76.06%	1.53%
B+	30,372	14,101	20,838	76.90%	2.60%
B	24,694	15,455	21,914	77.48%	4.44%
B-	27,893	23,808	30,667	77.56%	7.80%
C	9,207	16,798	19,545	74.10%	21.59%
D	-	2,583	2,583	78.14%	100.00%
Total general	$ 185,794	$ 98,828	$ 136,996		

– *Liquidity Risk*

Quantitative information

a) Concentration limits regarding the different groups of collateral received and the principal sources of financing

Apart from the regulatory liquidity ratios, the liquidity risk control scheme of the Financial Group is based on the establishment of limits in three fundamental areas:

- Self-financing through the LtSCD ratio or Loan to Stable Customer Deposits (maximum relationship of the financing of the net credit investment with stable customer deposits);
- Diversification of the financing structure through a maximum amount of Short-Term (FCP); and
- Capacity to absorb liquidity shocks through the 30 day Basic Capacity (CB 30d – available liquidity buffer coefficient and net outlays of liquidity established within the respective unexpired deadline). There are also red flags to prevent the limits from being exceeded, including the follow-up on other unexpired deadlines.

There are also metrics to identify possible threats in advance to allow for the adoption, as the case may be, of the necessary preventive measures, including indicators of concentration of financing or liquidity in foreign exchange or diversification of long-term financing, among others.

4T 15 Liquidity risk exposure: average monthly closes
Absolute margin iu relation to the limit (positive without excess, negative with excess)

LtSCD	13%
FCP 12m	$142,373
CB 30d	57%

b) Exposure to liquidity risk and financing needs at Institution level, bearing in mind legal, regulatory and operational limitations and the transferability of liquidity

The Institution exposure to liquidity risk and its financing needs are based on the principle of decentralized and independent management of liquidity (including the Institution or any of its associated entities), so as to avoid dependencies or subsidies and eventual contagion due to crisis. At all times they take into account the legal, regulatory and operational limitations on the transferability of liquidity of the applicable rules in setting the liquidity risk policies of the Institution, including the regimes for admission of liabilities and investments for liability transactions in Foreign Currency of Banxico, operating rules of the payment systems, risk diversification in the performance of liability operation specified by the Provisions, among others.

In the case of the investment regime for liability operations in Foreign Currency, apart from the Shortfall regulatory limit, as a preventive measure there is also a red flag system in place which is stricter than the regulatory limit for the investment regime for liability operations in Foreign Currency of Banxico.

c) **Balance sheet operations itemized by expiration deadlines and the resulting liquidity gaps, including operations recorded in memorandum accounts.**

The following table details the liquidity gaps of Institution at different terms.

	At sight	30 days	Six months	One year	More than one year	No expiration date	Total
Funds available	$ 71,868	$ 14,173	$ 5,124	$ 2,934	$ 63,069	$ -	$ 157,168
Credit portfolio	-	78,552	135,368	75,349	588,136	-	877,405
Securities portfolio	-	931	77,271	5,207	335,875	-	419,284
Total Assets	$ 71,868	$ 93,656	$ 217,763	$ 83,490	$ 987,080	$ -	$ 1,453,857
Deposits	$ 864	$ 122,577	$ 40,325	$ 1,924	$ 4,389	$ 663,156	$ 833,235
Issues and Debentures	-	957	37,623	10,789	148,500	-	197,869
Creditors from repurchase agreements	-	243,939	1,050	-	-	-	244,989
Net rest of balance sheet	-	-	-	-	-	177,764	177,764
Total liabilities	$ 864	$ 367,473	$ 78,998	$ 12,713	$ 152,889	$ 840,920	$ 1,453,857
Off-balance-sheet	-	(175)	(454)	5,470	3,601	-	-
Liquidity gaps	71,004	(273,992)	138,311	76,247	837,792	(840,920)	-
Accumulated gaps	71,004	(202,988)	(64,676)	11,569	849,361	8,441	-

** The figures in the preceding table only consider the Institution individually, not on a consolidated basis.*

Embedded derivatives-

Under the programs for issuance of Structured Bank Bonds of the Institution, it has recorded foreign currency, ratios and interest-rate options, equivalent to a nominal amount of $65,801; also, the Institution has recorded interest rate and foreign currency swaps for a nominal amount of $60,602.

Qualitative information

a) The liquidity risk is handled in the Institution by considering for such purpose the tolerance to such risk; the structure and responsibilities for liquidity risk management; internal liquidity reports; the liquidity risk strategy and the policies and procedures through the business lines and with the Board of Directors.

The handling of liquidity risk in the Institution is governed by the following principles: decentralized and independent liquidity management; self-financing of the credit activity of the banks; liquidity planning in the process of growth planning in the activity; clear segregation of functions to achieve a proactive management of liquidity risk, including intraday liquidity and management of collateral, establishment of a transfer pricing system and standards for internal use of liquidity; as well as alignment with regulatory requirements.

The structure and responsibilities for liquidity risk management are clearly segregated by function and area:

– *Setting of general policies, fundamental metrics and limits.* The risk liquidity policies are approved by the Board of Directors, with the prior favorable opinion of the Risk Committee; which bodies approve the liquidity risk limits scheme.

- *Risk identification, measurement and control.* Risks identifies, measures and establishes measurements to control liquidity risk to which the Financial Group is subject through the setting, follow-up and reporting of a limits scheme.

- *Management of investing and deposits activity.* This is performed by the business areas in accordance with the risks policy.

- *Liquidity management and financing.* This is performed by Finances, specifically in the Financial Management area, leaving short-term performance delegated (including the performance of intraday liquidity) in the Global Markets unit

- *Generation of follow-up information.* As much as possible, the Systems and Finances areas of the Financial Group supply the relevant information for purposes of liquidity risk. At the same time, Risks promotes the ongoing improvement of information quality to ensure a correct decision-making process.

The status of the limits and red flags is reported through daily internal reports to Senior Management, internal audit and the areas which handle risk, even more frequently in times of crisis; in order to perform the measurement of liquidity risk, there are applications developed internally by the Systems area, and the risk measurement system of the Structural Balance Sheet QRM (Quantitative Risk Management) is also used.

Strategies are outlined within the risk limits approved by the Board of Directors and Risks Committee delegated by the Board, and are agreed upon in the Assets and Liabilities Committee, always within the liquidity risk tolerance approved. Also, follow-up is given on the evolution of liquidity risk and excess risk in these bodies.

b) Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized

Every year the Financial Group prepares a growth plan of its activity, considering the business's growth projections, the maturities profile of assets and liabilities, the appetite for risk and projected market conditions. On such basis, the financing plan is prepared in the wholesale markets, seeking to maintain diversification in financing, thus ensuring that there is no excessive dependence on short-term financing.

c) Liquidity risk mitigation techniques used

The Institution liquidity risk model, based on the principles quoted in subsection (a) of this quantitative information, at all times takes into account the legal, regulatory and operational restrictions on the transferability of liquidity.

Specifically, one of the strengths of the Institution is based on the quality of its funding, which is diversified by type of customers, instruments and markets. With regard to deposits, there is an extensive network of retail and wholesale customers. This attraction of deposits is complemented and strengthened with local and international issues, maintaining constant access to debt markets.

If liquidity risk limits or red flags are triggered, specific action and communication procedures are established within the Financial Group, based on a clear definition of roles by the different areas and decision-making bodies, with the level of communication depending on whether a limit or red flag was triggered. Also, there is a Liquidity Contingency Plan, which when activated has an inventory of action measures classified by type, based on whether they are related with Banxico, the wholesale market or commercial activity. Mitigation techniques include internal and external liquidity sources, selected according to the situation of the current and forecast market, prudence in the activity, financial and reputational impact, among others.

d) Use of stress tests

Liquidity risk stress tests are performed under different scenarios, in each case evaluating the status of coverage of the available liquidity buffer with the liquidity needs of the scenario in question under different temporary horizons. The results of these tests form an integral part of the Liquidity Contingency Plan, given that the latter is activated by them.

e) Description of contingent financing plans

The Liquidity Contingency Plan or Contingency Financing Plan is considered a fundamental part of liquidity risk management at times of liquidity stress.

It contains concrete procedures to facilitate decision-making, a rapid adoption of contingent measures and efficient communication, specifying the functions and responsibilities in these situations, together with the authority to activate it. It is defined on the basis of four principles: coordination between the participating units, effective level of information, confidentiality of the actions and information and enforceability. It is authorized by the Board of Directors of the Institution, with the prior favorable opinion of its delegated Risk Committee; the proposal of the Liquidity Contingency Plan to the Board of Directors and its subsequent amendments is made by the Managing Director of the Institution.

Furthermore, the Financial Group has a Contingency Plan or Recovery Plan in place which establishes possible actions to be performed to restore its financial position in light of adverse scenarios which might affect its solvency and/or liquidity. This plan describes the situation of the Institution by detailing key business lines, recovery indicators, and corporate governance if adverse scenarios arise and the processes needed to implement recovery measures. This plan is also approved by the Board of Directors.

– *Liquidity Coverage Coefficient (CCL)*

The Liquidity Coverage Coefficient quantifies the potential capacity of the Institution to meet 30 day liquidity needs in a stress scenario with available liquid assets.

According to the information disclosure requirements specified in Exhibit 5 of the General Provisions on Liquidity Requirements for Full Service Banks, the following Liquidity Coverage Coefficient Disclosure Form is presented.

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	4T 2015	
Liquidity coverage coefficient	**Unweighted amount**	**Weighted amount**
Computable liquid assets		
Total computable liquid assets	Not applicable	$ 194,444
Cash outlays		
Stable financing	$ 337,992	$ 16,900
Less stable financing	118,765	11,877
Unsecured retail financing	456,757	28,777
Operational deposits	101,349	23,997
Nonoperational deposits	226,017	93,286
Unsecured debt	3,310	3,310
Unsecured wholesale financing	330,676	120,593
Secured wholesale financing	Not applicable	3,197
Outlays related to financial derivatives	22,185	22,185
Lines of credit and liquidity	414,288	35,407
Additional requirements	436,473	57,592
Other contingent financing obligations	8,933	8,933
Total cash outlays	Not applicable	$ 219,092
Cash receipts		
Cash receipts from secured transactions	$ 44,923	$ 600
Cash receipts from unsecured transactions	84,137	51,432
Other cash receipts	2,499	2,499
Total cash receipts	$ 131,559	$ 54,331
Total computable liquid assets	Not applicable	$ 194,444
Net total cash outlays	Not applicable	$ 164,561
Liquidity coverage coefficient	Not applicable	118.25%

a) *Calendar days included in the quarter being disclosed*

The quarter reported includes 92 calendar days.

b) *The primary causes of the results of the Liquidity Coverage Coefficient and the evolution of its principal components.*

During 2015, the CCL has remained above the 100% requirement, even though the regulatory minimum was 60%, which means that there are sufficient liquid assets for a 30 day liquidity stress outlay. The structure of the components has remained similar over the year, but an improvement in the CCL is notable in the final quarter, due to the increase in liquid assets originated by additional deposits which generated larger receipts for deposits in other Banks.

Description	1 T	2 T	3 T	4 T
Liquid assets	$ 173,672	$ 185,971	$ 190,020	$ 194,444
Outlays	$ 216,684	$ 210,771	$ 216,179	$ 219,092
Receipts	$ 56,120	$ 40,861	$ 41,478	$ 54,531
CCL	108%	109%	109%	118%

c) *Changes in the principal components in the quarter reported*

Description	Changes 4T vs 3T
Liquid assets	$ 4,424
Outlays	$ 2,913
Receipts	$ 13,053
CCL	9%

d) *Evolution of the composition of Eligible and Computable Liquid Assets*

In the quarter there was a slight improvement in liquid assets due to a rearrangement.

Level	3 T	4 T	Variance
N1 Cash	$ 111,451	$ 124,269	12%
N1 Securities	48,389	37,572	(22%)
IIA	23,496	26,860	14%
IIB	6,684	5,743	(14%)
Total	$ 190,020	$ 194,444	

e) *Concentration of financing sources*

One of the great strengths of the Institution is the quality of its funding, which is diversified by type of customers, instruments and markets. With regard to deposits, there is an extensive network of both retail and wholesale customers. This attraction of deposits is supplemented and strengthened with local and international issues, over different terms, and constant access is maintained with debt markets.

The following table shows the principal financing sources at the close of the year, representing 86% of the total liabilities of the Institution.

Sources of financing (December 2015)	% of total liabilities
Customer deposits	53.7%
Collateralized financing	18.2%
Securities	5.9%
Debentures	5.0%
Money market	1.9%
Interbank	1.3%

f) *Exposures in financial derivatives and possible margin calls*

Exposure, according to current local exposure guidelines in derivatives for the Liquidity Coverage Coefficient, is as follows:

Description		**December 2015**
Net outlay of derivatives at market value plus outlay for potential exposure	$	22,458

g) *Mismatch of foreign currencies*

The liquidity risk associated with foreign currency transactions is covered in conformity with the provisions of the Liquidity Coefficient in Foreign Currency, established by Banxico. Furthermore, the risk associated with the exchange rate is duly funded and is handled within the regulatory limits

h) *Degree of centralization of liquidity management and interaction between the group's units*

The responsibility for handling liquidity is concentrated in the Financial Management unit, which reports directly to the CFO and is independent from the business units. It maintains a direct interaction with the business areas, defining strategies for how to use and attract liquidity.

The strategies are applied within the risk limits approved by the Board of Directors and the Board's delegated Risk Committee, and are agreed upon in the Assets and Liabilities Committee, the executive body responsible for handling capital and the structural risks of the balance sheet with regard to interest rates, exchange rates and liquidity.

i) *Cash flow outlays and receipts relevant for its liquidity profile*

The Institution considers that all relevant 30 day flows are covered in the CCL metric, for which reason there are no additional flows to be considered.

The Institution has cash flow hedges to reduce exposure to variances in flows, changing such flows to a fixed rate in order to improve the sensitivity of the financial margin. The method used to evaluate prospective effectiveness is by sensitivity analysis; retrospective effectiveness is measured by comparing the change in the present value of the flows from the hedge instrument against the changes in the present value of the flows from the hedged position.

The surplus from cash flow hedge derivatives recognized in equity as of December 31, 2015 is $467, of which, based on the present value of coupons that will be settled in 2016, income of $279 is excepted to be recognized in results.

– *Operational Risk:*

The measurement and control of operational risk is the responsibility of a separate operational risk unit which manages market risk and credit risk, as well as audit units and compliance.

Aware of the importance of considering all aspects associated with operating risk, the Institution has implemented comprehensive risk management which not only includes the quantitative aspects of risk, but also seeks to measure other elements that require the introduction of qualitative evaluation mechanisms, without overlooking the objectivity of the systems utilized for this purpose. An operating risk is defined as one that cannot be classified as a credit or market risk. This is a broad definition which primarily includes the following risk classes: process, fraud, technological, human resources, commercial and legal practices, and suppliers and disasters.

The operational risk losses recorded in 2015 were $1,555, mainly from fraud and operational errors.

The operating risk management model is based on a cause-effect model which identifies the operating risk associated with the Institution's processes through a continuous improvement circuit:

- Identification. Consists of determining which risk factors (circumstances which can become operating risk events) reside in the processes of each business/support unit. This is the most important part of the cycle because it determines the existence of all other parts.

- Quantification. The cost that can be generated by a risk factor is quantified by using historical data (database of operating losses) or estimated in the case of risks which have not arisen as past events. This quantification is based on two components: occurrence frequency and monitoring the impact generated in the event of occurrence.

- Mitigation. After having identified and quantified operating risk factors, if this risk exceeds desired levels, a mitigation process is implemented to reduce the risk level by either transferring it or modifying the processes which reduce the frequency or impact of an event. Mitigation decisions are made by the Operating Risk Committee created by each business/support unit.

- Follow-up. Qualitative follow-up is provided to analyze the evolution of the operating risk, which involves evaluating the implementation level of mitigation measures. Quantitative follow-up consists of measuring the evolution of causal operating risk indicators, while also analyzing the evolution of operating risk losses recorded in a database.

In the specific case of technological risks, aside from the general operating risk methodology, a technological Risk Committee has also been created to ensure that identified risks and mitigation plans are standardized throughout the Institution and are compliant with logical security, business continuity, data processing efficiency and technological evolution standards. Likewise, this Committee ensures the adequate management of the Institution's technological infrastructure.

In the case of legal risk, aside from the operating risk management circuit, the probability of an adverse verdict derived from administrative processes or legal proceedings in which the Institution is either plaintiff or defendant is also calculated.

Given that the different departments have doubts regarding compliance with certain operating processes established by Mexican and/or foreign laws, consultations are periodically requested from attorneys specializing in different areas to obtain a reliable legal opinion and guarantee compliance with legal provisions.

Based on the above, the institution considers that the main factors influencing the legal risk are: degree of non-compliance with local regulations types of judicial process which involves; lawsuit amount and likelihood of an unfavorable outcome.

Operating Risk events can arise in the Banking Business for different reasons such as: fraud, process operating errors, disasters, technological deficiencies and legal risks, etc. Accordingly, the Institution has established robust internal models to enable it to timely determine the occurrence of operating risk events.

Operational risk derives from the probability that there will be human errors, inadequate or defective internal processes, systems failures and also external events which might represent a loss for the Institution. This definition includes legal risk and excludes strategic and/or business risk and reputational risk.

Operational risk is inherent to all the activities, products, systems and processes, and its origins are quite varied (processes, internal and external frauds, technological, human resources, commercial practices, disasters, suppliers). The management of operational risk is integrated into the global risk management structure of the Financial Group.

Throughout the Institution there is an integrated internal control and operational risk methodology. This methodology helps to identify risks in the organization's areas, generate analyses to prioritize risks according to their residual estimate (after including the effect of the controls), link the risks to the processes and establish an objective level for each risk which, by comparison with the residual risk, identifies weaknesses that can be managed. To provide the necessary support to this methodology, the Institution has a corporate application: STORM (*Support Tool for Operational Risk Management*), which includes indicator and scenario modules.

The framework of operational risk management defined by the Institution includes a governance structure based on three lines of defense with: clear demarcation of the responsibilities, policies and procedures common to the entire Institution, systems to identify, measure, monitor, control and mitigate the operational risks and losses, as well as tools and methodologies to quantify the operational risk in terms of capital

Framework of operational risk management: Three lines of defense

Business units

– They manage the operational risk of their respective areas, coordinated by the GRO Business in the areas, and by the process owners and controls.

Internal Controllership, GRO Country and Internal Control Specialists

– The Internal Controllership function and GRO Country (Operational Risk Management Country) are responsible for designing, maintaining and updating the framework of operational risk and Internal Control in the Institution and confirming that it is correctly applied in the field of the business and support areas.

    - They define procedures, systems and tools.
    - Reporting to Senior Management.

– The Internal Control Specialists assess the effectiveness of the documented controls and assure the permanent updating of the internal control system, in adherence to the Internal Control objectives and guidelines defined by the Controllership and authorized by the Board of Directors at the behest of the Audit Committee.

Internal Audit:

- In general it ascertains compliance with the framework of operational risk management, with independent review and testing of the controls, processes and systems of the Financial Group.

  Operational risk management in the Institution is designed and coordinated from the Operational Risk Management function (GRO Country) in conjunction with the corporate criteria of the Institution. The business or support areas in turn have Operational Risk Managers (GRO Business) which for functional purposes report to GRO Country and are responsible for implementing the model in the day-to-day of the business areas. Accordingly, the Institution has an operational perspective, which is where the operational risks are identified and prioritized and mitigation decisions are taken.

To carry out this task, the Institution has tools in place to cover the qualitative and quantitative aspects of operational risk:

Operational Risk Management Tool - The STORM corporate tool documents the identification and management of the most important risks which constitute the reference to focus attention on the Operational Risk Management Committees of the business and support units, and on the delegated Risk Committees of the Board of Directors held during the year.

Indicators fixed in the principal operational risks and their controls: The indicators help measure the evolution of the risks and their controls over time, generate red flag signals and measure the effectiveness of the controls on an ongoing basis. These indicators are defined and followed up by the Internal Control Specialists.

SIRO Tool - Operational risk events almost always have a negative impact on the accounts of the Institution. To ensure detailed control over them, they are registered in a database known as SIRO (Operational Risk Integrated System). To ensure reliability it receives the information directly from accounting by automatic interfaces in 95% of the cases.

Capitalization for operational risk

Based on the changes to the Provisions published by the Commission on December 31, 2014, which define the methodological criteria to determine the capital requirement for operational risk through the Basic, Standard, and Alternative Standard approaches, the Financial Group requested and obtained authorization from the Commission on November 27, 2015, to use the Alternative Standard method to calculate the capital requirement for operational risk, based on the information as of October 2015.

The Alternative Standard Method consists of a simple totaling of the net revenues for each of the eight business lines, multiplied by the factors related to each line, except when it involves the calculation of the capital requirements for Operational Risk of the retail banking and commercial banking business lines, for which the capital requirement will be calculated by substituting the monthly net revenue of each of these lines of business, for the amount exercised of monthly loans and advances for each business line, multiplied by a fixed factor "m", which will be 0.035.

The factors to be used by business line are as follows:

Business lines	% Applicable to each business line
Corporate finances	18
Transactions and sales	18
Retail banking	12
Commercial banking	15
Payments and settlements	18
Agency services	15
Asset management	12
Retail brokerage	12

To calculate the net revenues and the amount exercised of loans and advances, it is essential to consider the amount applicable to the 36 months before the month for which the capital requirement is being calculated, which must be grouped into three periods of 12 months to determine the annual net revenues.

The losses derived from operational risk in 2015 were $1,555, mainly due to frauds and operational errors.

34. Financial indicators (unaudited)

As of December 31, 2015 and 2014, according to article 182 of the Provisions, the Institution's financial indicators are as follows:

Ratio	2015	2014
Ratio of default	2.40%	2.70%
Hedge ratio of portfolio of overdue credits	127.90%	118.80%
Operating efficiency	3.20%	3.90%
ROE	19.70%	14.60%
ROA	1.70%	1.30%
Capitalization ratio credit and market risk	14.90%	15.20%
Basic capital 1 on credit, market and operational risk	10.90%	10.50%
Liquidity	78.60%	84.20%
Net adjusted interest margin (MIN) /Average Productive Assets	4.30%	4.40%

35. Ratings

At December 31, 2015, the ratings assigned to the Institution are as follows:

	Global Scale ME		National Scale		
Ratings Agency	Long Term	Short Term	Long Term	Short Term	Perspective
Standard & Poor's	BBB+	A-2	mxAAA	mxA-1+	Stable
Moody's	A3	P-2	Aaa.mx	MX-1	Stable
Fitch	A-	F1	AAA (mex)	F1+ (mex)	Positive

36. Contingencies

As of December 31, 2015 and 2014, there are claims filed against the Institution in ordinary civil and commercial lawsuits, as well as payment requests issued by the tax authorities. However, according to its attorneys, the claims filed are considered without merit and, in the event of adverse rulings, its financial position would not be significantly affected. For such purpose, the Institution has weighted the impact of each one and has recorded a reserve for $321 and $392 in these cases.

At December 31, 2015 and 2014, certain labor lawsuits have been filed against the Institution. However, its attorneys consider that these claims are without merit and that an adverse outcome would not significantly affect the Institution's financial position. Consequently, at December 31, 2015 and 2014, the Institution has analyzed the effect of each of these lawsuits and has recorded a reserve of $229 and $210 for labor lawsuits.

37. New accounting principles

Amendments to the accounting criteria issued by the Commission

On November 9, 2015, different amendments to the accounting criteria of credit institutions were published in the Federal Official Gazette. The purpose of these amendments is to make the necessary adjustments to the accounting criteria of credit institutions for the operations they perform, in order to have reliable financial information. These amendments went into effect on January 1, 2016.

The most significant changes are described below:

a. Accounting Criterion C-5, *Consolidation of special purpose entities*, is eliminated.

b. The following are added as part of the accounting criteria of the Commission: NIF C-18, *Obligations associated with the retirement of property, plant and equipment*, and NIF C-21, *Agreements with joint control,* due to the enactment of such standards by the CINIF.

c. For the consolidated financial statements, it is incorporated in the application of specific provisions, that for those special purpose entities ("SPE") created prior to January 1, 2009 in which control was maintained, there will be no obligation to apply the provisions contained in NIF B-8, *Combined or consolidated financial*, with regard to their consolidation.

d. It is established that overdrafts in customer checking accounts which do not have a line of credit for such purposes, will be classified as overdue debts and an allowance for the total amount of such overdraft must be established simultaneously with such classification, at the time the event takes place.

e. It is established that the net asset for defined benefits to employees must be presented on the balance sheet under the heading of "Other assets".

f. It is specified that the applicable regulation must be applied according to that set forth by Banxico to include the purchase of foreign currencies which are not considered derivatives, as "Funds available".

g. It is established that if the offset balance of foreign currencies to be received with foreign currencies to be delivered were to reach a negative amount, such item must be presented under the heading of "Other accounts payable".

h. It is clarified that if an item of restricted funds available were to show a negative balance, such item must be presented under the heading of "Other accounts payable". Previously the negative balance of restricted funds available was not considered for such presentation.

i. The definition of "Transaction costs" in Accounting Criterion B-2, *Investments in securities* and in

Accounting Criterion B-5, *Derivatives and hedge operations,* is modified.

j. The definitions of "Borrower", "Appraisal Percentage Guarantees", "Payment capacity", "Extended Portfolio", "Assignment of Credit Rights", "Consolidation of Credits", "Debtor of Credit Rights", "Vendor of Discounted Receivables", "Financial Factoring", "Purchaser of Discounted Receivables", "Line of Credit", "Discount Transaction", "Special Repayment Regime", "Ordinary Repayment Regime" and "Housing Subaccount", are incorporated into Accounting Criterion B-6, *Loan Portfolio*

k. The definition of "Renewal" is modified in Accounting Criterion B-6, *Loan Portfolio,* to now consider it as that transaction in which the loan balance is settled partially or totally, through an increase in the total amount of the loan, or using the proceeds derived from another loan contracted with the same entity, involving either the same debtor, a joint obligor of such debtor, or another person who, due to his asset ties, represents common risks.

l. "Mortgage Loans" are defined as those credits intended for remodeling or improvement of the home which are backed by the savings in the borrower's housing subaccount, or have a security interest granted by a development bank or a public trust established by the Federal Government for economic development.

m. Loans for financial factoring, discount and credit right assignment operations are incorporated in the definition of "Commercial Loans".

n. It is clarified that a loan will not be considered as renewed for any dispositions made during the effective term of a pre-established line of credit, provided that the borrower has settled the total amount of the payments which are due and payable under the original loan conditions.

o. It is established that when credit dispositions made under a line of credit are restructured or renewed independently from the line of credit which supports them, they must be assessed in accordance with the characteristics and conditions applicable to the restructured or renewed disposition or dispositions.

   When as a result of such evaluation it is concluded that one or more dispositions granted under a line of credit should be transferred to overdue portfolio due to the effect of their restructuring or renewal and such dispositions, individually or collectively, represent at least 40% of the total disposed balance of the line of credit at the date of the restructuring or renewal, such balance, as well as its subsequent dispositions, must be transferred to overdue portfolio as long as there is no evidence of sustained payment of the dispositions which originated the transfer to overdue portfolio, and the total dispositions granted under the line of credit fulfilled the due and payable obligations at the date of transfer to current portfolio.

   The aforementioned percentage is applicable as of January 1, 2016, and will be reduced to 30% for the year 2017, and 25% for the year 2018 and thereafter.

p. It is established that in the case of loans acquired from INFONAVIT or the FOVISSSTE, where there is an obligation to respect the terms which the aforementioned agencies contracted with the borrowers, sustained payment of the loan is deemed to exist when the borrower has timely settled the total due and payable amount of principal and interest, of at least one repayment in the credits under the Ordinary Repayment Regime (ROA) and three repayments for the loans under the Special Repayment Scheme (REA).

q. It is stipulated that for restructurings of loans with periodic payments of principal and interest whose repayments are less than or equal to 60 days in which the periodicity of payment is modified to shorter periods, the number of repayments equivalent to three consecutive repayments under the original loan payment scheme must be considered.

r. The assumptions are established to consider that sustained payment exists for those loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, as follows:

   i. The borrower must have paid at least 20% of the original loan amount at the time of the restructuring or renewal, or,

   ii. The amount of the accrued interest must have been paid in accordance with the payment scheme for the respective restructuring or renewal at a term of 90 days.

s. With regard to consolidated loans, if two or more loans originated the transfer to overdue portfolio of the total balance of the consolidated loan, to determine the repayments required to consider their sustained payment, the original loan payment scheme whose repayments are equal to the longest repayment period must be considered. Previously the practice was to give the treatment for the worst of the credits to the total balance of the restructuring or renewal.

t. It is established that evidence must be made available to the Commission when demonstrating sustained payment to substantiate that the borrower has the appropriate payment capacity at the time the restructuring or renewal is performed, so as to meet the new loan conditions.

u. It is clarified that the advance payment of installments of restructured or renewed loans, different from those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, is not considered to be sustained payment. This is the case with repayments of restructured or renewed loans which are paid before the calendar day's equivalent to loans with repayments that cover periods greater than 60 calendar days have elapsed.

v. The extension of the loan term is incorporated as a restructuring situation.

w. The respective standards for the recognition and valuation of financial factoring, discounting and credit right assignment transactions are included.

x. It is established that commissions and fees different from those collected for granting the credit will be recognized in results of the year on the date that they are accrued, and if part or all of the consideration received for the collection of the respective commission or fee is received before the accrual of the respective income, such advance must be recognized as a liability.

y. The item stating that overdrafts in customer checking accounts should be reported as overdue portfolio is eliminated.

z. It is established that repayments which have not been fully settled under the terms originally agreed and are 90 days or more in arrears with the payments related to the loans which the entity acquired from the INFONAVIT or the FOVISSSTE, in accordance with the respective REA or ROA payment modality, as well as the loans made to individuals for the remodeling or improvement of the home for no speculative purposes which are backed by the savings from the borrower's housing subaccount, will be considered as overdue portfolio.

aa. The transfer to overdue portfolio of the loans referred to in the preceding point will be subject to the exceptional deadline of 180 or more days in arrears as of the date on which:

i. The loan resources are disposed of for the purpose for which they were granted,

ii. The borrower begins a new employment relationship in which he has a new employer, or

iii. The partial payment of the respective repayment was received. The exception contained in this subsection will be applicable provided that it refers to credits under the ROA scheme, and each of the payments made during such period represents at least 5% of the repayment agreement.

bb. It is specified that loans with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, will be considered as overdue portfolio as long as there is no evidence of sustained payment.

cc. It will be considered that loans granted under a new line of credit, revolving or not, which are restructured or renewed at any time, may remain in current portfolio provided that there are grounds to justify the payment capacity of the debtor. Furthermore, the borrower must have:

i. Settled the total amount of due and payable interest;
ii. Settled all of the payments for which he is liable under the terms of the contract at the date of the restructuring or renewal.

dd. It is established that when credit dispositions made under a line of credit are restructured or renewed independently from the line of credit that supports them, they must be assessed in accordance with the characteristics and conditions applicable to the restructured or renewed disposition or dispositions.

When as a result of such assessment it is concluded that one or more dispositions granted under a line of credit should be transferred to overdue portfolio due to the effect of a restructuring or renewal, and such dispositions, individually or collectively, represent at least 25% of the total disposed balance of the line of credit at the date of the restructuring or renewal, such balance, together with its subsequent dispositions, must be transferred to overdue portfolio as long as there is no evidence of sustained payment of the dispositions which originated the transfer to overdue portfolio, and the total of the dispositions granted under the line of credit have fulfilled the due and payable obligations at the date of the transfer to current portfolio.

ee. The requirement that the borrower must have paid the total amount of the interest accrued at the date of renewal or restructuring to consider that a loan remains current will be considered as fulfilled, when after the interest accrued at the final cutoff date has been paid, the term elapsed between such date and the restructuring or renewal does not exceed the lower of half of the payment period under way or 90 days.

ff. Current loans with periodic partial payments of principal and interest which are restructured or renewed more than once may remain in current portfolio if there are elements to justify the payment capacity of the debtor. It is specified that in the case of commercial loans, such elements must be duly documented and placed in the loan file.

gg. If different loans granted by the same entity to the same borrower are consolidated in a restructuring or renewal, each of the consolidated loans must be analyzed as if they were restructured or renewed separately and, if as a result of such analysis it is concluded that one or more of such loans would have been transferred to overdue portfolio due to the effect of such restructuring or renewal, then the total balance of the consolidated loan must be transferred to overdue portfolio.

hh. With regard to presentation standards in the balance sheet and the statement of income, it is established that:

i. Housing loans acquired from the INFONAVIT or the FOVISSSTE must be segregated inside the current portfolio, into ordinary portfolio and extended portfolio.

ii. It is specified that the amount of loans for financial factoring, discount and credit rights assignment transactions will be presented net of the respective appraisal percentage guarantee.

iii. Any commissions received before the accrual of the respective revenue will be presented under the heading of "Deferred credits and advance collections".

iv. The financial revenue accrued in the financial factoring, discount and credit rights assignment transactions will be considered as interest income.

ii. With regard to disclosure standards, new requirements are incorporated such as:

i. Breakdown of the restricted current portfolio and unrestricted and overdue portfolio for the media and residential portfolio, low income portfolio, remodeling or improvement secured by the housing subaccount and loans acquired from the INFONAVIT or the FOVISSSTE, segregated into ordinary portfolio and extended portfolio.

ii. Total amount and number of loans acquired from the INFONAVIT or the FOVISSSTE transferred to overdue portfolio, as well as the total amount of loans that were not transferred to overdue portfolio, segregated into loans that the entity acquired from the INFONAVIT or the FOVISSSTE, in accordance with the respective REA or ROA payment modality, and loans granted to individuals for remodeling or improving the home for no speculative purposes, which are backed by the savings of the borrower's housing subaccount.

iii. Principal characteristics of the loans acquired from the INFONAVIT or the FOVISSSTE, describing at least those related to their classification as extended portfolio, ROA and REA, together with those related to the assignment of such credits.

iv. Description of the obligation and rights held by the INFONAVIT and FOVISSSTE in relation to the portfolio acquired by the entity.

v. Identification by type of loan for the medium and residential portfolio, low income portfolio, remodeling or improvement guaranteed by the housing subaccount, and loans acquired from the INFONAVIT or FOVISSSTE of the balance of the overdue portfolio as of the date on which it was classified as such, in the following terms: from 1 to 180 calendar days, from 181 to 365 calendar days, from 366 calendar days to two years, and more than two years in overdue portfolio.

vi. Total amount of housing loans backed by the housing subaccount, broken down into current and overdue portfolio and specifying the percentage which it represents of the total housing loans.

vii. Total accumulated amount of the restructuring or renewal by type of loan, differentiating that originated in the exercise of those consolidated loans transferred to overdue portfolio as of result of a restructuring or renewal, from those restructured loans to which the criteria for the transfer to overdue portfolio were not applied.

jj. It is established in Accounting Criterion B-7, *Foreclosed assets,* that in the case of assets whose valuation to determine fair value may be made through an appraisal, the latter must comply with the requirements established by the CNBV for providers of bank appraisal services.

kk. It is clarified in Accounting Criterion C-2, *Stock market operations,* that in the case of stock market instruments executed and recognized in the consolidated financial statement prior to January 1, 2009, it will not be necessary to reevaluate the transfer of recognized financial assets prior to such date.

In this regard, the principal effects that this exception might have on such financial statements should be disclosed in notes to the financial statements, as well as the effects of recognition of the adjustments for valuation of the profits on the remnant of the assignee (recognized in results or in stockholders' equity) and of the asset or liability recognized for administration of transferred financial assets.

ll. The definition of "Agreement with Joint Control", "Joint Control" is incorporated, and the definition of "Associated Company", "Control" "Holding Company", "Significant Influence", "Related Parties" and "Subsidiary" is modified in Accounting Criterion C-3, *Related parties.*

Individuals or business entities which, directly or indirectly, through one or more intermediaries exert significant influence on, are significantly influenced by, or are under significant influence of the entity, as well as agreements with joint control in which the entity participates, are now considered to be related parties.

mm. The disclosure requirements contained in Accounting Criterion C-3, *Related parties*, are extended to agreements with joint control.

nn. As an amendment to Accounting Criterion C-4, *Information by segments*, the purchase and sale of foreign currency is incorporated within the segment of Treasury and investment banking operations.

oo. Different modifications are made to the presentation of the balance sheet to incorporate the opening of the current and overdue home loan portfolio in the following segments: medium and residential, low income, loans acquired from the INFONAVIT or FOVISSSTE, and remodeling and improvement with collateral granted by the development bank or public trusts.

pp. The requirement is established to present on the balance sheet as a liability under the heading "Inactive global deposits account", the principal and interest on deposit instruments which do not have a date of maturity or, when they do, they are renewed automatically, as well as the transfers or expired or unclaimed investments referred to in article 61 of the Credit Institutions Law.

qq. A heading named "Re-measurements for defined benefits to employees" is added as part of earned capital on the balance sheet, as a result of the enactment of NIF D-3, *Employee benefits.*

rr. The heading "Collateral granted" is incorporated at the foot of the balance sheet within memorandum accounts.

ss. It is specified that insurance and bonding, technical assistance expenses, maintenance expenses, fees different from those paid to the IPAB and consumables and fixtures should be included in the statement of income.

tt. The statement of changes in stockholder's equity should include re-measurements for defined benefits to employees as part of movements inherent to the recognition of comprehensive income, as a result of the enactment of NIF D-3, *Employee benefits.*

NIF's issued by the CINIF applicable to the Institution

At January 2015, the CINIF issued several amendments to NIF D-3, Employee Benefits.
These amendments came into effect from at January 1, 2016.

The principal modifications derived from the application of this new NIF D-3 in the Financial Group's financial information are as follows:

- Discount rate for liabilities - Defined Benefits Obligation (OBD)
  - The discount rate to calculate the OBD will be determined by taking the market rate of high-quality corporate bonds, provided that there is a deep market for such bonds. Otherwise, the market rate of the bonds issued by the federal government must be taken.
- Recognition of actuarial gains and losses
  - The use of the broker is eliminated for the deferral of actuarial gains and losses.
  - The accumulated balance of retained earnings and accumulated losses as of December 31, 2015 will be recognized as part of stockholders' equity and in liabilities as of January 1, 2016.
  - Any actuarial gains and losses generated as of January 1, 2016 will be treated as re-measurements for defined benefits to employees, and will be recognized in stockholders' equity and in liabilities.
- Amortization of actuarial gains and losses
  - The actuarial gains and losses recognized in stockholders' equity must be recycled to results in the Remaining Useful Life of the Plan.
- Expected return on plan assets
  - The expected return on the plan assets will be estimated with the discount rate of the liabilities instead of the expected rate of return for the fund.

Due to the enactment of the NIF D-3, on December 31, 2015 the Commission issued different transitory articles to the "Resolution amending the General provisions applicable to credit institutions", published in the Federal Official Gazette on November 9, 2015.

These transitory articles establish that credit institutions may recognize the entire balance of plan amendments (past service) and the accumulated balance of the plan's gains and losses not recognized for entities which used the broker approach progressively at the latest on December 31 of each year.

If the option is taking to progressively apply the aforementioned balances, the recognition of such balances should begin in the year 2016, recognizing 20% in that year and another 20% in each of the subsequent years, until reaching 100% within a maximum term of five years.

The re-measurements of gains and losses from the defined benefits plan which should be recognized at the end of each period, together with their respective recycling to results of the year, should be calculated on the total amount of the plan's gains or losses; i.e., on the aggregate of the plan's gains or losses, plus those not recognized on the balance sheet of the institutions.

Credit institutions which elect to apply this option must report their decision to the Commission at the latest by January 31, 2016.

By the same token, if all or part of the remnant effect is recognized before the established deadlines, the Commission must be informed within the 30 calendar days following the date on which the respective accounting record is made. The entities may perform such recognition in advance, provided that at least 20% or the total remnant is recognized in the respective year.

Credit institutions which applied any of the aforementioned options should disclose the adjustments derived from applying the option in question in the public financial reporting communications for the years 2016 and up to that in which the progressive recognition of the aforementioned effects is concluded.

NIF Promulgated

At December 31, 2015, the CINIF has issued the following NIFs and Interpretations to FRS (INIF) that could have an impact on the consolidated financial statements of the Institution:

a. Effective as of January 1, 2016:

   INIF 21, Recognition of separation payments for employees

b. Effective as of January 1, 2018:

   NIF C-2, *Investment in financial instruments*
   NIF C-3, *Accounts receivable*
   NIF C-9, *Provisions, contingencies and commitments*
   NIF C-16, *Impairment on financial instruments receivable*
   NIF C-19, *Financial instruments payable*
   NIF C-20, *Financial instruments receivable*
   NIF D-1, *Revenue from contracts with customers*
   NIF D-2, *Costs from contracts with customers*

Improvements to NIF 2016

Improvements to the NIF 2016 – The following improvements were issued, effective January 1, 2016, which generate accounting changes:

NIF B-7, *Business acquisitions* – Clarifies that the acquisition and/or merger of entities under common control, and the acquisition of noncontrolling equity or the sale without losing control of the subsidiary, are outside the scope of this NIF, regardless of how the amount of the consideration was determined.

NIF C-1, *Cash and cash equivalents* and NIF B-2, *Statement of cash flows* – Modified to consider foreign currency as cash and not as cash equivalents. Clarifies that both the initial and subsequent valuation of cash equivalents must be at fair value.

Bulletin C-2, *Financial instruments and Document of amendments to Bulletin C-2* –

a. The definition of financial instruments available for sale is modified to clarify that they are those in which investment is made from time to time with the intention of trading them over the medium-term prior to maturity, so as to obtain profits based on changes in market value, and not only through their related returns.

b. Criteria for classifying a financial instrument as available for sale is clarified to prohibit such classification when i) the intention is to hold it for an indefinite period, ii) the entity is willing to sell the financial instrument, iii) it has a sale or redemption option on the instrument, and iv) the issuer of the instrument has the right to liquidate the financial instrument at an amount significantly lower than its amortized cost.

c. The concept of purchase expenses is eliminated and the definition of transaction costs is incorporated.

d. The reversal of impairment losses from financial instruments held to maturity is allowed, in the net income or loss for the period.

NIF C-7, *Investments in associates, joint ventures and other permanent investments* – Establishes that contributions in kind should be recognized at the fair value that was negotiated between owners or shareholders, unless they are the result of debt capitalization, in which case they should be recognized for the capitalized amount.

Bulletin C-10, *Financial derivatives and hedge transactions-*

a. The method to be used to measure the effectiveness should be defined, which should be evaluated at the beginning of the hedge, in the following periods and at the date of the financial statements.
b. Clarifies how to designate a primary position.
c. The accounting for the transaction costs of a financial derivative is modified to be recognized directly in the net income or loss of the period at acquisition, and not deferred and amortized during its effective term.
d. Clarifications are made on the recognition of embedded derivatives.

The following improvements were issued which do not generate accounting changes:

NIF C-19, *Financial instruments payable (FIP)* - Clarifications are made with regard to: i) the definition of transaction costs, ii) when amortization of the transaction costs should be recalculated, iii) the entity should demonstrate, as support for its accounting policy, that it complies with the conditions for designating a financial liability at fair value through net income or loss, and iv) disclosing the gain or loss when an FIP is derecognized and the fair values of significant long-term fixed-rate liabilities. Furthermore, an appendix is incorporated as support in the determination of the effective interest rate.

NIF C-20, *Financial instruments receivable* – Changes are incorporated to clarify and explain various concepts due to the issuance of the new NIF related to financial instruments and the final issuance of IFRS 9, *Financial Instruments*. The most important of these include: transaction costs and related amortization, effective interest rate, impairment, foreign-currency instruments, reclassification between fair value debt instruments and financial instruments receivable, the value of money over time and disclosure of qualitative and quantitative information.

At the date of issuance of these consolidated financial statements, the Institution has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

38. Authorization of the issuance of the consolidated financial statements

The consolidated financial statements were authorized for issuance on February 25, 2016, by the Board of Directors of the Institution and are subject to approval by the Annual General Meeting of Shareholders of the Institution who may be modified in accordance with the provisions in the General Law of Commercial Companies.

39. Review of the consolidated financial statements by the Commission

The accompanying consolidated financial statements at 31 December 2015 and 2014 are subject to review by the Commission, so that the same may be modified as a result of that review by this supervisory authority.

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ANNEX A – SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP

Mexican banks prepare their financial statements in accordance with Mexican Banking Accounting Criteria ("Mexican Banking GAAP") as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for Banks as issued by the CNBV and, to the extent that such accounting rules do not address a given accounting topic, Mexican Financial Reporting Standards ("MFRS") prescribed by the Mexican Board for the Research and Development of Financial Information Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera ("CINIF")). Mexican Banking GAAP differs in certain significant respects from 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 the Company, including the terms of this offering and the financial information contained in this offering memorandum. Potential investors should consult with 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 herein.

This summary should not be taken as exhaustive of all 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 financial statements, including the notes thereto. We have not included in this offering memorandum a reconciliation of our Mexican Banking GAAP financial statements to U.S. GAAP.

Loan loss reserve

The accounting rules for loan loss reserves under Mexican Banking GAAP are set forth in the "General Regulations Applicable to Credit Institutions" issued by the CNBV. These provisions require the creation of allowances for loan losses for each type of loan, providing for the assignment of a rating based on risk (i.e., country, financial and industry sector), payment history and the value of credit enhancements for each borrower that is evaluated individually. Groups of homogenous loans are classified into ratings that are determined using a parametric analysis based on the number of months elapsed as of the first default. Such ratings are used, among other things, to estimate a loan loss reserve. The methodologies developed by the CNBV for recognizing and measuring loan loss reserves contemplate expected loss models. In certain cases, the provisions allow entities to determine loan ratings and the corresponding recognition and measurement of loan loss reserves using internal methodologies previously authorized by the CNBV. Also, the CNBV permits recognition of additional discretional reserves based on preventative criteria. We apply an internally developed model that has been approved by the CNBV and that is based on expected loss models to determine loan loss reserves related to credit card loans.

We assign an individual risk category to each commercial loan based on the borrower's financial and operating risk level, its credit experience and the nature and value of the loans' collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolios, the risk rating procedure and the establishment of loan reserves considers the period of time a loan is delinquent, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

Past-due loans are classified as non-performing under the following circumstances: If the borrower is declared bankrupt in accordance with the Commercial Bankruptcy Law, except for the following: (i) loans on which we continue to collect payments under the terms of the fraction VIII, article 43 of the Commercial Bankruptcy Law; (ii) loans that are granted under the terms of article 75 in relation with the fractions II and III of article 224 of the Commercial Bankruptcy Law; (2) loans with a single payment of principal and interest at maturity are classified as non-performing 30 calendar days after the maturity date; (3) loans with a single payment of principal at maturity and with scheduled interest payments are classified as non-performing 30 calendar days after principal becomes past-due and 90 calendar days after interest becomes past-due; (4) loans requiring payment of principal and interest in accordance with scheduled payments are classified as non-performing 90 days after the first installment is past due; (5) revolving lines of credit are considered non-performing when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 calendar days following maturity, and (6) overdrafts are reported as non-performing loans at the time the overdraft occurs.

Under U.S. GAAP, estimated loan losses are determined using incurred loss models. Accordingly, such losses 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.

Specific loss reserves are calculated for large non-homogeneous loans and for groups of smaller-balance homogeneous loans when it is determined that it is probable that a bank will not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms. Estimated losses are measured at the present value of expected future cash flows discounted at the loan's effective rate, or at the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent.

To calculate the allowance required for homogenous pools of smaller-balance impaired loans and unimpaired loans, loan provisions are estimated based on historical experience.

Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. For U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

Non-performing loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans are classified as non-performing based on the criteria established by the CNBV.

Under U.S. GAAP, the accrual of interest income is generally discontinued to the extent that such amounts are not expected to be recovered.

Fair value of financial instruments

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

U.S. GAAP defines fair value 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. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, U.S. GAAP establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company's financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable..

Securitized transactions and the consolidation of special-purpose entities

Under Mexican Banking GAAP, securitized transactions must fulfill the requirements established in accounting criterion C-1 "Recognition and Derecognition of Financial Assets" in order to be considered a sale and transfer of assets. If such requirements are not met, the assets must remain on the balance sheet, together with the respective debt issuances. Furthermore, a company must consolidate a special-purpose entity (SPE) when the economic basis of the relationship between both entities shows that the SPE is controlled by the former. Also, all securitized transactions made before the effective date of criterion C-1, are not consolidated since this criterion was issued considering a prospective implementation.

Under U.S. GAAP, the guidance surrounding the derecognition of financial assets is focused on an evaluation of control. In a transfer of financial assets (e.g. a securitization), an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

- The transferred assets have been isolated from the transferor (beyond the reach of the transferor and its creditors), even in bankruptcy.

- Each transferee (or, if the transferee is a qualifying special-purpose entity (SPE), each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.

- The transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

Business combinations

Under Mexican Banking GAAP, the separately identifiable assets acquired and liabilities assumed in connection with a business combination are measured at their acquisition-date fair values, with the exception of acquired loan portfolios, which are measured based on the criteria set forth by the CNBV. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired.

Under U.S. GAAP, an acquirer in a business combination recognizes assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date.

Employee retirement obligations

Under Mexican Banking GAAP, companies must determine whether termination benefits, such as severance indemnity benefits, are provided in accordance with employee contracts or implied based on past practice regarding the payment of such benefits, in which case they are accounted for as post-employment benefits and a provision is recognized as employee services are provided. Otherwise, termination benefits are recognized when an event occurs (such as a restructuring) that gives rise to an obligation to pay such benefits.

Companies reporting under U.S. GAAP have always been required to recognize a pension liability for severance indemnity liabilities.

Guarantees

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For U.S. GAAP purposes, an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee.

Accounting Changes

In certain cases, the accumulated effects of accounting changes issued by the CNBV pursuant to new or revised accounting criteria are charged or credited to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, accounting changes such as changes in accounting principles or corrections of errors are generally recognized with retrospective adjustments to previously reported financial statements.

Deferred Income Tax

Mexican Banking GAAP is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under Mexican Banking GAAP, deferred tax assets must be reduced by a valuation allowance if it is "highly probable" that all or a portion of the deferred tax assets will not be realized. The determination of the need for a valuation allowance must consider future taxable income and the reversal of temporary taxable differences. Net deferred income tax assets or liabilities are presented within long-term assets or liabilities.

Under U.S. GAAP, a valuation allowance is recognized if, based on the weight of all positive and negative available evidence, it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if the company has experienced recent cumulative losses, little weight, if any, may be placed on future taxable income as evidence to support the recoverability of a deferred income tax asset. U.S. GAAP requires that deferred tax assets and liabilities be classified as current or long-term depending on the classification of the asset or liability to which the deferred relates.

Consolidation

Under Mexican Banking GAAP, an investor is required to consolidate subsidiaries over which it is has established control. An investor controls an investee when the investor has all the following:

a. power over the investee,

b. exposure, or rights, to variable returns from its involvement with the investee, and

c. the ability to use its power over the investee to affect the amount of the investor's returns.

Under U.S. GAAP, entities consolidate the financial statements all investees over which a controlling financial interest is held (either through a majority voting interest or through the existence of other control factors).

Entities over which a controlling financial interest is achieved through means other than voting rights are known as variable-interest entities ("VIEs"). Generally, VIEs are to be consolidated by the primary beneficiary which is the entity that has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Effects of inflation

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an "inflationary environment," in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a "non-inflationary environment," in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items unless the company operates in a hyperinflationary economy. A hyperinflationary economy is generally defined as one in which the cumulative three year inflation rate exceeds 100%.

ANNEX B – SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND IFRS

Mexican banks prepare their financial statements in accordance with Mexican Banking Accounting Criteria ("Mexican Banking GAAP") as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for Banks as issued by the CNBV and, to the extent that such accounting rules do not address a given accounting topic, Mexican Financial Reporting Standards ("MFRS") prescribed by the Mexican Board for the Research and Development of Financial Information Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* ("CINIF")). Mexican Banking GAAP differs in certain significant respects from International Financial Reporting Standards ("IFRS"). 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 the Company, including the terms of this offering and the financial information contained in this offering memorandum. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and IFRS, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and IFRS. 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 financial statements, including the notes thereto. We have not included in this offering memorandum a reconciliation of our Mexican Banking GAAP financial statements to IFRS.

Loan loss reserve

The accounting rules for loan loss reserves under Mexican Banking GAAP are set forth in the "General Regulations Applicable to Credit Institutions" issued by the CNBV. These provisions require the creation of allowances for loan losses for each type of loan, providing for the assignment of a rating based on risk (i.e., country, financial and industry sector), payment history and the value of credit enhancements for each borrower that is evaluated individually. Groups of homogenous loans are classified into ratings that are determined using a parametric analysis based on the number of months elapsed as of the first default. Such ratings are used, among other things, to estimate a loan loss reserve. The methodologies developed by the CNBV for recognizing and measuring loan loss reserves contemplate expected loss models. In certain cases, the provisions allow entities to determine loan ratings and the corresponding recognition and measurement of loan loss reserves using internal methodologies previously authorized by the CNBV. Also, the CNBV permits recognition of additional discretional reserves based on preventative criteria. We apply an internally developed model that has been approved by the CNBV and that is based on an expected loss models to determine loan loss reserves related to credit card loans.

We assign an individual risk category to each commercial loan based on the borrower's financial and operating risk level, its credit experience and the nature and value of the loans' collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolios, the risk rating procedure and the establishment of loan reserves considers the period of time a loan is delinquent, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

Non-performing loan portfolio

We apply the following criteria to classify outstanding loans as non-performing:

Past-due loans are classified as non-performing under the following circumstances: (1) If the borrower is declared bankrupt in accordance with the Commercial Bankruptcy Law, except for the following: (i) loans on which we continue to collect payments under the terms of paragraph VIII, article 43 of the Commercial Bankruptcy Law; (ii) loans that are granted under the terms of article 75 in relation to paragraphs II and III of article 224 of the Commercial Bankruptcy Law; (2) loans with a single payment of principal and interest at maturity are classified as non-performing 30 calendar days after the maturity date; (3) loans with a single payment of principal at maturity and with scheduled interest payments are classified as non-performing 30 calendar days after principal becomes past-due and 90 calendar days after interest becomes past-due; (4) loans requiring payment of principal and interest in accordance with scheduled payments are classified as non-performing 90 days after the first installment is past due; (5) revolving lines of credit are (6) considered non-performing when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 calendar days following maturity, and (6) overdrafts are reported as non-performing loans at the time the overdraft occurs.

Any loans in the non-performing portfolio which are restructured or renewed will remain in the non-performing portfolio until there is evidence of sustained payment; i.e., payment by the borrower without arrears for the total amount of principal and interest due and payable for at least three consecutive installments in accordance with the loan payment scheme, or, in the case of loans with installments that cover periods in excess of 60 calendar days, the payment of one installment as established in the CNBV accounting criteria.

The loan payments referred to in the preceding paragraph must cover at least 20% of principal or the total amount of any interest accrued under payment restructuring or renewal schemes. However, accrued interest recognized in memoranda accounts is not considered for this purpose.

Furthermore, loans with a single payment of principal upon maturity and periodic payments of interest that are restructured or renewed during the credit term are classified as part of the non-performing portfolio, until there is evidence of sustained payment. This includes loans for which at least 80% of the original term of the loan has not elapsed, loans for which payments received have not covered the total amount of accrued interest or covered the principal of the original amount of the loan, and loans that would have been settled as of the date of renewal or restructuring in question.

Entities reporting under IFRS may determine estimated credit losses using the incurred loss model of IAS 39, or they may early adopt IFRS 9 and apply the expected loss model set forth therein.

Under IFRS estimated losses 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.

Under the incurred loss model, specific loss reserves are calculated for large non-homogeneous loans and for groups of smaller-balance homogeneous loans when it is determined that it is probable that a bank will not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms. Estimated losses are measured at the present value of expected future cash flows discounted at the loan's effective rate, or at the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent. To calculate the allowance required for homogenous pools of smaller-balance impaired loans and unimpaired loans, loan provisions are estimated collectively based on historical experience.

Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. At each reporting date, an entity shall assess whether the credit risk on a financial asset has increased significantly since initial recognition. Estimated credit losses on a financial asset for which the risk of credit loss has not increased significantly since initial recognition are equal to credit losses expected to occur over the following 12-month period. An entity shall measure the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. For IFRS, loans should be written-off in the period in which the entity has no reasonable expectations of recovering the asset in its entirety or a portion thereof.

Interest accrual on non-performing loans

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans are classified as non-performing based on the criteria established by the CNBV.

Under IFRS, the accrual of interest income on non-performing loans is adjusted based on the amounts expected to be recovered.

Fair value of financial instruments

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

IFRS defines fair value 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. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, IFRS establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company's financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Business combinations

Under Mexican Banking GAAP, the separately identifiable assets acquired and liabilities assumed in connection with a business combination are measured at their acquisition-date fair values, with the exception of acquired loan portfolios, which are measured based on criteria set forth by the CNBV. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired.

Under IFRS, an acquirer in a business combination recognizes assets acquired and liabilities assumed at fair value as of the acquisition date. Noncontrolling interest is measured at fair value or the proportionate share held in the acquiree's identified net assets.

Employee benefits

Under Mexican Banking GAAP, actuarial gains and losses reclassified to other comprehensive income are amortized to income over the estimated service life of the employees. Under IFRS, actuarial gains or losses recorded directly stockholders' equity and are not subsequently recycled to earnings.

The benchmark rate used to discount employee benefit liabilities to present value for purposes of Mexican Banking GAAP is the market rate for high quality corporate bonds denominated in pesos. Under IFRS, the benchmark rate is the market rate for debit issued by the Mexican Government.

Deferred statutory profit sharing (PTU) benefits

Under Mexican Banking GAAP, entities are required to recognize deferred PTU assets and liabilities arising from temporary differences between the income tax and financial reporting bases of assets and liabilities.

For purposes of IFRS, PTU benefits are accounted for as a short-term employee benefits under IAS 19, *Employee Benefits*. This accounting model does not contemplate the recognition of deferred PTU assets or liabilities arising from temporary differences between the income tax and financial reporting bases of assets and liabilities.

Guarantees

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For IFRS purposes, an entity recognizes, at the inception of a guarantee, a provision for the fair value of the obligation undertaken in issuing such guarantee.

Accounting Changes

In certain cases, the accumulated effects of accounting changes issued by the CNBV pursuant to new or revised accounting criteria are charged or credited to retained earnings and not to the statement of income for the period.

Under IFRS, accounting changes such as changes in accounting principles or corrections of errors are generally recognized with retrospective adjustments to previously reported financial statements.

Effects of inflation

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an "inflationary environment", in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a "non-inflationary environment', in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under IFRS, historical costs must be maintained in the basic financial statements unless the entity is deemed to operate in a hyperinflationary economy. A hyperinflationary economy is generally defined as one in which the cumulative three year inflation rate exceeds 100%.

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