

LISTING PARTICULARS



U.S.\$750,000,000

**Banco Inbursa, S.A., Institución de Banca Múltiple,  
Grupo Financiero Inbursa  
4.375% Senior Notes due 2027**

References to the “offering memorandum” throughout should be understood to mean references to the listing particulars.

We, Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa, a Mexican banking corporation organized under the laws of the United Mexican States (“Mexico”), are offering U.S.\$750,000,000 aggregate principal amount of our 4.375% Senior Notes due 2027 (the “Notes”). The Notes will mature on April 11, 2027 (the “Maturity Date”), unless previously redeemed. We may redeem the Notes, in whole but not in part, at any time if there are specified changes in Mexican laws affecting the withholding tax applicable to payments of interest and amounts deemed interest under the Notes. We may also redeem the Notes, in whole or in part, at the greater of 100% of their principal amount outstanding and a “make-whole” amount described in this offering memorandum, in each case, plus Additional Amounts (as defined herein), if any, and any accrued and unpaid interest up to the date of redemption. We additionally have the option to redeem any outstanding Notes in whole, but not in part, on any date on or following January 11, 2027 (the date that is three months prior to the Maturity Date), at their original principal amount, plus any Additional Amounts and accrued but unpaid interest up to the date of redemption. See “Description of the Notes—Redemption—Withholding Tax Redemption” and “Description of the Notes—Redemption—Optional Redemption” in this offering memorandum.

The Notes will be denominated in U.S. dollars and will bear interest from (and including) April 11, 2017 (the “Issue Date”) to (but excluding) the Maturity Date at a fixed rate of 4.375% per annum, payable semi-annually in arrears on April 11 and October 11 of each year (each an “Interest Payment Date”), beginning on October 11, 2017.

The Notes will be our direct, unconditional and unsecured obligations and will, other than as set forth below, at all times rank *pari passu* in right of payment with all of our unsecured obligations other than obligations that are, by their terms, expressly subordinated in right of payment to the Notes. The Notes will be effectively subordinated to (i) all of our secured indebtedness with respect to and up to the value of our assets securing that indebtedness, (ii) certain direct, unconditional and unsecured general obligations that in case of our insolvency are granted preferential treatment pursuant to Mexican law (including deposits and tax, social security and labor claims), and (iii) all of the existing and future liabilities of our subsidiaries, including trade payables. We currently do not have any secured indebtedness. See “Description of the Notes—Ranking.” The Notes will be unsecured and not insured or guaranteed by the Mexican Savings Protection Agency (*Instituto para la Protección al Ahorro Bancario*) or our regulated holding company; under very limited circumstances, and subject to the satisfaction of certain procedural requirements under Article 120 of the Mexican Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*), our holding company will be secondarily liable for certain of our obligations. See “The Mexican Financial System—Financial Groups.”

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

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES, OR “RNV”) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES, OR “CNBV”), AND MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO. THE NOTES MAY BE PRIVATELY OFFERED TO MEXICAN INSTITUTIONAL AND QUALIFIED INVESTORS PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES) AND RULES THEREUNDER. 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 ONLY, AND THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT THEREOF BY, THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THE NOTES AND DOES NOT IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM. THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS EXCLUSIVELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV.**

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

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

**Investing in the Notes involves risk. See “Risk Factors” beginning on page 20.**

**Price: 98.591%**

plus accrued interest, if any, from and including April 11, 2017.

We expect that delivery of the Notes will be made in book-entry form only through the facilities of The Depository Trust Company (“DTC”) in New York, New York for the accounts of its direct and indirect participants, including Euroclear Bank, S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, *société anonyme*, Luxembourg (“Clearstream”) on or about April 11, 2017.

Joint Book-Running Managers

**BofA Merrill Lynch**

**Citigroup**

**Credit Suisse**

The date of this offering memorandum is April 13, 2017

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## NOTICE TO INVESTORS

**You should rely only on the information contained in this offering memorandum. Neither we nor the Initial Purchasers have authorized anyone to provide you any other information, and neither we nor the Initial Purchasers take any responsibility for any other information. You should assume that the information contained in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum. Our business, properties, financial condition, results of operations and prospects may have changed since that date. Neither the delivery of this offering memorandum nor any sale made hereunder will under any circumstances imply that the information herein is correct as of any date subsequent to the date on the front cover of this offering memorandum. This offering memorandum may only be used where it is legal to sell the Notes.**

This offering memorandum is highly confidential and has been prepared by us solely for use in connection with the proposed offering of the Notes described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the Notes. 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.

This offering memorandum is based on information provided by us and other sources that we believe to be reliable. We and the Initial Purchasers cannot assure you that this information is accurate or complete. This offering memorandum summarizes certain documents and other information and we refer you to them for a more complete understanding of what we discuss in this offering memorandum.

The Initial Purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers as to the past or future.

Neither we nor the Initial Purchasers are making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the Notes under the laws and regulations in force in the jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the Initial Purchasers will have any responsibility therefor.

The Notes are subject to restrictions on transferability and resale, and may not be transferred or resold in the United States except as permitted under the Securities Act and applicable U.S. state securities laws pursuant to registration or exemption from them. We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and to investors outside the United States so they can consider a purchase of the Notes. This offering memorandum may be used only for the purposes for which it has been published. By accepting delivery of this offering memorandum, you acknowledge that the use of the information in this offering memorandum for any purpose other than to consider a purchase of the Notes is strictly prohibited. By accepting delivery of this offering memorandum and by purchasing the Notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Transfer Restrictions” in this offering memorandum. As a prospective purchaser of the Notes, 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 investment in the Notes.

Neither we, the Initial Purchasers nor any of our or their respective representatives are making any representation to any purchaser regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the Notes under applicable legal, investment or similar laws or regulations.

None of the SEC, the CNBV or any state or foreign securities commission or any other regulatory authority has approved or disapproved the offering of the Notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy, adequacy or completeness of this offering memorandum. Any representation to the contrary is a criminal offense.

The Notes are not deposits made with us and are not insured or guaranteed by the United States Federal Deposit Insurance Corporation or any other United States governmental agency or any Mexican governmental agency, including, without limitation, the Savings Protection Agency (*Instituto para la Protección al Ahorro Bancario*, or “IPAB”), and are not guaranteed or secured in any manner, by any entity that is part of Grupo Financiero Inbursa or by Grupo Financiero Inbursa.

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. There can be no assurance that such application will be granted as of the settlement date for the notes or at any time thereafter, and settlement of the notes is not conditioned on obtaining this listing. We have not authorized the use of this offering memorandum for any other purpose.

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

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 relevant 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 accept responsibility for the information contained in this offering memorandum.

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.

Certain information contained herein was extracted from information published by various official sources as identified herein. This information includes market share and ranking information for the Mexican banking sector, exchange rates and economic information relating to Mexico. We have not participated in the preparation or compilation of any of such information and accept no responsibility therefor except that we confirm that this information has been accurately reproduced, and as far as we are aware and are able to ascertain from the published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Notes or any interest therein may not be purchased or held by (i) any plan, program or arrangement subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”) or comparable provisions of any federal, state, local or foreign law (“Similar Law”) or (ii) any person acting on behalf of or using the assets of any such plan, program or arrangement, unless such purchase and holding is 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 exemption. Any purchaser or holder of Notes or any interest therein will be deemed to have represented by its purchase or holding thereof that either (i) it is not a plan, program or arrangement subject to ERISA, Section 4975 of the Code or substantially similar provisions of any federal, state local or foreign law and it is not purchasing securities on behalf of or using the assets of any such plan, program or arrangement or (ii) such purchase and holding and any subsequent disposition of such Notes is covered by the exemptive relief provided by (i) 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 exemption under ERISA or the Code (or, in the case of a plan, program or arrangement not subject to ERISA or the Code, under Similar Law). 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.”

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#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

This offering memorandum is only being distributed to and is only directed at (1) persons who are outside the United Kingdom or (2) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the “Order,” or (3) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

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#### **NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA**

To the extent that the offer of the notes is made in any European Economic Area (“EEA”) member state that has implemented Directive 2003/71/EC (as amended, including by Directive 2010/73/EC, together with any applicable implementing measures in any member state, the “Prospectus Directive”) before the date of publication of a prospectus in relation to the notes which has been approved by the competent authority in that member state in accordance with the Prospectus Directive (or, where appropriate, published in accordance with the Prospectus Directive and notified to the competent authority in that member state in accordance with the Prospectus Directive), the offer (including any offer pursuant to this document) is only addressed to qualified investors in that member state within the meaning of the Prospectus Directive or has been or will be made otherwise in circumstances that do not require the issuer to publish a prospectus pursuant to the Prospectus Directive.

## AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with resales of Notes, we will be required under the Indenture under which the Notes are issued (the “Indenture”), upon the request of a holder, for so long as the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, to furnish to the holder or beneficial owner of such restricted securities and any prospective purchaser of such restricted securities designated by such holder or beneficial owner 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 United States Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. As long as we maintain this exemption, we will not be required under the Indenture to deliver information otherwise required to be delivered under Rule 144A(d)(4) under the Securities Act. We are also required to periodically furnish certain information, including quarterly and annual reports, to the CNBV and, in compliance with the Mexican Securities Market Law and Issuer’s Regulations, to the BMV, which will be available in Spanish for inspection through the CNBV’s website at [www.cnbv.gob.mx](http://www.cnbv.gob.mx), the BMV’s website at [www.bmv.com.mx](http://www.bmv.com.mx), respectively, and our website at [www.inbursa.com](http://www.inbursa.com). The information on these websites does not form a part of, and is not incorporated into, this offering memorandum.

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 and this offering memorandum, as well as our annual audited consolidated financial statements and our unaudited quarterly consolidated financial statements, each prepared in conformity with Mexican Banking GAAP (as defined herein), as may be modified or replaced from time to time. Information is also available for inspection at the office of The Bank of New York Mellon SA/NV, Dublin Branch, as Irish paying agent.

Application is expected to be made to have the Notes listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. 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 commercial bank (*institución de banca múltiple*) organized as a corporation (*sociedad anónima*) under the laws of Mexico. All of our directors and executive officers and most of the experts named herein are non-residents of the United States, and substantially all of the assets of such non-resident persons and substantially all of our assets are located outside the territory of the United States. As a result, it may not be possible for investors to effect service of process within the United States or in any other jurisdiction outside Mexico upon such persons or to enforce against them or us in courts of any jurisdiction outside Mexico, judgments predicated upon the laws of any such jurisdiction. We have appointed CT Corporation System as our agent to receive service of process with respect to any action brought against us in any United States federal or New York state court located in the City and County of New York arising from this offering. There is doubt as to the enforceability in Mexican courts, in original actions or in actions for enforcement of judgments obtained in courts of jurisdictions outside Mexico (particularly in courts of the United States), of civil liabilities arising under the laws of any jurisdiction outside Mexico, including any judgment predicated solely upon U.S. federal or state securities laws. We have been advised by our internal counsel that no treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of foreign judgments. In the past, Mexican courts have enforced judgments rendered in the United States by United States courts by virtue of the legal principles of reciprocity and comity, consisting of the review in Mexico of the U.S. judgment in order to ascertain whether Mexican legal principles of due process and public policy have been complied with, without reviewing the merits of the subject matter of the case.

In the event that proceedings are brought in Mexico seeking to enforce our obligations in respect of the Notes, we would not be required to discharge such obligations in a currency other than the Mexican peso. Pursuant to Mexican law, an obligation in a currency other than the Mexican peso, which is payable in Mexico, may be satisfied in Mexican currency at the rate of exchange in effect on the date on which payment is made. Such rate of exchange is currently determined by Banxico each business day in Mexico and published the following banking business day in the Official Gazette.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial position; (ii) statements of plans, objectives or goals, including those related to our operations; and (iii) statements of assumptions underlying such statements. Words such as “believes,” “anticipates,” “should,” “estimates,” “seeks,” “forecasts,” “expects,” “may,” “intends,” “plans,” “could,” “continue,” “predicts,” “projects,” “targets,” “assumes,” “will,” “potential” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved or will differ from actual results. 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, including the following factors:

- political, economic and social conditions in Mexico and internationally;
- credit and other lending risks, including the restructuring of our existing loans and inability to timely enforce collateralized loans;
- changes in legislation and regulation, including changes to the rules applicable to multiple purpose banking institutions regarding portfolio classification, provisioning of reserves and capitalization requirements and investment requirements in respect of insurance activities;
- the effect of changes in accounting criteria, new legislation, intervention by regulatory authorities, government directives and monetary or fiscal policy in Mexico;
- competition in our industry and markets;
- changes in reserve requirements;
- the profitability of our business;
- the performance of various industries, in and outside Mexico, in which we or our customers participate including the future economic and financial performance of Mexico, at the federal, state and municipal levels and Mexican governmental agencies;
- acquisitions and divestitures;
- class action lawsuits initiated by borrowers’ groups or Mexican authorities and other potential litigation;
- limitations on our access to resources or financing on competitive terms and the commissions and fees we charge;
- credit penetration in Mexico and credit demand in the sectors in which we participate;
- actions taken by the Mexican Federal Anti-Trust Commission (*Comisión Federal de Competencia Económica*, or “COFECE”) in respect of our business, by the Mexican banking industry generally and by the SHCP in respect to our lending to certain sectors;
- currency devaluations and other exchange rate fluctuations;
- restrictions on foreign currency convertibility and remittances outside of Mexico;
- failure to meet capital requirements or other requirements;



- additional capital requirements relating to our classification as a systemically important bank and to counter-cyclical risks;
- limitations on our ability to freely determine interest rates;
- requirements related to money laundering and customer recognition policies;
- changes in requirements to make contributions to or for the receipt of support from programs organized by the Mexican government;
- changes in market interest rates or inflation rates and caps determined in connection with interest rates; and
- other risk factors discussed under “Risk Factors.”

Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

Additional factors affecting our business may arise periodically and we cannot predict such factors, nor can we assess the impact of all these factors on our business or the extent to which such factors or combination of factors could cause our results to materially differ from those contained in any forward-looking statement. Although we consider the plans, intentions, expectation, and estimates reflected in, or suggested by, forward-looking statements included in this offering memorandum to be reasonable, we cannot provide any assurance that our plans, intentions, expectations and estimates will be achieved. Additionally, historical trends in our statements should not be interpreted as a guarantee that these trends will continue in the future.

Prospective investors should read the sections of this offering memorandum entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Our Business” for a more complete discussion of the factors that could affect our future performance and the markets in which we operate. All forward-looking statements included in this offering memorandum are based upon information available to us as of the date of this offering memorandum, and we undertake no obligation to update or revise any projection or forward-looking statement, whether as a result of new information or future events or developments.

## GLOSSARY OF TERMS AND DEFINITIONS

Unless otherwise specified, references to financial statement line items are references to those line items as set forth in our Audited Financial Statements.

The terms below used in this offering memorandum shall have the following meanings in their plural, feminine, masculine or gender-neutral forms.

|   |   |
|---|---|
| <b>“Afore Inbursa”</b>                              | means Afore Inbursa, S.A. de C.V., Grupo Financiero Inbursa.  |
| <b>“Audited Financial Statements”</b>               | means our audited consolidated financial statements as of and for the years ended December 31, 2016, 2015 and 2014, together with the notes thereto.  |
| <b>“Banco Inbursa,” the “Issuer,” the “Company”</b> | means Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa.   |
| <b>“Banco Walmart”</b>                              | means Banco Wal-Mart de México Adelante, S.A., Institución de Banco Múltiple.   |
| <b>“Banxico”</b>                                    | means Banco de México, the Mexican Central Bank.  |
| <b>“Basel Committee”</b>                            | means the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision.  |
| <b>“BMV”</b>  | means the <i>Bolsa Mexicana de Valores</i> , S.A.B. de C.V., the Mexican Stock Exchange.  |
| <b>“BSC”</b>  | means the <i>Comité de Estabilidad Financiera</i> , the Banking Stability Committee.  |
| <b>“Business Day”</b>                               | means any day other than a Saturday or 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.   |
| <b>“CAGR”</b>                                       | means compounded annual growth rate.  |
| <b>“CaixaBank”</b>                                  | means CaixaBank, S.A. (formerly Criteria Caixacorp, S.A., a direct subsidiary of La Caixa), a <i>sociedad anónima</i> organized under the laws of the Kingdom of Spain.   |
| <b>“Capital Ratio”</b>                              | means the ratio of the total net capital ( <i>capital neto</i> ) to risk-weighted assets, market risk and operational risk, calculated in accordance with the methodology established from time to time by the CNBV pursuant to the Mexican Capitalization Rules. |
| <b>“Cetes”</b>                                      | means <i>Certificados de la Tesorería</i> , Mexican Treasury Certificates issued by the Mexican government.   |
| <b>“CF Credit”</b>                                  | means CF Credit Services, S.A. de C.V., SOFOM, E.R., Grupo Financiero Inbursa.  |
| <b>“CFSM”</b>                                       | means CE EFE Controladora, S.A. de C.V. (formerly Chrysler Financial Services México, S.A. de C.V.)   |
| <b>“CNBV”</b>                                       | means the <i>Comisión Nacional Bancaria y de Valores</i> , the Mexican National Banking and Securities Commission.  |
| <b>“CNSF”</b>                                       | means the <i>Comisión Nacional de Seguros y Fianzas</i> , the Mexican National Insurance and Bonds Commission.  |
| <b>“COFECE”</b>                                     | means the <i>Comisión Federal de Competencia Económica</i> , the Mexican Federal Anti-Trust Commission.   |
| <b>“CONDUSEF”</b>                                   | means the <i>Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros</i> , the National Commission for the Protection of Users of Financial Services.   |

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| <b>“CONSAR”</b>  | means the <i>Comisión Nacional del Sistema de Ahorro para el Retiro</i> , the National Retirement Savings System Commission.   |
| <b>“Criteria”</b>  | means Criteria Caixa, S.A.U., a sociedad anónima unipersonal organized under the laws of the Kingdom of Spain, a wholly owned subsidiary of La Caixa.  |
| <b>“delinquency rate”</b>  | means the percentage of non-performing loans in our total loan portfolio.  |
| <b>“dollars” or “U.S.\$”</b>   | means the local currency of the United States.   |
| <b>“FC Financial”</b>  | means FC Financial, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Inbursa.  |
| <b>“Fianzas Guardiania”</b>  | means Fianzas Guardiania Inbursa, S.A., Grupo Financiero Inbursa (Bonding Company).  |
| <b>“GDP”</b>   | means the gross domestic product.  |
| <b>“General Law of Negotiable Instruments and Credit Transactions”</b> | means the <i>Ley General de Títulos y Operaciones de Crédito</i> , the General Law of Negotiable Instruments and Credit Transactions.  |
| <b>“Grupo Carso”</b>   | means Grupo Carso, S.A.B. de C.V.  |
| <b>“Grupo Financiero Inbursa”</b>                                      | means Grupo Financiero Inbursa, S.A.B. de C.V. or, depending upon the context, the entities comprising the financial services group identified as Grupo Financiero Inbursa.  |
| <b>“HFW”</b>   | means HF Walmart, S.A. de C.V.   |
| <b>“Ideal”</b>   | means Impulsora de Desarrollo y el Empleo en América Latina, S.A.B. de C.V.  |
| <b>“IFRS”</b>  | means the International Financial Reporting Standards as issued by the International Accounting Standards Board.   |
| <b>“Income Tax Law”</b>  | means the <i>Ley del Impuesto Sobre la Renta</i> , the Income Tax Law.   |
| <b>“INEGI”</b>   | means the <i>Instituto Nacional de Estadística y Geografía</i> , the Mexican National Institute of Statistics and Geography.   |
| <b>“Initial Purchasers”</b>  | means, collectively, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated.   |
| <b>“Inmobiliaria Inbursa”</b>  | means Inmobiliaria Inbursa S.A. de C.V.  |
| <b>“Inversora Bursátil”</b>  | means Inversora Bursátil, S.A. de C.V., Casa de Bolsa, Grupo Financiero Inbursa (Brokerage Firm).  |
| <b>“IPAB”</b>  | means the <i>Instituto para la Protección al Ahorro Bancario</i> , the Mexican Institute for the Protection of Bank Savings.   |
| <b>“IPAB Law”</b>  | means the <i>Ley de Protección al Ahorro Bancario</i> , the Law for the Protection of Bank Savings.  |
| <b>“Issuers’ Regulation”</b>   | means the <i>Disposiciones de carácter general aplicables a las emisoras de valores y a otros participantes del mercado de valores</i> (Rules applicable to securities’ issuers and other securities markets’ participants), as published in the Official Gazette on March 19, 2003, as amended. |
| <b>“La Caixa”</b>  | means Fundación Bancaria Caixa d’Estalvis i Pensions de Barcelona “La Caixa,” formerly Caixa D’Estalvis i Pensions de Barcelona.   |
| <b>“LIBOR”</b>   | means London Interbank Offered Rate.   |

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|---|---|
| <b>“Mexican Banking GAAP”</b>               | means the <i>Criterios de Contabilidad para las Instituciones de Crédito</i> , emitidos por la Comisión Nacional Bancaria y de Valores, con fundamento en lo dispuesto por los Artículos 99, 101 y 102 de la Ley de Instituciones de Crédito (Accounting Policies Applicable to Credit Institutions issued by the CNBV, in accordance with Articles 99, 101 and 102 of the Mexican Banking Law. |
| <b>“Mexican Banking Law”</b>                | means the <i>Ley de Instituciones de Crédito</i> , the Mexican Banking Law.   |
| <b>“Mexican Banking Regulations”</b>        | means the <i>Disposiciones de carácter general aplicables a las instituciones de crédito</i> (Rules applicable to financial institutions), known as the <i>Circular Única de Bancos</i> , as published in the Official Gazette on December 2, 2005, as amended.   |
| <b>“Mexican Capitalization Rules”</b>       | means the capitalization requirements applicable to banking institutions in accordance with the Mexican Banking Regulations.  |
| <b>“Mexican Corporations Law”</b>           | means the <i>Ley General de Sociedades Mercantiles</i> , the Mexican Corporations Law.  |
| <b>“Mexican Financial Groups Law”</b>       | means the <i>Ley para Regular las Agrupaciones Financieras</i> , the Mexican Financial Groups Law.  |
| <b>“Mexican FRS”</b>                        | means the <i>Normas de Información Financiera</i> (Mexican Financial Reporting Standards), as issued by the Consejo Mexicano de Normas de Información Financiera A.C.   |
| <b>“Mexican Labor Law”</b>                  | means <i>Ley Federal de Trabajo</i> , the Mexican Labor Law.  |
| <b>“Mexican Securities Market Law”</b>      | means the <i>Ley del Mercado de Valores</i> , the Mexican Securities Market Law.  |
| <b>“Mexico”</b>                             | means the United Mexican States.  |
| <b>“Moody’s”</b>                            | means Moody’s Investors Service, Inc.   |
| <b>“National Council of Population”</b>     | means the <i>Consejo Nacional de Población</i> , the National Council of Population.  |
| <b>“non-performing loan coverage ratio”</b> | means the ratio computed as the total allowance for loan losses divided by the total amount of non-performing loans.  |
| <b>“Notes”</b>                              | means the Notes as defined on the cover hereto.   |
| <b>“Official Gazette”</b>                   | means the <i>Diario Oficial de la Federación</i> , the Mexican Federal Official Gazette.  |
| <b>“Outsourcing”</b>                        | means the Out Sourcing Inburnet, S.A. de C.V.   |
| <b>“Operadora Inbursa”</b>                  | means Operadora Inbursa de Sociedades de Inversión, S.A. de C.V., Grupo Financiero Inbursa.   |
| <b>“Pensiones Inbursa”</b>                  | means Pensiones Inbursa, S.A., Grupo Financiero Inbursa.  |
| <b>“pesos” or “Ps.”</b>                     | means the local currency in Mexico.   |
| <b>“Retirement Savings System Law”</b>      | means the <i>Ley del Sistema de Ahorro para el Retiro</i> , the Retirement Savings System Law.  |
| <b>“Risk Management Unit”</b>               | means the <i>Unidad de Administración Integral de Riesgos</i> , the Risk Management Unit.   |
| <b>“ROAA”</b>                               | means the return on average assets calculated for the periods indicated.  |
| <b>“ROAE”</b>                               | means the return on average equity calculated for the periods indicated.  |
| <b>“S&amp;P”</b>                            | means Standard & Poor’s Rating Services.  |

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| “SAT”                                  | means the <i>Servicio de Administración Tributaria</i> , the Tax Administration Service.   |
| “Seguros Inbursa”                      | means Seguros Inbursa, S.A., Grupo Financiero Inbursa (Insurance Company).   |
| “SHCP”                                 | means the <i>Secretaría de Hacienda y Crédito Público</i> , the Mexican Ministry of Finance and Public Credit.   |
| “Sinca Inbursa”                        | means Sinca Inbursa, S.A. de C.V., Sociedad de Inversión de Capitales (Venture Capital Fund).  |
| “Sociedad Financiera Inbursa”          | means Sociedad Financiera Inbursa S.A. de C.V., SOFOM, E.R., Grupo Financiero Inbursa  |
| “SOFOL”                                | means a <i>sociedad financiera de objeto limitado</i> , limited purpose non-bank financial institution.  |
| “SOFOM”                                | means a <i>sociedad financiera de objeto múltiple</i> , multiple purpose non-bank financial institution.   |
| “Telmex”                               | means Teléfonos de México, S.A. de C.V.  |
| “Tier 1 capital”                       | means the basic portion ( <i>parte básica</i> ) of the total net capital, as such term is determined based on the Mexican Capitalization Rules.  |
| “Tier 2 capital”                       | means the additional portion ( <i>parte complementaria</i> ) of the total net capital, as such term is determined based on the Mexican Capitalization Rules.   |
| “Tier 1 Capital Ratio”                 | means the ratio of the basic portion ( <i>parte básica</i> ) of the total net capital, as such term is determined based on the Mexican Capitalization Rules to risk-weighted assets, market risk and operational risk, calculated in accordance with the methodology established from time to time by the CNBV pursuant to the Mexican Capitalization Rules. |
| “TIE”                                  | means the <i>tasa de interés interbancaria de equilibrio</i> , the Mexican inter-banking interest rate.  |
| “total capital” or “total net capital” | means total net capital ( <i>capital neto</i> ), as such term is determined based on the Mexican Banking Law and the Mexican Banking Regulations, and includes Tier 1 capital plus Tier 2 capital.   |
| “UDIs”                                 | means <i>Unidades de Inversión</i> , a peso-equivalent unit of account indexed for Mexican inflation.  |
| “United States”                        | means the United States of America.  |
| “U.S. GAAP”                            | means accounting principles generally accepted in the United States.   |

## PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated or the context otherwise requires, references in this offering memorandum to “Banco Inbursa,” the “company,” the “issuer,” “we,” “our,” “ours,” “us” or similar terms are references to Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa and its subsidiaries.

### Financial Statements

This offering memorandum includes our audited consolidated financial statements as of and for the years ended December 31, 2016, 2015 and 2014, together with the notes thereto (the “Audited Financial Statements”). Our Audited Financial Statements were audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu Limited, independent auditors, as stated in their audit report appearing herein.

### Accounting Criteria

Our Audited Financial Statements contained in this offering memorandum have been prepared in accordance with Mexican Banking GAAP.

Mexican Banking GAAP differs in certain respects from Mexican Financial Reporting Standards (*Normas de Información Financiera*, or “Mexican FRS”), as currently in effect issued by the *Consejo Mexicano de Normas de Información Financiera, A.C.* Mexican Banking GAAP also differs in certain significant respects from generally accepted accounting principles in the United States of America (“U.S. GAAP”) and International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board. See “Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP.” No reconciliation of any of our Audited 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—Risks Relating to Mexico—Mexico has different corporate disclosure and accounting standards than those in the United States and other countries.”

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 over which we exercise control. Our investments in affiliates are accounted for under the equity method. See Note 2 to our Audited Financial Statements included elsewhere in this offering memorandum.

### Rounding

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.

### Currencies

Unless stated otherwise, the financial information appearing in this offering memorandum is presented in Mexican pesos. In this offering memorandum, references to “pesos” or “Ps.,” are to Mexican pesos, references to “dollars” or “U.S.\$” are to United States dollars and references to “€” or “Euro” are to the euro, the single European currency established pursuant to the European Economic and Monetary Union.

This offering memorandum contains conversions of certain peso amounts into dollars at specified exchange rates solely for the convenience of the reader. These conversions should not be construed as representations that the peso amounts actually represent such dollar amounts or could be converted into dollars at the exchange rate indicated. Unless otherwise indicated, dollar amounts that have been converted from peso amounts as of or for the year ended December 31, 2016 have been converted at an exchange rate of Ps.20.6194 per dollar, the FIX exchange rate determined by Banxico on December 30, 2016, the last day in 2016 for which information is available. The section “Selected Statistical Information” uses exchange rates that are different from the exchange rate mentioned in this paragraph, as described in such section. See “Exchange Rates and Currency” for information regarding rates of exchange between the peso and the dollar.

References herein to “UDIs” are to *Unidades de Inversión*, a peso-equivalent unit of account indexed for Mexican inflation. UDIs are units of account whose value in pesos is indexed to inflation on a daily basis, as measured by the change in the *Índice Nacional de Precios al Consumidor* (Mexican Consumers Price Index). Under a UDI-based loan or financial instrument, the borrower’s nominal peso principal balance is converted either at origination or upon restructuring to an UDI principal balance, and interest on the loan or financial instrument is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount of pesos equivalent to the amount due in UDIs at the stated value of the UDIs on the day of payment. As of December 31, 2016, one UDI was equal to Ps.5.562803 (U.S.\$0.269789).

### **Terms Relating to Our Loan Portfolio**

Unless otherwise specified, the terms below used in this offering memorandum relating to our loan portfolio shall have the following meanings:

“Performing loans” and “performing loan portfolio” refer to the balance of principal of loans effectively granted to borrowers plus accrued and unpaid interest. As required 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 performing loan portfolio in our financial statements until it is paid or becomes part of our non-performing loan portfolio. The terms “performing loans” and “performing loan portfolio” do not include our total non-performing loans, as defined below. The term “net performing loans” refers to total performing loans minus the allowance for loan losses related to such loans.

The terms “non-performing loans” and “non-performing loan portfolio” are defined by the CNBV regulation and include non-performing amounts on outstanding principal and interest balances. For a description of our policies regarding the classification of loans as non-performing loans, see “Selected Statistical Information—Loan Portfolio—Non-Performing Loan Portfolio.” The term “net non-performing loans” refers to total non-performing loans minus allowance for loan losses related to such loans.

The term “allowance for loan losses” refers to the aggregate reserves established in relation to the estimated credit risk in the bank’s loan portfolio recorded as of a particular date as a contra asset on the bank’s balance sheet. The term “allowance for loan losses” refers to additions to the allowance for loan losses recorded in a particular period and charged to income.

The terms “total loans” and “total loan portfolio” include our total performing loans and our total non-performing loans, in each case as defined above. The terms “net total loans” and “net total loan portfolio” refer to total loans minus the allowance for loan losses related to our loans, in each case as defined above.

### **Market and Statistical Information**

Unless otherwise indicated, the market, statistical information, market share and ranking information included in this offering memorandum is derived from statistics of the CNBV’s Bank Statistical Bulletin (*Boletín Estadístico de Banca Múltiple*). Although we believe this source is reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness. Data regarding our industry and the market is intended to provide general guidance but is inherently imprecise. Though we believe these estimates are reasonably derived, you should not place undue reliance on estimates, as they are inherently uncertain.

## SUMMARY

*This summary is qualified in its entirety by the detailed information appearing elsewhere in this offering memorandum. Before investing in our Notes you should read this offering memorandum carefully, including the risks of investing in our Notes discussed under “Risk Factors” and the sections entitled “Our Business,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” together with our Audited Financial Statements and the notes thereto, included elsewhere in this offering memorandum. Unless stated otherwise, all financial information in this offering memorandum was prepared in accordance with Mexican Banking GAAP.*

### Our Business

We are a commercial bank (*institución de banca múltiple*) organized as a corporation (*sociedad anónima*) pursuant to the Mexican Banking Law (*Ley de Instituciones de Crédito*). As of December 31, 2016, we were the seventh largest commercial bank in Mexico in terms of total assets and the fifth largest bank in Mexico in terms of total loan portfolio and stockholders’ equity, according to information published by the CNBV. As of December 31, 2016, we had the highest Capital Ratio and Tier 1 Capital Ratio among commercial banks in Mexico at 18.48% and one of the highest rates of reserve coverage for non-performing loans at 155%.

We provide banking and credit services to the corporate, governmental and retail segments of the economy, including peso- and dollar-denominated loans to finance a variety of commercial transactions, trade, foreign currency forward contracts and credit lines and a variety of retail banking services, including financing, personal loans and automotive loans. We seek to offer our customers a wide range of products while providing high levels of service. In addition to our traditional banking operations, we offer a variety of ancillary financial services, including retirement fund management, financial leasing, financial advisory services and investment management. As of December 31, 2016, we had 901 total branches and outlet branches (outlet branches are branches at which cash deposits and cash withdrawals cannot be made) located throughout Mexico. Our corporate offices are located in Mexico City, and we operate in every state in Mexico.

As of December 31, 2016, we had net income attributable to controlling interest of Ps.7,743 million, total assets of Ps.411,961 million, total loans of Ps.283,310 million, total deposits of Ps.247,516 million and stockholders’ equity of Ps.90,239 million.

As of December 31, 2016, our total loan portfolio represented 68.8% of our total assets, the largest ratio of loans to assets among the seven largest banks operating in Mexico. Our total loan portfolio represents a market share of 6.5%. Our portfolio is divided into loans to commercial institutions (68.1%), loans to consumers (17.1%), loans to governmental entities (8.4%), loans to financial institutions (4.0%) and mortgage loans (2.4%). As a bank that has historically specialized in loans to corporate entities, we rank fifth in terms of corporate loans, with a market share of 9.7% as of December 31, 2016, according to information published by the CNBV. Since 2009, we have focused on increasing our market share in the retail segment, increasing our consumer portfolio from Ps.3,909 million or 2.5% of our total portfolio in 2009 to Ps.48,346 million or 17.1% of our total portfolio in 2016.

| As of December 31, 2016           |           |         |          |        |         |      |
|-----------------------------------|-----------|---------|----------|--------|---------|------|
| Loan portfolio / Total assets (%) |           |         |          |        |         |      |
| Inbursa                           | Santander | Banorte | Bancomer | Scotia | Banamex | HSBC |
| 69%                               | 44%       | 55%     | 53%      | 66%    | 53%     | 43%  |

Source: CNBV.

As of December 31, 2016, Banco Inbursa had demand deposits in an aggregate amount of Ps.81,996 million. We ranked seventh in total deposits and eighth in demand deposits, with market shares of 5.1% and 2.8%, respectively, according to information provided by the CNBV. Additionally, Banco Inbursa had time deposits in an aggregate amount of Ps.47,727 million and debt instrument issuances in an aggregate amount of Ps.117,728 million. Demand deposits and debt instrument issuances experienced strong growth between 2010 and 2016, which implies a more stable and profitable deposit base for the bank.



According to information published by the CNBV, Banco Inbursa ranked first among commercial banks for efficiency ratios as of December 31, 2016, with an efficiency ratio of 33.5%.

We operate the following subsidiaries, of which we are the majority shareholder:

- Afore Inbursa, whose principal business is the management of mandatory retirement funds;
- Inmobiliaria Inbursa, whose principal business is holding real property related to our banking business;
- Sinca Inbursa, whose principal business is to invest in growing and profitable companies;
- CF Credit, whose principal business is providing loans to consumers and distributors within the automobile industry;
- Sociedad Financiera Inbursa, whose principal business is granting consumer loans and leasing; and
- FC Financial, whose principal business is granting automotive loans exclusively to finance purchases of vehicles sold by FCA México, S.A. de C.V. ("FCA Mexico").

Afore Inbursa had Ps.107,340 million in assets under management and a market share of 4.0%, according to data from CONSAR, as of December 31, 2016. It is positioned as a retirement funds administrator dedicated to higher-income clients and focused on risk control through a conservative investment policy. According to information published by the CNBV, as of December 31, 2016, Afore Inbursa ranked ninth in terms of total assets under management.

Inmobiliaria Inbursa is a real estate company that is authorized and supervised by the CNBV. As of December 31, 2016, Inmobiliaria Inbursa had Ps.1,154 million in stockholders' equity.

Through our venture capital subsidiary, Sinca Inbursa, we make proprietary investments in corporate equity in conformity with the Mutual Funds Law. As of December 31, 2016, Sinca Inbursa had stockholders' equity of Ps.8,717 million and has investments in the infrastructure, health, software and finance sectors, among others.

CF Credit provides loans to consumers and distributors within the automobile industry. As of December 31, 2016, the net income of CF Credit was Ps.852 million, compared to a net income of Ps.613 million as of December 31, 2015, which represents an increase of 39.0%. This increase was primarily due to the growth of interest income from Ps.2,160 million in 2015 to Ps.2,300 million in 2016, as a result of an increase in loan portfolio. CF Credit's total loan portfolio as of December 31, 2016 was Ps.23,771 million, an increase of 1.5% from 2015, when its total loan portfolio was Ps.23,430 million. Its loans for commercial and business activities were Ps.13,484 million, while its consumer loans were Ps.10,287 million. CF Credit had Ps.5,623 million in stockholder's equity as of December 31, 2016, compared to Ps.4,487 million as of December 31, 2015, an increase of 25.3%.

Sociedad Financiera Inbursa provides loans to consumers and small and medium companies in Mexico. In 2016, Sociedad Financiera had net losses of Ps.929 million in 2016 compared to a net income of Ps.69 million in 2015. This decrease was primarily due to an increase in reserves and administrative expenses, which increased from Ps.1,127 million in 2015 to Ps.1,919 million in 2016 as a result of an increase in the volume of operations in our retail business and the assignment of Banco Walmart's loan portfolio to Sociedad Financiera Inbursa. The decrease in net income was partially offset by an 96.6% increase in financial margin, which amounted to Ps.6,237 million, principally due to an increase in loan portfolio. As of December 31, 2016, Sociedad Financiera Inbursa's total loan portfolio was Ps.34,346 million, representing an increase of 31.1% from Ps.26,197 million as of December 31, 2015.

FC Financial, which was formed in December 2015, is a company dedicated to providing automotive loans exclusively to finance purchases of vehicles sold by FCA Mexico in Mexico (i.e. Chrysler, Dodge, Ram, Jeep, Fiat, Alfa Romeo, Mopar and Mitsubishi).

The following table shows our non-controlling interests' and our subsidiaries' total operating income and stockholders' equity as of and for the year ended 2016:

| Subsidiary                       | For the year ended December 31, 2016    |             | As of December 31, 2016 |             |
|----------------------------------|---|-------------|-------------------------|-------------|
|                                  | Operating<br>Income (Loss)              | % of Total  | Stockholders'<br>equity | % of Total  |
|                                  | (millions of pesos, except percentages) |             |                         |             |
| Banco Inbursa .....              | 7,813                                   | 99%         | 88,070                  | 98%         |
| Afore Inbursa .....              | 585                                     | 8%          | 1,692                   | 2%          |
| Inmobiliaria Inbursa.....        | 49                                      | 1%          | 1,154                   | 1%          |
| Sinca Inbursa.....               | (40)                                    | 0%          | 8,717                   | 10%         |
| CF Credit.....                   | 1,123                                   | 14%         | 5,623                   | 6%          |
| Sociedad Financiera Inbursa..... | (1,468)                                 | (19)%       | 8,788                   | 10%         |
| FC Financial                     | (212)                                   | (3)%        | 1,896                   | 2%          |
| Other.....                       | 26                                      | 0%          | 543                     | 1%          |
| Non-controlling interest.....    | -                                       | -           | 2,744                   | 3%          |
| Eliminations .....               | -                                       | -           | (28,988)                | (32)%       |
| <b>Total.....</b>                | <b>7,876</b>                            | <b>100%</b> | <b>90,239</b>           | <b>100%</b> |

As of December 31, 2016, we had total assets of Ps.411,961 million and stockholders' equity of Ps.90,239 million and more than five million clients and a sales force of 29,492 agents. For the year ended December 31, 2016, our net income attributable to controlling interest was Ps.7,743 million and our Capital Ratio was 18.48% as compared to a system average as December 31, 2016 of 14.92%, according to data published by the CNBV.

The following table sets forth certain financial and operating information for Banco Inbursa:

|   | As of December 31,   |         |         |
|---|--|---------|---------|
|   | 2014   | 2015    | 2016    |
|   | (millions of pesos, except percentages and number of branches) |         |         |
| Total branches and outlet branches** .....            | 354  | 804     | 901     |
| Total assets .....                                    | 281,584  | 327,064 | 411,961 |
| Total loan portfolio .....                            | 199,981  | 237,478 | 283,310 |
| Deposits and debt securities <sup>(1)</sup> .....     | 176,350  | 203,921 | 247,516 |
| Stockholders' equity.....                             | 72,783   | 82,359  | 90,239  |
| Non-performing loan portfolio <sup>(2)</sup> .....    | 3.4%   | 3.1%    | 2.8%    |
| Operating efficiency <sup>(3)</sup> .....             | 18.9%  | 26.0%   | 33.5%   |
| Return on average equity (ROAE) <sup>(4)</sup> .....  | 22.17%   | 12.66%  | 9.07%   |
| Capital Ratio.....                                    | 20.28%   | 18.51%  | 18.48%  |
| Assets held for safekeeping or under management ..... | 604,793  | 399,814 | 410,796 |
| ROAA <sup>(5)</sup> .....                             | 5.59%  | 3.18%   | 2.06%   |

\*\* Outlet branches are branches at which cash deposits and withdrawals cannot be made.

(1) Includes traditional deposits, time deposits and debt securities issued.

(2) Measured as total non-performing loan portfolio over total loan portfolio.

(3) Calculated as follows: Administrative and promotional expenses / (Financial margin + Commission and fee income – Commissions and Fee expense + Other operating income, net).

(4) Calculated based on average quarterly balance of stockholders' equity accounts.

(5) Calculated as follows: quarterly net average income / total quarterly assets.

We have a multiple-product, multiple-channel distribution approach. We offer a differentiated financial services platform in Mexico to all segments of the economy, with a focus on expanding our operations directed at the client segments that we consider most profitable, such as high- and mid-income individuals.

We offer our financial products by leveraging Grupo Financiero Inbursa's integrated corporate structure, including a single and solid sales force of agents, a network of 901 total branches and outlet branches as of December 31, 2016 located in the areas of Mexico that represent higher income profiles (with more than 500 branches opening between January 1, 2015 and December 31, 2016), a single database, a single system platform and an infrastructure shared by all of Grupo Financiero Inbursa. This allows us to actively offer comprehensive solutions to our clients with a focus on quality, consistency, low costs and high efficiency. As of December 31, 2016, we had a total of more than five million customers, of which three million correspond to deposit and credit

services, and more than one million to Afore Inbursa. We believe that we have a high potential for organic growth based on our ability to offer, through Grupo Financiero Inbursa, more products to our existing clients, who have on average less than two of our products as of December 31, 2016, a number that we aim to increase through a defined cross-selling strategy.

### **Opportunities in the Mexican Financial Sector**

We believe that the current sustained growth of the Mexican economy, the demographics of the Mexican population, and the stable and well-regulated Mexican financial system put us in a favorable position to implement our strategy and increase our market share.

#### ***Moderate growth economy with future growth potential***

Mexico has the second largest population in Latin America, according to the United Nations Department of Economic and Social Affairs. Mexico's economy, the second largest in Latin America in terms of GDP in 2014, 2015 and 2016, according to the International Monetary Fund's World Economic Outlook Database, posted GDP growth rates of 2.2%, 2.5% and 2.3% in 2014, 2015 and 2016, respectively, despite past disruptions and current uncertainty surrounding the global economy, according to figures from Bloomberg. Mexico has been rated investment grade by Moody's, Standard & Poor's (or "S&P") and Fitch, Inc. ("Fitch") since 2002. In 2013, Fitch increased Mexico's rating for long-term foreign currency from "BBB" to "BBB+," S&P from "BBB" to "BBB+" in 2013 and Moody's from "Baa1" to "A3" in 2014. However, in March 2016, Moody's changed its outlook for Mexico's sovereign rating from stable to negative. In August and December 2016, following the Mexican government's announcement that it had lowered its GDP growth forecast for 2016 from 2.0-3.0% to 1.7-2.5%, S&P and Fitch, respectively, announced that they had each revised their outlook for Mexico and the Mexican financial system from stable to negative. See "Risk Factors—Risks Relating to Our Business—Reductions in our credit ratings could increase our cost of borrowing and negatively impact our ability to raise new funds or renew maturing debt."

Over the past 15 years, the Mexican economy has benefited from a stable macroeconomic environment as a result of prudent monetary, fiscal and public-debt policies. Gross government debt as a percentage of GDP in Mexico as of December 2016 totaled 56.0% compared to 58.3%, 91.1% and 108.2% for Latin America, European Union and United States, respectively, based on data from the IMF. Banxico's international reserves increased from U.S.\$142.5 billion in 2011, U.S.\$163.6 billion in 2012, U.S.\$176.6 billion in 2013 and U.S.\$193.0 billion in 2014, decreased slightly to U.S.\$176.7 billion in 2015 and decreased slightly again to U.S.\$176.5 billion in 2016, according to Banxico.

|                 | <b>Mexico</b> |              | <b>Latin America</b> |              | <b>United States</b> |              | <b>European Union</b> |              |
|-----------------|---------------|--------------|----------------------|--------------|----------------------|--------------|-----------------------|--------------|
|                 | <b>2016</b>   | <b>2017E</b> | <b>2016</b>          | <b>2017E</b> | <b>2016</b>          | <b>2017E</b> | <b>2016</b>           | <b>2017E</b> |
| GDP Growth..... | 2.3%          | 1.5%         | (1.5)%               | 1.5%         | 1.6%                 | 2.2%         | 1.9%                  | 1.7%         |
| Inflation.....  | 3.4%          | 5.1%         | 7.0%                 | 45.2%        | 1.3%                 | 2.5%         | 0.3%                  | 1.7%         |

Source: Bloomberg.

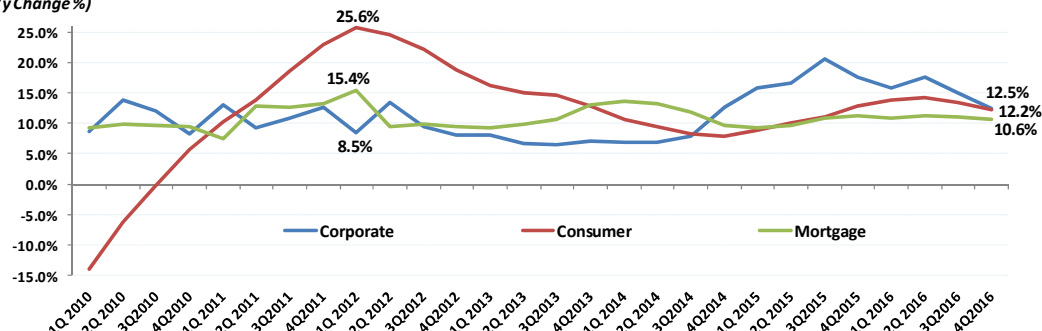
#### ***Stable and well-regulated financial system***

The Mexican financial sector is widely regulated after undergoing important reforms over the past decade, and we believe that the Mexican financial system is among the best-regulated financial systems in the world, based on the Financial System Stability Assessment published by the International Monetary Fund in December 2011. As of the date of this offering memorandum, Mexico has begun implementing Basel III, making it an early adopter of the international rules.

The following chart sets forth the growth over the past several years of performing loans in the corporate, consumer and mortgage sectors in Mexico:

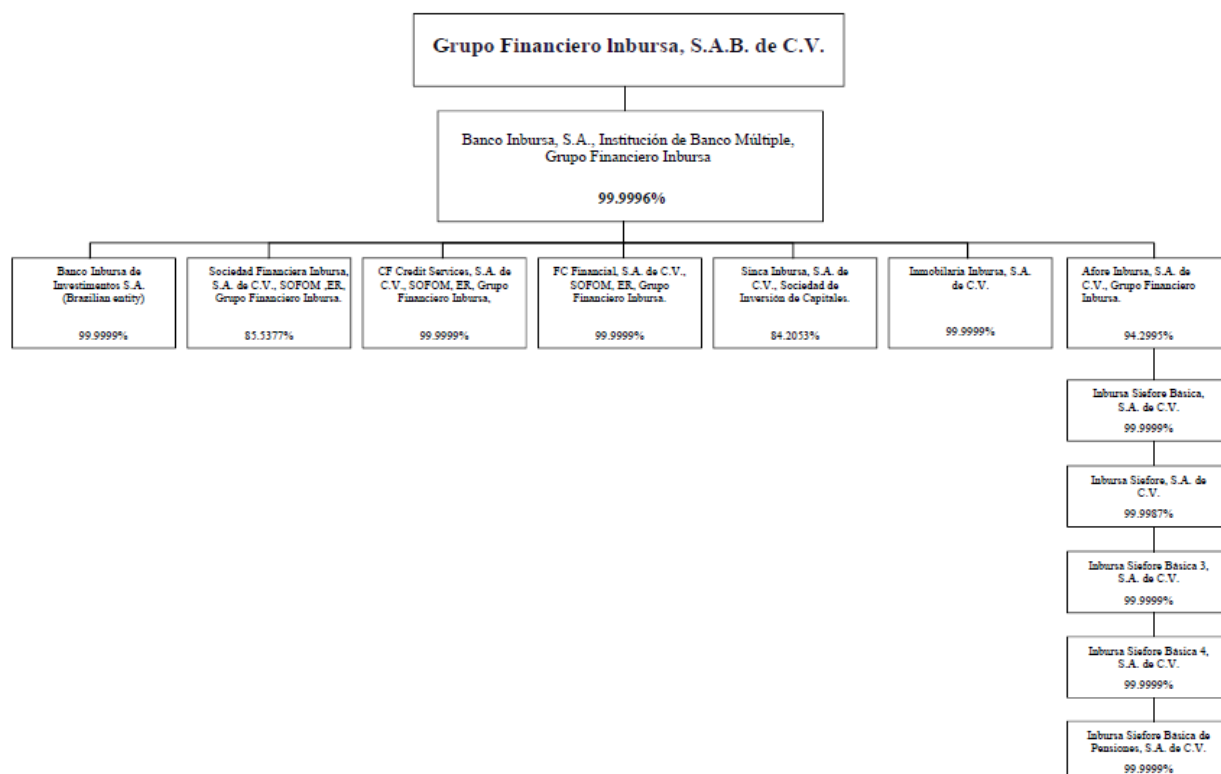
### Performing Loans - Mexican Financial System

(Y/y Change %)



### Our Corporate Structure

Banco Inbursa is a subsidiary of Grupo Financiero Inbursa. Grupo Financiero Inbursa's various subsidiaries are principally grouped into five business lines: Commercial Banking, Asset Management, Investment Banking, Insurance and Securities. We, Banco Inbursa, focus on retail banking, venture capital investments, mortgages, automotive loans and the management of mandatory retirement funds. The following diagram presents Grupo Financiero Inbursa's and our corporate structure, indicating our principal subsidiaries and respective ownership interests as of December 31, 2016:



Except where otherwise indicated, the figures and percentages for the various divisions in which we operate correspond to those of our principal subsidiaries, before eliminations, for our consolidated figures.

On November 17, 2016, the shareholders' meetings of CF Credit and Sociedad Financiera Inbursa adopted resolutions authorizing and directing the merger of the entities. The merger is subject to the approval of the SHCP. For more information, see "Recent Developments—Merger of Sociedad Financiera Inbursa into CF Credit."

## **Our Competitive Strengths**

We believe we have the following competitive advantages:

***As a Mexican bank that forms part of one of the most diversified and integrated financial services holding companies in Mexico, we have developed leadership positions across our business lines***

We benefit from our position as a part of Grupo Financiero Inbursa, one of the most diversified financial groups in Mexico according to the contribution of each of its businesses to the net profit of the group as a whole. As of December 31, 2016, the bank represented 62.1% of Grupo Financiero Inbursa's net income attributable to controlling interest, whereas Seguros Inbursa, Pensiones Inbursa and Inversora Bursátil represented 17.5%, 6.9% and 3.2%, respectively. Grupo Financiero Inbursa focuses on providing comprehensive services to our clients through a multi-product strategy that seeks to meet all of its clients' banking services, insurance, retirement saving, bonding and securities needs. Grupo Financiero Inbursa's agents actively interact with our client base to give them continuous and multi-product attention.

The wide range of services that Grupo Financiero Inbursa is capable of offering is administered under the same direction and as a single business, which increases the confidence, trustworthiness and quality of our services and allows us to take better advantage of the growth and profit margins of each of its business segments, including our own. We believe that our business model has been successful because it capitalizes on the integrated corporate structure, the single and solid distribution platform offering the full range of Grupo Financiero Inbursa's products, a single database, a single system platform for all of its products and a shared infrastructure. Grupo Financiero Inbursa's general policy of growing its business organically, as opposed to through a series of acquisitions of financial institutions, has allowed Grupo Financiero Inbursa to maintain a consistent growth strategy and a stable platform for increased profitability. The foregoing allows us to actively offer comprehensive and personalized solutions to our clients through a strategy of quality, consistency, low costs, high efficiency and better certainty surrounding risks.

As is clear from Grupo Financiero Inbursa's history and development, and with it, Banco Inbursa's, evolution and growth have been constant and determining factors in our history. We, Grupo Financiero Inbursa, and our sister companies combine experience, strength, creativity and the daily effort to improve, thus confirming our commitment to Mexico and maintaining our position as the largest Mexican financial group that holds the majority of its capital in Mexico. We continue to benefit from our role within Grupo Financiero Inbursa, with its diversified investments in various financial services sectors and its strong presence in the insurance, banking and securities sectors and significant presence in the financial services market related to social security.

### ***Historical experience in wholesale lending***

Banco Inbursa is a leader in Mexico's wholesale commercial lending market, ranking fifth in that sector, with a market share of 9.7% as of December 31, 2016, according to information published by the CNBV. As of December 31, 2016, wholesale commercial loans represented 68.1% of Banco Inbursa's overall loan portfolio. Mexico's wholesale commercial lending market has historically maintained a higher level of asset quality than the retail segment and the overall market. Within the wholesale commercial sector, corporates and infrastructure represent our largest segments, which represent 21.7% and 20.7% of our total loan portfolio, respectively.

### ***High potential for organic growth with the expansion of our retail banking business***

Our experience, expertise and platform allow us to effectively identify profitable and long-term potential clients. We focus on offering our wide range of financial services to client segments that we consider most profitable based on the risk profile that they represent, such as high- and mid-income individuals. We believe that the continuation and strengthening of this focus will continue to contribute to our profitability.

Our growth plan focuses on high-growth and profitable segments where we see an elevated potential of increasing our retail banking market share.

Our strategy focuses on further penetrating Grupo Financiero Inbursa's client base of more than 14 million individuals. For example, we offer checking accounts to clients who have taken out automobile loans.

We have also expanded the sale of bundled credit products to the consumer segment through telephone promotions. This level of additional understanding of our clients has resulted in a more competitive and catered offering, which is perceived by our clients as a higher value-added service.

Our retail portfolio has been outgrowing our commercial portfolio since 2009, representing an increasingly large proportion of our loan portfolio. The expansion of this segment of our portfolio represents the expansion of our highest yielding business line.

Additionally, the investment we already have made to expand the number of our branches and outlet branches (from 96 branches in 2009 to 901 total branches and outlet branches in December 2016) is sufficient to allow us to increase the number of our branches in the future at marginal cost.

Our retail expansion has also allowed for the increased sourcing of demand deposits, which have increased by over 85% from 2008 to 2016. These demand deposits represent a more stable source of funding, with a low cost basis.

***Low-risk profile supported by a strong balance sheet and conservative reserve and provision criteria***

Our business model is based on, among other things, prudent reserve and provision criteria, rigorous origination mechanisms and the monitoring of our loan portfolio and clients in the distinct segments in which we operate. We carry out a very conservative reserves policy that translated into a coverage ratio (defined as total allowance for loan losses divided by non-performing loans) calculated in accordance with Mexican Banking GAAP of 155% as of December 31, 2016, compared to a market average of 157%. As a result of this policy, our allowance for loan losses represented 4.3% of our total loan portfolio as of December 31, 2016, well above the average in the Mexican system of 3.4%, based on data from the CNBV.

The following table sets forth information regarding our non-performing loans ratio and that of our key competitors:

|                    | As of December 31, 2016                               |   |                               |
|--------------------|---|---|-------------------------------|
|                    | Allowance for loan losses /<br>Total credit portfolio | Non-performing<br>loans coverage<br>ratio | Non-performing<br>loans ratio |
| Banco Inbursa..... | 4.3%  | 154.9%                                    | 2.8%                          |
| HSBC.....          | 4.5%  | 150.8%                                    | 3.0%                          |
| Banamex.....       | 4.2%  | 282.1%                                    | 1.5%                          |
| Bancomer.....      | 2.9%  | 132.1%                                    | 2.2%                          |
| Santander.....     | 3.4%  | 135.6%                                    | 2.5%                          |
| Banorte.....       | 2.5%  | 138.6%                                    | 1.8%                          |
| Scotiabank.....    | 2.8%  | 119.4%                                    | 2.4%                          |

Source: CNBV.

On November 28, 2012 and April 16, 2013, the CNBV, anticipating the adoption of Basel III guidelines, published amendments to the Mexican Banking Regulations. To date, most aspects of this set of rules have been adopted, while the rest will come into force gradually until 2022. These rules could have an impact on our reserves and provisioning policies. For more information, see "Supervision and Regulation—Adoption of New Rules in Mexico in accordance with Basel III."

In addition, we have solid and conservative Capital Ratios. As of December 31, 2016, our Capital Ratio was 18.48%, calculated in accordance with the methodology established by the CNBV, compared to a market average Capital Ratio of 14.92%, according to data published by the CNBV. Our Tier 1 Capital Ratio was also 18.48%, which is higher than the market average of 14.92%, and our equity/assets ratio was 21.9%, which is also higher than the market average of 9.9%.

|                     | As of December 31, 2016 |                     |
|---------------------|-------------------------|---------------------|
|                     | Tier 1 Capital Ratio    | Equity/Assets Ratio |
| Banco Inbursa ..... | 18.48%                  | 21.9%               |
| Scotiabank .....    | 13.82%                  | 10.8%               |
| Santander .....     | 15.74%                  | 7.9%                |
| Banamex .....       | 14.36%                  | 13.5%               |
| HSBC .....          | 13.21%                  | 7.9%                |
| Banorte .....       | 15.30%                  | 9.0%                |
| Bancomer .....      | 13.73%                  | 8.3%                |

Source: Banco Inbursa, CNBV, Santander, Banamex, HSBC, Banorte and Bancomer.

### *Attractive profitability supported by highly efficient operations*

As a result of our highly efficient operations, we have become the most profitable among the seven largest banks in Mexico in terms of ROAA, which as of December 2016 was 2.06% and 3.18% in 2015. As of December 2016, we had an ROAE of 9.07%, the fifth highest among the seven largest banks. Our ROAE has been historically affected by our conservative capitalization policy.

| As of December 31, 2016          |           |         |          |        |         |       |
|----------------------------------|-----------|---------|----------|--------|---------|-------|
| ROAE (%) from ongoing operations |           |         |          |        |         |       |
| Inbursa                          | Santander | Banorte | Bancomer | Scotia | Banamex | HSBC  |
| 9.07%                            | 13.65%    | 14.37%  | 21.77%   | 11.46% | 7.01%   | 2.43% |

Source: CNBV.

| As of December 31, 2016          |           |         |          |        |         |       |
|----------------------------------|-----------|---------|----------|--------|---------|-------|
| ROAA (%) from ongoing operations |           |         |          |        |         |       |
| Inbursa                          | Santander | Banorte | Bancomer | Scotia | Banamex | HSBC  |
| 2.06%                            | 1.27%     | 1.56%   | 1.84%    | 1.22%  | 0.93%   | 0.19% |

Source: CNBV.

Our product structure has a number of associated variable costs that make our sales costs flexible. We believe that the efficiency of our operations is a competitive advantage given that we have tried to establish a relationship between income and costs, allowing us to compensate for the increased funding capture costs.

Grupo Financiero Inbursa's comprehensive business model has an integrated technology platform for all of its products and services and single infrastructure for the various businesses in our group and helps us to maintain a low-cost structure, leading to better efficiency and profitability.

Over the past eight years, we have increased our branch network from 96 branches in 2008 to 901 total branches and outlet branches as of December 31, 2016, maintaining a higher level of efficiency than that of the market, including during periods of strong expansion and growth.

Based on data published by the CNBV, as of December 31, 2016, Grupo Financiero Inbursa ranked first among the main financial groups in terms of operating efficiency at 33.5%, measured as administrative and promotional expenses divided by the sum of financial margin, fee income minus fee expense plus other operating income compared to 50.8% among the seven largest banks.

|                  | As of December 31, 2016 |                             |
|------------------|-------------------------|-----------------------------|
|                  | Efficiency Ratio        | Operating Expenses / Assets |
| Inbursa .....    | 33.5%                   | 1.72%                       |
| Santander .....  | 43.1%                   | 2.04%                       |
| Bancomer .....   | 44.8%                   | 3.02%                       |
| Banamex .....    | 59.2%                   | 4.96%                       |
| Banorte .....    | 49.0%                   | 2.83%                       |
| Scotiabank ..... | 62.4%                   | 3.54%                       |
| HSBC .....       | 71.8%                   | 3.64%                       |

Source: CNBV.

We believe that our levels of growth in our various business segments and at the consolidated level are a reflection of our operating efficiency and our capacity to adapt to the various circumstances that have affected both the domestic and international macroeconomic environments. We have viewed each crisis as an opportunity for growth and strengthening, which has allowed us to continue increasing our relative size. We believe that we have emerged successfully from each economic crisis that we have confronted since our incorporation, learning how to take advantage of the opportunities presented to us and supported by our solid balance sheet, prudent risk management and high operating efficiency.

We focus our distribution efforts on regional and integrated distribution channels rather than on individual products. We leverage Grupo Financiero Inbursa's distribution system and use flexible, alternative and diverse channels, such as call centers, an Internet portal and strategic alliances with various retail and telecommunications chains for payments and deposits. Moreover, Grupo Financiero Inbursa's focus on customer outreach, promotion of our integrated portfolio of services and sale of complementary services and products, as well as its emphasis on the strength and efficiency of these efforts allows us to have a cost model that is controlled, flexible, highly efficient and managed under high standards of efficiency, supervision and risk control.

As of December 31, 2016, we had 901 total branches and outlet branches strategically located in the most affluent geographic areas of Mexico, compared to 320, 354 and 804 branches in 2013, 2014 and 2015, respectively. This network of branches and outlet branches supports and complements our commercial sales force.

Our branches are grouped into 12 regional zones, four in Mexico City, one in Mérida, one in Puebla, one in Querétaro, one in Monterrey, one in Hermosillo, one in Culiacán, one in Guadalajara and one in Chihuahua.

As of December 31, 2016, we had four types of branches:

- Model A: 608 units, of which 387 are branches and 221 are outlet branches with two employees each, located inside Sanborns and Walmart stores
- Model B: 57 branches of three employees each located inside shopping centers
- Model C: 138 branches of five employees each located primarily in our areas of expansion
- Model D: 98 branches of 14 employees consisting of our original offices

Each branch is autonomous and independent from a commercial standpoint, while risk-related decisions and our back office are centralized. This strategy allows our personnel located at our branches and outlet branches to focus solely on sales and services, thus maximizing their efficiency.

In addition, we have installed point-of sale (POS) terminals for our clients as a means of offering and providing services to SMEs, including schools, restaurants, gas stations and other businesses, which are clients of Grupo Financiero Inbursa. As of December 31, 2016, we had 66,262 POS terminals and 5,007 ATMs, of which we own 845 and operate 4,162 through other banks domiciled in Mexico.



### ***A sales force incentivized to commercialize our entire range of products***

Grupo Financiero Inbursa's sales force is one of the largest external commercial sales forces in Mexico, with 29,492 agents as of December 31, 2016, and an essential tool that complements our traditional distribution channels. It allows us to maintain a below-market cost base, high penetration and nationwide reach.

The Grupo Financiero Inbursa sales force is composed of professionals whom we consistently train to promote all Grupo Financiero Inbursa products, including our own, within the regulatory framework and according to the highest ethical standards.

Additionally, the sales force benefits from an integrated platform with access to information processed by our software application, Grupo Financiero Inbursa's complete and high-quality product offering and high-quality customer service through our traditional channels, the Internet and our call centers. Grupo Financiero Inbursa's understanding of individuals is unique in the market and allows the sales force to identify and directly target profitable clients with attractive offers tailored to their needs. Finally, the compensation of the sales force is fully variable and is directly tied to each agent's performance in order to incentivize productivity and efficiency, which in turn promotes cross-selling of Grupo Financiero Inbursa's products, including our own.

Grupo Financiero Inbursa's wide range of products and unique management of information result in a platform that is attractive for the agents, who see more cross-selling opportunities and a product offering that is more tailored to client needs. In turn, this system has resulted in lower agent turnover.

### ***Experienced management team and sponsorship by highly committed and experienced shareholders***

Our senior management team has broad experience in the financial industry. As a subsidiary of Grupo Financiero Inbursa, we benefit from its established culture of operational excellence and high governance standards, as well as the experience in retail banking provided by La Caixa through its subsidiaries Caixabank and Criteria, the latter as a direct shareholder of Grupo Financiero Inbursa.

Our senior management team has also developed training and certification programs that have resulted in a well-trained, well-incentivized and loyal sales force. Moreover, the Slim family, controlling shareholder of Grupo Financiero Inbursa, has a strong record of creating value for stakeholders across numerous industries in various countries.

### ***Our Strategy***

We believe that we are a unique banking institution in Mexico that benefits from its position as part of a comprehensive and diverse financial group offering an array of financial services. We seek to maintain a low-risk profile and potential for above-market growth and profitability. We intend to capture this growth and profitability by focusing on tangible opportunities, although still in development, and through a low-cost model. Additionally, we believe that the profitability of our business and our growth demonstrate that our business model has been successful. We intend to continue leveraging our competitive advantages to expand our business within the most dynamic and profitable segments of the Mexican economy, enhancing our leading position in Mexico while focusing on growth and profitability.

We intend to achieve these objectives through the following strategies:

- *Leverage our position to benefit from the significant growth potential of the Mexican banking sector:* We seek to continue increasing our market penetration, focusing on our client segments and integrated offering of diverse products that meet the diverse needs of our clients.

- *Continue to expand our existing customer base, in particular, retail banking, and continue to develop and deepen our relationships with such customer base, increasing our market share in a cost-efficient manner:* We intend to continue to grow our customer base, focusing on the high- and mid-income segments, through promotional efforts and increased use of our sales force. We also intend to continue to strengthen our relationships with existing high- and mid-income clients, that offer the greatest opportunity for cross-selling, through our offering of key products and integrated business solutions with high-quality service. Our integrated business model and high level of efficiency, together with our multi-channel distribution platform, allows us to offer products adapted to the needs of our clients at competitive prices and with lower marginal cost. The consistency and professionalism of our controlling shareholder group and our general policy of growing our business organically, as opposed to through a series of acquisitions of financial institutions, have allowed us to maintain a consistent growth strategy and a stable platform for increased profitability.
- *Continue to strengthen our cost-efficient culture to support profitable growth:* We plan to maintain our low-cost growth profile. We will also continue to monitor our administrative and promotional expenses with the goal of maintaining a low efficiency ratio. We believe that this strategy will give us the capability to offer more competitive prices in the market together with higher quality service, which will translate into an increase in market share and, therefore, above-market growth.
- *Continue to expand our exposure to the retail banking segment through cross-selling with other Grupo Financiero Inbursa subsidiaries and obtaining new clients, either through our distribution platform, selective acquisitions or business correspondents:* Fewer than 20% of our clients (of a total of more than 14 million) have more than one Inbursa product, which represents a clear opportunity to increase cross-selling to our client base. Additionally, there is high growth potential among our new clients through our distribution network, leveraging the knowledge we have acquired in recent years due to our partnership with La Caixa through Caixabank and Criteria and new clients acquired through our partnerships with leading business correspondents, as we have done in the past, or through selective acquisitions such as that of CF Credit and Banco Walmart.
- *Development and growth plans:* We intend to continue and extend our development by opening new branches and outlet branches, tripling our ATMs and doubling our POS terminals, among others, always following strict profitability criteria. This expansion will allow us to increase the weight of our retail loan portfolio and that of our retail funding. Such an expansion will improve the margins of our portfolio, which together with our model of efficiency and lost costs will allow us to reach profitability levels higher than our present ones. Additionally, we intend to increase our market share in retail banking, through providing for self-financing and loans to individuals. We consider that we could increase our retail banking business by keeping lower costs, taking into consideration that we already have almost all of the necessary infrastructure to allow for higher penetration in the segment.

## **Recent Developments**

### ***Change in Fitch's Outlook***

On December 9, 2016, Fitch revised its outlook of Mexico and the Mexican financial system, including Banco Inbursa and 11 other Mexican financial institutions, from stable to negative. See “Risk Factors—Risks Relating to Our Business—Reductions in our credit ratings could increase our cost of borrowing and negatively impact our ability to raise new funds or renew maturing debt.”

### ***Merger of Sociedad Financiera Inbursa into CF Credit***

On November 17, 2016, the shareholders' meetings of CF Credit and Sociedad Financiera Inbursa adopted resolutions authorizing and directing the merger of the entities. The merger is subject to the approval of the SHCP. CF Credit will be the surviving entity and upon effectiveness it will change its corporate name to SOFOM INBURSA, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Inbursa. Sociedad Financiera Inbursa will be the merged entity and will be extinguished as a result of the merger. On October 17, 2016, we were informed that the SHCP had no objections to authorizing the merger; however, we must receive an official communication from the SHCP approving the merger in order to proceed with its registration with the Public Registry of Commerce in Mexico City. Upon such registration, the merger will be effective, as provided in the Mexican Financial Groups Law. This merger will have no effect on our consolidated financial statements as the two entities were our consolidated subsidiaries prior to the merger.

## The Offering

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

|   |  |
|---|--|
| <b>Issuer</b> .....                     | Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa.  |
| <b>Notes</b> .....                      | 4.375% Senior Notes due 2027, which we refer to as the “Notes.”  |
| <b>Principal Amount</b> .....           | U.S.\$750,000,000 aggregate principal amount of Notes.   |
| <b>Interest and Principal</b> .....     | <p>The Notes will bear interest from (and including), April 11, 2017, or the “Issue Date,” to (but excluding) April 11, 2027, or the “Maturity Date,” at a fixed rate per annum equal to 4.375%, payable semi-annually in arrears on April 11 and October 11 of each year (each an “Interest Payment Date”), commencing on October 11, 2017. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date up to (but excluding) the Maturity Date is called an “Interest Period.”</p> <p>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.</p> <p>Principal will be paid on the Maturity Date unless the Notes have been redeemed prior thereto, as provided in this offering memorandum.</p> <p>“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.</p> |
| <b>Issue Price</b> .....                | 98.591% of the principal amount.   |
| <b>Issue Date</b> .....                 | April 11, 2017.  |
| <b>Maturity Date</b> .....              | April 11, 2027.  |
| <b>Unsecured; Not Guaranteed</b> .....  | The Notes will not be secured nor guaranteed by the IPAB or any Mexican governmental agency, or by any other entity that is part of Grupo Financiero Inbursa, and the Notes are not convertible into shares of any of our capital stock.   |
| <b>Redemption</b> .....                 | We may not redeem the Notes, in whole or in part, other than as described below under “Withholding Tax Redemption” and “Optional Redemption.”  |
| <b>Withholding Tax Redemption</b> ..... | We have the option, under the Indenture for the Notes, to redeem the Notes at any time prior to the Maturity Date, in whole but not in part, at par plus accrued and unpaid interest due on, or with respect to, the Notes upon the occurrence of certain specified changes in Mexican laws affecting the withholding tax applicable to payments of interest and amounts deemed interest under the Notes. See “Description of the Notes—Redemption—Withholding tax redemption.”  |

**Optional Redemption** ..... *Make-Whole Redemption.* We may redeem the Notes, in whole or in part, at the greater of 100% of their principal amount outstanding and a make-whole amount described in this offering memorandum, in each case, plus Additional Amounts, if any, and any accrued and unpaid interest up to the date of redemption. See “Description of the Notes— Redemption—Optional Redemption.”

*Optional Redemption without a Make-Whole Amount.* We have the option to redeem any outstanding Notes in whole, but not in part, on any date on or following, January 11, 2027 (the date that is three months prior to the Maturity Date), at their original principal amount, plus any Additional Amounts and accrued but unpaid interest up to the date of redemption. See “Description of the Notes— Redemption—Optional Redemption.”

**Ranking** ..... The Notes will be our direct, unconditional and unsecured general obligations and will, other than as set forth below, at all times rank *pari passu* in right of payment with all of our other unsecured obligations other than obligations that are, by their terms, expressly subordinated in right of payment to the Notes. The Notes will be effectively subordinated to (i) all of our secured indebtedness with respect and up to the value of our assets securing that indebtedness, (ii) certain direct, unconditional and unsecured general obligations that in case of our insolvency and/or by law are granted preferential treatment pursuant to Mexican law (including deposits and tax, social security and labor claims) and (iii) all of the existing and future liabilities of our subsidiaries, including trade payables. We currently do not have any secured indebtedness.

As of December 31, 2016, we had approximately Ps.191,918 million (approximately U.S.\$9,308 million) aggregate principal amount of indebtedness outstanding that ranked *pari passu* with the Notes (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Long-term Funding Outstanding”) and Ps.85,311 million (approximately U.S.\$4,137 million) outstanding demand obligations to depositors that ranked senior to the Notes. The indenture does not limit the amount of senior, secured or other additional indebtedness or other obligations that we may incur.

**Events of Default, Notice and Waiver** ..... For a discussion of certain events of default that will permit or require acceleration of the principal of all outstanding Notes and the interest accrued thereon, if any, see “Description of the Notes—Events of Default.”

**Payment of Additional Amounts** ..... Payments of interest on the Notes to investors that are non-residents of Mexico will be subject to Mexican withholding taxes at a rate of 4.9%, provided that certain conditions are satisfied and we provide certain notices to Mexican governmental authorities as described in “Description of the Notes—Payment of Additional Amounts.” Subject to certain specified exceptions, we will pay such additional amounts as may be required so that the net amount received by the holders of the Notes in respect of principal, interest or other payments on the Notes, after any such withholding or deduction, will not be less than the amount that each holder of the Notes would have received in respect of the Notes in the absence of any such withholding or deduction. See “Description of the Notes—Payment of Additional Amounts.”

|   |   |
|---|---|
| <b>Use of Proceeds .....</b>                | Our net proceeds from the issuance of the Notes are estimated to be approximately U.S.\$737,932,500. We intend to use the net proceeds of the issuance of the Notes for general corporate purposes as further described in “Use of Proceeds.”   |
| <b>Listing .....</b>                        | Application has been made to have the Notes listed on the Official List of the Irish Stock Exchange and admitted for trading on the Global Exchange Market of the Irish Stock Exchange. No assurance can be given that the Notes will be approved for listing on the Official List of the Irish Stock Exchange and admitted for trading on the Global Exchange Market of the Irish Stock Exchange.  |
| <b>ERISA Considerations .....</b>           | Sales of the Notes to specified types of employee benefit plans and affiliates are subject to certain conditions. See “Certain ERISA Considerations.”   |
| <b>Transfer Restrictions.....</b>           | <p>The offering of the Notes is being made in accordance with Rule 144A and Regulation S under the Securities Act. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any U.S. state or other jurisdiction and, accordingly, may not be offered, sold, pledged or otherwise transferred or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except as set forth in “Transfer Restrictions.” As a result of these restrictions, investors are advised to consult legal counsel prior to making any reoffering, resale, pledge or transfer of the Notes.</p> <p>As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico and of the terms applicable to the Notes. The Notes will not be registered in the National Registry of Securities maintained by the CNBV and may not be offered, or sold publicly or otherwise be subject to brokerage activities in Mexico. The Notes may be offered to Mexican qualified and institutional investors, pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law.</p> |
| <b>Governing Law .....</b>                  | The Indenture, the Notes and related documents will be governed by, and construed in accordance with, the laws of the State of New York.  |
| <b>Form and Denomination .....</b>          | We will issue the Notes in minimum denominations of U.S.\$150,000 and integral multiples of U.S.\$1,000 in excess thereof and the Notes will, once issued, be initially represented by one or more global notes. The global notes representing the Notes will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee for DTC. DTC will act as depository.   |
| <b>Securities Identification Numbers...</b> | <p>144A ISIN: US05969LAB71</p> <p>144A CUSIP: 05969L AB7</p> <p>Reg S ISIN: USP13296AM37</p> <p>Reg S CUSIP: P13296 AM3</p>   |
| <b>Indenture .....</b>                      | The Notes will be issued pursuant to an Indenture, dated as of April 11, 2017 among The Bank of New York Mellon, as “Trustee,” registrar, paying agent and transfer agent, The Bank of New York Mellon SA/NV, Dublin Branch, as Irish paying agent and us.  |

- Ratings**..... We expect that the Notes will be rated “BBB+” by S&P and “BBB+” by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice.
- Risk Factors** ..... Investing in our Notes involves risks. See “Risk Factors” and the other information in this offering memorandum for a discussion of factors you should carefully consider before deciding to invest in the Notes.

### Summary Consolidated Financial Information

The summary consolidated financial information presented in this section is derived from our accounting records and from our Audited Financial Statements and pertains to us and our consolidated subsidiaries. This information is qualified in its entirety and 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 the Audited Financial Statements included elsewhere in this offering memorandum. Our Audited Financial Statements and the other financial information contained in the tables below have been prepared in accordance with Mexican Banking GAAP, which differ in certain significant respects from U.S. GAAP, SEC guidelines applicable to financial institutions in the United States and IFRS.

The dollar amounts provided below are translations from the peso amounts, solely for the convenience of the reader. See “Presentation of Certain Financial and Other Information—Currencies” for an explanation of the exchange rates used to translate peso amounts into dollars. These translations should not be construed as representations that the peso amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated or at any other rate.

|  | For the years ended December 31, |         |          |                       |
|--|----------------------------------|---------|----------|-----------------------|
|  | 2014                             | 2015    | 2016     | 2016                  |
|  | (millions of pesos)              |         |          | (millions of dollars) |
| Income statement data:                                   |                                  |         |          |                       |
| Interest income.....                                     | 17,112                           | 19,871  | 27,229   | 1,321                 |
| Interest expense.....                                    | (7,425)                          | (7,811) | (10,780) | (523)                 |
| Financial margin.....                                    | 9,687                            | 12,060  | 16,449   | 798                   |
| Allowance for loan losses .....                          | (2,438)                          | (3,477) | (6,613)  | (321)                 |
| Financial margin after allowance for loan losses.....    | 7,249                            | 8,583   | 9,836    | 477                   |
| Commission and fee income.....                           | 2,991                            | 4,207   | 5,450    | 264                   |
| Commission and fee expense.....                          | (93)                             | (753)   | (1,845)  | (89)                  |
| Net gain (loss) on financial assets and liabilities..... | (4,443)                          | (2,582) | 409      | 20                    |
| Other operating income, net .....                        | 13,631                           | 6,302   | 1,107    | 53                    |
| Administrative and promotional expenses ..               | (4,964)                          | (5,676) | (7,081)  | (343)                 |
| Total operating income .....                             | 14,371                           | 10,081  | 7,876    | 382                   |
| Equity in results of associates.....                     | 949                              | 1,195   | 1,079    | 52                    |
| Income before income taxes.....                          | 15,320                           | 11,276  | 8,955    | 434                   |
| Current income taxes .....                               | 1,896                            | 2,592   | 2,277    | 110                   |
| Deferred income taxes .....                              | (1,332)                          | (1,426) | (1,067)  | (52)                  |
| Total Current and Deferred income taxes.....             | 564                              | 1,166   | 1,210    | 58                    |
| Net income.....  | 14,756                           | 10,110  | 7,745    | 376                   |
| Non-controlling interest.....                            | (202)                            | (220)   | (2)      | -                     |
| Net income attributable to controlling interest.....     | 14,554                           | 9,890   | 7,743    | 376                   |



|   | As of December 31,  |                |                |                       |
|---|---------------------|----------------|----------------|-----------------------|
|   | 2014                | 2015           | 2016           | 2016                  |
| Balance sheet data:                                       | (millions of pesos) |                |                | (millions of dollars) |
| <b>Assets</b>   |                     |                |                |                       |
| Funds available .....                                     | 13,554              | 17,127         | 19,293         | 936                   |
| Margin accounts .....                                     | 3,434               | 2,723          | 4,895          | 237                   |
| Investment in securities .....                            | 25,566              | 23,278         | 63,253         | 3,068                 |
| Receivables under security repurchase agreements .....    | 13,008              | 7,386          | -              | -                     |
| Derivatives .....   | 9,769               | 7,124          | 10,873         | 527                   |
| Valuation adjustment for hedged financial assets .....    | 1,066               | 928            | 647            | 31                    |
| Performing loan portfolio .....                           | 193,135             | 230,222        | 275,504        | 13,361                |
| Non-performing loan portfolio .....                       | 6,846               | 7,256          | 7,806          | 379                   |
| Total loan portfolio .....                                | 199,981             | 237,478        | 283,310        | 13,740                |
| Allowance for loan losses .....                           | (14,338)            | (10,739)       | (12,088)       | (586)                 |
| <b>Loan portfolio, net .....</b>                          | <b>185,643</b>      | <b>226,739</b> | <b>271,222</b> | <b>13,154</b>         |
| Other receivables, net .....                              | 15,357              | 21,755         | 21,876         | 1,061                 |
| Foreclosed assets, net .....                              | 3,077               | 2,931          | 1,935          | 94                    |
| Property, furniture and fixtures, net .....               | 1,449               | 1,871          | 2,048          | 99                    |
| Long-term investment in shares .....                      | 8,973               | 11,878         | 12,742         | 618                   |
| Deferred taxes, net .....                                 | -                   | 390            | 211            | 10                    |
| Other assets, deferred charges and intangibles, net ..... | 688                 | 2,934          | 2,966          | 144                   |
| <b>Total assets .....</b>                                 | <b>281,584</b>      | <b>327,064</b> | <b>411,961</b> | <b>19,979</b>         |
| <b>Liabilities</b>  |                     |                |                |                       |
| Deposits:   |                     |                |                |                       |
| Demand deposits .....                                     | 69,328              | 76,895         | 81,996         | 3,977                 |
| Time deposits .....                                       | 15,235              | 17,228         | 47,727         | 2,315                 |
| Credit instruments issued .....                           | 91,787              | 109,798        | 117,728        | 5,709                 |
| Global demand deposit accounts .....                      | -                   | -              | 65             | 3                     |
| Bank and other loans .....                                | 5,355               | 8,870          | 29,713         | 1,441                 |
| Derivatives .....   | 18,003              | 19,994         | 27,796         | 1,348                 |
| Other payables .....                                      | 6,351               | 11,273         | 15,670         | 760                   |
| Deferred taxes, net .....                                 | 2,379               | -              | -              | -                     |
| Deferred revenues and other advances .....                | 363                 | 647            | 1,027          | 50                    |
| <b>Total liabilities .....</b>                            | <b>208,801</b>      | <b>244,705</b> | <b>321,722</b> | <b>15,603</b>         |
| Paid-in capital .....                                     | 25,264              | 25,264         | 25,264         | 1,225                 |
| Other capital .....                                       | 47,519              | 57,095         | 64,975         | 3,151                 |
| <b>Total stockholders' equity .....</b>                   | <b>72,783</b>       | <b>82,359</b>  | <b>90,239</b>  | <b>4,376</b>          |
| <b>Total liabilities and stockholders' equity ....</b>    | <b>281,584</b>      | <b>327,064</b> | <b>411,961</b> | <b>19,979</b>         |

## Capital Ratios

The table below sets forth our risk-weighted assets and Capital Ratios as of December 31, 2014, 2015 and 2016.

|   | As of December 31,                      |         |         |   |
|---|---|---------|---------|---|
|   | 2014                                    | 2015    | 2016    | 2016                                      |
|   | (millions of pesos, except percentages) |         |         | (millions of dollars, except percentages) |
| <b>Capital</b>                                  |   |         |         |   |
| Tier 1 .....                                    | 63,158                                  | 62,648  | 62,783  | 3,045                                     |
| Tier 2 .....                                    | -                                       | -       | -       | -   |
| Total net capital .....                         | 63,158                                  | 62,648  | 62,783  | 3,045                                     |
| <b>Risk weighted assets</b>                     |   |         |         |   |
| Market Risk <sup>(1)</sup> .....                | 88,813                                  | 89,193  | 86,160  | 4,179                                     |
| Credit Risk <sup>(2)</sup> .....                | 205,205                                 | 229,277 | 233,432 | 11,321                                    |
| Operational Risk <sup>(3)</sup> .....           | 17,369                                  | 20,011  | 20,218  | 981                                       |
| Total risk-weighted assets .....                | 311,387                                 | 338,481 | 339,810 | 16,481                                    |
| <b>Capital Ratios</b>                           |   |         |         |   |
| Tier 1 capital to risk-weighted assets .....    | 20.28%                                  | 18.51%  | 18.48%  | 18.48%                                    |
| Tier 2 capital to risk-weighted assets .....    | -                                       | -       | -       | -   |
| Total net capital to risk-weighted assets ..... | 20.28%                                  | 18.51%  | 18.48%  | 18.48%                                    |

<sup>(1)</sup> Refers to the requirement for positions that use a nominal national or foreign rate and actual or used rates. The more remote the maturity, the greater the requirement.

<sup>(2)</sup> Refers to our positions that are subject to weighted credit risk in accordance with the rating of the borrower, issuer or counterparty, in accordance with Annex 2 of the Mexican Banking Regulations, the highest rating that has a weight of 0% is the governmental requirement.

<sup>(3)</sup> This requirement is calculated based on 15% of the average of 36 months of certain annual net income based on the basic methodology of Banxico.

The Mexican Banking Law requires the maintenance of a Capital Ratio of at least 10.5%. In May 2016, Banco Inbursa was designated as a Grade I Systemically Important Banking Institution by the CNBV. Accordingly, starting in 2020, Banco Inbursa will be required to maintain a Capital Ratio of at least 11.1%. Banco Inbursa had a Capital Ratio of 18.48% as of December 31, 2016, outperforming the market average by 3.56 percentage points.

The following table sets forth certain of our financial and operating information:

|   | As of December 31,   |         |         |
|---|--|---------|---------|
|   | 2014   | 2015    | 2016    |
|   | (millions of pesos, except percentages and number of branches) |         |         |
| Total branches and outlet branches**                  | 354  | 804     | 901     |
| Total assets .....                                    | 281,584  | 327,064 | 411,961 |
| Total loan portfolio .....                            | 199,981  | 237,478 | 283,310 |
| Deposits and debt securities <sup>(1)</sup> .....     | 176,350  | 203,921 | 247,516 |
| Stockholders' equity .....                            | 72,783   | 82,359  | 90,239  |
| Non-performing loan portfolio <sup>(2)</sup> .....    | 3.4%   | 3.1%    | 2.8%    |
| Operating efficiency <sup>(3)</sup> .....             | 18.9%  | 26.0%   | 33.5%   |
| Return on average equity (ROAE) <sup>(4)</sup> .....  | 22.17%   | 12.66%  | 9.07%   |
| Capital Ratio .....                                   | 20.28%   | 18.51%  | 18.48%  |
| Assets held for safekeeping or under management ..... | 604,793  | 399,814 | 410,796 |
| ROAA <sup>(5)</sup> .....                             | 5.59%  | 3.18%   | 2.06%   |

\*\* Outlet branches are branches at which cash deposits and withdrawals cannot be made.

<sup>(1)</sup> Includes traditional deposits, time deposits and debt securities issued.

<sup>(2)</sup> Measured as total non-performing loan portfolio over total loan portfolio.

<sup>(3)</sup> Calculated as follows: Administrative and promotional expenses / (Financial margin + Commission and fee income – Commissions and Fee expense + Other operating income, net).

<sup>(4)</sup> Calculated based on average quarterly balance of stockholders' equity accounts.

<sup>(5)</sup> Calculated as follows: quarterly net average income / total quarterly assets.

## RISK FACTORS

*Investing in our Notes involves risks. Before making a decision to invest in the Notes, you should carefully consider the risks described below as well as the other information contained in this offering memorandum. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The risks described below are not the only ones we or investments in Mexico in general face. Additional risks and uncertainties not currently known to us or that we currently consider immaterial may also materially adversely affect our business, financial condition or results of operations and may have an impact on the market value of the Notes and our ability to duly and timely perform under the Notes.*

### **Risks Relating to Our Business**

***Our results of operations may be adversely affected by ongoing disruptions and volatility in the global financial markets.***

Beginning in the late 2000s, the global economy underwent a financial crisis characterized by loss of confidence in the financial sector, disruptions in the credit markets, reduced business activity, rising unemployment, decline in interest rates and erosion of consumer confidence. While global economic growth has generally improved since 2012, the global economy continues to be affected by uncertainty regarding its recovery from the recession. Additional uncertainty has resulted from the United Kingdom's June 2016 referendum on its membership in the European Union, which resulted in a majority of U.K. voters electing to exit the European Union ("Brexit"). The "leave" vote is likely to have a significant impact on general macro-economic conditions in the United Kingdom, the European Union and globally. In the immediate aftermath of Brexit, there were material devaluations in currency, with sterling depreciating to a 31-year low against the U.S. dollar. In the days following the referendum result, the performance of global financial markets, and particularly international equity markets, were also materially affected. While the longer-term impacts of the Brexit vote on global debt and equity markets, exchange rates and on the political and macro-economic climate generally are uncertain, it is likely that there will continue to be a period of volatility across international financial markets until the precise timing and terms of the United Kingdom's exit from the European Union become clear. As a result, Brexit could adversely affect European or worldwide political, regulatory, economic or market conditions and contribute to instability in global political institutions, regulatory agencies and financial markets, with a corresponding negative impact on our business, results of operations and financial condition.

Periods of global economic slowdown and, in particular, the deceleration of economic growth in the United States and Europe, have had a negative impact on the Mexican economy and adversely affected our business. See "—Risks Relating to Mexico—Developments in other countries may adversely affect us and the prices of our securities." Specifically, the decline in interest rates negatively affected our financial margins. A worsening of these conditions could have the following effects:

- increased regulation of the financial industry which may increase our costs and capital adequacy requirements and limit our ability to pursue business opportunities;
- 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 borrowers to repay their loans;
- an adverse impact on the value of our portfolio of investment securities; and
- delayed recovery of the financial industry, which may impact our financial condition.

There is uncertainty about the future economic environment and we cannot be sure when the current economic conditions will improve. Although recently some segments of the global economy have experienced a moderate recovery, the overall confidence of investors remains cautious. The uncertainty surrounding the implementation and effect of Brexit, including the relationship of the United Kingdom with the remaining members of the European Union during and after a withdrawal process, has caused and is likely to cause increased economic volatility and market uncertainty globally. In the event of an economic downturn or insufficient recovery, the

negative effects that the aforementioned economic and market conditions have on us and other participants in the financial services industry could worsen.

The persistence or worsening of the distortion and volatility of global financial markets could adversely affect us, including our ability to raise capital and liquidity on favorable terms or at all. The absence of sources of financing through the capital markets or an excessive increase in the cost of such financing, may force us to increase the rates we pay on deposits to attract more customers. Any increase in the cost of financing through the capital markets or deposit rates could have a material adverse effect on our net interest margins.

If any or all of the above risks materialize, they could have a material adverse effect on us.

***Our financial results are constantly exposed to market risk. We are subject to fluctuations in interest rates and other market risks, which may materially and adversely affect our financial position and results of operations.***

Market risk refers to the probability of variations in our financial margin, the volume of loans originated by us, or in the market value of our assets and liabilities and gains from sales of loans and securities, due to interest rate and equity market volatility.

A significant portion of our assets, including loans and debt securities, are long-term assets, including fixed-rate assets, which are not adjusted for price changes. Increases in short-term interest rates could reduce our financial margin, which comprises the majority of our revenue. When interest rates rise, we must pay higher interest on the funds we receive while interest earned on our assets does not rise as quickly, which causes profits to decrease. Historically, Mexico has experienced high real and nominal interest rates as compared to the United States. As of December 31, 2014, 2015 and 2016, Banxico's reference rate was 3.00%, 3.25% and 5.75%, respectively. On February 9, 2017, Banxico increased its reference rate to 6.25% and on March 30, 2017 further increased its reference rate to 6.50%. Further, interest rate increases could result in decreases in our financial margin, which would adversely affect our financial condition and results of operations.

In addition, increases in interest rates may reduce the volume of loans originated. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets.

Increases in interest rates may also reduce the value of our financial assets. We hold a substantial portfolio of loans and debt securities that have both fixed and adjustable interest rates. The market value of a security with a fixed interest rate generally decreases when prevailing interest rates rise, which may have an adverse effect on our earnings and financial position. In addition, we may incur costs (which, in turn, will impact our results) as we implement strategies to reduce future interest rate exposure. The market value of an obligation with an adjustable interest rate can be adversely affected when interest rates increase, due to a lag in the implementation of repricing terms.

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

Additionally, decreases in interest rates may reduce gains as we receive a lower interest from our customers which may not be compensated with the interest we pay for the funds we obtain.

***If we are unable to effectively control the level of non-performing or low credit quality loans in our current loan portfolio and in new loans we extend in the future, or if our allowance for loan losses are insufficient to cover actual loan losses, our financial position and results of operations may be materially and adversely affected.***

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 level of the impaired 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 and global and local macroeconomic trends and political events affecting Mexico, such as events that have adversely impacted the Mexican affordable entry housing industry.

Our current allowance for loan losses may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our loan portfolio. As a result, if our loan portfolio deteriorates we may be required to increase our allowance for loan losses, which may adversely affect our financial position and results of operations. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our allowance for loan losses 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, our financial position and results of operations could be materially and adversely affected.

***Allowance for loan losses in Mexico has been modified over time and differs from those applicable to banks in the United States and certain other countries.***

Except for government loans, loans to certain Mexican development banks guaranteed by the federal government and loans to Banxico, 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 (which were amended in 2013), and to establish corresponding allowance for loan losses.

Beginning in 2009, the Mexican government began implementing a new regulatory framework for loan classification and loan loss provisions, which shifted away from an accrued losses methodology to an expected losses methodology. Most recently, the CNBV published a new rating methodology for revolving consumer loan portfolios, which took effect in April 2016 and, among other things, takes into account information provided by credit information companies about a borrower's credit behavior with other financial institutions. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Allowance for loan losses."

Mexican banking regulations relating to loan classification and determination of allowance for loan losses are generally different than those applicable to banks in other countries, including the United States. The criteria to establish allowance for loan losses include both qualitative and quantitative factors and involve certain discretionary determinations. We may be required or deem it necessary to increase our allowance for loan losses in the future, as a result of further changes in CNBV rules or for other reasons, which, in turn, could adversely affect our results of operations and financial position.

***Our loans may be restructured and we cannot predict the terms or effects of such restructurings.***

According to regulations in effect issued by the CNBV, any modification or amendment to the original terms of a loan may only be made by executing an amendment agreement which is recorded as a restructuring of the original loan. From time to time, we have agreed to modify the original terms of loans. Such modifications may consist of extensions to the stated maturity and adjustments to interest rates, among others, which require the creation of related reserves. There can be no assurance that our loans will not be restructured in the future in a way that would be materially adverse to our business, financial condition or results of operations.

***We are subject to credit risks with respect to our non-traditional banking businesses such as investing in securities and entering into different types of derivatives transactions.***

A portion of our businesses are not in the traditional banking businesses of lending and deposit-taking and also expose us to credit risk.

Non-traditional sources of credit risk can, for example, arise from:

- investing in debt securities of third parties;
- entering into derivative contracts under which counterparties have obligations to make payments to us; and
- executing securities and currency trades, from our proprietary trading desk, that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries.

Any significant increase in exposure to any of these risks could materially and adversely affect our results of operations and financial position.

***Our growth in the retail lending sector, particularly in the highly competitive credit card industry, entails significant risks, including the possibility of over-indebtedness of customers.***

The credit card industry in Mexico is highly competitive and dominated by institutions that have broader coverage in this market than we do. There is no assurance that we will be able to effectively compete for and retain customers in this competitive industry.

Moreover, our credit card business is subject to a number of risks and uncertainties, including the economic situation, levels of employment and salaries paid and the possibility of over-indebtedness of our customers. Credit card products are characterized by higher consumer default than other consumer credit products, and defaults are highly correlated with macroeconomic indicators that are beyond our control. If Mexican economic growth slows or declines, or if we fail to effectively analyze the creditworthiness of our customers, we may face unexpected losses that could have a material adverse effect on us.

***Our failure to successfully conduct and continue to improve our credit risk management could materially and adversely affect our business operations and prospects.***

One of the principal risks inherent to our banking business is credit risk. Credit risk management and the continued improvement of our credit risk management system is critical to our business plan so that we can function effectively. For example, an important part of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subjective and 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. We may not be able to timely detect 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 and adversely affect our results of operations and financial position.

***Our current business model relies heavily on our ability to originate new loans.***

Currently our income is materially dependent on our ability to originate new loans on terms attractive to us, which results in the collection of commissions and fees and a high financial margin. If we are unable to originate new loans on favorable terms, our results of operations and financial position may be adversely affected, since we do not engage in full banking lines of business that could compensate for a decrease of the incomes derived from our loan origination business.

***The nature of our funding sources may pose a liquidity risk and we may need additional capital in the future.***

We use four primary sources of funding: (i) customer deposits, (ii) time deposits, (iii) issuance of debt instruments and (iv) to a lesser degree, commercial and development bank funding. Although we have not historically experienced funding problems, many Mexican banks have suffered severe liquidity problems in the past. No assurance can be given that liquidity problems will not affect the Mexican banking system again or that liquidity constraints will not affect Banco Inbursa in the future. For Banco Inbursa to grow, remain competitive or meet regulatory capital adequacy requirements, Banco Inbursa 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. While we expect to be able to pay or refinance our projected liabilities, no assurance can be given that we will be able to repay such liabilities or refinance such liabilities on favorable terms.

***Our loan and investment portfolio is subject to prepayment risk, which could negatively affect our financial margin.***

Our loan and investment portfolio is subject to prepayment risk, which is the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate scenario, prepayment activity increases, reducing the weighted average lives of our interest-earning assets and its expected results. If prepayment activity were to increase, we would also be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and financial margin. Furthermore, if loans within our portfolio are prepaid, we may be unable to relend amounts prepaid at the same rates or within a reasonable period of time, which will affect our financial market and results of operations.

***We may be subject to litigation proceedings, including proceedings relating to tax matters that could materially and adversely affect our results of operations and financial position if an unfavorable ruling were to occur.***

From time to time, we may become involved in litigation and other legal proceedings relating to claims arising from our operations in the normal course of business. Litigation is subject to inherent uncertainties, and unfavorable decisions may affect us. We cannot assure you that these or other legal proceedings (including class actions that may be initiated in Mexico, including by authorities such as CONDUSEF) will not materially 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.

***We have been named as a “preponderant telecommunications agent” by the Federal Telecommunications Institute (Instituto Federal de Telecomunicaciones, or “IFT”), and the finding and remedies ordered may adversely affect our business.***

On March 6, 2014, Grupo Financiero Inbursa was notified of a resolution of the IFT which declared that Grupo Financiero Inbursa is a preponderant telecommunications agent in the telecommunications market. On March 31, 2014, Banco Inbursa and Grupo Financiero Inbursa informed investors that Grupo Financiero Inbursa challenged such resolution, among other reasons, on the grounds that Grupo Financiero Inbursa (i) has not been granted a telecommunications concession, (ii) has an authorization and is required by law to conduct business exclusively as a financial holding company, and (iii) cannot carry out activities in the telecommunications sector, and as a result, such resolution should not be applicable to Grupo Financiero Inbursa. Grupo Financiero Inbursa and Banco Inbursa continue to analyze the implications of this resolution and what measures they will take as a result, however the remedies currently imposed by the IFT, such as prohibiting a preponderant telecommunications agent, or any members of its board of directors or management, from participating, directly or indirectly, in broadcasting, are considered by Banco Inbursa to be impossible to perform. Consequently, we cannot assure you that this resolution and potential future resolution of the IFT will not materially affect our or otherwise adversely affect our results of operations and financial position should an unfavorable outcome occur.

***The volatility in peso exchange rates and interest rates in Mexico may adversely affect our business.***

We are exposed to currency risk any time we hold an open position in a currency other than pesos and to interest rate risk when we have an interest rate repricing gap or carry interest-earning securities having fixed real or nominal interest rates. Peso exchange rates and interest rates in Mexico have been subject to significant fluctuations in recent years due to various economic factors. Because of the historical volatility in peso exchange rates and interest rates in Mexico, the risks associated with such positions may be greater than in certain other countries. Although we follow various risk management procedures in connection with our trading and treasury activities, there can be no assurance that we will not experience losses with respect to these positions in the future, any of which could have a material adverse effect on our results of operations and financial position. See “Selected Statistical Information—Interest Rate Sensitivity of Outstanding Loans” and “Risk Management.”

The Mexican peso has been subject to significant devaluations against the U.S. dollar in recent years and may be subject to significant fluctuations in the future. In 2014, 2015 and 2016, the Mexican peso depreciated by approximately 13.2%, 16.7% and 17.6% against the U.S. dollar. Further devaluation or depreciation of the Mexican peso, or government imposition of exchange controls, may result in the disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies.

Recently, there have been increases in short term interest rates and there can be no assurance that such rates will not continue in the future. As of December 31, 2016, Banxico's reference rate was 5.75%. On February 9, 2017, Banxico increased its reference rate to 6.25% and on March 30, 2017 further increased its reference rate to 6.50%. A sustained increase in interest rates raises 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, which in turn may lead to deterioration in our asset quality and results of operations.

***Reductions in our credit ratings could increase our cost of borrowing and negatively impact our ability to raise new funds or renew maturing debt.***

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 level of concentration in our loan portfolio, the level and volatility of our earnings, our capital adequacy and leverage, the liquidity of our balance sheet and our ability to access a broad array of wholesale funding sources. Certain ratings agencies also tie our credit ratings to that of Mexico. On March 31, 2016, Moody's announced that it had changed its outlook for Mexico's sovereign rating from stable to negative. In addition, in August and December 2016, S&P and Fitch, respectively, revised their outlook of Mexico and the Mexican financial system, including Banco Inbursa and 11 other Mexican financial institutions, from stable to negative. This change followed the Mexican government's announcement that it had lowered its GDP growth forecast for 2016 from 2.2-3.2% to 2.0-2.6%. Accordingly, there is a risk of a downgrading in the near term. A downgrade in the ratings of Mexico and/or our credit ratings may adversely affect perception about our financial stability and our ability to fund at competitive rates, including in connection with the issuance by us of securities in or outside of Mexico. In addition, our lenders and counterparties in derivative transactions are sensitive to the risk of a ratings downgrade, which may result in certain derivative transactions being terminated. Changes in our credit ratings could increase the cost of raising funds in the capital markets or of borrowing funds. In addition, our ability to renew maturing debt may be more difficult and expensive, which may materially and adversely affect our financial condition and results of operations.

***Mexican governmental regulations may adversely affect our operating results and financial position.***

As a financial institution, we are subject to extensive regulation, including regulation by Banxico, 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.

Given the current environment of frequent changes to laws and regulations related to the financial services sector, there may be future changes in the regulatory system or in the enforcement of the laws and regulations that could adversely affect us. See "Supervision and Regulation" 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, increase the level of reserves we are required to maintain or capital adequacy requirements, 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 been adopted in recent years 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 capital adequacy requirements adopted by the CNBV which provide for a minimum ratio of total capital to risk-weighted assets, operational risks, and market risks of 10.5%. In May 2016, we were designated as a Grade I Systemically Important Banking Institution by the CNBV, which requires us to maintain a capital supplement of 0.6%. Accordingly, starting in 2020, we will be required to maintain a Capital Ratio of at least 11.1%. We are additionally required to maintain capital supplements in respect of counter-cyclical events. Any failure by us to maintain this ratio will 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 on Banking Supervision (the “Basel Committee”), reached agreement on comprehensive changes to the capital adequacy framework, known as Basel III. A revised version of Basel III was published in June 2011. Basel III is intended to raise the resilience of the banking sector by increasing both the quality and quantity of the regulatory capital base and enhancing the risk coverage of the capital framework. Among other things, Basel III introduces new eligibility criteria for common equity Tier 1, additional Tier 1 and Tier 2 capital instruments that are intended to raise the quality of regulatory capital, and increases the amount of regulatory capital that institutions are required to hold. Basel III also requires institutions to maintain a capital conservation buffer above the minimum Capital Ratios in order to avoid certain capital distribution constraints. The capital conservation buffer, to be comprised of common equity Tier 1 capital, would result in an effective common equity Tier 1 capital requirement of 8% of risk-weighted assets and other risks. In addition, Basel III directs national regulators to require certain institutions to maintain a counter-cyclical capital buffer during periods of excessive credit growth. Basel III introduces a leverage ratio for institutions as a backstop measure, to be applied alongside current risk-based regulatory capital requirements. The changes in Basel III are intended to be phased in gradually between January 2013 and January 2022.

The CNBV issued amendments to the capitalization requirements, which became effective on January 1, 2013 and implemented Basel III in all material respects; the CNBV recently adopted capitalization requirements for systemically important institutions, such as us, and for counter-cyclical events. For more information, see “Supervision and Regulation—Adoption of New Rules in Mexico in accordance with Basel III.”

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 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 to the changes to the capital adequacy framework adopted by the Basel Committee in December 2010, and revised in June 2011, described above, the Basel Committee also published its global quantitative liquidity framework, comprising the Liquidity Coverage Ratio (“LCR”), and Net Stable Funding Ratio (“NSFR”), metrics, with objectives to (1) promote 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) promote 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, as well as some technical changes to some of the stress scenario assumptions. The implementation of the LCR took place on December 31, 2014. As of the date of this offering memorandum, the NSFR has not yet been implemented.

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.

In addition, the Mexican legislature has recently strengthened regulations relating to personal data by adopting the Federal Law for Protection of Personal Data Held by Private Persons, which establishes specific penalties and protocols regarding the use of client consent for different purposes than those related to our financial services. Although we believe that we are in compliance with such regulations, no assurances may be given as to whether the application of such regulation may result in an adverse effect on our business, financial condition and results of operations. For more information, see “Mexican Financial System—Amendments to Financial Regulations Impacting Banks.”

One of the main aspects of the recent changes in the Mexican Banking Law approved by Congress consists of the authority granted to the SHCP to conduct evaluations of Mexican banks. On December 31, 2014, the SHCP issued Guidelines for the Performance Evaluation for Banking Institutions (*Lineamientos para la Evaluación de Desempeño de las Instituciones de Banca Múltiple*), the evaluations are based upon the size of the banks and their participation in the relevant markets, and determine whether or not a particular bank is lending to all sectors of the economy; evaluations will not be based upon financial condition, liquidity or solvency. Results of evaluations are required to be made publicly available by the SHCP. Negative results from evaluations may result in corrective measures being ordered.

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. 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. Furthermore, 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.

***Future Mexican government restrictions on our business could negatively affect our profitability.***

In Mexico, the Law for the Protection and Defense of Users of Financial Services currently does not impose any limit on the interest rate or banking commissions and fees that a bank may charge, subject to certain exceptions. However, the possibility that such limits may be imposed has been and continues to be debated by the Mexican Congress and Mexican regulators. In the future, the Mexican government could impose limitations or additional informational requirements regarding such rates of interest or fees. In addition, if Mexican governmental authorities require Mexican banks and other financial institutions to increase their allowance for loan losses or change the manner in which such allowance for loan losses are calculated or change capitalization requirements, it may adversely affect our results of operations and financial position.

Under recent changes to the Law for the Transparency and Ordering of Financial Services, Banxico has broad authority to determine that no reasonable competitive conditions exist and to issue temporary regulations that relate to interest rates and fees. In addition, Banxico has broad authority to issue regulations in respect of credit and debit cards, checks, fund transfers and other means of payment, as a means to ensure competition, free access, no discrimination and protection of the interest of users. We cannot predict what impact the issuance of any such regulations may have on our business and results of operations, although it is likely to require amendments to the way in which we operate and may adversely impact our financial results.

***Our banking license could be revoked by the CNBV.***

Under the Mexican Banking Law, the CNBV may revoke our banking license upon the occurrence of certain events, including:

- our failure to comply with any minimum corrective measures ordered by the CNBV;
- our failure to comply with the minimum Capital Ratios required under the Mexican Banking Law and the Mexican Capitalization Requirements;
- our failure to pay certain of our debts or fail to comply with our obligations with one or more participants in clearing systems or with our depositors; or
- our failure to comply with restrictions on certain types of transactions prohibited by the Mexican Banking Law.

If the CNBV were to revoke our banking license, our business, results of operations and financial condition would be materially and adversely affected.

***We may be required to make significant contributions to IPAB.***

Under Mexican law, banks are required to make monthly contributions to the IPAB to support its operations, that are equal to one-twelfth of 0.4% (the annual rate) multiplied by the average of certain identified liabilities minus the average of certain identified assets. IPAB was created in January 1999 to manage the bank savings protection system and regulate the financial support granted to banks in Mexico. Mexican authorities impose regular assessments on banking institutions covered by IPAB for funding. We contributed Ps.936 million in 2016 to IPAB. In the event that IPAB's reserves are insufficient to manage the bank savings protection system and provide the necessary financial support granted to troubled banking institutions, IPAB maintains the right to require extraordinary contributions to participants in the system. Any such requirement could adversely affect our business, financial condition or results of operations.

***The Mexican Federal Anti-Trust Commission, or the COFECE, has increased scrutiny of anti-competitive practices in the Mexican financial system.***

In connection with the financial reform approved by the Mexican Congress, the COFECE carried out an investigation in 2014 to evaluate competitive conditions in the Mexican financial system and formulate recommendations to enhance competition. At the conclusion of their investigation, the COFECE issued a report providing an overview of the salient features of the structure and practices of the financial sector with respect to: (i) financial and regulated entities; (ii) credit; (iii) savings, including pension funds and investment funds; (iv) stock-exchange related financing and (v) insurance. Although as of the date of this offering memorandum this investigation has not resulted in any regulatory actions by the COFECE or other financial authority, including any forced sales of assets or mandatory lending, it generally reflects increased regulatory scrutiny of anti-competitive activities in the Mexican financial system. We cannot predict whether the COFECE will take actions in the future that could impact the banking sector as a whole and us, which could adversely impact our financial condition and results of operations.

***Class actions may be initiated against us by CONDUSEF; CONDUSEF has broad discretion and authority to regulate our business, which may impact our business.***

As part of the financial reform approved and published in Mexico on January 10, 2014, the Mexican Congress approved changes to the Law for the Protection and Defense of Financial Services Users pursuant to which, among other things, CONDUSEF is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services. Although no such actions may have been initiated and there is limited experience in Mexico in connection with class actions, a class action initiated against us is likely to adversely affect our business and results of operations, and its outcome would be highly unpredictable due to the lack of precedent.

CONDUSEF has broad powers to regulate our activities and activities of other Mexican banks, which may have an adverse impact on us. Under recent changes approved by the Mexican Congress to the Law for the Protection and Defense of Financial Services Users, CONDUSEF is entitled to (i) 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, and (ii) order the attachment of our assets for the benefit of our customers. CONDUSEF has broad and discretionary authority to take these and other similar actions, such as imposing fines 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, including our operations and our customers' perception of our activities.

***We are subject to market and operational risks associated with derivative transactions, as well as structuring risks and the risk that documentation will not accurately incorporate the terms and conditions of derivative transactions.***

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

Mexican courts have limited experience in dealing with issues related to derivative transactions and in interpreting agreements such as the ISDA master agreement. Given that for certain of our derivative transactions the derivative market is not yet as developed in Mexico as in other jurisdictions, there are added structuring risks and the risk that our documentation will not incorporate accurately the terms and conditions of such derivative transactions. The execution and performance of these types of transactions depend on our ability to develop adequate control and administration systems (including systems to monitor collateral), and hire and retain qualified personnel. Moreover, our ability to adequately monitor, analyze and report these derivative transactions depends, to a great extent, on our information technology systems. These factors may further increase the risks associated with these transactions. As a result, this could materially and adversely affect our results of operations and financial position.

***We are subject to Mexican Capitalization Rules that limit our capital flexibility.***

Pursuant to the Mexican Capitalization Rules, we are required to maintain specified levels of net capital on an unconsolidated basis as a percentage of risk-weighted assets, operational risks, and market risks, or Capital Ratio, of 10.5% or above. In May 2016, we were designated as a Grade I Systemically Important Banking Institution by the CNBV, which requires us to maintain a capital supplement of 0.6%. Accordingly, starting in 2020, we will be required to maintain a Capital Ratio of at least 11.1%. We are additionally required to maintain capital supplements in respect of counter-cyclical events. As of December 31, 2016, we had a Capital Ratio of 18.48%. Our ability to comply with this requirement may be affected by changes in economic or business conditions (including a devaluation), results of operations or other events beyond our control, including the requirements to maintain counter-cyclical capital and capital supplements.

***We engage in transactions with our parent Grupo Financiero Inbursa and its affiliates that others may not consider to be on an arm's-length basis.***

We have entered into certain services agreements with our affiliates to allow these companies to offer their products and services within our network.

We conduct financial and commercial transactions with related parties such as Telmex, Telmex Internacional, S.A. de C.V., América Móvil, S.A.B. de C.V., Grupo Carso and Ideal, among others. These transactions are carried out in the ordinary course of business at market conditions. Transactions with related parties could potentially cause conflicts of interest. See “Related Party Transactions.”

Applicable Mexican law and our by-laws provide for several procedures designed to ensure that the transactions entered into with or among our financial subsidiaries do not deviate materially from prevailing market conditions for those types of transactions, including the approval by our board of directors. We are likely to continue to engage in transactions with our subsidiaries and affiliates, and our subsidiaries and affiliates are likely to continue to engage in transactions among themselves, and no assurance can be given that the terms that we or our subsidiaries consider to be “on market conditions” will be considered as such by third parties. In addition, future conflicts of interest between us and any of our subsidiaries or affiliates, and among our subsidiaries and affiliates, may arise, which conflicts are not required to be and may not be resolved in our favor. See “Related Party Transactions.”

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

We are part of a financial group controlled by Grupo Financiero Inbursa. Grupo Financiero Inbursa could, at any time, devote more resources or divert our business or business opportunities to other subsidiaries of Grupo Financiero Inbursa that directly or indirectly compete with us, as well as transfer certain operations of other subsidiaries of Grupo Financiero Inbursa to us, on grounds of capital efficiency, regulatory constraints, or other criteria. Should more of our resources be devoted, or our business or business opportunities diverted, to other subsidiaries of Grupo Financiero Inbursa, or if unprofitable operations of other subsidiaries of Grupo Financiero Inbursa are transferred to us, our financial position could be adversely affected.

***If we are unable to predict or react to changes in consumer demand we may lose customers and our results may be adversely affected.***

Our success depends in part on our ability to identify and satisfy consumers' or potential consumers' needs, as well as on our capacity to anticipate and respond in a timely manner to changing consumer demand and preferences regarding new products. While our experience and expertise provides us with a solid understanding of our market, we cannot predict the preferences and needs of our customers or potential customers. If we misjudge the market for our products or fail to adequately respond to changes, our financial results may decline significantly. Furthermore, in the event that our competitors are better able to anticipate market trends and consumer preferences, our market share could decrease.

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

One of our main strategies is to focus on the retail banking sector and to grow our retail loan portfolio 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 personal 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. 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.

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

As part of our business strategy, we are seeking to increase lending and other services to individuals and to small and medium-sized companies. Individuals and small and medium-sized companies are, however, more likely than large corporations and high-income individuals who have greater resources to be adversely affected by downturns in the Mexican economy. Consequently, in the future we may experience higher levels of non-performing loans, which could result in higher allowance for loan losses. There can be no assurance that the levels of non-performing loans and subsequent charge-offs will not be materially higher in the future.

***Our success depends, in part, on our retention of certain key personnel, our ability to hire additional key personnel, and the maintenance of good labor relations.***

We depend on our executive officers and key employees. In particular, our senior management has significant experience in and extensive knowledge of the banking, financial services and pension fund management businesses, and the loss of any of our executive officers, key employees or senior managers could negatively affect our ability to execute our business strategy.

Our future success also depends on our continuing ability to identify, hire, train and retain other qualified sales, marketing and managerial personnel. Competition for such qualified personnel is intense and we may be unable to attract, integrate or retain qualified personnel at levels of experience or compensation that are necessary to sustain or expand our operations. Furthermore, even if qualified personnel are interested, such personnel must be trained and adopt our business values. Our businesses could be materially and adversely affected if we cannot attract these necessary personnel. In addition, we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage.

***We are subject to significant competition from other banks in providing financial services.***

We face significant competition in all parts of our business, including loan origination and growing our deposits. The competition for loan origination comes principally from other Mexican and foreign banks, mortgage banking companies, consumer finance companies, insurance companies and other institutional lenders and purchasers of loans. We anticipate that we will encounter greater competition as we continue expanding our operations. Competition is also likely to increase as a result of the entrance of new participants into the financial services sector. The 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.

In addition, legal and regulatory reforms in the Mexican banking industry have also increased competition among banks and other financial institutions. Various reforms to the Mexican Banking Law allow for the incorporation of limited purpose banks (*bancos de nicho*), which can only engage in those activities expressly authorized by the CNBV and set forth in their by-laws, and are subject to lesser regulatory requirements (including lower capital requirements) depending on such authorized activities. Therefore, we could experience higher competition in certain sectors of our business should the CNBV grant many limited-purpose banking licenses. As the reform to the financial sector continues, foreign financial institutions, many 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 material adverse effect on our financial position or operating results.

An increase in competition or a more aggressive competition strategy by our competitors may force us to decrease the rates at which we lend money or to pay higher interest rates to our creditors and bank depositors, which would increase our interest expenses and reduce our financial margins and, consequently, adversely impact our financial position or operating results.

***Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and our ability to maintain offering products and services from third parties, and we may not be able to manage various risks we face as we expand our range of products and services.***

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and our ability to maintain products and services from third parties. However, we cannot guarantee that our new products and services will be successful once they are offered to our clients, or that they will be successful in the future. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete or outdated and we may not be able to develop new products that meet our clients' changing needs. Our business will be materially and adversely affected if we cannot respond in a timely fashion to the changing needs of our clients.

As we expand the range of our products and services, some of which may be at an early stage of development in the Mexican market, we will be exposed to new and potentially increasingly complex risks. Our employees and our risk management systems may not be adequate to handle such risks. Any or all of these factors, individually or collectively, could materially and adversely affect our results of operations and financial position.

***Our businesses rely heavily on data collection, processing and storage systems, the failure of which could materially and adversely affect the effectiveness of our risk management and internal control systems as well as our financial position and results of operations.***

All of our principal businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets and products at our various locations or branches and outlet 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, our timely response to changing market conditions and our ability to record and process transactions. If we cannot maintain an effective data collection and management system, our business operations, financial position and results of operations could be materially and adversely affected.

Furthermore, we are dependent on information systems to operate our website, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures, 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 clients 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.

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

Cyber-attacks or other breaches of network or information technology security may cause equipment failures or disruptions to our operations. Our inability to operate our fixed line or wireless networks as a result of such events, even for a limited period of time, may result in significant expenses or loss of market share. In addition, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Cyber-attacks, which include the use of malware, computer viruses and other means for disruption or unauthorized access on companies, have increased in frequency, scope and potential harm in recent years. The preventive actions we take to reduce the risk of cyber incidents and protect our information technology and networks may be insufficient to repel a major cyber-attack in the future. The costs associated with a major cyber-attack on us could include incentives offered to existing customers and business partners to retain their business, increased expenditures on cyber security measures, lost revenues from business interruption, litigation and damage to our reputation. In addition, if we fail to prevent the theft of valuable information such as financial data and sensitive information about us, or if we fail to protect the privacy of customer and employee confidential data.

***Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could adversely affect our competitiveness, financial position and results of operations.***

Our ability to remain competitive will depend in part on our ability to upgrade our information technology infrastructure on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. The information available to and received by our management through our existing information systems may not be timely and sufficient to manage risks as well as to plan for and respond to changes in market conditions and other developments in our operations. In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could materially and adversely affect our competitiveness, financial position and results of operations.

***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 may have a material adverse effect on us.***

We are required to comply with applicable anti-money laundering, terrorism financing prevention and other laws and regulations in Mexico. These laws and regulations require our subsidiaries, among other things, to adopt and enforce “know your customer” policies and procedures and to report suspicious and large transactions to the applicable authorities. 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 series of laws comprising the legal framework that provides for the implementation of 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, as well as 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 to the Organic Law of the Public Administration (*Ley Orgánica de la Administración Pública General*) (on internal control of the federal executive branch) to the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) and to the General Law for Governmental Accounting (*Ley General de Contabilidad Gubernamental*).

These regulations have become more complex and detailed over time and require an improvement in our systems and highly qualified personnel for the supervision and compliance with such rules. In addition, such regulation is subject to increased surveillance by governmental authorities. See “Supervision and Regulation—Banking Regulation—Money Laundering Regulations.” While we have adopted policies and procedures aimed at detecting and preventing the use of our network for money laundering activities and related activities, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. Additionally, it is possible that the personnel we hire to monitor such activities does not have as much experience as individuals in criminal organizations. While we have not been subject to fines or other sanctions as a result of money laundering activities in the past, to the extent we may 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, including revocation of our authorizations. Furthermore, although we have not suffered damages to our business or our reputation as a result of money laundering activities in the past, our business and reputation could suffer if customers use us for money laundering or illegal or improper purposes.

***We may not be able to make successful acquisitions.***

From time to time, we evaluate acquisition opportunities that we believe provide added value to our shareholders and are consistent with our business strategy. Such acquisitions may be acquisitions of assets or existing operations. However, we may not be able to always identify suitable acquisition candidates, negotiate favorable terms with respect to such acquisition, including satisfactory indemnities for losses suffered, or detect risks or contingencies that may affect our business. Additionally, our ability to benefit from any of these acquisitions will depend to some extent on the success in the integration of these businesses. The integration of acquired businesses involves significant risks, including:

- unforeseen difficulties in operations and systems integration;
- inability to quickly modify accounting standards;
- difficulties in integrating or retaining employees of acquired businesses;
- inability to integrate acquired businesses into our systems or to integrate managers into our culture and business model;
- difficulties in retaining customers of the acquired businesses;
- unforeseen liabilities or contingencies relating to the acquired businesses, including legal claims;
- the possibility that management is diverted from their daily activities to integration of activities and solving related problems; and
- the possible existence of regulatory restrictions that prevent us from achieving the expected benefits of the acquisition or that require divestitures of acquired assets.



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

From time to time, we evaluate acquisition opportunities that we believe provide added value to our shareholders and are consistent with our business strategy. Such acquisitions may be acquisitions of assets or existing operations. However, we may not be able to always identify suitable acquisition candidates, negotiate favorable terms with respect to an acquisition, including satisfactory indemnities for losses suffered, or detect risks or contingencies

## **Risks Relating to Mexico**

### ***Economic and political conditions in Mexico could affect Mexican economic policy and our business, financial condition and results of operations.***

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 dollar, price instability, inflation, changes in oil prices, interest rates, regulation, taxation, social instability and other political, social and economic events in or affecting Mexico over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on us. We cannot assume that such conditions will not return or that such conditions will not have a material adverse effect on us.

Mexico entered into a recession beginning in the fourth quarter of 2008, and in 2009 the Mexican GDP fell by approximately 4.7% while inflation reached 3.6%. In 2014, GDP grew by approximately 2.25% and inflation reached 4.08%. In 2015, GDP grew by approximately 2.5% and inflation reached 2.13%. In 2016, GDP grew by approximately 2.3% and inflation reached 3.36%.

Mexico also has, and is expected to continue to have, high real and nominal interest rates as compared to the United States. The annualized interest rates on 28-day Cetes averaged approximately 4.2%, 3.8%, 3.0%, 2.97% and 4.16% for 2012, 2013, 2014, 2015 and 2016, respectively. Accordingly, if we incur peso-denominated debt in the future, it could be at high interest rates.

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

The Mexican government does not currently restrict the ability of Mexican companies or individuals to convert pesos into dollars (except for certain restrictions related to cash transactions involving a dollar payment to a Mexican bank) or other currencies, and Mexico has not had a fixed exchange rate policy since 1982. The peso has been subject to significant devaluations against the dollar in the past and may be subject to significant fluctuations in the future. Severe devaluations or depreciations of the peso may result in governmental intervention to institute restrictive exchange control policies, as has occurred before in Mexico and other Latin American countries. Accordingly, fluctuations in the value of the peso against other currencies may have an adverse effect on us and the value of our Notes.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. 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 and our subsidiaries in particular, and on market conditions, prices and returns on Mexican securities, including our securities.

Political events in Mexico may significantly affect Mexican economic policy and, consequently, our operations. Disagreements between the executive and the Mexican Congress can prevent the prompt implementation of political and economic reforms, which could have a material adverse effect on our business and economic policy. It is also possible that political uncertainty may adversely affect economic conditions in Mexico. We cannot assure you that the future political development of Mexico, on which we have no control, will not have an adverse effect on our financial condition or results of operations.

As a result of the financial reform implemented by the current administration and the adoption of Basel III, applicable banking laws and regulations in Mexico have been and could further be amended in the future. The implementation of such reforms could have a material adverse effect on our business and results of operations.

We cannot assure you that changes in the policies of the federal government will not adversely affect our business, financial condition and results of operations. Tax legislation, particularly in Mexico is subject to change and we cannot predict if the federal government will propose and approve amendments to such tax legislation or any of its political, social, or economic policies. Such reforms or changes could have a material adverse effect on our business, results of operations, financial condition or future prospects and may adversely affect the price of our Notes. Therefore, we cannot assure you that the future political performance in Mexico, over which we have no control, will not have an adverse impact on our financial position or results of operations and impair our ability to make distributions to our shareholders.

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

Severe devaluation or depreciation of the Mexican 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 and the rate of default among our borrowers.

In 2009, as a result of the negative economic conditions in the United States and other parts of the world, local and international markets experienced high volatility, which contributed to the devaluation of the peso. Considering year-end exchange rates, in 2013, the peso depreciated 1.4% as compared to the U.S. dollar. In 2014, the peso depreciated by 13.2% as compared to the U.S. dollar. In 2015, the peso depreciated by 16.7% as compared to the U.S. dollar. In 2016, the peso depreciated by 17.6% as compared to the U.S. dollar. In the past, 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 and adversely affect us.

***Developments in other countries may adversely affect us and the prices of our securities.***

The Mexican economy, the business, financial condition or results of operations of Mexican companies and the market value of securities of Mexican companies may be, to varying degrees, affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican issuers. In recent years economic conditions in Mexico have become increasingly correlated to economic conditions in the United States and Europe as a result of the free trade agreements executed between Mexico and other countries and increased economic activity between them, which was highlighted during the recent economic crisis affecting the United States and Europe. The correlation between economic conditions in Mexico and the United States has particularly sharpened in recent years because of the North American Free Trade Agreement ("NAFTA") and increased economic activity between the two countries. The new administration in the United States has produced uncertainty with respect to United States government policies,

including policies related to existing trade agreements, such as NAFTA, and future trade between the United States and Mexico. President Donald Trump and his administration have indicated that they will attempt to renegotiate the terms of NAFTA or withdraw from NAFTA if Canada and Mexico are unwilling to renegotiate on terms more favorable to the United States. If this happens, the Mexican government could implement retaliatory measures.

As a result of the heavy influence of the U.S. and European economies on the Mexican economy, the deterioration of economic conditions in the U.S. and European economies, the renegotiation or termination of any free trade agreement, including NAFTA, or other related events that may affect the business relationship between Mexico and these economies, may have an adverse effect on the Mexican economy, which, in turn, could affect our business, results of operations and financial condition. In addition, the continued or worsening disruption and volatility in the global financial markets could have a negative impact on the Mexican economy and the market value of our securities. See “—Risks Relating to Our Business—Our results of operations may be adversely affected by ongoing disruptions and volatility in the global financial markets.” We cannot assure you that the events in other emerging market countries, in the United States, Europe or elsewhere will not adversely affect our business, financial position or results of operations.

In addition, the variation of interests rates in the United States significantly affect the operations of the stock markets worldwide as investors modify their investment decisions based on the changes in risk levels in the United States, which in turn causes changes in the quotation price of debt and equity instruments trading on the BMV (the *Bolsa Mexicana de Valores, S.A.B. de C.V.*, or Mexican Stock Exchange) and worldwide.

***Mexico has different corporate disclosure and accounting standards than those in the United States and other countries.***

A principal objective of the securities laws of the United States, Mexico and other countries is to promote full and fair disclosure of all material corporate information, including accounting information. However, there may be different or less publicly available information about issuers of securities in Mexico than is regularly made available by public companies in countries with more highly developed capital markets, including the United States.

Mexican Banking GAAP and the financial results reported using such standards also differ from those in the United States and other countries. In particular, our financial statements are prepared in accordance with Mexican Banking GAAP, which differ in certain significant respects from U.S. GAAP and IFRS. See “Presentation of Certain Financial and Other Information.” We have made no attempt to identify or quantify the impact of those differences in this offering memorandum. In making an investment decision, you must rely upon your own examination of us, the terms of this offering and the financial information included in this offering memorandum. You should consult your own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information included in this offering memorandum. See “Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP.”

## **Risks Relating to the Notes**

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

Our obligations under the Notes are unsecured. Banks in Mexico are not allowed to post security except for (i) derivative transactions, securities’ loans and repurchase agreements, (ii) obligations in favor of Banxico, Mexican development banks, public trusts incorporated by the Mexican government for economic promotion and IPAB, and (iii) specific cases expressly authorized by the CNBV. The Notes will be effectively subordinated to all of our secured debt to the extent of the value of the collateral securing such debt. The Indenture does not limit our ability to incur additional senior indebtedness and subordinated preferred indebtedness from time to time. In the event that we are not able to repay amounts due under such secured debt obligations, creditors could proceed against the collateral securing such indebtedness. In that event, any proceeds upon a realization of the collateral would be applied first to amounts due under the secured debt obligations before any proceeds would be available to make payments on the Notes. If there is a default, the value of this collateral may not be sufficient to repay both our secured creditors and the holders of the Notes. The Notes will also rank effectively junior to all of our subsidiaries’ indebtedness and other liabilities. Our right to receive any assets of any of our subsidiaries upon their liquidation or

reorganization, and therefore the right of holders of the Notes to participate in those assets would be effectively subordinated to the claims of those subsidiaries' creditors, including trade creditors. Additionally, the claims of holders of the Notes will rank effectively junior to certain obligations that are preferred by statute, including certain claims relating to deposits, taxes and labor.

***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.

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

Application has been made to list the Notes on the Official List of the Irish Stock Exchange and to have the Notes admitted for trading on the Global Exchange Market of the Irish Stock Exchange, although no assurance can be given that such listing will be accomplished. The Notes constitute 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. We may offer the Notes privately in Mexico to institutional and qualified investors pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law.

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.

***We have a substantial amount of indebtedness, which could adversely affect our financial position and prevent us from fulfilling our debt obligations.***

In June 2014, we issued U.S.\$1.0 billion of 4.125% Senior Notes due 2024. Our substantial indebtedness could have a number of important consequences. For example, our substantial indebtedness could:

- impair our ability to satisfy our obligations under our indebtedness or comply with the obligations of any of our debt instruments, which could result in an event of default under one or more agreements governing our indebtedness;
- make us more vulnerable to adverse changes in the general economic, competitive and regulatory environment;

- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the cash available for working capital, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- cause us to be more leveraged than some of our competitors, which may place us at a competitive disadvantage; and
- make it more difficult for us to access global capital markets to obtain additional financing for working capital or general corporate purposes, particularly if the ratings assigned to our debt securities by rating organizations were revised downward or if a rating organization announces that our ratings are under review for a potential downgrade.

Any of the above listed factors could materially adversely affect our business, financial condition, results of operations and cash flows.

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

We and all of our principal subsidiaries are organized under the laws of Mexico. 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 territory of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States or in any other jurisdiction outside of Mexico upon 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. See “Service of Process and Enforcement of Civil Liabilities.”

***Mexican law does not require us to pay our foreign-currency judgments or foreign currency denominated liabilities 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, whether as a result of an initial action before Mexican courts or in connection with the enforcement of a judgment issued by foreign courts by Mexican courts, we would not be required to discharge such obligations in Mexico, by agreement, in connection with an initial action or as a result of the enforcement of a non-Mexican judgment, 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 Banxico every business banking day in Mexico and published the following business banking day in the 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 in Mexican currency 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, will 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 and dissolution, or *resolución*, 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 it were determined that we be liquidated by the IPAB, the holders of the Notes may find it difficult to collect payment on the Notes.***

Under the Mexican Banking Institutions Law, if the IPAB or any other Mexican regulatory authority determines that we must be liquidated, our authorization to organize and operate as a bank institution will be revoked by the CNBV and a liquidation procedure, out-of-court or before a Federal Mexican court, will commence, in which by statute the IPAB will be appointed as the receiver (*liquidador*). In the event of our liquidation, 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 liquidation is deemed effective, other than in respect of 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 be subject to the outcome of, and priorities recognized in, the relevant proceeding (including statutory preferences for tax, social security, labor, secured claims and deposits), and (v) would not be adjusted to consider any depreciation of the peso against the U.S. dollar occurring after the liquidation procedure begins.

## **USE OF PROCEEDS**

Our net proceeds from the issuance and sale of the Notes, after paying the Initial Purchasers' fee and commissions and expenses related to the offering, are estimated to be approximately U.S.\$737,932,500. We intend to use the net proceeds of the issuance of the Notes for general corporate purposes, which may include:

- replacement of long-term synthetic funding in dollars; and
- providing additional long-term funding to support the growth of our lending portfolio.

## EXCHANGE RATES AND CURRENCY

Mexico has had a free market for foreign exchange since the end of 1994 and Banxico allows the peso to float freely against the U.S. dollar and other foreign currencies. Banxico intervenes directly in the foreign exchange market only to reduce excessive short-term volatility. Since late 2003, Banxico has been conducting auctions of dollars, from time to time, in an attempt to reduce the levels of its foreign reserves. Banxico conducts open market operations on a regular basis to determine the size of Mexico's monetary base. Changes in Mexico's monetary base have an impact on the exchange rate. Banxico may increase or decrease the reserve of funds that financial institutions are required to maintain. If the reserve requirement is increased, financial institutions will be required to allocate more funds to their reserves, which will reduce the amount of funds available for operations. This causes the amount of available funds in the market to decrease and the cost, or interest rate, to obtain funds to increase. The opposite happens if reserve requirements are lowered. This mechanism, known as "*corto*" or "*largo*," as the case may be, or more formally "the daily settlement balance target," represents a device used by Banxico to adjust the level of interest and foreign exchange rates.

This offering memorandum contains conversions of certain peso amounts into dollars at specified exchange rates solely for the convenience of the reader. These conversions should not be construed as representations that the peso amounts actually represent such dollar amounts or could be converted into dollars at the exchange rate indicated. Unless otherwise indicated, dollar amounts that have been converted from peso amounts as of or for the year ended December 31, 2016 have been converted at an exchange rate of Ps.20.6194 per dollar, the FIX exchange rate determined by Banxico on December 30, 2016, the last day in 2016 for which information is available. The section "Selected Statistical Information" uses exchange rates that are different from those mentioned in this paragraph, as described in such section.

The following table sets forth, for the periods indicated, the period-end, average, high and low of the FIX exchange rate determined by Banxico expressed in pesos per dollar. The rates shown below are in nominal pesos that have not been restated in constant currency units.

| Period <sup>(1)</sup>         | Low                           | High  | Average <sup>(2)</sup> | Period-end |
|-------------------------------|-------------------------------|-------|------------------------|------------|
|                               | (nominal Ps. per U.S. dollar) |       |                        |            |
| 2013.....                     | 11.98                         | 13.44 | 12.77                  | 13.08      |
| 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                          |                               |       |                        |            |
| 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 (through April 5) ..... | 18.73                         | 18.83 | 18.76                  | 18.72      |

(1) Source: Banxico.

(2) Average of daily exchange rates.

The FIX exchange rate determined by Banxico on April 5, 2017 was Ps.18.7192 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, as it has done in the past. 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.



## CAPITALIZATION

The following table sets forth our capitalization under Mexican Banking GAAP as of December 31, 2016 and our capitalization as adjusted to give effect to the issuance of the Notes, as if such issuance had occurred on December 31, 2016. You should read this table together with the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Audited Financial Statements included elsewhere in this offering memorandum.

|   | As of December 31, 2016 |                |                                      |               |
|---|-------------------------|----------------|--------------------------------------|---------------|
|   | As                      |                | As                                   |               |
|   | Actual                  | Adjusted       | Actual                               | Adjusted      |
|   | (millions of pesos)     |                | (millions of dollars) <sup>(1)</sup> |               |
| <b>Short-term debt:</b>                         |                         |                |                                      |               |
| Interbank and other borrowings.....             | 3,315                   | 3,315          | 161                                  | 161           |
| Debt securities issued .....                    | 54,723                  | 54,723         | 2,654                                | 2,654         |
| <b>Long-term debt:</b>                          |                         |                |                                      |               |
| Interbank and other borrowings.....             | 26,398                  | 26,398         | 1,280                                | 1,280         |
| Debt securities issued .....                    | 63,005                  | 63,005         | 3,056                                | 3,056         |
| Notes offered hereby.....                       | -                       | 15,465         | -                                    | 750           |
| <b>Total debt .....</b>                         | <b>147,441</b>          | <b>162,906</b> | <b>7,151</b>                         | <b>7,901</b>  |
| <b>Shareholders’ equity:</b>                    |                         |                |                                      |               |
| Capital stock <sup>(2)</sup> .....              | 17,579                  | 17,579         | 852                                  | 852           |
| Other capital .....                             | 69,916                  | 69,916         | 3,391                                | 3,391         |
| Non-controlling interest .....                  | 2,744                   | 2,744          | 133                                  | 133           |
| <b>Total stockholders’ equity .....</b>         | <b>90,239</b>           | <b>90,239</b>  | <b>4,376</b>                         | <b>4,376</b>  |
| <b>Total capitalization<sup>(3)</sup> .....</b> | <b>237,680</b>          | <b>253,145</b> | <b>11,527</b>                        | <b>12,277</b> |

<sup>(1)</sup> Converted, for convenience purposes only, using the exchange rate of Ps.20.6194 per dollar, the FIX exchange rate determined by Banxico on December 30, 2016, the last day in 2016 for which information is available.

<sup>(2)</sup> As of December 31, 2016, our authorized capital stock consisted of 900,000,000 series “O” shares, par value Ps.10 per share, which was issued, outstanding and fully paid.

<sup>(3)</sup> Total capitalization corresponds to total debt plus total stockholders’ equity. For a discussion of our Capital Ratio, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk-Based Capital.”

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected summary consolidated financial information presented in this section is derived from our accounting records and from our Audited Financial Statements and pertains to us and our consolidated subsidiaries. This information is qualified in its entirety and 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 the Audited Financial Statements included elsewhere in this offering memorandum. Our Audited Financial Statements and the other financial information contained in the tables below have been prepared in accordance with Mexican Banking GAAP, which differ in certain significant respects from U.S. GAAP, SEC guidelines applicable to financial institutions in the United States and IFRS.

The dollar amounts provided below are translations from the peso amounts, solely for the convenience of the reader. See “Presentation of Certain Financial and Other Information—Currencies” for an explanation of the exchange rates used to translate peso amounts into dollars. These translations should not be construed as representations that the peso amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated or at any other rate.

|  | For the years ended December 31, |         |          |                       |
|--|----------------------------------|---------|----------|-----------------------|
|  | 2014                             | 2015    | 2016     | 2016                  |
|  | (millions of pesos)              |         |          | (millions of dollars) |
| Income statement data:                                       |                                  |         |          |                       |
| Interest income .....  | 17,112                           | 19,871  | 27,229   | 1,321                 |
| Interest expense .....                                       | (7,425)                          | (7,811) | (10,780) | (523)                 |
| Financial margin .....                                       | 9,687                            | 12,060  | 16,449   | 798                   |
| Allowance for loan losses .....                              | (2,438)                          | (3,477) | (6,613)  | (321)                 |
| Financial margin after allowance<br>for loan losses .....    | 7,249                            | 8,583   | 9,836    | 477                   |
| Commission and fee income .....                              | 2,991                            | 4,207   | 5,450    | 264                   |
| Commission and fee expense .....                             | (93)                             | (753)   | (1,845)  | (89)                  |
| Net gain (loss) on financial assets and<br>liabilities ..... | (4,443)                          | (2,582) | 409      | 20                    |
| Other operating income, net .....                            | 13,631                           | 6,302   | 1,107    | 53                    |
| Administrative and promotional expenses ..                   | (4,964)                          | (5,676) | (7,081)  | (343)                 |
| Total operating income .....                                 | 14,371                           | 10,081  | 7,876    | 382                   |
| Equity in results of associates .....                        | 949                              | 1,195   | 1,079    | 52                    |
| Income before income taxes .....                             | 15,320                           | 11,276  | 8,955    | 434                   |
| Current income taxes .....                                   | 1,896                            | 2,592   | 2,277    | 110                   |
| Deferred income taxes .....                                  | (1,332)                          | (1,426) | (1,067)  | (52)                  |
| Total Current and Deferred income<br>taxes .....             | 564                              | 1,166   | 1,210    | 58                    |
| Net income .....   | 14,756                           | 10,110  | 7,745    | 376                   |
| Non-controlling interest .....                               | (202)                            | (220)   | (2)      | -                     |
| Net income attributable to controlling<br>interest .....     | 14,554                           | 9,890   | 7,743    | 376                   |

|   | As of December 31,  |                |                |                       |
|---|---------------------|----------------|----------------|-----------------------|
|   | 2014                | 2015           | 2016           | 2016                  |
| Balance sheet data:                                       | (millions of pesos) |                |                | (millions of dollars) |
| <b>Assets</b>   |                     |                |                |                       |
| Funds available .....                                     | 13,554              | 17,127         | 19,293         | 936                   |
| Margin accounts .....                                     | 3,434               | 2,723          | 4,895          | 237                   |
| Investment in securities .....                            | 25,566              | 23,278         | 63,253         | 3,068                 |
| Receivables under security repurchase agreements .....    | 13,008              | 7,386          | -              | -                     |
| Derivatives .....   | 9,769               | 7,124          | 10,873         | 527                   |
| Valuation adjustment for hedged financial assets .....    | 1,066               | 928            | 647            | 31                    |
| Performing loan portfolio .....                           | 193,135             | 230,222        | 275,504        | 13,361                |
| Non-performing loan portfolio .....                       | 6,846               | 7,256          | 7,806          | 379                   |
| Total loan portfolio .....                                | 199,981             | 237,478        | 283,310        | 13,740                |
| Allowance for loan losses .....                           | (14,338)            | (10,739)       | (12,088)       | (586)                 |
| <b>Loan portfolio, net .....</b>                          | <b>185,643</b>      | <b>226,739</b> | <b>271,222</b> | <b>13,154</b>         |
| Other receivables, net .....                              | 15,357              | 21,755         | 21,876         | 1,061                 |
| Foreclosed assets, net .....                              | 3,077               | 2,931          | 1,935          | 94                    |
| Property, furniture and fixtures, net .....               | 1,449               | 1,871          | 2,048          | 99                    |
| Long-term investment in shares .....                      | 8,973               | 11,878         | 12,742         | 618                   |
| Deferred taxes, net .....                                 | -                   | 390            | 211            | 10                    |
| Other assets, deferred charges and intangibles, net ..... | 688                 | 2,934          | 2,966          | 144                   |
| <b>Total assets .....</b>                                 | <b>281,584</b>      | <b>327,064</b> | <b>411,961</b> | <b>19,979</b>         |
| <b>Liabilities</b>  |                     |                |                |                       |
| Deposits:   |                     |                |                |                       |
| Demand deposits .....                                     | 69,328              | 76,895         | 81,996         | 3,977                 |
| Time deposits .....                                       | 15,235              | 17,228         | 47,727         | 2,315                 |
| Credit instruments issued .....                           | 91,787              | 109,798        | 117,728        | 5,709                 |
| Global demand deposit accounts .....                      | -                   | -              | 65             | 3                     |
| Bank and other loans .....                                | 5,355               | 8,870          | 29,713         | 1,441                 |
| Derivatives .....   | 18,003              | 19,994         | 27,796         | 1,348                 |
| Other payables .....                                      | 6,351               | 11,273         | 15,670         | 760                   |
| Deferred taxes, net .....                                 | 2,379               | -              | -              | -                     |
| Deferred revenues and other advances .....                | 363                 | 647            | 1,027          | 50                    |
| <b>Total liabilities .....</b>                            | <b>208,801</b>      | <b>244,705</b> | <b>321,722</b> | <b>15,603</b>         |
| Paid-in capital .....                                     | 25,264              | 25,264         | 25,264         | 1,225                 |
| Other capital .....                                       | 47,519              | 57,095         | 64,975         | 3,151                 |
| <b>Total stockholders' equity .....</b>                   | <b>72,783</b>       | <b>82,359</b>  | <b>90,239</b>  | <b>4,376</b>          |
| <b>Total liabilities and stockholders' equity ....</b>    | <b>281,584</b>      | <b>327,064</b> | <b>411,961</b> | <b>19,979</b>         |

## Capital Ratios

The table below sets forth our risk-weighted assets and Capital Ratios as of December 31, 2014, 2015 and 2016.

|   | As of December 31,                      |         |         |   |
|---|---|---------|---------|---|
|   | 2014                                    | 2015    | 2016    | 2016                                      |
|   | (millions of pesos, except percentages) |         |         | (millions of dollars, except percentages) |
| <b>Capital</b>                                  |   |         |         |   |
| Tier 1 .....                                    | 63,158                                  | 62,648  | 62,783  | 3,045                                     |
| Tier 2 .....                                    | -                                       | -       | -       | -   |
| Total net capital .....                         | 63,158                                  | 62,648  | 62,783  | 3,045                                     |
| <b>Risk weighted assets</b>                     |   |         |         |   |
| Market Risk <sup>(1)</sup> .....                | 88,813                                  | 89,193  | 86,160  | 4,179                                     |
| Credit Risk <sup>(2)</sup> .....                | 205,205                                 | 229,277 | 233,432 | 11,321                                    |
| Operational Risk <sup>(3)</sup> .....           | 17,369                                  | 20,011  | 20,218  | 981                                       |
| Total risk-weighted assets .....                | 311,387                                 | 338,481 | 339,810 | 16,481                                    |
| <b>Capital Ratios</b>                           |   |         |         |   |
| Tier 1 capital to risk-weighted assets .....    | 20.28%                                  | 18.51%  | 18.48%  | 18.48%                                    |
| Tier 2 capital to risk-weighted assets .....    | -                                       | -       | -       | -   |
| Total net capital to risk-weighted assets ..... | 20.28%                                  | 18.51%  | 18.48%  | 18.48%                                    |

<sup>(1)</sup> Refers to the requirement for positions that use a nominal national or foreign rate and actual or used rates. The more remote the maturity, the greater the requirement.

<sup>(2)</sup> Refers to our positions that are subject to weighted credit risk in accordance with the rating of the borrower, issuer or counterparty, in accordance with Annex 2 of the Mexican Banking Regulations, the highest rating that has a weight of 0% is the governmental requirement.

<sup>(3)</sup> This requirement is calculated based on 15% of the average of 36 months of certain annual net income based on the basic methodology of Banxico.

The Mexican Banking Law requires the maintenance of a Capital Ratio of at least 10.5%. In May 2016, Banco Inbursa was designated as a Grade I Systemically Important Banking Institution by the CNBV. Accordingly, starting in 2020, Banco Inbursa will be required to maintain a Capital Ratio of at least 11.1%. Banco Inbursa had a Capital Ratio of 18.48% as of December 31, 2016, outperforming the market average by 3.56 percentage points.

The following table sets forth certain of our financial and operating information:

|   | As of December 31,   |         |         |
|---|--|---------|---------|
|   | 2014   | 2015    | 2016    |
|   | (millions of pesos, except percentages and number of branches) |         |         |
| Total branches and outlet branches** .....            | 354  | 804     | 901     |
| Total assets .....                                    | 281,584  | 327,064 | 411,961 |
| Total loan portfolio .....                            | 199,981  | 237,478 | 283,310 |
| Deposits and debt securities <sup>(1)</sup> .....     | 176,350  | 203,921 | 247,516 |
| Stockholders' equity .....                            | 72,783   | 82,359  | 90,239  |
| Non-performing loan portfolio <sup>(2)</sup> .....    | 3.4%   | 3.1%    | 2.8%    |
| Operating efficiency <sup>(3)</sup> .....             | 18.9%  | 26.0%   | 33.5%   |
| Return on average equity (ROAE) <sup>(4)</sup> .....  | 22.17%   | 12.66%  | 9.07%   |
| Capital Ratio .....                                   | 20.28%   | 18.51%  | 18.48%  |
| Assets held for safekeeping or under management ..... | 604,793  | 399,814 | 410,796 |
| ROAA <sup>(5)</sup> .....                             | 5.59%  | 3.18%   | 2.06%   |

\*\* Outlet branches are branches at which cash deposits and withdrawals cannot be made.

<sup>(1)</sup> Includes traditional deposits, time deposits and debt securities issued.

<sup>(2)</sup> Measured as total non-performing loan portfolio over total loan portfolio.

<sup>(3)</sup> Calculated as follows: Administrative and promotional expenses / (Financial margin + Commission and fee income – Commissions and Fee expense + Other operating income, net).

<sup>(4)</sup> Calculated based on average quarterly balance of stockholders' equity accounts.

<sup>(5)</sup> Calculated as follows: quarterly net average income / total quarterly assets.

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

*The following discussion is based on and should be read in conjunction with our Audited Financial Statements, together with the notes thereto and the information included in "Presentation of Certain Financial and Other Information," included elsewhere in this offering memorandum. Our Audited Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in certain significant respects from U.S. GAAP, SEC guidelines applicable to financial institutions in the United States and IFRS. No reconciliation of any of our Audited Financial Statements to U.S. GAAP or IFRS has been performed. See "Presentation of Certain Financial and Other Information" and "Risk Factors—Risk Relating to Mexico—Mexico has different corporate disclosure and accounting standards than those in the United States and other countries."*

*This offering memorandum contains forward-looking statements that reflect our plans, estimates and beliefs and involve risks, uncertainties and assumptions. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to these differences include, but are not limited to, those discussed in the forward-looking statements and elsewhere in this offering memorandum, particularly in "Risk Factors." Investors should carefully consider the following discussion and the information set forth under "Risk Factors" in connection with any evaluation of us or our business.*

### **Overview**

We are a commercial bank (institución de banca múltiple) organized as a corporation (sociedad anónima) pursuant to the Mexican Banking Law (Ley de Instituciones de Crédito). As of December 31, 2016, we were the seventh largest commercial bank in Mexico in terms of total assets and the fifth largest bank in Mexico in terms of total loan portfolio and stockholders' equity, according to information published by the CNBV. As of December 31, 2016, we had the highest Capital Ratio and Tier 1 Capital Ratio among commercial banks in Mexico at 18.48% and one of the highest rates of reserve coverage for non-performing loans at 155%.

We provide banking and credit services to the corporate, governmental and retail segments of the economy, including peso- and dollar-denominated loans to finance a variety of commercial transactions, trade, foreign currency forward contracts and credit lines and a variety of retail banking services, including financing, personal loans and automotive loans. We seek to offer our customers a wide range of products while providing high levels of service. In addition to our traditional banking operations, we offer a variety of ancillary financial services, including retirement fund management, financial leasing, financial advisory services and investment management. As of December 31, 2016, we had 901 total branches and outlet branches located throughout Mexico. Our corporate offices are located in Mexico City, and we operate in every state in Mexico.

### **Principal Factors affecting our Results of Operations**

We are a leading multi-purpose bank, and we provide a wide range of banking and financial services. All of our operations are located in Mexico, where we generate substantially all of our income. Consequently, our results of operations are affected by general economic environment and political conditions existing in Mexico, such as economic growth, interest rates, foreign exchange rates and inflation, among others, and public sector policies with respect to public works, competition and regulatory developments.

#### ***Mexican Economic Environment***

During 2014, GDP grew by 2.2%. This increase for 2014 was mainly driven by an increase in agriculture and manufacturing, which increased by 4.5% and 2.7%, respectively. Inflation reached 4.0% in 2014.

During 2015, GDP grew by 2.5% as compared to 2014. This increase for 2015 was mainly due to an increase in the services sector. Inflation reached 2.13% in 2015.

During 2016, GDP grew by 2.3% as compared to 2015. This increase for 2016 was mainly due to an increase in the services sector. Inflation reached 3.36% in 2016.

Although Mexico's economy has recovered significantly from the worldwide financial crisis that commenced in 2008 and has showed sustained growth in several sectors of the economy in recent years, we cannot assure you that the favorable economic conditions that Mexico has experienced will continue at the pace of recent years or at all. See "Risk Factors—Risks Relating to Mexico."

The following chart shows certain macroeconomic indicators in Mexico for the periods indicated:

|  | For the Year Ended December 31, |        |       |
|--|---------------------------------|--------|-------|
|  | 2014                            | 2015   | 2016  |
| Gross Domestic Product.....                | 2.25%                           | 2.55%  | 2.30% |
| Unemployment Rate.....                     | 4.80%                           | 4.30%  | 3.90% |
| Consumer Price Index .....                 | 4.08%                           | 2.13%  | 3.36% |
| Depreciation of peso vs. U.S. dollar ..... | 2.80%                           | 13.20% | 17.6% |

Sources: Banxico, INEGI and Bloomberg.

### ***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 re-pricing gaps between our interest-earning assets and our interest-bearing liabilities. Most of our interest-earning assets and interest-bearing liabilities carry variable interest rates. See "Selected Statistical Information—Interest Rate Sensitivity of Outstanding Loans." 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.

Historically, Mexico has experienced high real and nominal interest rates as compared to the United States. As of December 31, 2014, 2015 and 2016, Banxico's reference rate was 3.00%, 3.25% and 5.75%, respectively. On February 9, 2017, Banxico increased its reference rate to 6.25% and on March 30, 2017 further increased its reference rate to 6.50%. There can be no assurance that Banxico will maintain its current policies with regard to the reference rate or that such policies will improve our lending capabilities. The annualized interest rates on 28-day Certificados de la Tesorería, or "Cetes," which are the benchmark market interest rate in Mexico, averaged approximately 2.99% for 2014, 2.98% for 2015 and 4.16% for 2016.

### ***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 a new Income Tax Law (*Ley del Impuesto sobre la Renta*), changes to the 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 Business Flat Tax (*Ley del Impuesto Empresarial a Tasa Única*) and the Tax Law on Cash Deposits (*Ley del Impuesto a los Depósitos en Efectivo*).

During 2014, 2015 and 2016 the income tax rate applicable to us was 30% and, pursuant to the new Income Tax Law, it is expected to remain the same for the foreseeable future.

For a description of the principal changes in our accounting policies and practices see Note 2 to our Audited Financial Statements.

### **Critical Accounting Policies**

We have identified certain key accounting policies on which our financial position and results of operations are dependent. These key accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions. According to our management's opinion, our most critical accounting policies under Mexican Banking GAAP are the fair value of financial instruments and the allowance for loan losses.

For a further description of our significant accounting policies, see the notes, including Note 2, to our Audited Financial Statements.

### ***Fair value of financial instruments***

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data, when it is possible, but if this is not available, judgment is required to establish fair values. These judgments include considerations of liquidity and model inputs, such as volatility for longer-dated derivatives and discount rates, prepayment rates, and default rate assumptions for securities, as well as considerations regarding the determination of fair values of hedged items attributable to hedging transactions.

### ***Impairment of investment value in securities***

Available-for-sale and held-to-maturity investments are considered to be impaired when there is a significant or extended reduction in the fair value of the instruments below their cost. Interpreting the meaning of what may be deemed to be “significant” or “prolonged” requires judgment by management. Nevertheless, we evaluate, among other factors, the historical changes in the pricing and terms of each instrument, as well as the size of differences between the fair value and acquisition cost of its investments.

### ***Allowance for loan losses***

The allowance for loan losses is recognized and measured based on the accounting criteria for credit institutions issued by the CNBV via the Mexican Capitalization Rules, which include guidance for the determination of reserves by type of loan.

For commercial loans, the methodology requires an assessment of the debtor’s creditworthiness and loans received in relation to the value of guarantees or the value of property held in trust or in so-called structured transactions, if applicable. In general terms, commercial loans are usually classified based on the following:

- Loans in excess of 4 million UDIs at the date of granting are valued individually based on quantitative and qualitative factors of the borrower and by type of loan, as well as an analysis of the country, industry, financial and payment experience risks.
- Loans of less than 4 million UDIs are classified based on a stratification of outstanding installments and then by assigning a risk grade and specific percentage of provision based on the number of outstanding installments.

In connection with the accounting guidance issued by the CNBV on June 24, 2013, we changed the manner in which we determine the allowance for loan losses on our commercial loan portfolio to an expected loss model in which the allowance is determined, in part, based on loss events that are deemed probable of occurring over the 12-month period following the date of the financial statements. Prior to these changes, the allowance for loan losses on commercial portfolio was determined using an incurred loss model. The changes were adopted for all loans within our commercial portfolio as of December 31, 2013 excluding loans to financial institutions. We applied the new model to our loan portfolio and determined an excess allowance of Ps.18,831 million. This excess amount was released or amortized during 2014 and 2015. Such releases were recorded in the statement of income under the heading “Other operating income.”

The allowance for loan losses for consumer loans and home mortgage loans is computed based on the application of formulas prescribed by the CNBV that incorporates, among other things, an expected loss methodology.

### ***Financial derivatives and hedging transactions***

For a description of our accounting policies and practices for financial derivatives and hedging transactions see “—Financial derivatives and hedging transactions” and Note 2 to our Audited Financial Statements.

## Results of Operations

### Summary of Results

The following tables provide a summary of our results of operations for the years ended December 31, 2014, 2015 and 2016.

|   | For the years ended December 31, |               |                       |            |
|---|----------------------------------|---------------|-----------------------|------------|
|   | 2014                             | 2015          | 2016                  | 2016       |
|   | (millions of pesos)              |               | (millions of dollars) |            |
| <b>Income statement data:</b>                           |                                  |               |                       |            |
| Interest income .....                                   | 17,112                           | 19,871        | 27,229                | 1,321      |
| Interest expense .....                                  | (7,425)                          | (7,811)       | (10,780)              | (523)      |
| <b>Financial margin .....</b>                           | <b>9,687</b>                     | <b>12,060</b> | <b>16,449</b>         | <b>798</b> |
| Allowance for loan losses .....                         | (2,438)                          | (3,477)       | (6,613)               | (321)      |
| <b>Financial margin after allowance for loan losses</b> | <b>7,249</b>                     | <b>8,583</b>  | <b>9,836</b>          | <b>477</b> |
| Commission and fee income .....                         | 2,991                            | 4,207         | 5,450                 | 264        |
| Commission and fee expense .....                        | (93)                             | (753)         | (1,845)               | (89)       |
| Net gain (loss) on financial assets and liabilities     | (4,443)                          | (2,582)       | 409                   | 20         |
| Other operating income, net .....                       | 13,631                           | 6,302         | 1,107                 | 53         |
| Administrative and promotional expenses ..              | (4,964)                          | (5,676)       | (7,081)               | (343)      |
| <b>Total operating income .....</b>                     | <b>14,371</b>                    | <b>10,081</b> | <b>7,876</b>          | <b>382</b> |
| Equity in results of associates .....                   | 949                              | 1,195         | 1,079                 | 52         |
| <b>Income before income taxes .....</b>                 | <b>15,320</b>                    | <b>11,276</b> | <b>8,955</b>          | <b>434</b> |
| Current income taxes .....                              | 1,896                            | 2,592         | 2,277                 | 110        |
| Deferred income taxes .....                             | (1,332)                          | (1,426)       | (1,067)               | (52)       |
| <b>Total Current and Deferred income taxes</b>          | <b>564</b>                       | <b>1,166</b>  | <b>1,210</b>          | <b>58</b>  |
| Net income .....  | 14,756                           | 10,110        | 7,745                 | 376        |
| Non-controlling interest .....                          | (202)                            | (220)         | (2)                   | -          |
| <b>Net income attributable to controlling interest</b>  | <b>14,554</b>                    | <b>9,890</b>  | <b>7,743</b>          | <b>376</b> |

### Results of Operations for the Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

#### Financial Margin

Financial margin totaled Ps.16,449 million in 2016 compared to Ps.12,060 million in 2015, an increase of Ps.4,389 million or 36.4%. This increase was mainly due to a 19.3% increase in our loan portfolio and growth in the retail banking sector, primarily due to an increase in customers with auto loans and credit cards.



The following table sets forth the components of our financial margin for the periods indicated:

|  | For the years ended December 31, |               |                       |
|--|----------------------------------|---------------|-----------------------|
|  | 2015                             | 2016          | 2016                  |
|  | (millions of pesos)              |               | (millions of dollars) |
| <b>Interest income</b>   |                                  |               |                       |
| Loan portfolio .....   | 17,249                           | 23,007        | 1,116                 |
| Commissions from opening of credit lines.....                        | 238                              | 544           | 26                    |
| Premiums from sale and repurchase agreements.....                    | 1,190                            | 745           | 36                    |
| Investments in securities.....                                       | 1,068                            | 2,568         | 125                   |
| Deposits in Banxico.....   | 269                              | 374           | 18                    |
| Financing on national and foreign banks.....                         | 5                                | 41            | 2                     |
| Valuation of foreign currency and UDIs .....                         | 71                               | 185           | 9                     |
| Dividends from equity instruments .....                              | 37                               | 54            | 3                     |
| Other.....   | 0                                | 0             | 0                     |
| Amortization from loan portfolio valuation .....                     | (256)                            | (289)         | (14)                  |
| <b>Total interest income .....</b>                                   | <b>19,871</b>                    | <b>27,229</b> | <b>1,321</b>          |
| <b>Interest expense</b>  |                                  |               |                       |
| Premiums from sale and repurchase agreements.....                    | 978                              | 464           | 22                    |
| Promissory notes with returns that can be realized at maturity ..... | 267                              | 486           | 24                    |
| For demand deposits .....  | 1,881                            | 2,757         | 134                   |
| Time deposits .....  | 408                              | 1,156         | 56                    |
| From banking loans and from other organisms.....                     | 230                              | 424           | 21                    |
| Valuation of foreign currency and UDIs .....                         | 30                               | 61            | 3                     |
| Credit instruments issued.....                                       | 3,994                            | 5,404         | 262                   |
| Discounts debt placement .....                                       | 23                               | 28            | 1                     |
| <b>Total interest expense .....</b>                                  | <b>7,811</b>                     | <b>10,780</b> | <b>523</b>            |
| <b>Financial margin.....</b>   | <b>12,060</b>                    | <b>16,449</b> | <b>798</b>            |

### ***Interest Income***

Our interest income was Ps.27,229 million for 2016 compared to Ps.19,871 million for 2015, an increase of Ps.7,358 million, or 37.0%. This increase was mainly the result of an increase in our loan portfolio balances and investments in securities, which was partially offset by a decrease in premiums from sale and repurchase agreements and losses derived from the amortization of the loan portfolio valuation provision.

Income from the loan portfolio was Ps.23,007 million for 2016 compared to Ps.17,249 million for 2015, an increase of Ps.5,758 million, or 33.4%, primarily due to a 19.3% increase in our loan portfolio driven by growth in the number of loans granted with a higher margin derived from an increase in the retail loan portfolio.

Interest income from premiums from sale and repurchase agreements was Ps.745 million for 2016 compared to Ps.1,190 million for 2015, a decrease of Ps.445 million, or 37.4%, primarily due to less activity in this market.

Interest income from investments in securities was Ps.2,568 million for 2016 compared to Ps.1,068 million for 2015, an increase of Ps.1,500 million, or 140.4%, primarily due to higher interest rate levels in the market.

Amortization from loan portfolio valuation was negative Ps.289 million for 2016 compared to negative Ps.256 million for 2015, a decrease of Ps.33 million.

Interest income from commissions from the opening of credit lines, deposits with Banxico, financing of national and foreign banks, valuation of foreign currency and UDIs and dividends from equity investments, together, were Ps.1,198 million for 2016 compared to Ps.620 million for 2015, an increase of Ps.578 million, or 93.2%, primarily the result of an increase of interest income derived from commissions for the opening of credit lines.

### ***Interest Expense***

Our interest expense was Ps.10,780 million for 2016 compared to Ps.7,811 million for 2015, an increase of Ps.2,969 million, or 38.0%. This increase was mainly the result of higher interest expense for debt securities driven by a 250 basis point increase in interest rates in the market in 2016 as compared to 2015.

Interest expense on premiums from sale and repurchase agreements was Ps.464 million for 2016 compared to Ps.978 million for 2015, a decrease of Ps.514 million, or 52.6%, while interest expense for demand deposits was Ps.2,757 million for 2016 compared to Ps.1,881 million for 2015, an increase of Ps.876 million, or 46.6% caused by the higher outstanding demand deposits and higher interest rate levels in 2016 as compared to 2015.

Interest expense on credit instruments issued was Ps.5,404 million for 2016 compared to Ps.3,994 million for 2015, an increase of Ps.1,410 million, or 35.3%. This increase was mainly the result of an increase of Ps.7.2 million in credit instruments issued and higher interest rates in the market in 2016 as compared to 2015.

Interest expense on time deposits, bank loans, promissory notes, discounts on debt placement and the valuation of foreign currency and UDIs was Ps.2,155 million for 2016 compared to Ps.958 million for 2015, an increase of Ps.1,197 million, or 124.9%.

### ***Allowance for Loan Losses***

Allowance for loan losses charged against earnings were Ps.6,613 million for 2016 compared to Ps.3,477 million for 2015, an increase of Ps.3,136 million, or 90.2%, mainly due to the change in the mix of our loan portfolio in connection with our growth strategy, a greater portion of which consisted of credit cards during 2016, which require higher allowance for loan losses due to their higher risk profile.

### ***Non-interest Income and Expenses***

Total non-interest income was Ps.5,121 million for 2016 compared to Ps.7,174 million for 2015, a decrease of Ps.2,053 million, or 28.6%. This decrease was primarily the result of an increase in commission and fees expense in 2016, and a decrease in other operating income due to fewer extraordinary releases of excess allowance for loan losses, which was partially offset by an increase in commissions and fees collected and less mark-to-market losses, in each case in 2016 as compared to 2015. The following table sets forth the components of our non-interest income for the periods indicated:

|   | For the years ended December 31, |              |                       |
|---|----------------------------------|--------------|-----------------------|
|   | 2015                             | 2016         | 2016                  |
|   | (millions of pesos)              |              | (millions of dollars) |
| <b>Commissions and fees collected</b>                   |                                  |              |                       |
| <b>Commissions and fees collected</b>                   |                                  |              |                       |
| Management of retirement savings system funds.....      | 1,129                            | 1,009        | 49                    |
| Loan portfolio services.....                            | 2,715                            | 3,955        | 192                   |
| Intermediation in the money market .....                | 359                              | 432          | 21                    |
| Intermediation in the securities market .....           | 4                                | 54           | 2                     |
| <b>Total commission and fees income.....</b>            | <b>4,207</b>                     | <b>5,450</b> | <b>264</b>            |
| <b>Commissions and fees paid</b>                        |                                  |              |                       |
| <b>Total commission and fees expense.....</b>           | <b>753</b>                       | <b>1,845</b> | <b>89</b>             |
| <b>Total commissions and fees .....</b>                 | <b>3,454</b>                     | <b>3,605</b> | <b>175</b>            |
| <b>Financial intermediation income (loss)</b>           |                                  |              |                       |
| <b>Other income from securities trading</b>             |                                  |              |                       |
| On foreign exchange transactions.....                   | 2,051                            | 5,575        | 270                   |
| On securities.....                                      | 281                              | 376          | 18                    |
| On derivatives .....                                    | (2,526)                          | (4,317)      | (209)                 |
| <b>Total other income from securities trading .....</b> | <b>(194)</b>                     | <b>1,634</b> | <b>79</b>             |
| <b>Mark-to-market gains and losses</b>                  |                                  |              |                       |
| On foreign exchange transactions.....                   | 433                              | 466          | 23                    |
| On investments in securities .....                      | (3,243)                          | (39)         | (2)                   |

|   | For the years ended December 31, |         |                       |
|---|----------------------------------|---------|-----------------------|
|   | 2015                             | 2016    | 2016                  |
|   | (millions of pesos)              |         | (millions of dollars) |
| On derivatives .....                        | 422                              | (1,652) | (80)                  |
| Total mark-to-market gains and losses.....  | (2,388)                          | (1,225) | (59)                  |
| Total financial intermediation income ..... | (2,582)                          | 409     | 20                    |
| Other operating income, net .....           | 6,302                            | 1,107   | 53                    |
| Total non-interest income .....             | 7,174                            | 5,121   | 248                   |

### *Commissions and Fees Collected*

Commissions and fees collected were Ps.3,605 million for 2016 compared to Ps.3,454 million for 2015, an increase of Ps.151 million, or 4.4%, mainly due to an increase in commissions collected in both the corporate and retail sectors.

Total commissions and fees income was Ps.5,450 million for 2016 compared to Ps.4,207 million for 2015, an increase of Ps.1,243 million, or 29.5%, mainly due to an increase in volume of retail customer transactions, as well as higher fee income from our commercial lending activities.

Total commissions and fees paid was Ps.1,845 million for 2016, compared to Ps.753 million for 2015, an increase of Ps.1,092 million, or 145.0%, mainly due to an increase in volume of retail customer transactions.

### *Financial Intermediation Results*

Financial intermediation results were Ps.409 million for 2016 compared to negative Ps.2,582 million for 2015, an increase of Ps.2,991 million mainly due to a decrease in mark-to-market losses and an increase in other income from securities trades.

### *Other Operating Income, Net*

In other operating income, net, we recorded an income of Ps.1,107 million for 2016 compared to an income of Ps.6,302 million for 2015, a decrease of Ps.5,195 million, or 82.4%. This decrease was mainly the result of extraordinary releases of excess allowance for loan losses in 2015 in accordance with the CNBV accounting guidance that took effect as of December 31, 2013, which significantly increased our operating income in 2015 as compared to 2016. For more information, see “—Critical Accounting Policies—Allowance for loan losses.”

### *Administrative and Promotional Expenses*

Our administrative and promotional expenses increased to Ps.7,081 million for 2016 compared to Ps.5,676 million for 2015, an increase of Ps.1,405 million or 24.8%. This increase was primarily due to our branch network expansion related to our long-term commercial agreement with Banco Walmart. As of December 31, 2016, we had 901 total branches and outlet branches compared with 804 as of December 31, 2015. For more information, see “Our Business—Our History and Development—Recent Mergers, Acquisitions and Capital Contributions.”

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

|  | For the year ended December 31, |       |                       |
|--|---------------------------------|-------|-----------------------|
|  | 2015                            | 2016  | 2016                  |
|  | (millions of pesos)             |       | (millions of dollars) |
| Personnel service administration .....             | 1,152                           | 1,602 | 78                    |
| Professional services.....                         | 158                             | 356   | 17                    |
| Leasing.....                                       | 251                             | 351   | 17                    |
| Depreciation and amortization .....                | 180                             | 381   | 18                    |
| Contribution to IPAB.....                          | 915                             | 936   | 45                    |
| Management and promotional expenses .....          | 256                             | 140   | 7                     |
| Other .....  | 2,764                           | 3,315 | 161                   |
| Total administrative and promotional expenses..... | 5,676                           | 7,081 | 343                   |

### ***Equity in Results of Associates***

Equity in results of associates was Ps.1,079 million for 2016 compared to Ps.1,195 million for 2015, a decrease of Ps.116 million or 9.7%. This decrease was primarily a result of lower revenues generated by our venture capital subsidiary, Sinca Inbursa.

### ***Income Taxes***

Current income tax was Ps.2,277 million for 2016 compared to Ps.2,592 million for 2015, a decrease of Ps.315 million, or 12.2%. This decrease was mainly due to lower income before taxes. In 2016, the statutory tax rate was 30%, while the effective tax rate was 14%, primarily due to other permanent items and inflationary tax benefits from holding net monetary assets.

Deferred income tax represented a gain of Ps.1,067 million for 2016 compared to a gain of Ps.1,426 million for 2015, a difference of Ps.359 million, which was mainly as a result of mark-to-market gains in 2016 compared to mark-to-market losses in 2015 with respect to our investment and derivative positions.

### ***Net Income Attributable to Controlling Interest***

Net income attributable to controlling interest was Ps.7,743 million for 2016 compared to Ps.9,890 million for 2015, a decrease of Ps.2,147 million, or 21.7%. This decrease was mainly due to (i) an increase in allowance for loan losses due to the change in the mix of the loan portfolio described above, and (ii) increased administrative expenses due to a significant expansion of bank branches, which were partially offset by a 36.4% increase in financial margin related to the growth and diversification of our loan portfolio during this period. This result was additionally impacted by our release of Ps.4,532 million of excess allowance for loan losses during 2015 in accordance with the CNBV accounting guidance that took effect as of December 31, 2013, which was not repeated in 2016. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Allowance for loan losses.”

### ***Results of Operations for the Year Ended December 31, 2015 compared to the Year Ended December 31, 2014***

#### ***Financial Margin***

Financial margin increased to Ps.12,060 million in 2015 compared to Ps.9,687 million in 2014, an increase of Ps.2,373 million or 24.5%. This increase was primarily due to an increase of Ps.2,759 million in interest income in 2015 as compared to 2014.

The following table sets forth the components of our financial margin for the periods indicated:

|  | For the years ended December 31, |               |                       |
|--|----------------------------------|---------------|-----------------------|
|  | 2014                             | 2015          | 2015                  |
|  | (millions of pesos)              |               | (millions of dollars) |
| <b>Interest income</b>   |                                  |               |                       |
| Loan portfolio .....   | 13,064                           | 17,249        | 1,000                 |
| Commissions from opening of credit lines .....                       | 141                              | 238           | 14                    |
| Premiums from sale and repurchase agreements .....                   | 1,902                            | 1,190         | 69                    |
| Investments in securities .....                                      | 1,329                            | 1,068         | 62                    |
| Deposits in Banxico .....  | 328                              | 269           | 16                    |
| Financing on national and foreign banks .....                        | 30                               | 5             | 3                     |
| Valuation of foreign currency and UDIs .....                         | 139                              | 71            | 4                     |
| Dividends from equity instruments .....                              | 21                               | 37            | 2                     |
| Other .....  | 3                                | -             | -                     |
| Amortization from loan portfolio valuation .....                     | 155                              | (256)         | (15)                  |
| <b>Total interest income .....</b>                                   | <b>17,112</b>                    | <b>19,871</b> | <b>1,152</b>          |
| <b>Interest expense</b>  |                                  |               |                       |
| Premiums from sale and repurchase agreements .....                   | 1,591                            | 978           | 57                    |
| Promissory notes with returns that can be realized at maturity ..... | 198                              | 267           | 15                    |
| For demand deposits .....  | 1,852                            | 1,881         | 109                   |

|   | For the years ended December 31, |               |                       |
|---|----------------------------------|---------------|-----------------------|
|   | 2014                             | 2015          | 2015                  |
|   | (millions of pesos)              |               | (millions of dollars) |
| Time deposits .....                               | 450                              | 408           | 24                    |
| From banking loans and from other organisms ..... | 181                              | 230           | 13                    |
| Valuation of foreign currency and UDIs .....      | 14                               | 30            | 2                     |
| Credit instruments issued .....                   | 3,127                            | 3,994         | 232                   |
| Discounts debt placement .....                    | 12                               | 23            | 1                     |
| <b>Total interest expense .....</b>               | <b>7,425</b>                     | <b>7,811</b>  | <b>453</b>            |
| <b>Financial margin .....</b>                     | <b>9,687</b>                     | <b>12,060</b> | <b>699</b>            |

### ***Interest Income***

Our interest income was Ps.19,871 million for 2015 compared to Ps.17,112 million for 2014, an increase of Ps.2,759 million, or 16.1%. This increase was mainly the result of an increase in our loan portfolio balances, decreased premiums, and fewer losses derived from the amortization of the loan portfolio valuation provision.

Income from the loan portfolio reached Ps.17,249 million for 2015 compared to Ps.13,064 million for 2014, an increase of Ps.4,185 million, or 32.03%, primarily due to an 18.7% increase in our loan portfolio driven by growth in the number of loans granted with a higher margin derived from an increase in the retail loan portfolio. This increase was also partly attributable to the July 2015 assignment of Banco Walmart's loan portfolio, with a face value of Ps.5,392 million, to Sociedad Financiera Inbursa, which became a subsidiary of Banco Inbursa in 2015 as a result of our capital contribution.

Interest income on premiums from sale and repurchase agreements was Ps.1,190 million for 2015 compared to Ps.1,902 million for 2014, a decrease of Ps.712 million, or 37.4%, primarily due to less activity in this market.

Interest on investments in securities was Ps.1,068 million for 2015 compared to Ps.1,329 million for 2014, a decrease of Ps.261 million, or 19.6%, primarily due to lower interest rate levels in the market.

Amortization from loan portfolio valuation was negative Ps.256 million for 2015 compared to positive Ps.155 million for 2014, a decrease of Ps.411 million.

Interest income on commissions from the opening of credit lines, deposits with Banxico, financing of national and foreign banks, valuation of foreign currency and UDIs and other interest income, together, were Ps.71 million for 2015 compared to Ps.139 million for 2014, a decrease of Ps.68 million, or 48.90%, primarily the result of a decrease of interest income derived from the valuation of foreign currency and UDIs.

### ***Interest Expense***

Our interest expense was Ps.7,811 million for 2015 compared to Ps.7,425 million for 2014, an increase of Ps.386 million, or 5.2%. This increase was mainly the result of higher interest expenses for debt securities driven by a 20.2% increase in the average amount outstanding in 2015 compared to 2014.

Interest expense on premiums from sale and repurchase agreements was Ps.978 million for 2015 compared to Ps.1,591 million for 2014, a decrease of Ps.613 million, or 38.5%, while interest expense for demand deposits was Ps.1,881 million for 2015 compared to Ps.1,852 million for 2014, an increase of Ps.29 million, or 1.6% caused by lower interest rate levels in 2015 compared to 2014.

Interest expense on credit instruments issued was Ps.3,994 million for 2015 compared to Ps.3,127 million for 2014, an increase of Ps.867 million, or 27.7%. This increase was mainly the result of an increase of Ps.18,011 million in credit instruments issued.

Interest expense on time deposits, bank loans and the valuation of foreign currency and UDIs was Ps.30 million for 2015 compared to Ps.14 million for 2014, an increase of Ps.16 million, or 114.3%.

### *Allowance for Loan Losses*

Allowance for loan losses charged against earnings were Ps.3,477 million for 2015 compared to Ps.2,438 million for 2014, an increase of Ps.1,039 million, or 42.6%. This increase was mainly the result of the change in the mix of our loan portfolio, a greater portion of which consisted of personal loans and credit cards during 2015, which require higher allowance for loan losses due to their higher risk profile.

### *Non-interest Income and Expenses*

Total non-interest income was Ps.7,174 million for 2015 compared to Ps.12,086 million for 2014, a decrease of Ps.4,912 million or 40.64%. This decrease was primarily the result of more mark-to-market losses in 2015 and decreased other operating income due to fewer extraordinary releases of excess allowance for loan losses, in each case in 2015 compared to 2014. The following table sets forth the components of our non-interest income for the periods indicated:

|   | For the years ended December 31, |                |                       |
|---|----------------------------------|----------------|-----------------------|
|   | 2014                             | 2015           | 2015                  |
|   | (millions of pesos)              |                | (millions of dollars) |
| <b>Commissions and fees collected</b>                   |                                  |                |                       |
| <b>Commissions and fees collected</b>                   |                                  |                |                       |
| Management of retirement savings system funds.....      | 1,160                            | 1,129          | 66                    |
| Loan portfolio services .....                           | 1,497                            | 2,715          | 157                   |
| Intermediation in the money market.....                 | 329                              | 359            | 21                    |
| Intermediation in the securities market .....           | 5                                | 4              | -                     |
| <b>Total commission and fees income .....</b>           | <b>2,991</b>                     | <b>4,207</b>   | <b>244</b>            |
| <b>Commissions and fees paid</b>                        |                                  |                |                       |
| <b>Total commission and fees expense .....</b>          | <b>93</b>                        | <b>753</b>     | <b>44</b>             |
| <b>Total commissions and fees .....</b>                 | <b>2,898</b>                     | <b>3,454</b>   | <b>200</b>            |
| <b>Financial intermediation income (loss)</b>           |                                  |                |                       |
| <b>Other income from securities trading</b>             |                                  |                |                       |
| On foreign exchange transactions.....                   | 2,853                            | 2,051          | 119                   |
| On securities.....                                      | 875                              | 281            | 16                    |
| On derivatives .....                                    | (2,783)                          | (2,526)        | (146)                 |
| <b>Total other income from securities trading .....</b> | <b>945</b>                       | <b>(194)</b>   | <b>(11)</b>           |
| <b>Mark-to-market gains and losses</b>                  |                                  |                |                       |
| On foreign exchange transactions.....                   | 691                              | 433            | 25                    |
| On investments in securities .....                      | (1,827)                          | (3,243)        | (188)                 |
| On derivatives .....                                    | (4,252)                          | 422            | 24                    |
| <b>Total mark-to-market gains and losses .....</b>      | <b>(5,388)</b>                   | <b>(2,388)</b> | <b>(139)</b>          |
| <b>Total financial intermediation income .....</b>      | <b>(4,443)</b>                   | <b>(2,582)</b> | <b>(150)</b>          |
| <b>Other operating income, net .....</b>                | <b>13,631</b>                    | <b>6,302</b>   | <b>366</b>            |
| <b>Total non-interest income.....</b>                   | <b>12,086</b>                    | <b>7,174</b>   | <b>416</b>            |

### *Commissions and Fees Collected*

Commissions and fees collected were Ps.3,454 million for 2015 compared to Ps.2,898 million for 2014, an increase of Ps.556 million, or 19.19%, mainly due to an increase in commissions collected in both the corporate and retail sectors.

Total commissions and fees income was Ps.4,207 million for 2015 compared to Ps.2,991 million for 2014, an increase of Ps.1,216 million, or 40.66%, mainly due to an increase in volume of retail customer transactions, as well as higher fee income from our commercial lending activities.

Total commissions and fees paid was Ps.753 million for 2015, compared to Ps.93 million for 2014, an increase of Ps.660 million, or 709.7%, mainly due to an increase in volume of retail customer transactions, as well as higher fee income from our commercial lending activities.

### ***Financial Intermediation Results***

Financial intermediation results were negative Ps.2,582 million for 2015 compared to negative Ps.4,443 million for 2014, a decrease of Ps.1,861 mainly due to the marking-to-market of our funding swap position as well as unrealized losses in stock positions.

### ***Other Operating Income, Net***

In other operating income, net, we recorded an income of Ps.6,302 million for 2015 compared to a Ps.13,631 million income for 2014, a decrease of Ps.7,329 million or 53.77 %. This decrease was mainly the result of fewer extraordinary releases of excess allowance for loan losses in 2015 compared to 2014 in accordance with the CNBV accounting guidance. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Allowance for loan losses.”

### ***Administrative and Promotional Expenses***

Our administrative and promotional expenses increased to Ps. 5,676 million for 2015 compared to Ps.4,964 million recorded in 2014, an increase of Ps.712 million, or 14.3%. This increase was mainly the result of an increase in personnel service administration, contributions to IPAB and other administrative expenses, in connection with our business growth.

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

|  | For the year ended December 31, |              |                       |
|--|---------------------------------|--------------|-----------------------|
|  | 2014                            | 2015         | 2015                  |
|  | (millions of pesos)             |              | (millions of dollars) |
| Personnel service administration .....                     | 910                             | 1,152        | 67                    |
| Professional services .....                                | 86                              | 158          | 9                     |
| Leasing .....  | 189                             | 251          | 15                    |
| Depreciation and amortization .....                        | 132                             | 180          | 10                    |
| Contribution to IPAB .....                                 | 873                             | 915          | 53                    |
| Management and promotional expenses .....                  | 578                             | 256          | 15                    |
| Other .....  | 2,196                           | 2,764        | 160                   |
| <b>Total administrative and promotional expenses .....</b> | <b>4,964</b>                    | <b>5,676</b> | <b>329</b>            |

### ***Equity in Results of Associates***

We recorded Ps.1,195 million equity in net income of associates for 2015 compared to Ps.949 million recorded for 2014, an increase of Ps.246 million, or 25.9%, due to an increase in income from companies promoted by Sinca Inbursa.

### ***Income Taxes***

Income tax was Ps.2,592 million for 2015 compared to Ps.1,896 million for 2014, an increase of Ps.696 million, or 36.7%. This increase was mainly the result of an increase in income before taxes. In 2015, the statutory tax rate was 30%, while the effective tax rate was 11%, primarily due to the nontaxable release of the excess allowance for loan losses and inflationary tax benefits from holding net monetary assets.

### ***Net Income Attributable to Controlling Interest***

As a result of the foregoing, net income attributable to controlling interest was Ps.9,890 million for 2015 compared to Ps.14,554 million for 2014, a decrease of Ps.4,664 million, or 32.0% due to the results of operations described above.

## Segment Information

### *Results of Operations for the Year Ended December 31, 2016 compared to the Year Ended December 31, 2015*

The following table sets forth the consolidated results of our operations by segment for the years ended December 31, 2015 and December 31, 2016.

|   | For the years ended December 31, |              |                       |
|---|----------------------------------|--------------|-----------------------|
|   | 2015                             | 2016         | 2016                  |
|   | (millions of pesos)              |              | (millions of dollars) |
| Loan portfolio transactions .....                                       | 15,313                           | 9,789        | 475                   |
| Money market and capital market transactions .....                      | (1,064)                          | 4,087        | 198                   |
| Derivatives and foreign currency transactions.....                      | 380                              | 72           | 3                     |
| Commissions from management of retirement accounts .....                | 1,128                            | 1,009        | 49                    |
| Operating income excluding administrative and promotional expense ..... | 15,757                           | 14,957       | 725                   |
| Administrative and promotional expenses.....                            | 5,676                            | 7,081        | 343                   |
| <b>Operating result.....</b>  | <b>10,081</b>                    | <b>7,876</b> | <b>382</b>            |

### *Results of Operations for the Year Ended December 31, 2015 compared to the Year Ended December 31, 2014*

The following table sets forth the consolidated results of our operations by segment for the years ended December 31, 2014 and December 31, 2015.

|   | For the years ended December 31, |               |                       |
|---|----------------------------------|---------------|-----------------------|
|   | 2014                             | 2015          | 2015                  |
|   | (millions of pesos)              |               | (millions of dollars) |
| Loan portfolio transactions .....                                       | 20,305                           | 15,313        | 888                   |
| Money market and capital market transactions .....                      | 1,361                            | (1,064)       | (62)                  |
| Derivatives and foreign currency transactions.....                      | (3,491)                          | 380           | 22                    |
| Commissions from management of retirement accounts .....                | 1,160                            | 1,128         | 65                    |
| Operating income excluding administrative and promotional expense ..... | 19,335                           | 15,757        | 913                   |
| Administrative and promotional expenses.....                            | 4,964                            | 5,676         | 329                   |
| <b>Operating result.....</b>  | <b>14,371</b>                    | <b>10,081</b> | <b>584</b>            |

## Financial Position

The following discussion compares our consolidated financial position as of December 31, 2016, December 31, 2015 and December 31, 2014.

### *Assets*

Our total assets as of December 31, 2016 increased to Ps.411,961 million compared to Ps.327,064 million as of December 31, 2015, an increase of Ps.84,897 million, or 26.0%. This increase was principally due to an increase in our total loan portfolio of Ps.45,832 million or 19.3% to Ps.283,310 million as of December 31, 2016 from Ps.237,478 million as of December 31, 2015, and a Ps.39,975 million or 171.7% increase in securities from Ps.23,278 million in 2015 to Ps.63,253 million in 2016.

We had total assets of Ps.327,064 million as of December 31, 2015 compared to Ps.281,584 million as of December 31, 2014, an increase of Ps.45,480 million, or 16.2%. This increase was principally due to an increase in our total loan portfolio of Ps.37,497 million or 18.8% to Ps.237,478 million as of December 31, 2015 from Ps.199,981 million as of December 31, 2014, partially offset by a Ps.2,645 million or 27% decrease in derivatives from Ps.9,769 million in 2014 to Ps.7,124 million in 2015.



## ***Loan Portfolio***

Our loan portfolio as of December 31, 2016 increased to Ps.283,310 million compared to Ps.237,478 million as of December 31, 2015, an increase of Ps.45,832 million, or 19.3%. This increase was mainly due to a 14.2% increase in commercial lending from Ps.169,059 million in 2015 to Ps.193,014 million in 2016, a 17.6% increase in consumer loans from Ps.41,107 million to Ps.48,346 million, and a 65.1% increase in loans to government entities of Ps.9,340 from Ps.14,340 million in 2015 to Ps.23,680 million in 2016. Total performing loans represented 66.9% of total assets as of December 31, 2016, compared to 70.4% of total assets as of December 31, 2015.

As of December 31, 2015, our loan portfolio was Ps.237,478 million, an increase of Ps.37,497 million, or 18.8%, compared to our loan portfolio of Ps.199,981 million as of December 31, 2014. This increase was mainly due to a 15.6% increase in commercial lending from Ps. 146,193 million in 2014 to Ps.169,059 million in 2015, and a 118.2% increase in consumer loans from Ps.18,843 million to Ps. 41,107 million, partially offset by a decrease in loans to government entities of Ps.4,549 million, from Ps.18,889 million in 2014 to Ps.14,340 million in 2015. Total performing loans represented 70.4% of total assets as of December 31, 2015, compared to 68.6% of total assets as of December 31, 2014. Additionally, in July 2015, Banco Walmart assigned a loan portfolio to Sociedad Financiera Inbursa with a face value of Ps.5,392 million. In April and December 2015, and April and July 2016, Banco Inbursa made capital contributions to Sociedad Financiera Inbursa, through which Sociedad Financiera Inbursa became a subsidiary of Banco Inbursa. For more information, see “Our Business—Our History and Development—Recent Mergers, Acquisitions and Capital Contributions.”

As of December 31, 2016, total performing loans were Ps.275,504 million compared to Ps.230,222 million as of December 31, 2015, an increase of Ps.45,282 million, or 19.7%. This increase was mainly due to a Ps.5,713 million increase in consumer loans from Ps.39,116 million in 2015 to Ps.44,829 million in 2016 and a Ps.25,089 million increase in commercial loans from Ps.163,995 million in 2015 to Ps.189,084 in 2016.

As of December 31, 2015, total performing loans were Ps.230,222 million compared to Ps.193,135 million as of December 31, 2014, an increase of Ps.37,087 million, or 19.2%. This increase was mainly due to a Ps.21,189 million increase in consumer loans from Ps.17,927 million in 2014 to Ps.39,116 million in 2015 and a Ps.23,565 million increase in commercial loans from Ps.140,430 million in 2014 to Ps.163,995 in 2015.

## ***Liabilities***

We had total liabilities of Ps.321,722 million as of December 31, 2016 compared to Ps.244,705 million as of December 31, 2015, an increase of Ps.77,017 million, or 31.5%. This increase was primarily due to a Ps.5,101 million increase in demand deposits, a Ps.7,930 million increase in credit instruments issued and a Ps.20,843 million increase in bank and other loans.

We had total liabilities of Ps.244,705 million as of December 31, 2015 compared to Ps.208,801 million as of December 31, 2014, an increase of Ps.35,904 million, or 17.2%. This increase was primarily due to a Ps.7,567 million increase in demand deposits, a Ps.18,011 million increase in credit instruments issued and a Ps.3,515 million increase in bank and other loans.

## ***Demand Deposits***

We had total demand deposits of Ps.81,996 million as of December 31, 2016 compared to Ps.76,895 million as of December 31, 2015, an increase of Ps.5,101 million, or 6.6%, due to the expansion and consolidation of our network of bank branches.

We had total demand deposits of Ps.76,895 million as of December 31, 2015 compared to Ps.69,328 million as of December 31, 2014, an increase of Ps.7,567 million, or 10.9%. This increase was primarily due to the expansion and consolidation of our network of bank branches.

### ***Time Deposits***

This caption consists of fixed-term deposits, deposits by foreign companies and bank promissory notes with interest payable at maturity. The interest rate on Mexican peso denominated deposits is tied to the Cetes rate and to the 28-day adjusted interbank rate (THIE). Returns on foreign currency denominated deposits are tied to the LIBOR.

We had total time deposits of Ps.47,727 million as of December 31, 2016 compared to Ps.17,228 million as of December 31, 2015, an increase of Ps.30,499 million, or 177.0%. This increase was primarily the result of the growth in time deposits from our retail customers, which increased by 29.5%, from Ps.17,180 million as of December 31, 2015 to Ps.22,248 million as of December 31, 2016.

We had total time deposits of Ps.17,228 million as of December 31, 2015 compared to Ps.15,235 million as of December 31, 2014, an increase of Ps.1,993 million, or 13.1%. This increase was primarily the result of the growth in time deposits from our retail customers, which increased by 39.4%, from Ps.12,326 million as of December 31, 2014 to Ps.17,180 million as of December 31, 2015.

### ***Bank and Other Loans***

We had interbank and other borrowings of Ps.29,713 million as of December 31, 2016, compared to Ps.8,870 million as of December 31, 2015, an increase of Ps.20,843 million, or 235.0%.

We had interbank and other borrowings of Ps.8,870 million as of December 31, 2015, compared to Ps.5,355 million as of December 31, 2014, an increase of Ps.3,515 million, or 65.6%.

The following table sets forth balances on our existing indebtedness with banks and other entities as of December 31, 2016:

|  | For the year ended December 31, 2016<br>(millions of pesos) |           |               |
|--|---|-----------|---------------|
|  | Principal   | Interest  | Total         |
| <b>Demand loans</b>                          |   |           |               |
| <b>Mexican peso borrowings</b>               |   |           |               |
| Call Money .....                             | -   | -         | -             |
| <b>Short term loans</b>                      |   |           |               |
| <b>Mexican peso borrowings</b>               |   |           |               |
| <b>Other loans</b> .....                     | 1,500   | 4         | 1,504         |
| NAFIN .....                                  | 380   | 2         | 382           |
|  | 1,350   | 7         | 1,357         |
| <b>Foreign currency borrowings</b>           |   |           |               |
| Multiple purpose financing entities loans .. | -   | -         | -             |
| NAFIN .....                                  | 72  | -         | 72            |
|  | 72  | -         | 72            |
| <b>Long term portion</b>                     |   |           |               |
| <b>Mexican peso borrowings</b>               |   |           |               |
| <b>Other loans</b> .....                     | -   | -         | -             |
| NAFIN .....                                  | 14,444  | 25        | 14,469        |
| Sociedad Hipotecaria                         | 1,500   | 4         | 1,504         |
| BANOBRAS                                     | 7,667   | 2         | 7,669         |
| Discounted portfolio (FIRA) .....            | 71  | -         | 71            |
| <b>Foreign currency borrowings</b>           |   |           |               |
| Multiple purpose financing entities loans    | 2,681   | 4         | 2,685         |
|  | <b>29,665</b>   | <b>48</b> | <b>29,713</b> |

## ***Credit Instruments Issued***

On June 30, 2010, through official document 153/3618/2010 (the “2010 Program”), the CNBV authorized the provisional registration with the RNV of the debt instruments to be issued by Banco Inbursa under the “Revolving program for bank domestic senior, certificates of term bank deposits, promissory notes with interest payable at maturity (PRLV) and bank bonds.” The authorized maximum amount of the issuances under that program is Ps.50,000 million or its equivalent in UDIs, and accordingly, the sum of all outstanding issuances for this program on a given date may not exceed this authorized amount.

On February 1, 2013, the CNBV authorized the provisional registration with the RNV of the securities to be issued by Banco Inbursa under this program up to a maximum authorized amount of Ps.30,000 million or its equivalent in UDIs, and accordingly, the sum of all outstanding issuances for this second program on a given date may not exceed this authorized amount, through official document No. 153/6117/2013 (the “2013 Program”).

On June 6, 2014, we issued U.S.\$1.0 billion of 4.125% Senior Notes due 2024 in the international markets.

On September 23, 2014, the CNBV released official document 153/107353/2014 authorizing the issuance of securities under the “Program for Unsecured Bank Bonds, Deposits Certificates, Promissory Notes with Returns that can be realized at Maturity and Bank Bonds” program (the “2014 Program”) and their registration with the RNV. The maximum authorized amount under this program is Ps. 100,000 million or its UDI equivalent, and accordingly, the sum of all outstanding issuances for this program on a given date may not exceed this authorized amount.

At December 31, 2014, 2015 and 2016, the current debt instrument issuances by Banco Inbursa represented 95%, 95% and 75%, respectively, of the total authorized amount under the 2014 Program.

In 2016, Banco Inbursa issued debt securities through the Mexican Stock Exchange in an aggregate principal amount of Ps.11,787 million, under the 2014 Program.

In 2016, CF Credit issued debt securities through the Mexican Stock Exchange in an aggregate principal amount of Ps.3,500 million, under the securities offering program authorized by the CNBV in June 2015.

In 2016, Sociedad Financiera Inbursa issued debt securities through the Mexican Stock Exchange in an aggregate principal amount of Ps.17,536 million, under the securities offering program authorized by the CNBV in September 2015.

The following table sets forth our debentures payable by us and certain of our subsidiaries outstanding as of December 31, 2016:

| <b>For the year ended December 31, 2016</b> |                          |                            |                          |
|---|--------------------------|----------------------------|--------------------------|
|   | <b>No. of Securities</b> | <b>Balance</b>             | <b>Interest Rate</b>     |
|   |                          | <b>(millions of pesos)</b> | <b>Interest Rate (%)</b> |
| <b>Issuance First Program</b>               |                          |                            |                          |
| Binbur 14                                   | 65,000,000               | 6,510                      | 6.35%                    |
| Binbur 14-2                                 | 20,000,000               | 2,027                      | 5.07%                    |
| Binbur 14-3                                 | 30,000,000               | 3,008                      | 5.79%                    |
| Binbur 14-4                                 | 5,000,000                | 501                        | 5.79%                    |
|   |                          | <u>12,046</u>              |                          |
| <b>Issuance Second Program</b>              |                          |                            |                          |
| Binbur 13-3                                 | 60,000,000               | 6,002                      | 6.36%                    |
| Binbur 13-4                                 | 115,000,000              | 11,504                     | 6.38%                    |
| Binbur 14-5                                 | 50,000,000               | 5,008                      | 6.29%                    |
|   |                          | <u>22,514</u>              |                          |

| For the year ended December 31, 2016   |                   |                     |                   |
|--|-------------------|---------------------|-------------------|
|  | No. of Securities | Balance             | Interest Rate     |
|  |                   | (millions of pesos) | Interest Rate (%) |
| <b>Issuance Third Program</b>          |                   |                     |                   |
| Binbur 14-6                            | 40,000,000        | 4,011               | 5.78%             |
| Binbur 14-7                            | 100,000,000       | 11,824              | 7.00%             |
| Binbur 15                              | 52,000,000        | 5,208               | 6.29%             |
| Binbur 16                              | 30,000,000        | 3,008               | 5.80%             |
| Binbur 16-2                            | 17,424,750        | 1,749               | 5.95%             |
| Binbur 16-3                            | 24,471,150        | 2,448               | 6.31%             |
| Binbur 16-4                            | 5,528,850         | 553                 | 6.34%             |
| Binbur 16-5                            | 30,021,860        | 3,008               | 6.30%             |
| Binbur 16-6                            | 10,196,111        | 1,021               | 6.35%             |
|  |                   | <u>32,830</u>       |                   |
| <br>BINBL53                            | <br>1,000,000     | <br>20,676          | <br>4.13%         |
| <br><b>CF Credit</b>                   |                   |                     |                   |
| <b>First Program:</b>                  |                   |                     |                   |
| Cf credi 00516                         | 37,000,000        | 3,615               | 4.62%             |
| <b>Second Program:</b>                 |                   |                     |                   |
| Cf credi 15 1                          | 50,000,000        | 5,011               | 5.61%             |
| Cf credi 15 1                          | 35,000,000        | 3,500               | 5.67%             |
|  |                   | <u>12,126</u>       |                   |
| <br><b>Sociedad Financiera Inbursa</b> |                   |                     |                   |
| <b>First Program:</b>                  |                   |                     |                   |
| Sfomibu 00716                          | 40,000,000        | 4,013               | 5.26%             |
| Sfomibu 00816                          | 35,000,000        | 3,504               | 5.22%             |
| Sfomibu 00916                          | 20,000,000        | 2,003               | 5.22%             |
| Sfomibu 01016                          | 15,000,000        | 1,502               | 5.22%             |
| Sfomibu 01116                          | 50,000,000        | 5,012               | 5.26%             |
| Sfomibu 01216                          | 15,000,000        | 1,502               | 5.78%             |
|  |                   | <u>17,536</u>       |                   |
| <b>Total Unsecured Bonds</b>           |                   | <b>117,728</b>      |                   |

### ***Shareholders' Equity***

Our shareholders' equity is comprised of contributed capital, including capital stock and share premiums and earned capital. Our shareholders' equity was Ps.90,239 million as of December 31, 2016 compared to Ps.82,359 million as of December 31, 2015. The increase between 2016 and 2015 was primarily due to a Ps.2,147 million decrease in net income in 2016 as compared to 2015. In May 2016, Banco Inbursa paid a dividend of Ps. 992 million.

Our shareholders' equity was Ps.82,359 million as of December 31, 2015 compared to Ps.72,783 million as of December 31, 2014. The increase between 2015 and 2014 was primarily due to a Ps.4,646 million decrease in net income in 2015 as compared to 2014. In May 2015, Banco Inbursa paid a dividend of Ps.1,770 million.

## Liquidity and Capital Resources

### Funding

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

Our general policy is to maintain adequate liquidity to ensure our ability to honor withdrawals of deposits in amounts and at times consistent with historical data, make repayment of other liabilities at maturity, extend loans and meet our own working capital needs in compliance with the applicable internal and regulatory reserve requirements and liquidity coefficients in all material respects.

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

As of December 31, 2016, we used four major sources of funding (i) customer deposits, (ii) time deposits, (iii) issuance of debt instruments and (iv) to a lesser degree, commercial and development bank funding.

|                                   | As of December 31,  |         |                       |        | % of total<br>funding for<br>2016 |
|-----------------------------------|---------------------|---------|-----------------------|--------|-----------------------------------|
|                                   | 2014                | 2015    | 2016                  | 2016   |                                   |
|                                   | (millions of pesos) |         | (millions of dollars) |        |                                   |
| Deposits:                         |                     |         |                       |        |                                   |
| Demand deposits .....             | 69,328              | 76,895  | 81,996                | 3,976  | 30%                               |
| Time deposits: .....              | 15,235              | 17,228  | 47,727                | 2,315  | 17%                               |
| Credit instruments issued .....   | 91,787              | 109,798 | 117,793               | 5,713  | 42%                               |
| Bank and other loans:             |                     |         |                       |        |                                   |
| Demand loans <sup>(1)</sup> ..... | 1,380               | 1,070   | -                     | -      | -                                 |
| Short-term.....                   | 1,052               | 1,995   | 3,315                 | 161    | 1%                                |
| Long-term .....                   | 2,923               | 5,805   | 26,398                | 1,280  | 10%                               |
| Subtotal .....                    | 5,355               | 8,870   | 29,713                | 1,441  | 11%                               |
| Total .....                       | 181,705             | 212,791 | 277,229               | 13,445 | 100%                              |

(1) Call Money

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

Our management expects that cash flows from operations and other sources of liquidity will be sufficient to meet our liquidity requirements over the next months.

### **Foreign Currency Position**

Our foreign currency-denominated assets, most of which are U.S. dollar denominated, are funded from a number of sources.

An analysis of our dollar position at December 31, 2014, 2015 and 2016 is as follows:

|   | <b>2014</b>             | <b>2015</b>             | <b>2016</b>          |
|---|-------------------------|-------------------------|----------------------|
| Assets .....                                    | U.S.\$ 11,687,285,646   | U.S.\$ 10,088,338,980   | U.S.\$11,529,943,602 |
| Liabilities .....                               | U.S.\$ (12,123,728,888) | U.S.\$ (10,344,926,909) | U.S.\$11,587,111,261 |
| Net monetary asset (liability) position .....   | U.S.\$ (436,443,242)    | U.S.\$ (256,587,929)    | U.S.\$(57,167,659)   |
| Exchange rate (Mexican pesos) .....             | Ps.14.7414              | Ps. 17.2487             | Ps.20.6194           |
| <b>Total in millions of Mexican Pesos .....</b> | <b>Ps (6,434)</b>       | <b>Ps. (4,426)</b>      | <b>Ps.(1,179)</b>    |

At December 31, 2014, 2015 and 2016, the exchange rate was Ps.14.7414, Ps.17.2487, and Ps.20.6194, respectively, per U.S. dollar. This exchange rate is set by Banxico for the settlement of foreign currency denominated liabilities.

In conformity with regulatory requirements established by Banxico, credit institutions must maintain a balanced daily foreign exchange position, both on a combined basis and in each foreign currency. The acceptable combined liability or asset positions may not exceed 15% of our net shareholders' equity. Regarding its individual foreign currency position at December 31, 2014, 2015 and 2016, we comply with the aforementioned limit.

### **Contractual Obligations and Commitments**

The table below summarizes information regarding our material contractual obligations as of December 31, 2016.

| <b>Contractual Obligations</b>                  | <b>Total</b>   | <b>Less than 1 year</b> | <b>1 - 3 years</b>         | <b>3 - 5 years</b> | <b>More than 5 years</b> |
|---|----------------|-------------------------|----------------------------|--------------------|--------------------------|
|   |                |                         | <b>(millions of pesos)</b> |                    |                          |
| Debt securities .....                           | 117,728        | 54,723                  | 28,762                     | 1,743              | 32,500                   |
| Short-term and long-term loans from banks ..... | 29,713         | 6,949                   | 2,074                      | 11,517             | 9,173                    |
| <b>Total .....</b>                              | <b>147,441</b> | <b>61,672</b>           | <b>30,836</b>              | <b>13,260</b>      | <b>41,673</b>            |

As of December 31, 2016, our contractual obligations were Ps.147,441 million, of which those of 1 year or less were Ps.61,672 million, or 41.8%. Obligations of 1-3 years were Ps.30,836 million, or 20.9%, those of 3-5 years were Ps.13,260 million, or 9.0%, and those of more than 5 years were Ps.41,673 million, or 28.3%. Debt securities of Ps.117,728 million make up the majority of these obligations.

### **Off Balance Sheet Arrangements (Memorandum Accounts)**

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 Audited Financial Statements. These activities include our participation in trusts and mandates, the issuance of letters of credit and safekeeping of securities held as collateral, among others. We record our off-balance sheet arrangements as memorandum accounts, which are described more fully in Note 32 to our Audited Financial Statements included in this offering memorandum.

### **Financial derivatives and hedging transactions**

We recognize all derivatives on the balance sheet at fair value, regardless of whether they are designated as for "trading" or "hedging" purposes. The cash flows received or delivered to adjust the instrument to fair value at the start of the transaction, not associated to premiums on options, are considered part of the fair value of the financial instrument.

We enter into financial derivatives for hedging purposes which enables it to mitigate or eliminate financial risks to which it is exposed, implement asset and liability management strategies and reduce its cost of securing deposits.

The costs associated with the transactions are recognized in results as they are incurred.

The notional amounts of the contracts with financial derivatives are recognized in memorandum accounts under the heading other recording accounts.

### ***Financial derivatives for hedging purposes***

We carry out the following types of hedges with financial derivatives.

#### ***Cash flow hedges***

Cash flow hedges represent a hedge of the exposure to the variation in the cash flows of a forecast transaction which (i) is attributable to a specific risk associated with a recognized asset or liability, or with a highly probable event, and which (ii) may affect the result of the period. The hedge derivative instrument is valued at market. The portion of the gain or loss from the hedge instrument which is expected in the hedge is recorded in the comprehensive income account as part of stockholders' equity, while the ineffective portion is recorded in results of the period as part of "Result from intermediation."

The effective hedge component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lower (in absolute terms) of the accrued gain or loss from the hedge financial derivative since its inception, and the accumulated change in the present value of future cash flows expected from the hedged item since the inception of the hedge.

#### ***Fair value hedges***

Fair value hedges represent a hedge of the exposure to changes in the fair value of recognized assets or liabilities or unrecognized firm commitments or, an identified portion of such assets, liabilities or unrecognized firm commitments, which is attributable to a specific risk and which may affect the result of the period. In our case, fair value hedges refer to market risks of financial assets.

Changes in the fair value of hedge are recognized in results in the heading containing the results generated by the hedged positions and the fair value attributable to the risk covered. The adjustments in fair value of the hedged positions are presented on the balance sheet under the heading Adjustment for valuation of hedges of financial assets.

The ineffectiveness of the hedge instruments is valued each month. If management determines that a financial derivative is not highly effective as a hedge, the hedge accounting scheme is no longer applied with regard to such derivatives, which, if maintained, are reclassified to the trading position and the valuation at fair value of the primary hedged position must be amortized to results, based on the maturity of the primary position subject matter of the hedge.

Below we describe the accounting treatment of the financial derivatives contracts we manage.

#### ***Forwards***

An asset portion and a liability portion are recorded for the forward contracts, which refer to the referenced amount of the contract multiplied by the negotiated agreed. The net balance (position) of the purchase and sale transactions is presented on the balance sheet under the heading Derivatives.

In transactions involving forward contracts for trading purposes, the valuation effect resulting from the variance between the negotiated price and the fair value of the contract's obligations is recognized in the statement of income under the heading Result from intermediation.

As of December 31, 2014, 2015 and 2016, we did not hold positions in forward contracts for hedging purposes.

### ***Futures***

Futures contracts for trading purposes are recorded in their asset and liability portion for the referenced amount multiplied by the price agreed. The collateral provided (margin calls) is presented under the heading Margin accounts on the balance sheet.

Net fluctuations in the market prices of futures transactions are recognized on the balance sheet under the heading Derivatives, which affects the statement of income, under the heading Result from intermediation. Fair value is obtained from the listings in the markets in which these contracts are traded.

As of December 31, 2014, 2015 and 2016, we did not hold positions in futures contracts for hedging purposes.

### ***Swaps***

Swaps are recorded at the price agreed at the start of the contract. Their valuation is made at fair value, which refers to the present value of the expected future flows to be received and delivered, as the case may be, projected in accordance with the applicable implicit future rates and discounted at the interest rates existing in the market on the valuation date. In the case of trading swaps, changes in fair value are recognized in the statement of income under the heading Result from intermediation. The effects of valuation of the swaps designated as hedges are recognized in the statements of income or in stockholders' equity, if the hedge strategy is based on fair value or cash flows, respectively.

The results obtained from interest generated by these instruments are recognized as part of the financial margin, including exchange results.

For purposes of presentation in the financial statements, the net balance (position) of the cash flows expected to be received or delivered by contract is presented on the balance sheet under the heading Derivatives, depending on its debit or credit nature, respectively, and its intended use (trading or hedge).

As of December 31, 2014, 2015 and 2016 we held swap positions for purposes of trading and fair value hedges.

### ***Structured transactions***

In these transactions there is a principal contract referred to non-derivative assets or liabilities and a derivative portion represented by one or more derivatives. The derivative portions of structured transactions do not constitute embedded derivatives, but independent derivatives. Non-derivative assets or liabilities are recognized and valued according to their nature (credits or debt instruments), whereas the derivative portions are recognized at fair value according to their economic substance (swaps or options).

Options are contracts in which the right, but not the obligation, is established for the acquirer to buy or sell a financial asset or underlying at a determined price known as the strike price or exercise price, on an established date or period.

### ***Credit derivatives***

Credit derivatives in which the exchange of flows is agreed are valued in accordance with the fair value of the rights to be received and the flows to be delivered incorporated in each instrument. Credit derivatives whose primary contract adopts the form of an option are valued based on the fair value of the premium or premiums embedded in the contract. These financial instruments are valued at fair value.

We hold investments in securities known as Credit Link Notes that contain an embedded credit derivative component, which is valued at fair value. As of December 31, 2014, 2015 and 2016, we did not have credit derivatives for hedging purposes.



The table below shows our financial derivative instruments as of December 31, 2014, 2015 and 2016:

|                                  | As of December 31,                    |                                       |                                       |                                       |                                       |                                       |
|----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|                                  | 2014                                  |                                       | 2015                                  |                                       | 2016                                  |                                       |
|                                  | Nominal Amount<br>(millions of pesos) | Asset Position<br>(millions of pesos) | Nominal Amount<br>(millions of pesos) | Asset Position<br>(millions of pesos) | Nominal Amount<br>(millions of pesos) | Asset Position<br>(millions of pesos) |
| <b>Asset Position</b>            |                                       |                                       |                                       |                                       |                                       |                                       |
| <b>Futures</b>                   |                                       |                                       |                                       |                                       |                                       |                                       |
| Currency futures.....            | 26,351                                | 26,236                                | 28,150                                | 28,066                                | 31,639                                | 30,730                                |
| <b>Forwards</b>                  |                                       |                                       |                                       |                                       |                                       |                                       |
| Currency forwards.....           | 50,231                                | 95,272                                | 44,794                                | 95,373                                | 49,489                                | 106,794                               |
| <b>Warrants</b>                  |                                       |                                       |                                       |                                       |                                       |                                       |
| Stock-purchase warrants.....     | 745                                   | 804                                   | -                                     | -                                     | -                                     | -                                     |
| Options.....                     | 57                                    | -                                     | 58                                    | -                                     | -                                     | -                                     |
| <b>Swaps</b>                     |                                       |                                       |                                       |                                       |                                       |                                       |
| Currency swaps.....              | 12,363                                | 12,873                                | 15,620                                | 16,069                                | 51,528                                | 55,561                                |
| Interest rate dollars.....       | 39,524                                | 21,433                                | 35,877                                | 16,945                                | 39,019                                | 16,296                                |
| Interest rate pesos.....         | 117,230                               | 52,798                                | 127,427                               | 58,628                                | 112,140                               | 46,815                                |
| <b>Total Trading Swaps.....</b>  | <b>169,117</b>                        | <b>87,104</b>                         | <b>178,924</b>                        | <b>91,642</b>                         | <b>202,687</b>                        | <b>118,672</b>                        |
| <b>Hedging Derivatives:</b>      |                                       |                                       |                                       |                                       |                                       |                                       |
| Currency swaps.....              | 19,818                                | 19,840                                | 19,818                                | 19,843                                | 19,818                                | 19,864                                |
| Interest rate swaps dollars..... | 6,964                                 | 830                                   | -                                     | -                                     | -                                     | -                                     |
| Interest rate swaps pesos.....   | 33,800                                | 4,406                                 | 28,650                                | 3,707                                 | 54,196                                | 15,670                                |
| <b>Total Hedging Swaps.....</b>  | <b>60,582</b>                         | <b>25,076</b>                         | <b>48,468</b>                         | <b>23,550</b>                         | <b>74,014</b>                         | <b>35,534</b>                         |
| <b>Total.....</b>                | <b>307,083</b>                        | <b>234,492</b>                        | <b>300,394</b>                        | <b>238,631</b>                        | <b>357,829</b>                        | <b>291,730</b>                        |
| <b>Liability Position</b>        |                                       |                                       |                                       |                                       |                                       |                                       |
| <b>Futures</b>                   |                                       |                                       |                                       |                                       |                                       |                                       |
| Currency futures.....            | 26,351                                | 28,419                                | 28,150                                | 28,996                                | 31,639                                | 33,132                                |
| <b>Forwards</b>                  |                                       |                                       |                                       |                                       |                                       |                                       |
| Currency forwards.....           | 46,508                                | 96,929                                | 50,385                                | 96,069                                | 58,013                                | 107,910                               |
| <b>Options</b>                   |                                       |                                       |                                       |                                       |                                       |                                       |
| Options.....                     | 3,089                                 | 446                                   | 3,245                                 | 423                                   | 3,505                                 | 808                                   |
| <b>Swaps</b>                     |                                       |                                       |                                       |                                       |                                       |                                       |
| Currency swaps.....              | 12,363                                | 15,168                                | 15,620                                | 20,247                                | 51,528                                | 60,383                                |
| Interest rate dollars.....       | 39,524                                | 22,182                                | 35,877                                | 17,591                                | 39,019                                | 14,751                                |
| Interest rate pesos.....         | 117,230                               | 52,177                                | 127,427                               | 57,650                                | 112,140                               | 45,943                                |
| <b>Total Trading Swaps.....</b>  | <b>169,117</b>                        | <b>89,527</b>                         | <b>178,924</b>                        | <b>95,488</b>                         | <b>202,687</b>                        | <b>121,077</b>                        |
| <b>Hedging Derivatives:</b>      |                                       |                                       |                                       |                                       |                                       |                                       |
| Currency swaps.....              | 19,818                                | 22,870                                | 19,818                                | 27,237                                | 19,818                                | 33,306                                |
| Interest rate swaps dollars..... | 6,964                                 | 622                                   | 0                                     | -                                     | -                                     | -                                     |
| Interest rate swaps pesos.....   | 33,800                                | 3,912                                 | 28,650                                | 3,291                                 | 54,196                                | 12,421                                |
| <b>Total Hedging Swaps.....</b>  | <b>60,582</b>                         | <b>27,404</b>                         | <b>48,468</b>                         | <b>30,528</b>                         | <b>74,014</b>                         | <b>45,727</b>                         |
| <b>Total.....</b>                | <b>305,647</b>                        | <b>242,725</b>                        | <b>309,172</b>                        | <b>251,504</b>                        | <b>369,858</b>                        | <b>308,654</b>                        |

The principal underlying indexes for the derivative instruments traded are:

| <b>Futures</b>   | <b>Forwards</b> | <b>Options</b> | <b>Swaps</b>   |
|------------------|-----------------|----------------|--|
| Pesos<br>Dollars | Currency        | Interest Rates | Cross-Currency<br>Interest Rate (IRS) dollars<br>Interest Rate (IRS) pesos |

Throughout 2016, the valuation of trade derivative financial instruments and investments was recorded in the income statement under “Market-Related Income” and as of December 31, 2014, 2015 and 2016, the plus (minus) value of such instruments was Ps.(4,443) million, Ps.(2,582) million and Ps.409 million, respectively.

Pursuant to Mexican Banking GAAP, the valuation effect given to futures in the balance sheet is reflected in the “Margin Accounts” along with the initial minimum contributions.

### **Risk-Based Capital**

The Mexican Capitalization Rules take into account market risk in addition to credit risk. Those regulations provide that all of our investments in subsidiaries and revaluation surpluses related to such investments must be subtracted from the calculation of Tier 1 capital. The minimum Capital Ratio required by the Mexican Capitalization Rules in order for a bank not to be required to defer or cancel interest payments and defer principal payments of subordinated debt and not to be subject to certain other corrective measures is 10.5% for total capital to risk-weighted assets.

Our Capital Ratio was 20.28%, 18.51% and 18.48% as of December 31, 2014, December 31, 2015 and December 31, 2016, respectively.

The table below presents our risk-weighted assets and Capital Ratios for the as of the dates indicated:

|   | <b>As of December 31,</b>                      |             |             |  |
|---|--|-------------|-------------|--|
|   | <b>2014</b>                                    | <b>2015</b> | <b>2016</b> | <b>2016</b>                                      |
|   | <b>(millions of pesos, except percentages)</b> |             |             | <b>(millions of dollars, except percentages)</b> |
| <b>Capital</b>                                  |  |             |             |  |
| Tier 1 .....                                    | 63,158   | 62,648      | 62,783      | 3,045  |
| Tier 2 .....                                    | -  | -           | -           | -  |
| Total net capital .....                         | 63,158   | 62,648      | 62,783      | 3,045  |
| <b>Risk weighted assets</b>                     |  |             |             |  |
| Market Risk <sup>(1)</sup> .....                | 88,813   | 89,193      | 86,160      | 4,179  |
| Credit Risk <sup>(2)</sup> .....                | 205,205  | 229,277     | 233,432     | 11,321   |
| Operational Risk <sup>(3)</sup> .....           | 17,369   | 20,011      | 20,218      | 981  |
| Total risk-weighted assets .....                | 311,387  | 338,481     | 339,810     | 16,481   |
| <b>Capital Ratios</b>                           |  |             |             |  |
| Tier 1 capital to risk-weighted assets .....    | 20.28%   | 18.51%      | 18.48%      | 18.48%   |
| Tier 2 capital to risk-weighted assets .....    | -  | -           | -           | -  |
| Total net capital to risk-weighted assets ..... | 20.28%   | 18.51%      | 18.48%      | 18.48%   |

<sup>(1)</sup> Refers to the requirement for positions that use a nominal national or foreign rate and actual or used rates. The more remote the maturity, the greater the requirement.

<sup>(2)</sup> Refers to our positions that are subject to weighted credit risk in accordance with the rating of the borrower, issuer or counterparty, in accordance with Annex 2 of the Mexican Banking Regulations, the highest rating that has a weight of 0% is the governmental requirement.

<sup>(3)</sup> This requirement is calculated based on 15% of the average of 36 months of certain annual net income based on the basic methodology of Banxico.

## SELECTED STATISTICAL INFORMATION

*We have included the following information for analytical purposes. The following information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Presentation of Certain Financial and Other Information” and our Audited Financial Statements and the notes thereto included elsewhere in this offering memorandum. The following information is presented solely for the convenience of the reader for analytical purposes and, for certain items, differs from and is not comparable to the presentation in our Audited Financial Statements.*

The following selected statistical information is provided with respect to us and our consolidated subsidiaries only. Selected statistical information for us is as of and for the years ended December 31, 2014, 2015 and 2016.

Assets and liabilities have been classified by the domicile of our customers and the currency of each loan, since substantially most of our transactions are effected in Mexico or on behalf of Mexican residents in pesos or foreign currency. The U.S. dollar is the main foreign currency used in our transactions, although Euros are also used.

Unless otherwise indicated, all foreign currency assets and liabilities in this section have been converted into U.S. dollars and then into pesos at the exchange rates shown below. These rates are used for the conversion of amounts, whether these are assets or liabilities, in U.S. dollars:

|                            | Exchange Rate  |                |                |
|----------------------------|----------------|----------------|----------------|
|                            | 2014           | 2015           | 2016           |
| First Quarter .....        | 13.2232        | 15.0695        | 17.8442        |
| Second Quarter .....       | 12.9741        | 15.4794        | 18.0177        |
| Third Quarter .....        | 13.2454        | 16.5885        | 19.0075        |
| Fourth Quarter .....       | 14.0384        | 16.7862        | 20.0079        |
| <b>Annual Average.....</b> | <b>13.3703</b> | <b>15.9809</b> | <b>18.7193</b> |

### Average Balance Sheet and Interest Rate Data

#### *Peso-Denominated Average Balances and Interest Income*

Average balances for assets and liabilities have been calculated based on sum of the four quarter-end balances divided by four. Interest income (expense) for each year is the total of the income (expense) for the four quarters so determined.

#### *Foreign Currency-Denominated and UDI-Denominated Average Balances and Interest Income*

Average balances for foreign currency-denominated and UDI-denominated assets and liabilities have been translated into pesos using the applicable month-end exchange rate published in the Official Gazette. Interest income (expense) for foreign currency and UDI-denominated loans has been converted into Mexican pesos using the average exchange rate for the year ended December 31, 2016.

#### *Average Interest Rate*

The average annual rates earned on interest-earning assets and the average annual rates paid on interest-bearing liabilities are nominal rates; such average was calculated by dividing the appropriate financial income / expense for the period by the average balances calculated as described above.

### Average Assets and Interest Rates

The table below presents the average balance of assets, interest income and average annual interest rate for the years ended December 31, 2014, 2015 and 2016:

| For the Year Ended December 31,                       |                 |                 |               |                 |                 |               |                 |                 |               |
|---|-----------------|-----------------|---------------|-----------------|-----------------|---------------|-----------------|-----------------|---------------|
|   | 2014            |                 |               | 2015            |                 |               | 2016            |                 |               |
|   | Average Balance | Interest Income | Interest Rate | Average Balance | Interest Income | Interest Rate | Average Balance | Interest Income | Interest Rate |
| Funds available .....                                 | 17,499          | 362             | 2.07%         | 18,289          | 273             | 1.49%         | 21,842          | 415             | 1.90%         |
| Investment in securities .....                        | 18,974          | 1,329           | 7.00%         | 17,443          | 1,068           | 6.12%         | 30,026          | 2,568           | 8.55%         |
| Receivables under security repurchase agreement ..... | 11,319          | 310             | 2.74%         | 6,026           | 212             | 3.52%         | 2,996           | 281             | 9.37%         |
| Derivatives .....                                     | 10,881          | 10,014          | 92.03%        | 11,206          | 8,990           | 80.22%        | 13,105          | 10,001          | 76.32%        |
| Performing Loan Portfolio.....                        | 184,928         | 12,863          | 6.96%         | 222,145         | 16,384          | 7.38%         | 259,101         | 21,970          | 8.48%         |
| Non-performing Loan Portfolio.....                    | 6,869           | 355             | 5.17%         | 7,240           | 610             | 8.43%         | 7,372           | 747             | 10.14%        |
| <b>Subtotal .....</b>                                 | <b>250,470</b>  | <b>25,233</b>   | <b>10.07%</b> | <b>282,349</b>  | <b>27,537</b>   | <b>9.75%</b>  | <b>334,442</b>  | <b>35,982</b>   | <b>10.76%</b> |
| Stock Investments .....                               | 7,516           |                 |               | 7,195           |                 |               | 7,077           |                 |               |
| Allowance for loan losses .....                       | (20,311)        |                 |               | (11,255)        |                 |               | (11,223)        |                 |               |
| Valuation Adjustment for Financial Asset hedges ..... | 1,003           |                 |               | 1,049           |                 |               | 809             |                 |               |
| Other Accounts Receivable, net .....                  | 12,604          |                 |               | 20,038          |                 |               | 24,926          |                 |               |
| Property, Furniture and Equipment, Net .....          | 1,294           |                 |               | 1,710           |                 |               | 1,920           |                 |               |
| Long-Term Equity Investments .....                    | 8,353           |                 |               | 10,723          |                 |               | 12,365          |                 |               |
| Deferred Taxes .....                                  |                 |                 |               |                 |                 |               | 784             |                 |               |
| Other Assets .....                                    | 3,009           |                 |               | 5,435           |                 |               | 5,474           |                 |               |
| <b>Total Assets .....</b>                             | <b>263,938</b>  | <b>25,233</b>   |               | <b>317,244</b>  | <b>27,537</b>   |               | <b>376,574</b>  | <b>35,982</b>   |               |
| Total Loan Portfolio, Net <sup>(1)</sup> .....        | 171,486         |                 |               | 218,130         |                 |               | 255,250         |                 |               |

(1) Total loan portfolio, net, is equal to the sum of performing loan portfolio and non-performing loan portfolio, less allowance for loan losses.

### Average Liabilities, Stockholders' Equity and Interest Rates

The following table presents the average balances of liabilities and stockholders' equity, interest expense and average annual interest rate for the years ended December 31, 2014, 2015 and 2016.

| For the Year Ended December 31,                         |                 |                  |               |                 |                  |               |                 |                  |               |
|---|-----------------|------------------|---------------|-----------------|------------------|---------------|-----------------|------------------|---------------|
|   | 2014            |                  |               | 2015            |                  |               | 2016            |                  |               |
|   | Average Balance | Interest Expense | Interest Rate | Average Balance | Interest Expense | Interest Rate | Average Balance | Interest Expense | Interest Rate |
| Demand deposits .....                                   | 66,722          | 1,852            | 2.78%         | 73,748          | 1,881            | 2.55%         | 78,886          | 2,757            | 3.49%         |
| Time Deposits .....                                     | 17,092          | 648              | 3.79%         | 22,656          | 675              | 2.98%         | 44,242          | 1,642            | 3.71%         |
| Credit instruments issued...                            | 82,244          | 3,127            | 3.80%         | 98,879          | 3,994            | 4.04%         | 109,823         | 5,404            | 4.92%         |
| Other Bank Loans .....                                  | 5,045           | 181              | 3.58%         | 9,899           | 230              | 2.33%         | 17,321          | 424              | 2.45%         |
| Derivatives .....                                       | 11,484          | 9,848            | 85.75%        | 19,415          | 9,084            | 46.79%        | 25,153          | 9,209            | 36.61%        |
| <b>Subtotal .....</b>                                   | <b>182,587</b>  | <b>15,656</b>    | <b>8.57%</b>  | <b>224,597</b>  | <b>15,864</b>    | <b>7.06%</b>  | <b>275,425</b>  | <b>19,436</b>    | <b>7.06%</b>  |
| Time Deposits Without Interest .....                    | 999             |                  |               | 957             |                  |               | 1,263           |                  |               |
| Other Liabilities .....                                 | 10,626          |                  |               | 11,350          |                  |               | 14,450          |                  |               |
| Deferred Taxes .....                                    | 3,163           |                  |               | 462             |                  |               | -               |                  |               |
| Stockholders' Equity .....                              | 66,563          |                  |               | 79,878          |                  |               | 85,436          |                  |               |
| <b>Total Liabilities and Stockholders' Equity .....</b> | <b>263,938</b>  | <b>15,656</b>    |               | <b>317,244</b>  | <b>15,864</b>    |               | <b>376,574</b>  | <b>19,436</b>    |               |

The following table presents the changes in our interest earning assets and interest bearing liabilities.

|   | Interest-Earning Assets               |               |            |                                       |               |            |
|---|---------------------------------------|---------------|------------|---------------------------------------|---------------|------------|
|   | Dec 2015 – 2014                       |               |            | Dec 2016 – 2015                       |               |            |
|   | Increase/(Decrease) Due to Changes in |               |            | Increase/(Decrease) Due to Changes in |               |            |
|   | Volume                                | Interest Rate | Net Change | Volume                                | Interest Rate | Net Change |
| Funds available.....                                  | -                                     | (89)          | (89)       | -                                     | 142           | 142        |
| Investment in securities.....                         | (94)                                  | (167)         | (261)      | 1,076                                 | 424           | 1,500      |
| Receivables under security repurchase agreements..... | (186)                                 | 88            | (98)       | (284)                                 | 352           | 68         |
| Derivatives.....                                      | 260                                   | (1,285)       | (1,025)    | 1,450                                 | (438)         | 1,012      |
| Performing Loan Portfolio .....                       | 2,745                                 | 776           | 3,521      | 3,134                                 | 2,453         | 5,587      |
| Non-performing Loan Portfolio                         | 31                                    | 223           | 255        | 13                                    | 124           | 137        |
| Total Interest-Earning Assets...                      | 2,756                                 | (454)         | 2,303      | 5,389                                 | 3,057         | 8,446      |

|                                    | Interest-Bearing Liabilities          |               |            |                                       |               |            |
|------------------------------------|---------------------------------------|---------------|------------|---------------------------------------|---------------|------------|
|                                    | Dec 2015 – 2014                       |               |            | Dec 2016 – 2015                       |               |            |
|                                    | Increase/(Decrease) Due to Changes in |               |            | Increase/(Decrease) Due to Changes in |               |            |
|                                    | Volume                                | Interest Rate | Net Change | Volume                                | Interest Rate | Net Change |
| Demand Deposits .....              | 179                                   | (150)         | 30         | 220                                   | 655           | 875        |
| Time Deposits .....                | 166                                   | (139)         | 27         | 801                                   | 166           | 967        |
| Credit instruments issued .....    | 672                                   | 195           | 867        | 538                                   | 872           | 1,410      |
| Interbank and other borrowings     | 113                                   | (63)          | 50         | 182                                   | 12            | 194        |
| Derivatives .....                  | 3,711                                 | (4,475)       | (764)      | 2,101                                 | (1,976)       | 125        |
| Total Interest-Bearing Liabilities | 4,841                                 | 4,632         | 210        | 3,842                                 | (271)         | 3,571      |

### Return on Average Total Assets and Average Shareholders' Equity

The table below presents the return on average total assets as well as the return on average shareholders' equity for the years ended December 31, 2014, 2015 and 2016. The net income provided below is consolidated (including non-controlling interest), therefore this amount will not match that set forth in Note 26 in the Audited Financial Statements since the data shown in Note 26 shows the net income attributable to shareholders.

|   | For the Year Ended December 31 |                |               |
|---|--------------------------------|----------------|---------------|
|   | 2014                           | 2015           | 2016          |
| Net Income .....  | 14,756                         | 10,110         | 7,745         |
| Average total assets.....                                   | 263,938                        | 317,244        | 376,574       |
| Average shareholders' equity .....                          | 66,563                         | 79,878         | 85,436        |
| Return on average assets .....                              | 5.59%                          | 3.18%          | 2.06%         |
| Return on average equity .....                              | 22.17%                         | 12.66%         | 9.07%         |
| Average equity as a percentage of average total assets..... | 25.22%                         | 25.16%         | 22.69%        |
| Ratio of dividend paid.....                                 |                                |                |               |
| Payment of dividends.....                                   |                                |                |               |
| Net income (pesos).....                                     | 14,757,387,775                 | 10,110,913,410 | 7,744,308,825 |
| Outstanding shares at the end of each year .....            | 834,423,537                    | 834,423,537    | 834,423,537   |
| Shares dividend .....                                       | 0.28                           | 2.12           | 10.19         |
| Earnings per share .....                                    | 17.69                          | 12.12          | 9.28          |

Return on average total assets remained strong at 3.18% for the year ended December 31, 2015, but decreased compared to the 5.59% achieved in the year ended December 31, 2014. This result primarily resulted from solid returns on average total assets are related to a better diversification of our loan portfolio, which was partially offset by a lower operating margin driven by increased personnel and administrative expenses due to the significant expansion of our branch network and lower reserve provisions despite less favorable market conditions. For the year ended December 31, 2016, return on average total assets was 2.06%, primarily as a result of the negative impact of the increased expenses associated with the expansion of our branch network, as well as an increase of allowance from loan loss provisions, but positively impacted financial margins obtained as a consequence of a better mix of our loan portfolio.

Return on average shareholders' equity showed a margin of 9.07% in the year ended December 31, 2016 compared with 12.66% in the year ended December 31, 2015 and 22.17% in the year ended December 31, 2014. This result was primarily driven by the same factors described above.

### Investment in Securities

We held securities in the amount of Ps.63,253 million as of December 31, 2016, representing 15.4% of our total assets. The following table presents the investment portfolio for the periods indicated.

|                                      | For the year ended December 31, |               |               |
|--------------------------------------|---------------------------------|---------------|---------------|
|                                      | 2014                            | 2015          | 2016          |
| Mexican Government Securities        |                                 |               |               |
| CETES .....                          | 2,235                           | 386           | 36,256        |
| <b>Subtotal .....</b>                | <b>2,235</b>                    | <b>386</b>    | <b>36,256</b> |
| Other Securities                     |                                 |               |               |
| Equity Instruments .....             | 6,297                           | 6,221         | 7,391         |
| Corporate Fixed Income (Banks) ..... | 7,028                           | 917           | 1,144         |
| Bonds and Certificates .....         | 2,515                           | 2,962         | 3,821         |
| Foreign currency securities .....    | 5,430                           | 5,227         | 6,203         |
| BREMS .....                          |                                 | 5,304         | 5,306         |
| Other .....                          | 2,061                           | 2,261         | 3,132         |
| <b>Subtotal .....</b>                | <b>23,331</b>                   | <b>22,892</b> | <b>26,997</b> |
| <b>Total .....</b>                   | <b>25,566</b>                   | <b>23,278</b> | <b>63,253</b> |

### Securities by Instrument

The following table presents our portfolio of securities at the dates indicated, including those subject to repurchase agreements:

| Assets                              | For the year ended December 31, |                |                |                |                |                |
|-------------------------------------|---------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                     | 2014                            |                | 2015           |                | 2016           |                |
| Held-for-trading securities .....   | 25,263                          | 98.81%         | 23,278         | 100.00%        | 63,253         | 100.00%        |
| Available-for-sale securities ..... | 303                             | 1.19%          | -              | -              | -              | -              |
| Held-to-maturity securities .....   | -                               | -              | -              | -              | -              | -              |
|                                     | <b>25,566</b>                   | <b>100.00%</b> | <b>23,278</b>  | <b>100.00%</b> | <b>63,253</b>  | <b>100.00%</b> |
| <b>Total Assets .....</b>           | <b>281,584</b>                  | <b>9.07%</b>   | <b>327,064</b> | <b>7.11%</b>   | <b>411,961</b> | <b>15.35%</b>  |

## Securities—Maturities and Average Yields

The following table analyzes, as of December 31, 2016, remaining maturities and weighted-average yields of our fixed-income securities that have a specific date of maturity. The yields shown below are the average market returns of each security on an annual basis:

|  | Maturity from<br>1 to 89 days           |       | Maturity from<br>90 to 189 days |       | Maturity from<br>6 to 12 months |       | Maturity from<br>1 to 5 years |       |
|--|---|-------|---------------------------------|-------|---------------------------------|-------|-------------------------------|-------|
|  | Balance                                 | Yield | Balance                         | Yield | Balance                         | Yield | Balance                       | Yield |
|  | (millions of pesos, except percentages) |       |                                 |       |                                 |       |                               |       |
| Mexican Government Securities                  |   |       |                                 |       |                                 |       |                               |       |
| Cetes .....                                    | 41,565                                  | 6%    | 0                               | 0%    | 0                               | 0%    | 0                             | 0%    |
| Other government securities .....              | 1,883                                   | 6%    | 0                               | 0%    | 0                               | 0%    | 0                             | 0%    |
| Subtotal .....                                 | 43,448                                  | 6%    | 0                               | 0%    | 0                               | 0%    | 0                             | 0%    |
| Other Securities                               |   |       |                                 |       |                                 |       |                               |       |
| Corporate bonds and certificates (Banks) ..... | 0                                       | 0%    | 0                               | 0%    | 0                               | 0%    | 0                             | 0%    |
| Foreign-Currency Denominated Securities ...    | 0                                       | 0%    | 0                               | 0%    | 375                             | 1%    | 42                            | 1%    |
| Shares .....                                   | 0                                       | 0%    | 0                               | 0%    | 0                               | 0%    | 7,392                         | 0%    |
| Other fixed-income securities .....            | 0                                       | 0%    | 0                               | 0%    | 0                               | 0%    | 0                             | 0%    |
| Total .....                                    | 43,448                                  | 1%    | 0                               | 0%    | 0                               | 0%    | 7,434                         | 0%    |

|  | Maturity from<br>5 to 10 years          |       | Maturity after<br>10 years |       | Total   |
|--|---|-------|----------------------------|-------|---------|
|  | Balance                                 | Yield | Balance                    | Yield | Balance |
|  | (millions of pesos, except percentages) |       |                            |       |         |
| Mexican Government Securities                  |   |       |                            |       |         |
| Cetes .....                                    | 0                                       | 0%    | 0                          | 0%    | 41,565  |
| Other government securities .....              | 0                                       | 0%    | 0                          | 0%    | 1,883   |
| Subtotal .....                                 | 0                                       | 0%    | 0                          | 0%    | 43,448  |
| Other Securities                               |   |       |                            |       |         |
| Corporate bonds and certificates (Banks) ..... | 2,689                                   | 8%    | 3,104                      | 6%    | 5,793   |
| Foreign-Currency Denominated Securities ...    | 6,203                                   | 8%    | 0                          | 0%    | 6,620   |
| Shares .....                                   | 0                                       | 0%    | 0                          | 0%    | 7,392   |
| Other fixed-income securities .....            | 0                                       | 0%    | 0                          | 0%    | 0       |
| Total .....                                    | 8,892                                   | 4%    | 3,104                      | 1%    | 63,253  |

## Loan Portfolio

Total loan amounts set forth in this section include the total principal amount of performing and non-performing loans outstanding at the date presented. The terms “total loans” and “total loan portfolio” include total performing loans plus total non-performing loans.

The total balance of our loan portfolio as of December 31, 2016 amounted to Ps.283,310 million, an increase of Ps.45,832 million, or 19.3%, from the balance at December 31, 2015. This increase was due to higher balances in all of our loan portfolios: government loans increased by 65.1%, housing loans increased by 63.9%, interbank loans increased by 29.7%, consumer loans increased by 17.6% and commercial loans increased by 14.2%.

As of December 31, 2015, our loan portfolio amounted to Ps.237,478 million, an increase of 18.8% compared to December 31, 2014. This increase was mainly due to an increase in loans in our construction, financial, government and consumer loan portfolios, partially offset by a decrease in loans in our commercial portfolio.

### ***Loans by Type and by Borrower***

The following table analyzes our loan portfolio by loan type. Total loans reflect the sum of the performing loan portfolio and the non-performing loan portfolio. The table below shows the loan portfolio by residence of its borrowers. Also, for purposes of this document, the classification of the loan portfolio below is different from the Audited Financial Statements. For a breakdown of non-performing loans by loan type, see “—Non-Performing Loan Portfolio” below.

#### **DOMESTIC LOANS**

|                    | As of December 31, |                |                 |                |                 |                |
|--------------------|--------------------|----------------|-----------------|----------------|-----------------|----------------|
|                    | 2014               |                | 2015            |                | 2016            |                |
|                    | Amount Credited    | % of Portfolio | Amount Credited | % of Portfolio | Amount Credited | % of Portfolio |
| Commercial.....    | 118,627            | 71%            | 142,695         | 69%            | 149,430         | 64%            |
| Home mortgage..... | 1,500              | 1%             | 4,208           | 2%             | 6,899           | 3%             |
| Financial.....     | 9,725              | 6%             | 3,673           | 2%             | 5,272           | 2%             |
| Government .....   | 18,889             | 11%            | 14,340          | 7%             | 23,680          | 10%            |
| Consumer.....      | 18,843             | 11%            | 41,107          | 20%            | 48,346          | 21%            |
| Leasing.....       | 146                | 0%             | 158             | 0%             | 117             | 0%             |
|                    | <b>167,730</b>     | <b>100%</b>    | <b>206,181</b>  | <b>100%</b>    | <b>233,744</b>  | <b>100%</b>    |

#### **FOREIGN LOANS**

|                                   | As of December 31, |                |                 |                |                 |                |
|-----------------------------------|--------------------|----------------|-----------------|----------------|-----------------|----------------|
|                                   | 2014               |                | 2015            |                | 2016            |                |
|                                   | Amount Credited    | % of Portfolio | Amount Credited | % of Portfolio | Amount Credited | % of Portfolio |
| Commercial.....                   | 27,420             | 85%            | 26,206          | 84%            | 43,467          | 88%            |
| Financial.....                    | 4,831              | 15%            | 5,091           | 16%            | 6,099           | 12%            |
| Consumer .....                    | -                  | -              | -               | -              | -               | -              |
|                                   | <b>32,251</b>      | <b>100%</b>    | <b>31,297</b>   | <b>100%</b>    | <b>49,566</b>   | <b>100%</b>    |
| <b>Total Loan Portfolio .....</b> | <b>199,981</b>     |                | <b>237,478</b>  |                | <b>283,310</b>  |                |

### ***Commercial Loans***

Total commercial loans as of December 31, 2016, including domestic and foreign portfolios amounted to Ps.192,897 million, representing an increase of Ps.23,996 million, or 14.2%, from the amount recorded on December 31, 2015. This was due to an increase in the number of loans to our corporate clients. As of December 31, 2016, commercial loans represented approximately a 68.1% of the total loan portfolio.

Unsecured commercial loans (loans without a guarantee), consisting primarily of short-term working capital loans (loans with terms of 30 to 90 days), are common in Mexico. The credit analysis and administration of these loans are the same as for secured loans. If we establish an unsecured line of credit, it is because after the fundamental credit analysis, we and the credit committee (the “Credit Committee”) believe the borrower is a creditworthy customer, and the fact that it is an unsecured loan is taken into consideration during the approval process.

Total commercial loans including domestic and foreign portfolios totaled Ps.168,901 million as of December 31, 2015, reflecting an increase of Ps.22,854 million, or 15.7%, compared to December 31, 2014. The increase was mainly related to an increase in loans related to infrastructure and real estate. Commercial loans represented 71.1% of the total loan portfolio as of December 31, 2015.



### ***Consumer Loans***

Consumer loans, such as automobile loans, are generally less risky because borrowers are less able to increase their borrowings without prior approval and must generally provide some form of collateral. The preferred lending products for this market segment have historically been automobile loans and personal loans. The increased risk associated with personal loans is reflected in higher interest rates for these types of loans.

Total consumer loans, including automobile, personal loans and other consumer loans amounted to Ps.48,345 million which represented an increase of Ps.7,238 million, or 17.6% as of December 31, 2016 compared with December 31, 2015. As of December 31, 2016, consumer loans represented 17.1% of the total loan portfolio. The increase is mainly related to growth in our market share.

Total consumer loans including domestic and foreign portfolios as of December 31, 2015 amounted to Ps.41,107 million, which represented an increase of Ps.22,264 million, or 118.2%, from the amount recorded as of December 31, 2014. Consumer loans represented 17.3% of the total loan portfolio. This increase is the result of a greater demand for credit facilities in a wide range of products, some of which are related to personal loans and many of which are related to automotive loans.

### ***Financial Loans***

Total financial loans as of December 31, 2016, including domestic and foreign portfolios, amounted to Ps.11,371 million, which represented an increase of Ps.2,607 million, or 29.7%, from the amount recorded as of December 31, 2015. Financial loans represented 4.0% of our total loan portfolio.

Total financial loans as of December 31, 2015 including domestic and foreign portfolios amounted to Ps.8,764 million, which represented an increase of Ps.5,791 million, or 39.8%, from the amount recorded as of December 31, 2014. Financial loans represented 3.7% of the total loan portfolio.

### ***Loans to Government Entities***

As of December 31, 2016, our loans to government entities, including domestic and foreign portfolios, amounted to Ps.23,680 million, accounting for 8.4% of our total loan portfolio. The percentage of our loan portfolio comprised of government loans when compared with the total loan portfolio decreased from 9% at December 31, 2014 to 6% as of December 31, 2015, and increased to 8% as of December 31, 2016. All loans in our government entities portfolio are either directly granted to entities owned by the federal government or are backed by federal sources of income as a guarantee. During the last few years, we have focused our lending activities toward those sectors of the Mexican economy which 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 loan portfolio among a greater number of customers and within a larger geographic area within Mexico.

### ***Maturity Composition of the Loan Portfolio***

For purposes of this section the information below differs somewhat from the previous table because in this case the amounts shown correspond only to the classification of commercial, financial and government portfolios. The following table sets forth an analysis with reference to time remaining to maturity of our loan portfolio as of December 31, 2016:

|                  | As of December 31, 2016 |               |                |                |
|------------------|-------------------------|---------------|----------------|----------------|
|                  | Less Than One Year      | 1 to 5 Years  | Over 5 Years   | Total          |
| DOMESTIC LOANS   |                         |               |                |                |
| Commercial ..... | 24,141                  | 47,219        | 89,455         | 160,815        |
| Financial .....  | 4,741                   | 520           | 11             | 5,272          |
| Government.....  | -                       | -             | 12,412         | 12,412         |
| FOREIGN LOANS    |                         |               |                |                |
| Commercial ..... | 15,915                  | 7,076         | 20,476         | 43,467         |
| Financial .....  | 6,099                   | -             | -              | 6,099          |
| Government.....  | -                       | -             | -              | -              |
|                  | <b>50,896</b>           | <b>54,815</b> | <b>122,354</b> | <b>228,065</b> |

As of December 31, 2016, loans due within one year totaled Ps.50,896 million, which represented 22.3% of the total loan portfolio. The commercial portfolio totaled Ps.40,056 million while financial institutions totaled Ps.10,840 million. There were no government loans due within one year.

Loans with maturities from one year to five years totaled Ps.54,815 million, which represented 24.0% of the total loan portfolio. The commercial portfolio totaled Ps.54,295 million while financial institutions totaled Ps.520 million. There were no government loans with maturities from one to five years.

Our loans with a maturity of over five years totaled Ps.122,354 million, which represented 53.6% of the total loan portfolio. The commercial portfolio totaled Ps.109,931 million while financial institutions and government totaled Ps.11 million and Ps.12,412 million, respectively.

### ***Interest Rate Sensitivity of Outstanding Loans***

The majority of our peso-denominated loans have rates that are determined by reference to a marginal variable rate that is recalculated every 28 days. Following the establishment of the TIIE on March 20, 1995, we began pricing loans based on the TIIE.

The following table presents the interest rate sensitivity of our outstanding loan portfolio at the dates indicated:

| <b>For The Year Ended December 31, 2016</b> |                   |                      |              |
|---|-------------------|----------------------|--------------|
|   | <b>Fixed Rate</b> | <b>Floating Rate</b> | <b>Total</b> |
| From 1 to 5 years.....                      | 35,732            | 18,118               | 53,850       |
| Over 5 years.....                           | 24,798            | 46,932               | 71,730       |
| Total.....                                  | 60,530            | 65,050               | 125,580      |

As of December 31, 2016, fixed rate loans totaled Ps.60,530 million, which represented 21.4% of the total of the portfolio with maturities from one to more than five years. Maturity from one to five years totaled Ps.35,732 million compared to Ps.24,798 million for our portfolio of fixed rate loans over five years. The table above displays only the rates for classifications with maturities higher than one year.

Floating rate loans totaled Ps.65,050 million, which represented 22.9% of the total of the portfolio with maturities from one to more than five years. Maturity from one to five years totaled Ps.18,118 million compared to the Ps.46,932 million for our portfolio of floating rate loans with maturities over five years.

### **Loan Approval**

The Credit Committee is the only body authorized to approve our lending operations. This Committee is composed of the following members:

- five senior officers
- two independent directors of the board

The directors of legal and corporate banking also take part in this Committee (but without voting rights). This committee establishes credit policies, authorizes and defines retail products and authorizes the operations of commercial credit. To carry out its tasks, the Committee delegates certain faculties for a number of retail products to subcommittees, in these cases, the committee establishes limits on amounts, terms and interest rates.

## Operating Limits

The Mexican Credit Institutions Act establishes the limits to be observed by the our bank subsidiary for the granting of loans. The most important of these limits are as follows:

### a) Loans Constituting Common Risk

Loans granted to a single person or to a group of persons who are considered a single person because they represent a common risk, are subject to maximum capital limits computed using the following table:

| % limit on core capital of bank subsidiary | Tier-1 Capital              |
|--|-----------------------------|
| 12%  | More than 8% and up to 9%   |
| 15%  | More than 9% and up to 10%  |
| 25%  | More than 10% and up to 12% |
| 30%  | More than 12% and up to 15% |
| 40%  | More than 15%               |

Loans backed by unconditional and irrevocable guarantees that cover both principal and interest and restatement, granted by foreign financial institutions with strong investment ratings, may exceed the maximum limit applicable to that particular lender. However, in no case may these loans represent more than 100% of the core capital of our bank, per each person or group of persons constituting common risk.

### b) Loans granted to Related Parties

The total amount of intercompany loans, plus irrevocable lines of credit granted to related parties, may not exceed 50.0% of basic net capital.

### c) Other Loan Limits

The sum of loans granted to our bank subsidiary's three largest borrowers, loans granted exclusively to other banks and loans taken out by government agencies and state-owned entities, including public trusts, may not exceed 100.0% of our bank subsidiary's core capital.

## Non-performing Loan Portfolio

The following tables set forth an analysis of our non-performing loans and restructured loans as of the dates indicated. The breakdown below is shown only for the Non-performing restructured, and Non-performing portfolios:

|   | As of December 31, |               |               |
|---|--------------------|---------------|---------------|
|   | 2014               | 2015          | 2016          |
| <b>Performing Restructured .....</b>            | <b>26,840</b>      | <b>27,698</b> | <b>24,950</b> |
| Commercial restructured .....                   | 2,917              | 2,111         | 752           |
| Foreign restructured .....                      | 722                | 847           | 1,005         |
| Consumer restructured .....                     | 1                  | 1             | 1             |
| Home mortgage restructured .....                | 8                  | 8             | 7             |
| <b>Non-performing Restructured .....</b>        | <b>3,648</b>       | <b>2,967</b>  | <b>1,765</b>  |
| Commercial .....                                | 2,090              | 2,079         | 2,070         |
| Foreign .....                                   | -                  | -             | 79            |
| Financial .....                                 | -                  | -             | -             |
| Government .....                                | -                  | -             | -             |
| Leasing .....                                   | 34                 | 27            | 25            |
| Consumer .....                                  | 915                | 1,990         | 3,515         |
| Home mortgage .....                             | 159                | 193           | 352           |
| <b>Non-performing .....</b>                     | <b>3,198</b>       | <b>4,289</b>  | <b>6,041</b>  |
| <b>Total Non-performing Loan Portfolio.....</b> | <b>6,846</b>       | <b>7,256</b>  | <b>7,806</b>  |
| <b>Total Non-performing Plus Restructured</b>   | <b>33,686</b>      | <b>34,954</b> | <b>32,756</b> |

As of December 31, 2016, the total amount of non-performing loans plus restructured loans was Ps.32,756 million, or 11.6% of total loans. Of this amount, Ps.7,806 million, or 2.7% of total loans were non-performing while

Ps.24,950 million, or 8.8% were restructured. The total amount of this portfolio decreased by Ps.2,199 million, or 0.8 % during 2016 as compared to 2015.

As of December 31, 2015, the total amount of non-performing loans plus restructured loans was Ps.34,954 million, or 15.4% of total loans. Of this amount, Ps.7,256 million, or 3.2% of total loans were non-performing while Ps.27,698 million, or 12.2% were restructured. The total amount of this portfolio increased by Ps.1,268 million, or 3.8% during 2015 as compared to 2014.

As of December 31, 2014, the total amount of non-performing loans plus restructured loans was Ps.33,686 million, or 14.7% of total loans. Of this amount, Ps.6,846 million, or 3.0% of total loans were non-performing while Ps.26,840 million, or 11.8% were restructured. The total amount of this portfolio increased by Ps.5,782 million, or 20.7% during 2014 as compared to 2013.

### **Transfers to non-performing portfolio**

When the repayments of commercial loans or accrued interest are not collected in accordance with the payment scheme, the total amount of principal and interest is transferred to the non-performing portfolio, under the following circumstances:

- When it is known that the borrower is declared bankrupt, in accordance with the Commercial Bankruptcy Law; or
- When the repayments have not been fully settled under the original terms, as follows:
  - Loans with a single payment of principal and interest upon maturity are transferred to the non-performing portfolio when the payment is 30 or more days in arrears;
  - Loans with a single payment of principal upon maturity and periodic payments of interest are transferred to the non-performing portfolio when interest payments are 90 or more days in arrears, or when principal payments are 30 or more days in arrears;
  - Loans with periodic payments of principal and interest, including housing loans are transferred to the non-performing portfolio when payments are 90 or more days in arrears;
  - Revolving loans are transferred to the non-performing portfolio when payment is overdue by two monthly billing periods or, as the case may be, 60 or more days.

Overdue loans are transferred to the current credit portfolio if there is evidence of sustained payment, which consists of proper compliance by the borrower without delay, for the total due and payable amount of principal and interest, at least, of three consecutive repayments under the loan payment scheme or, in the case of loans with repayments that cover periods in excess of 60 days, the payment of a single repayment.

### **Restructuring and renewal of loans**

Credit restructurings consist of extensions of collateral which cover the dispositions made by the borrowers, as well as modifications to the original conditions contracted for the loans with regard to the payment scheme, interest rates or currency, or granting a grace period during the credit term.

Loan renewals are operations in which the repayment term is extended during or upon the maturity of the loan or when it is settled at any time with financing derived from another loan contracted with us by same debtor or another party, which due to common equity relationships with the original borrower, constitute common risks.

Overdue loans which are restructured will remain within the overdue portfolio until there is evidence of sustained payment, which is achieved when the borrower renders three consecutive repayments of principal and interest in compliance with the loan payments schedule specified in the contract. In the case of loans with repayments that cover periods in excess of 60 calendar days, sustained payment is achieved with a single payment. In restructurings where the timing of payment is modified to periods shorter than those originally agreed, sustained payment is achieved when three consecutive payments of principal and interest are made under the original payment schedule.

Loans with a single payment of principal and/or interest upon maturity which are restructured during the credit term or renewed at any time are considered as overdue portfolio.

Current loans different from those established in the preceding paragraph, which are restructured or renewed and have been outstanding for a period less than 80% of the original term are classified as current only when the borrower has paid 60% of accrued interest and principal of the original loan at the date of renewal or restructuring. Otherwise, the loan is considered overdue until there is evidence of sustained payment.

Modifications of loans involving improvements to credit enhancements, increases in interest rates, changes in currency or changes in maturity that do not involve changes in the periodicity for which the borrower is compliant payments and for which the borrower is otherwise compliant with scheduled payments of principal and interest are not considered as restructurings.

### Troubled Loan Portfolio

Under CNBV's rules and methodology, banks must separate loans under risk of non-performing into classifications C, D and E in order to identify those portfolios with troubled loans, or which causes management doubts as to the ability of those borrowers to comply with the present loan terms. This grading helps Banco Inbursa to separate its loan portfolio according to the risk and performance, hence, those loans with grade "A" have minimum risk, "B" represents low risk, "C" is for medium risk, "D" represents loans with high risk of default and "E" represents those loans that cannot be recovered. The following table presents our troubled loan portfolio as of December 31, 2016:

| <b>As of December 31, 2016</b> |               |
|--------------------------------|---------------|
| <b>Troubled Loan Portfolio</b> |               |
| <b>DOMESTIC LOANS</b>          |               |
| Commercial .....               | 3,387         |
| Consumer.....                  | 6,776         |
| Home mortgage .....            | 430           |
| <b>FOREIGN LOANS</b>           |               |
| Commercial .....               | 1,083         |
| <b>Total .....</b>             | <b>11,676</b> |

### Foreign Loan Portfolio That Represents More Than 1% of Total Assets

As of December 31, 2016, 2015 and 2014, foreign loans that represented more than 1.0% of total assets were located in (i) the United States and amounted to Ps.40,197 million, Ps.23,784 million and Ps.26,609, respectively representing 9.7%, 7.3% and 9.5% of total assets, respectively, and (ii) Spain and amounted to Ps.5,564 million and Ps. 5,973 million as of December 31, 2016 and December 31, 2015, and represented 1.4% and 1.8% of total assets, respectively. International rating agencies Moody's, S&P and Fitch have rated the United States Aaa, AA+ and AAA, respectively. These ratings consider the United States as a country with a very strong capacity to fulfill its financial obligations. Therefore, our management believes there is no reason to expect any liquidity problems that could cause a significant impact on the scheduled payments both of principal and interest of the loans allocated in this country. The same agencies have rated Spain Baa2, BBB+ and BBB+, respectively, therefore our management believes there is no reason to expect any liquidity problems in this country that could cause a significant impact on the scheduled payments both of principal and interest on the loans allocated in Spain.

The following table sets forth the balance of our foreign loan portfolio that represents more than 1.0% of total assets as of the dates indicated:

| Country                  | Type of Loan | As of December 31, |         |         |
|--------------------------|--------------|--------------------|---------|---------|
|                          |              | 2014               | 2015    | 2016    |
| United States of America | Commercial   | 22,855             | 18,695  | 34,099  |
| United States of America | Financial    | 3,754              | 5,089   | 6,099   |
| Total                    |              | 26,609             | 23,784  | 40,198  |
| % of total asset         |              | 9.45%              | 7.27 %  | 9.76%   |
| Total assets             |              | 281,584            | 327,064 | 411,961 |
| Spain                    | Commercial   | 0                  | 5,973   | 5,564   |
| Spain                    | Financial    | 0                  | 0       | 0       |
| Total                    |              | 0                  | 5,973   | 5,564   |
| % of total asset         |              | 0.00%              | 1.83%   | 1.35%   |
| Total assets             |              | 281,584            | 327,064 | 411,961 |

#### Foreign Loan Portfolio That Represents Between 0.75% and 1% of Total Assets

The following table sets forth the balance of our foreign loan portfolio that represents between 0.75% and 1% of total assets as of the dates indicated:

| Country           | As of December 31, |         |         |
|-------------------|--------------------|---------|---------|
|                   | 2014               | 2015    | 2016    |
| % of total assets | 0.00%              | 0.00%   | 0.00%   |
| Total assets      | 281,584            | 327,064 | 413,540 |

#### Analysis of allowance for loan losses

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

|   | As of December 31, |         |         |
|---|--------------------|---------|---------|
|   | 2014               | 2015    | 2016    |
| Balance at the beginning of the year .....  | 26,428             | 14,338  | 10,739  |
| Increase (decrease):  | -                  | -       | -       |
| Increase (decrease) in allowance .....  | (11,019)           | (1,092) | 6,613   |
| Utilized provisions .....   | (1,927)            | (3,127) | (3,217) |
| *Commercial loan portfolio .....  | (1,122)            | (429)   | -       |
| *Financial portfolio .....  | -                  | -       | -       |
| *Government portfolio .....   | -                  | -       | -       |
| *Leasing Portfolio .....  | -                  | -       | -       |
| *Consumer portfolio .....   | (804)              | (2,698) | (2,399) |
| *Real Estate portfolio .....  | -                  | -       | -       |
| *Home mortgage portfolio .....  | (1)                | -       | -       |
| Revaluation of UDI and foreign currency portfolio (includes charges to the provision) ..... | 856                | 620     | 352     |
| Balance at the end of the year .....  | 14,338             | 10,739  | 12,088  |
| Recoveries are recorded in other income and expenses of the operation                       |                    |         |         |
| Amount of recoveries .....  | 116                | 235     | 345     |
| Average amount of the portfolio .....   | 191,797            | 229,285 | 266,472 |
| % of write-offs to portfolio .....  | (1.00)%            | (1.36)% | (1.21)% |

For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Allowance for loan losses.”

## Allowance for foreign credit risks

The following table explains our allowance for foreign loan losses as of the dates indicated. This table does not match directly when compared with the Audited Financial Statements since the table below displays only the allowance of foreign loans:

| Changes in Allowances                             | As of December 31, |         |       |
|---|--------------------|---------|-------|
|   | 2014               | 2015    | 2016  |
| Balance at the beginning of the year              | 3,339              | 2,671   | 1,329 |
| Increase in allowance                             | (1,091)            | (1,797) | (99)  |
| Revaluation of UDI and foreign currency portfolio | 423                | 455     | 259   |
| Balance at the end of the year                    | 2,671              | 1,329   | 1,489 |

## Allocation of allowance for credit risks by category

|  | As of December 31, |             |               |             |               |             |
|--|--------------------|-------------|---------------|-------------|---------------|-------------|
|  | 2014               |             | 2015          |             | 2016          |             |
|  | Allowance          | %           | Allowance     | %           | Allowance     | %           |
| Commercial.....                                  | 9,782              | 68%         | 4,810         | 45%         | 4,054         | 34%         |
| Financial.....                                   | 326                | 2%          | 300           | 3%          | 308           | 3%          |
| Government.....                                  | 31                 | 0%          | 26            | 0%          | 49            | 0%          |
| Commercial -- Foreign ....                       | 2,419              | 17%         | 1,149         | 11%         | 1,475         | 12%         |
| Financial -- Foreign .....                       | 252                | 2%          | 180           | 2%          | 14            | 0%          |
| Consumer--Foreign.....                           | -                  | -           | -             | -           | -             | -           |
| Leasing.....                                     | 33                 | 0%          | 29            | 0%          | 27            | 0%          |
| Consumer .....                                   | 1,403              | 10%         | 4,105         | 38%         | 5,906         | 49%         |
| Home Mortgage .....                              | 91                 | 1%          | 140           | 1%          | 255           | 2%          |
| <b>Total of Allowance for credit risks .....</b> | <b>14,338</b>      | <b>100%</b> | <b>10,739</b> | <b>100%</b> | <b>12,088</b> | <b>100%</b> |
| Total Loan Portfolio.....                        | 199,981            |             | 237,478       |             | 283,310       |             |
| % of allowances to portfolio.....                | 7.17%              |             | 4.52%         |             | 4.27%         |             |

## Allowance for Credit Risks

We create the allowance for loan losses based on the portfolio classification rules established in the Provisions issued by the CNBV, which establish methodologies for the recognition and measurement of reserves based on the type of loan.

For commercial loans, the methodology requires the evaluation of, among others, the credit quality of the borrower and the loans, in relation to the value of the collateral or the value of the goods held in trust or in schemes commonly known as structured transactions. For such purpose, commercial loans are generally classified as follows:

- Those with a balance in excess of 4 million UDIs at the classification date are evaluated based on quantitative and qualitative factors of the borrower and by the type of loan, analyzing the country, industry, and financial risk and payment history.
- The remaining loans (less than 4 million UDIs) are classified based on the stratification of the overdue payments, and are allocated a degree of risk and specific reserve percentage.

The classification rules for commercial loan portfolio establish the quarterly evaluation of credit risks and require the consideration of all the loans made to the same debtor.

For purposes of grading, the commercial loan portfolio includes contingent obligations generated on transactions performed with letters of credit, which are recorded in memorandum accounts.

In the case of loans granted to decentralized agencies of states and municipalities, with borrowings in excess of 900,000 UDIs, the grading rules establish a methodology based on degrees of risks assigned by ratings agencies authorized by the CNBV and the assessment of collateral. When the loans do not exceed the aforementioned amount, they are classified based on a parametric methodology which consists of segmenting the portfolio into periods of default and they are assigned a specific percentage of allowance for loan losses. In the case of decentralized agencies with express individual collateral provided by their state or municipality, we may calculate the allowance for loan losses by applying the procedure applicable to states and municipalities in effect as of December 31, 2013.

The allowance for loan losses for credit risks of non-revolving consumer loans and home mortgage loans is computed based on the individual application of a formula that considers expected loss components, as well as variables related to maturities of the four months prior to the grading date and accumulated maturities at the computation date.

Increases or decreases in the allowance for loan losses as a result of the classification process are recorded by adjusting the financial margin up to the amount of the allowance recognized for the same type of loan. Any surplus is recorded under the heading Other Operating Income (expenses), net.

As of December 31, 2013, we applied the new methodology established by the CNBV, for commercial loan portfolio rating, which implies the following:

- a) Classifications of loan portfolio, by type of credit, identifying those commercial loans granted to state governments and municipalities; projects with own source of payment; financial institutions; and legal or natural person within business activity (considering the latter to be divided in two groups: those people with net income or annual net sales (i) less than 14 million UDIs and (ii) more than 14 million UDIs);
- b) Use of a formula which quantifies the expected loss, the exposure to default, and due payments at the date of the rating, which vary according to the classification of the credit which we made.
- c) Management's judgment in analyzing the quantitative and qualitative factors which implies gathering information from a credit information society, and historic information obtained by us during the management and analysis period of the loan, or qualitative information obtained directly from the borrower. Repayment experience with financial banking and non-banking institutions and commercial businesses, financial risk, government and corporate structure, and market position, amongst other factors;
- d) Determination of the percentage of reserve to be constituted and as well as the risk rating are as follows:

| <b>Rating</b> | <b>Reserve %</b> |
|---------------|------------------|
| A-1           | 0 to 0.9         |
| A-2           | 0.091 to 1.5     |
| B-1           | 1.501 to 2.0     |
| B-2           | 2.001 to 2.50    |
| B-3           | 2.501 to 5.0     |
| C-1           | 5.001 to 10.0    |
| C-2           | 10.001 to 15.5   |
| D             | 15.501 to 45.0   |
| E             | More than 45.0   |

The new rating methodology for commercial loan portfolio requires a quarterly review of credit risks and also considers the total amount of loans granted to the same borrower.



## Deposits and Debt Securities Issued

The following table presents the components of our deposit base, as well as the average interest rate paid on each category, for the dates indicated:

|  | 2014               |                     | 2015               |                     | 2016               |                     |
|--|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
|  | Average<br>Balance | Average<br>Interest | Average<br>Balance | Average<br>Interest | Average<br>Balance | Average<br>Interest |
| Demand deposits .<br>Enforceability<br>Deposits Without<br>Interests ..... | 66,722             | 2.78%               | 73,748             | 2.55%               | 78,886             | 3.50%               |
| Time deposits .....  | 999                | -                   | 957                | -                   | 1,263              | -                   |
| Debt securities<br>issued .....  | 17,092             | 3.79%               | 22,656             | 2.98%               | 44,242             | 3.71%               |
| TOTAL .....  | 82,244             | 3.80%               | 98,879             | 4.04%               | 109,823            | 4.92%               |
|  | 167,057            |                     | 196,240            |                     | 234,214            |                     |

The following table presents deposits in amounts equivalent to U.S.\$100,000 or more by time remaining until maturity for the dates indicated. As of December 31, 2016, we do not maintain any certificate of deposit nor any other time deposits issued by foreign offices in an amount equivalent to U.S.\$100,000 or more.

|                              | 3 months<br>or less                         | 3 to 6<br>months | 6 to 12<br>months | More than<br>12 months |
|------------------------------|---|------------------|-------------------|------------------------|
|                              | <b>For the year ended December 31, 2016</b> |                  |                   |                        |
| Time deposits .....          | 3,172                                       | 4,250            | 21,000            | 600                    |
| Debt securities issued ..... | 8,000                                       | -                | 22,000            | 37,089                 |
| Total .....                  | <b>11,172</b>                               | <b>4,250</b>     | <b>43,000</b>     | <b>37,689</b>          |

## OUR BUSINESS

### Overview

We are a commercial bank (*institución de banca múltiple*) organized as a corporation (*sociedad anónima*) pursuant to the Mexican Banking Law (*Ley de Instituciones de Crédito*). As of December 31, 2016, we were the seventh largest commercial bank in Mexico in terms of total assets and the fifth largest bank in Mexico in terms of total loan portfolio and stockholders' equity, according to information published by the CNBV. As of December 31, 2016, we had the highest Capital Ratio and Tier 1 Capital Ratio among commercial banks in Mexico at 18.48% and one of the highest rates of reserve coverage for non-performing loans at 155%.

We provide banking and credit services to the corporate, governmental and retail segments of the economy, including peso- and dollar-denominated loans to finance a variety of commercial transactions, trade, foreign currency forward contracts and credit lines and a variety of retail banking services, including financing, personal loans and automotive loans. We seek to offer our customers a wide range of products while providing high levels of service. In addition to our traditional banking operations, we offer a variety of ancillary financial services, including retirement fund management, financial leasing, financial advisory services and investment management. As of December 31, 2016, we had 901 total branches and outlet branches (outlet branches are branches at which cash deposits and cash withdrawals cannot be made) located throughout Mexico. Our corporate offices are located in Mexico City, and we operate in every state in Mexico.

As of December 31, 2016, we had net income attributable to controlling interest of Ps.7,743 million, total assets of Ps.411,961 million, total loans of Ps.283,310 million, total deposits of Ps.247,516 million and stockholders' equity of Ps.90,239 million.

As of December 31, 2016, our total loan portfolio represented 68.8% of our total assets, the largest ratio of loans to assets among the seven largest banks operating in Mexico. Our total loan portfolio represents a market share of 6.5%. Our portfolio is divided into loans to commercial institutions (68.1%), loans to consumers (17.1%), loans to governmental entities (8.4%), loans to financial institutions (4.0%) and mortgage loans (2.4%). As a bank that has historically specialized in loans to corporate entities, we rank fifth in terms of corporate loans, with a market share of 9.7% as of December 31, 2016, according to information published by the CNBV. Since 2009, we have focused on increasing our market share in the retail segment, increasing our consumer portfolio from Ps.3,909 million or 2.5% of our total portfolio in 2009 to Ps.48,346 million or 17.1% of our total portfolio in 2016.

| As of December 31, 2016           |           |         |          |        |         |      |
|-----------------------------------|-----------|---------|----------|--------|---------|------|
| Loan portfolio / Total assets (%) |           |         |          |        |         |      |
| Inbursa                           | Santander | Banorte | Bancomer | Scotia | Banamex | HSBC |
| 69%                               | 44%       | 55%     | 53%      | 66%    | 53%     | 43%  |

Source: CNBV.

As of December 31, 2016, Banco Inbursa had demand deposits in an aggregate amount of Ps.81,996 million. We ranked seventh in total deposits and eighth in demand deposits, with market shares of 5.1% and 2.8%, respectively, according to information provided by the CNBV. Additionally, Banco Inbursa had time deposits in an aggregate amount of Ps.47,727 million and debt instrument issuances in an aggregate amount of Ps.117,728 million. Demand deposits and debt instrument issuances experienced strong growth between 2010 and 2016, which implies a more stable and profitable deposit base for the bank.

According to information published by the CNBV, Banco Inbursa ranked first among commercial banks for efficiency ratios as of December 31, 2016, with an efficiency ratio of 33.5%.

We operate the following subsidiaries, of which we are the majority shareholder:

- Afore Inbursa, whose principal business is the management of mandatory retirement funds;
- Inmobiliaria Inbursa, whose principal business is holding real property related to our banking business;

- Sinca Inbursa, whose principal business is to invest in growing and profitable companies;
- CF Credit, whose principal business is providing loans to consumers and distributors within the automobile industry;
- Sociedad Financiera Inbursa, whose principal business is granting consumer loans and leasing; and
- FC Financial, whose principal business is granting automotive loans exclusively to finance purchases of vehicles sold by FCA México, S.A. de C.V. (“FCA Mexico”).

Afore Inbursa had Ps.107,340 million in assets under management and a market share of 4.0%, according to data from CONSAR, as of December 31, 2016. It is positioned as a retirement funds administrator dedicated to higher-income clients and focused on risk control through a conservative investment policy. According to information published by the CNBV, as of December 31, 2016, Afore Inbursa ranked ninth in terms of total assets under management.

Inmobiliaria Inbursa is a real estate company that is authorized and supervised by the CNBV. As of December 31, 2016, Inmobiliaria Inbursa had Ps.1,154 million in stockholders’ equity.

Through our venture capital subsidiary, Sinca Inbursa, we make proprietary investments in corporate equity in conformity with the Mutual Funds Law. As of December 31, 2016, Sinca Inbursa had stockholders’ equity of Ps.8,717 million and has investments in the infrastructure, health, software and finance sectors, among others.

CF Credit provides loans to consumers and distributors within the automobile industry. As of December 31, 2016, the net income of CF Credit was Ps.852 million, compared to a net income of Ps.613 million as of December 31, 2015, which represents an increase of 39.0%. This increase was primarily due to the growth of interest income from Ps.2,160 million in 2015 to Ps.2,300 million in 2016, as a result of an increase in loan portfolio. CF Credit’s total loan portfolio as of December 31, 2016 was Ps.23,771 million, an increase of 1.5% from 2015, when its total loan portfolio was Ps.23,430 million. Its loans for commercial and business activities were Ps.13,484 million, while its consumer loans were Ps.10,287 million. CF Credit had Ps.5,623 million in stockholder’s equity as of December 31, 2016, compared to Ps.4,487 million as of December 31, 2015, an increase of 25.3%.

Sociedad Financiera Inbursa provides loans to consumers and small and medium companies in Mexico. In 2016, Sociedad Financiera had net losses of Ps.929 million in 2016 compared to a net income of Ps.69 million in 2015. This decrease was primarily due to an increase in reserves and administrative expenses, which increased from Ps.1,127 million in 2015 to Ps.1,919 million in 2016 as a result of an increase in the volume of operations in our retail business and the assignment of Banco Walmart’s loan portfolio to Sociedad Financiera Inbursa. The decrease in net income was partially offset by an 96.6% increase in financial margin, which amounted to Ps.6,237 million, principally due to an increase in loan portfolio. As of December 31, 2016, Sociedad Financiera Inbursa’s total loan portfolio was Ps.34,346 million, representing an increase of 31.1% from Ps.26,197 million as of December 31, 2015.

FC Financial, which was formed in December 2015, is a company dedicated to providing automotive loans exclusively to finance purchases of vehicles sold by FCA Mexico in Mexico (i.e. Chrysler, Dodge, Ram, Jeep, Fiat, Alfa Romeo, Mopar and Mitsubishi).

The following table shows our non-controlling interests' and our subsidiaries' total operating income and stockholders' equity as of and for the year ended 2016:

| Subsidiary                       | For the year ended December 31, 2016    |             | As of December 31, 2016 |             |
|----------------------------------|---|-------------|-------------------------|-------------|
|                                  | Operating<br>Income (Loss)              | % of Total  | Stockholders'<br>equity | % of Total  |
|                                  | (millions of pesos, except percentages) |             |                         |             |
| Banco Inbursa .....              | 7,813                                   | 99%         | 88,070                  | 98%         |
| Afore Inbursa .....              | 585                                     | 8%          | 1,692                   | 2%          |
| Inmobiliaria Inbursa.....        | 49                                      | 1%          | 1,154                   | 1%          |
| Sinca Inbursa.....               | (40)                                    | 0%          | 8,717                   | 10%         |
| CF Credit.....                   | 1,123                                   | 14%         | 5,623                   | 6%          |
| Sociedad Financiera Inbursa..... | (1,468)                                 | (19)%       | 8,788                   | 10%         |
| FC Financial                     | (212)                                   | (3)%        | 1,896                   | 2%          |
| Other.....                       | 26                                      | 0%          | 543                     | 1%          |
| Non-controlling interest.....    | -                                       | -           | 2,744                   | 3%          |
| Eliminations .....               | -                                       | -           | (28,988)                | (32)%       |
| <b>Total.....</b>                | <b>7,876</b>                            | <b>100%</b> | <b>90,239</b>           | <b>100%</b> |

As of December 31, 2016, we had total assets of Ps.411,961 million and stockholders' equity of Ps.90,239 million and more than five million clients and a sales force of 29,492 agents. For the year ended December 31, 2016, our net income attributable to controlling interest was Ps.7,743 million and our Capital Ratio was 18.48% as compared to a system average as December 31, 2016 of 14.92%, according to data published by the CNBV.

The following table sets forth certain financial and operating information for Banco Inbursa:

|   | As of December 31,   |         |         |
|---|--|---------|---------|
|   | 2014   | 2015    | 2016    |
|   | (millions of pesos, except percentages and number of branches) |         |         |
| Total branches and outlet branches** .....            | 354  | 804     | 901     |
| Total assets .....                                    | 281,584  | 327,064 | 411,961 |
| Total loan portfolio .....                            | 199,981  | 237,478 | 283,310 |
| Deposits and debt securities <sup>(1)</sup> .....     | 176,350  | 203,921 | 247,516 |
| Stockholders' equity.....                             | 72,783   | 82,359  | 90,239  |
| Non-performing loan portfolio <sup>(2)</sup> .....    | 3.4%   | 3.1%    | 2.8%    |
| Operating efficiency <sup>(3)</sup> .....             | 18.9%  | 26.0%   | 33.5%   |
| Return on average equity (ROAE) <sup>(4)</sup> .....  | 22.17%   | 12.66%  | 9.07%   |
| Capital Ratio.....                                    | 20.28%   | 18.51%  | 18.48%  |
| Assets held for safekeeping or under management ..... | 604,793  | 399,814 | 410,796 |
| ROAA <sup>(5)</sup> .....                             | 5.59%  | 3.18%   | 2.06%   |

\*\* Outlet branches are branches at which cash deposits and withdrawals cannot be made.

<sup>(1)</sup> Includes traditional deposits, time deposits and debt securities issued.

<sup>(2)</sup> Measured as total non-performing loan portfolio over total loan portfolio.

<sup>(3)</sup> Calculated as follows: Administrative and promotional expenses / (Financial margin + Commission and fee income – Commissions and Fee expense + Other operating income, net).

<sup>(4)</sup> Calculated based on average quarterly balance of stockholders' equity accounts.

<sup>(5)</sup> Calculated as follows: quarterly net average income / total quarterly assets.

We have a multiple-product, multiple-channel distribution approach. We offer a differentiated financial services platform in Mexico to all segments of the economy, with a focus on expanding our operations directed at the client segments that we consider most profitable, such as high- and mid-income individuals.

We offer our financial products by leveraging Grupo Financiero Inbursa's integrated corporate structure, including a single and solid sales force of agents, a network of 901 total branches and outlet branches as of December 31, 2016 located in the areas of Mexico that represent higher income profiles (with more than 500 branches opening between January 1, 2015 and December 31, 2016), a single database, a single system platform and an infrastructure shared by all of Grupo Financiero Inbursa. This allows us to actively offer comprehensive solutions to our clients with a focus on quality, consistency, low costs and high efficiency. As of December 31, 2016, we had a total of more than five million customers, of which three million correspond to deposit and credit

services, and more than one million to Afore Inbursa. We believe that we have a high potential for organic growth based on our ability to offer, through Grupo Financiero Inbursa, more products to our existing clients, who have on average less than two of our products as of December 31, 2016, a number that we aim to increase through a defined cross-selling strategy.

## **Our History and Development**

### ***Origins***

We were established in 1993 as Grupo Financiero Inbursa's commercial banking subsidiary. Grupo Financiero Inbursa traces its roots to the 1960s when Inversora Bursátil, Grupo Financiero Inbursa's current brokerage firm, was established. In the 1980s, Seguros de México (now Seguros Inbursa) and Guardiania, Compañía General de Fianzas (now Fianzas Guardiania Inbursa) were acquired by the entity that was established as Grupo Financiero Inbursa in May 1985.

### ***Formation and consolidation of Grupo Financiero Inbursa***

In the 1990s, Grupo Financiero Inbursa consolidated into a financial group. Grupo Financiero Inbursa obtained the appropriate authorizations to become a financial services holding company and adopted the name Grupo Financiero Inbursa, which it has kept to this day. In addition, with the goal of diversifying Grupo Financiero Inbursa's offering of financial services, Grupo Financiero Inbursa created Banco Inbursa and Compañía de Servicios Inbursa, S.A. de C.V., (now Outsourcing), as a platform for the development of operations that are complementary to those offered by other companies that form the group. The preexisting Sinca Inbursa became Banco Inbursa's venture capital subsidiary. In the 1990s, Grupo Financiero Inbursa also established and incorporated into the group Operadora Inbursa. Afore Inbursa, a fund manager of workers' retirement savings, was created in 1997 as a subsidiary of Banco Inbursa, and became the vehicle through which Grupo Financiero Inbursa joined the emerging market for the provision of financial services related to social security. Grupo Financiero Inbursa's shares have been listed on the BMV under the symbol "GFINBURO" since 1992.

### ***Growth and focus of Banco Inbursa***

During the past decade, Banco Inbursa established and strengthened the base and infrastructure to begin to selectively offer banking products to the retail market. As an example of our strategy of penetrating the retail market and the benefits of our integrated offering, made possible through our relationship with Grupo Financiero Inbursa and our sister companies, we joined Seguros Inbursa to nationally launch the Inbursa CT account, a checking account that pays Cetes rates, and, thus, offers attractive yields. Other examples of the strengthening of Grupo Financiero Inbursa's and our retail strategy at the time were the launch of several new credit products, such as the Crédito Nómina EFE, automotive loans through "Autoexpress" and mortgages through "Inburcasa." Products like the Inbursa CT account have the principal characteristic of offering a fixed rate to our clients by taking advantage of opportunities through the availability of funding with long-term fixed rates, thus eliminating the uncertainty generated by the volatility of interest rates.

In 2004, Grupo Financiero Inbursa announced the spin-off that led to Ideal, a holding company of a new economic group focused on the evaluation, structuring, development and operation of infrastructure projects in Mexico and Latin America. Ideal began trading on the BMV on September 15, 2005.

In 2008, with the goal of continuing growth, Grupo Financiero Inbursa reached an agreement with CaixaBank through which it acquired a 20% shareholding interest in its share capital. CaixaBank's participation in this project has brought significant benefits, in particular to Banco Inbursa, which benefited from CaixaBank's experience in retail banking. In 2013, CaixaBank sold 10.1% of Grupo Financiero Inbursa. On May 30, 2016 CaixaBank transferred its shareholding interest in Grupo Financiero to Criteria, which as of the date of this offering memorandum is the beneficial owner of 600,763,993 common and voting shares of Grupo Financiero Inbursa. Both CaixaBank and Criteria are subsidiaries of La Caixa. CaixaBank continues to support Grupo Financiero Inbursa's retail expansion.

During that same decade, in 2009, Grupo Financiero Inbursa formalized its ongoing social responsibility commitment by organizing Fundación Inbursa, A.C., which was created to mobilize private funds to finance public projects in the areas of education, training, health and development of human capital. These projects are directed towards the Mexican population in general and particularly for underprivileged individuals, sectors and regions, with the goal of obtaining better conditions for subsistence and development so that the members of such communities may contribute, in turn, to the common good.

In June 2010, as part of Grupo Financiero Inbursa's growth, it acquired 100% of the shares of capital stock representing CFSM, a company dedicated to providing automobile financing loans. Through this acquisition, Grupo Financiero Inbursa acquired a Ps.5,498 million loan portfolio, strengthening Grupo Financiero Inbursa's credit assets. In addition, in September 2011 Banco Inbursa acquired CF Credit, whose principal business is financing car sales, consolidating Grupo Financiero Inbursa's presence in this niche market.

### ***Mergers, Acquisitions and Capital Contributions***

In March 2014, Banco Inbursa reached an agreement with Standard bank Group Limited for the acquisition all of the shares of Banco Standard de Inversiones, S.A. a Brazilian financial entity which amended its corporate name to become Banco Inbursa de Inversiones, S.A. In March 2015, the sale was completed upon the approval of the Central Bank of Brazil, the CNBV and the SHCP. The purchase price for the acquisition was U.S.\$56.7 million.

In December 2014, Banco Inbursa acquired, subject to the approval of SHCP, HFW from Walmart de México, S.A.B. de C.V. for a purchase price of Ps.3,612 million. In June 2015, the SHCP approved the merger of HFW and Banco Walmart into Banco Inbursa, effective as of September 1, 2015. In July 2015, Banco Walmart entered into an assignment agreement with Sociedad Financiera Inbursa by means of which Banco Walmart assigned a loan portfolio to Sociedad Financiera Inbursa with a face value of Ps.5,392 million.

In April and December 2015, and April and July 2016, Banco Inbursa made capital contributions to Sociedad Financiera Inbursa of Ps.5,000 million, Ps.300 million, Ps.1,000 million and Ps.800 million, respectively, through which it acquired a total shareholding interest of approximately 80.53% of Sociedad Financiera Inbursa's share capital. Sociedad Financiera Inbursa is currently a subsidiary of Banco Inbursa.

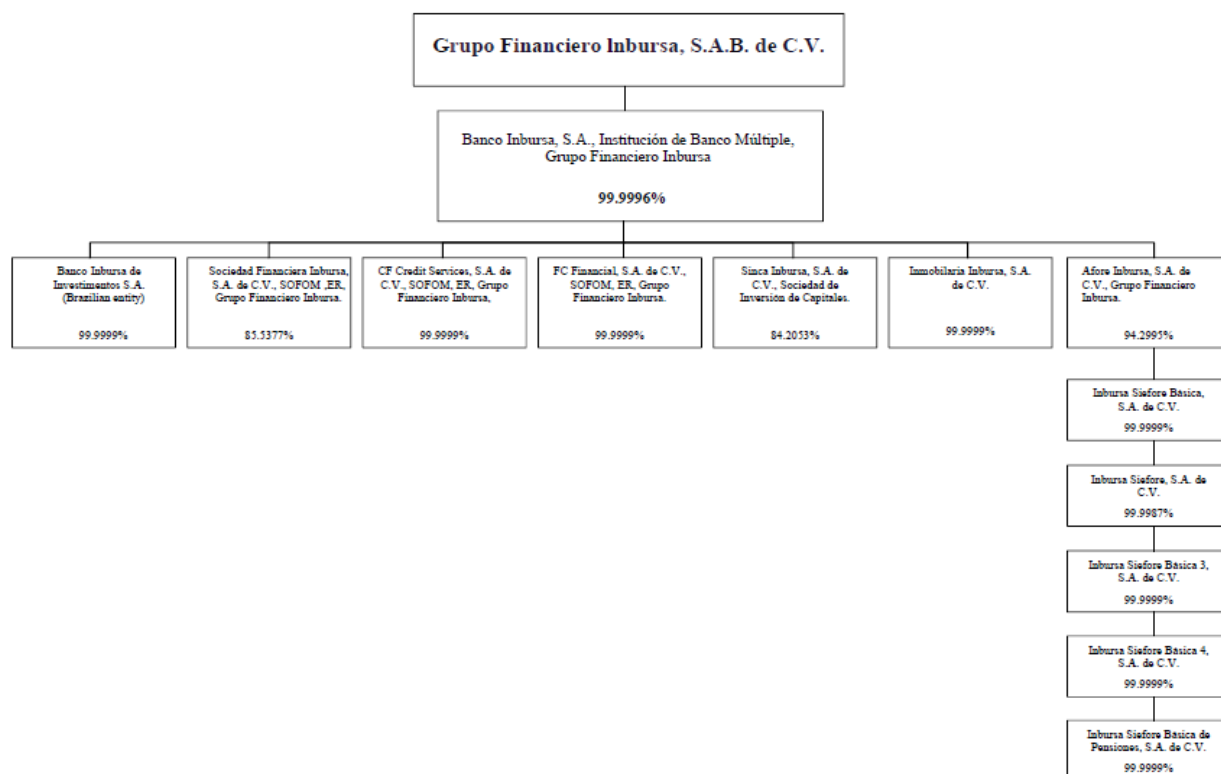
In December 2015, Banco Inbursa formed FC Financiera a company dedicated to providing automotive loans exclusively to finance purchases of vehicles sold by FCA Mexico in Mexico (i.e. Chrysler, Dodge, Ram, Jeep, Fiat, Alfa Romeo, Mopar and Mitsubishi). After obtaining all necessary approvals from the SHCP, CNBV and CONDUSEF, FC Financiera began operating in May 2016.

On November 17, 2016, the shareholders' meetings of CF Credit and Sociedad Financiera Inbursa adopted resolutions authorizing and directing the merger of the entities. The merger is subject to the approval of the SHCP. CF Credit will be the surviving entity and upon effectiveness it will change its corporate name to SOFOM INBURSA, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero Inbursa. Sociedad Financiera Inbursa will be the merged entity and will be extinguished as a result of the merger. On October 17, 2016, we were informed that the SHCP had no objections to authorizing the merger; however, we must receive an official communication from the SHCP approving the merger in order to proceed with its registration with the Public Registry of Commerce in Mexico City. Upon such registration, the merger will be effective, as provided in the Mexican Financial Groups Law. This merger will have no effect on our consolidated financial statements as the two entities were our consolidated subsidiaries prior to the merger.

As is clear from Grupo Financiero Inbursa's history and development, and with it, Banco Inbursa's, evolution and growth have been constant and determining factors in our history. We, Grupo Financiero Inbursa, and our sister companies combine experience, strength, creativity and the daily effort to improve, thus confirming our commitment to Mexico and maintaining our position as the largest Mexican financial group that holds the majority of its capital in Mexico. We continue to benefit from our role within Grupo Financiero Inbursa, with its diversified investments in various financial services sectors and its strong presence in the insurance, banking and securities sectors and significant presence in the financial services market related to social security.

## Our Corporate Structure

Banco Inbursa is a subsidiary of Grupo Financiero Inbursa. Grupo Financiero Inbursa's various subsidiaries are principally grouped into five business lines: Commercial Banking, Asset Management, Investment Banking, Insurance and Securities. We, Banco Inbursa, focus on retail banking, venture capital investments, mortgages, automotive loans and the management of mandatory retirement funds. The following diagram presents Grupo Financiero Inbursa's and our corporate structure, indicating our principal subsidiaries and respective ownership interests as of December 31, 2016:



Except where otherwise indicated, the figures and percentages for the various divisions in which we operate correspond to those of our principal subsidiaries, before eliminations, for our consolidated figures.

All of Grupo Financiero Inbursa's principal subsidiaries are incorporated in Mexico.

We, Banco Inbursa, are a commercial bank (*institución de banca múltiple*) organized as a corporation (*sociedad anónima*) pursuant to the Mexican Banking Law. We are the seventh largest bank in Mexico in terms of total assets and the fifth largest bank in terms of total loan portfolio and stockholders' equity as of December 31, 2016, according to the CNBV. We principally offer loans to corporations and have enhanced our effort to offer products to individuals since 2008. Our principal sources of funding are deposits. As of December 31, 2016, we had net income attributable to controlling interest of Ps.7,743 million, total assets of Ps.411,961 million, total loans of Ps.283,310 million, total deposits of Ps.247,516 million and stockholders' equity of Ps.90,239 million. As of December 31, 2016, we had 901 total branches and outlet branches located throughout Mexico. Our corporate offices are located in Mexico City, and we operate in every state in Mexico. Our corporate offices are located at Paseo de las Palmas No. 736, Colonia Lomas de Chapultepec, C.P. 11000, Mexico City. Our telephone number is +52 55 56254900.

We provide a broad range of retail and commercial banking services to our customers, including peso- and dollar-denominated loans to finance a variety of commercial transactions, trade, foreign currency forward contracts and credit lines and a variety of retail banking services, including financing, personal loans and automotive loans. We seek to offer our customers a wide range of products while providing high levels of service. In addition to our traditional banking operations, we offer a variety of ancillary financial services, including retirement fund management, financial leasing, financial advisory services and investment management.

We operate the following subsidiaries, of which we are the majority shareholder:

- Afore Inbursa, whose principal business is the management of mandatory retirement funds;
- Inmobiliaria Inbursa, whose principal business is holding real property related to our banking business;
- Sinca Inbursa, whose principal business is to invest in growing and profitable companies;
- CF Credit, whose principal business is providing loans to consumers and distributors within the automobile industry;
- Sociedad Financiera Inbursa, whose principal business is granting consumer loans and leasing; and
- FC Financial, whose principal business is granting automotive loans exclusively to finance purchases of vehicles sold by FCA Mexico.

The following table shows our non-controlling interests' and our subsidiaries' total operating income and stockholders' equity as of and for the year ended 2016:

| Subsidiary                        | For the year ended December 31, 2016    |             | As of December 31, 2016 |             |
|-----------------------------------|---|-------------|-------------------------|-------------|
|                                   | Operating<br>Income (Loss)              | % of Total  | Stockholders'<br>equity | % of Total  |
|                                   | (millions of pesos, except percentages) |             |                         |             |
| Banco Inbursa .....               | 7,813                                   | 99%         | 88,070                  | 98%         |
| Afore Inbursa .....               | 585                                     | 8%          | 1,692                   | 2%          |
| Inmobiliaria Inbursa .....        | 49                                      | 1%          | 1,154                   | 1%          |
| Sinca Inbursa .....               | (40)                                    | 0%          | 8,717                   | 10%         |
| CF Credit .....                   | 1,123                                   | 14%         | 5,623                   | 6%          |
| Sociedad Financiera Inbursa ..... | (1,468)                                 | (19)%       | 8,788                   | 10%         |
| FC Financial .....                | (212)                                   | (3)%        | 1,896                   | 2%          |
| Other .....                       | 26                                      | 0%          | 543                     | 1%          |
| Non-controlling interest .....    | •                                       | •           | 2,744                   | 3%          |
| Eliminations .....                | •                                       | •           | (28,988)                | (32)%       |
| <b>Total .....</b>                | <b>7,876</b>                            | <b>100%</b> | <b>90,239</b>           | <b>100%</b> |

## Principal Business Activities

As of the date of this offering memorandum, our operations are organized into five business areas: commercial banking, venture capital, automobile loans, consumer loans and the management of mandatory retirement funds.

### Commercial banking

We are the seventh largest bank in Mexico in terms of total assets and the fifth largest bank in terms of total loan portfolio and stockholders' equity as of December 31, 2016, according to the CNBV. As of December 31, 2016, we had the highest Capital Ratio and Tier 1 Capital Ratio among commercial banks in Mexico at 18.48% and one of the highest rates of reserve coverage for non-performing loans at 155%.



We provide banking and credit services to the corporate, governmental and retail segments of the economy. As of December 31, 2016, we had a total loan portfolio of Ps.283,310 million which represented 68.8% of our total assets, the largest share of loans over assets among the seven largest banks operating in Mexico according to information from the CNBV. Our portfolio is divided into loans to commercial institutions (68.1%), loans to consumers (17.1%), loans to governmental entities (8.4%), loans to financial institutions (4.0%) and mortgage loans (2.4%). As a bank that has historically specialized in loans to corporate entities, we rank fifth in terms of corporate loans, with a market share of 9.7% as of December 31, 2016, according to information published by the CNBV. Since 2009, we have focused on increasing our market share in the retail segment, increasing our consumer portfolio from Ps.3,909 million or 2.5% of our total portfolio in 2009 to Ps.48,346 million or 17.1% of our total portfolio in 2016.

As of December 31, 2016, Banco Inbursa had demand deposits in an aggregate amount of Ps.81,996 million. We ranked seventh in total deposits and eighth in demand deposits, with market shares of 5.1% and 2.8%, respectively, according to information provided by the CNBV. Additionally, Banco Inbursa had time deposits in an aggregate amount of Ps.47,727 million and debt instrument issuances in an aggregate amount of Ps.117,728 million. Demand deposits and debt instrument issuances experienced strong growth between 2010 and 2016, which implies a more stable and profitable deposit base for the bank.

Together with the acquisition and merger of Banco Walmart, Banco Inbursa entered into a long term strategic alliance with Walmart de Mexico, S.A. This provides for the development and promotion of financial services together with deposit, payment and withdrawal services throughout Walmart's retail stores in Mexico.

We believe that we have an opportunity to further increase our market share in the commercial banking sector particularly with respect to loans and deposits.

### ***Wholesale banking***

The customers of our wholesale banking division generally consist of large Mexican companies and certain Mexican and non-Mexican multinational companies. Our wholesale banking division provides comprehensive products and services relating to finance, guarantees, mergers and acquisitions, investments in instructions, equity and fixed income, structured finance, international trade finance, cash management services, collection services and e-banking, including corporate loans, syndicated loans, and financing of commercial and mortgage lending in the U.S., among others. It uses its range of products, knowledge of the local market and efficient execution in order to customize the financial solutions it offers to our customers.

The corporate credit market was Ps.1,980,829 million as of December 31, 2016. BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer had a 21.0% market share, followed by Santander with 14.8%, Banamex with 12.0%, Banorte with 10.5%, and Banco Inbursa, which was in fifth with 9.7%. Within the Ps.189,306 million market for loans to financial institutions as of December 31, 2016, Banamex had a 22.0% market share, followed by Banorte with 10.9%, Inbursa with 6.0% and Bancomer with 10.5%. Within the Ps.585,431 million market of loans to governmental entities as of December 31, 2016, Banco Inbursa has a market share of 4.0%, ranking eighth in the Mexican market, according to data from the CNBV.

### ***Corporate loans***

Our corporate lending division of our wholesale banking division offers a wide range of credit products to our wholesale commercial clients, including general corporate and working capital financing and foreign trade financing complemented by deposit-taking and cash management services. We actively lend to infrastructure companies. As of December 31, 2016, our commercial loans were Ps.193,014 million compared to Ps.169,059 million in December 31, 2015, an increase of Ps.23,955 million or 14.2%.

### ***Global transaction banking***

Our global transaction banking division of banking offers foreign lending services, including syndicated lending, corporate lending and commercial and residential real estate and commercial lending in the U.S. As of December 31, 2016, our foreign loan portfolio was Ps.49,566 million or 17.5% of our total loan portfolio.

### ***Retail lending***

We offer retail lending products to existing and potential customers who are users of services or products offered by associated companies through our distribution network. See “Our Business—Distribution Channels.” We divide our customers into separate categories based principally on their monthly income (for individuals) and annual gross revenues (for businesses).

We strategically approach clients that we consider to meet certain characteristics and offer them products that we believe fit their needs.

We make credit available to our customers through the various loan products listed in the table below. The table sets forth the composition of our personal, automotive, payroll, credit card and mortgage loan portfolio at the dates indicated.

|                                      | As of December 31,  |               |               |
|--------------------------------------|---------------------|---------------|---------------|
|                                      | 2014                | 2015          | 2016          |
|                                      | (millions of pesos) |               |               |
| Automotive loans .....               | 11,981              | 13,842        | 16,318        |
| Personal loans .....                 | 1,480               | 15,556        | 15,292        |
| Payroll loans .....                  | 5,382               | 1,902         | 1,916         |
| Credit card .....                    | -                   | 9,807         | 14,820        |
| <b>Subtotal consumer loans .....</b> | <b>18,843</b>       | <b>41,107</b> | <b>48,346</b> |
| Mortgages .....                      | 1,500               | 4,208         | 6,899         |
| <b>Total .....</b>                   | <b>20,343</b>       | <b>45,315</b> | <b>55,245</b> |

### ***Automotive loans***

In June 2010, Grupo Financiero Inbursa entered into an agreement for the transfer of collection rights with CFSM through which it acquired CFSM’s entire portfolio of retail loans, floor plans and capital. In 2011, CF Credit was established as a result of the spin-off of CFSM, which was spun off under the company name Revolución Media 3D, S.A. de C.V. and later changed its name to CF Credit Services, S.A. de C.V. In September 2011, Banco Inbursa acquired 99.9% of CF Credit.

As of December 31, 2016, automotive loans amounted to Ps.16,318 million, representing approximately 5.8% of our total loan portfolio.

### ***Personal loans***

Through a strategic alliance with Telmex, we offer personal loans to individuals throughout Mexico. As of December 31, 2016, we had a total balance of Ps.15,292 million. Telmex uses and offers client loans through payment databases to assess client credit risk. As of December 31, 2016, personal loans represented 5.4% of our total loan portfolio.

### ***Payroll loans***

Payroll loans are a typical consumer lending product with a differentiated method of payment. We grant loans (after conducting a respective risk assessment) to clients that receive their salaries through an account at Banco Inbursa and employees of different governmental entities. The loan payments are made through automatic charges to the account at Banco Inbursa and are scheduled according to the payroll frequency of each employee (weekly, biweekly, monthly). We grant payroll loans to employees of governmental entities and such entities deduct payments from the employee’s salary and transfer such payments to us. Banco Inbursa payroll loans therefore have priority in payment, as the payments are deducted before reaching the employee.

As of December 31, 2016, personal loans, including payroll loans, amounted to Ps.17,208 million, representing approximately 6.1% of Banco Inbursa’s total loan portfolio.

### ***Credit cards***

Through Sociedad Financiera Inbursa, we are an issuer of credit cards in the Mexican market. As of December 31, 2016, our total credit card loans amounted to Ps.14,820 million, representing approximately 5.2% of our total loan portfolio.

Our income from credit cards includes fees, interest on credit card balances, annual cardholder fees and fees charged for cash advances. We market our credit cards through our sales force and network of branches.

### ***Traditional deposits***

Through our branch network we obtain demand deposits, which in 2008, represented 29.5% of our deposits, and 33.1% as of December 31, 2016. Additionally, as part of our funding strategy, we have gradually replaced a portion of our time deposits with long-term issuance of debt securities, contributing to a greater stability in our funding. In 2008, time deposits represented 70.5% of our deposits and as of December 31, 2016, they represented 19.3%. Meanwhile, as of December 31, 2016, issuance of debt securities represented 47.6% of our deposits.

### ***Asset management***

As of December 31, 2016, Afore Inbursa had Ps.107,340 million in assets held for safekeeping or under management, which accounted for 6.5% of our net income and a market share of 4.0%, according to data from CONSAR. It is positioned as a retirement funds administrator dedicated to higher-income clients focused on risk control through a conservative investment policy.

Afore Inbursa carried out our asset management services through fully integrated investment, operational and commercial structures. Afore Inbursa ranks ninth among mandatory retirement fund managers in terms of asset management, offering one of the most competitive commissions in the market, and maintains a conservative vision in its investment portfolio. Afore Inbursa has more than one million clients.

Afore Inbursa had commission based income of Ps.1,009 million during 2016, which accounted for a market share of 4.0%. The net income of Afore Inbursa as of December 31, 2016 was Ps.503 million. Afore Inbursa's market share of number of clients was 2.3% in 2016, reaching 1,087,980 clients that year, and its market share in terms of number of affiliates was 2.7%, with 456,884 affiliates. Afore Inbursa's net income was Ps.503 million as of December 31, 2016, compared to Ps.445 million at the close of 2015, due to a decrease in acquisition costs from Ps.250 million in 2015 to Ps.162 million in 2016. Stockholders' equity for Afore Inbursa was Ps.1,692 million as of December 31, 2016, compared to Ps.1,614 million as of December 31, 2015, an increase of 4.8%. In 2016, Afore Inbursa paid dividends of Ps.425 million. When adjusted on the basis of this dividend, stockholders' equity increased 31.2%.

|                            | As of December 31, |                     |         |
|----------------------------|--------------------|---------------------|---------|
|                            | 2014               | 2015                | 2016    |
|                            |                    | (millions of pesos) |         |
| Assets managed .....       | 106,361            | 101,191             | 107,340 |
| Net income.....            | 259                | 445                 | 503     |
| Stockholders' equity ..... | 1,481              | 1,614               | 1,692   |
| Dividends.....             | 275                | 312                 | 425     |

### ***Venture capital***

Through our venture capital subsidiary, Sinca Inbursa, we make proprietary investments in corporate equity in conformity with the Mutual Funds Law. As of December 31, 2016, Sinca Inbursa had stockholders' equity of Ps.8,717 million and has investments in the infrastructure, health, software and finance sectors, among others.

Sinca Inbursa, our venture capital subsidiary, maintains an investment portfolio in diverse sectors of the economy. As of December 31, 2016, Sinca Inbursa's investments were the following:

| As of December 31, 2016                                      |                  |               |                  |               |
|--|------------------|---------------|------------------|---------------|
|  | Acquisition Date | % shares held | Acquisition Cost | %             |
| <b>Infrastructure and Transportation</b>                     |                  |               |                  |               |
| Infraestructura y Transportes México .....                   | November 2005    | 8.25%         | 103              | 1.8%          |
| GMexico Transportes, S.A. de C.V. ....                       | March 2015       | 8.25%         | 382              | 6.7%          |
| Gas Natural México, S.A. de C.V. ....                        | December 2012    | 14.13%        | 797              | 14.1%         |
| (consolidated).....  |                  |               |                  |               |
| Giant Motors Latinoamérica, S.A. de C.V. ....                | July 2008        | 50.00%        | 213              | 3.7%          |
| Sistema de Administración y Servicios, S.A. de C.V. ....     | December 2012    | 14.00%        | 0                | 0.0%          |
| <b>Total</b> .....   |                  |               | <b>1,495</b>     | <b>26.3%</b>  |
| <b>Health</b>  |                  |               |                  |               |
| Salud Interactiva S.A. de C.V. ....                          | January 2008     | 62.16%        | 108              | 1.9%          |
| Salud Holding, S.A. de C.V. ....                             | July 2008        | 62.16%        | 181              | 3.2%          |
| Enesa S.A. de C.V. ....                                      | December 2012    | 25.00%        | 0                | 0.0%          |
| Patia Biopharma, S.A. de C.V. ....                           | June 2013        | 80.00%        | 32               | 0.6%          |
| <b>Total</b> .....   |                  |               | <b>321</b>       | <b>5.7%</b>   |
| <b>Software Development</b>                                  |                  |               |                  |               |
| Aspel Holding, S.A. de C.V. ....                             | July 2011        | 64.00%        | 243              | 4.3%          |
| <b>Total</b> .....   |                  |               | <b>243</b>       | <b>4.3%</b>   |
| <b>Finance</b>   |                  |               |                  |               |
| Capital Inbursa, S.A. de C.V. ....                           | December 2013    | 99.99%        | 3,434            | 60.6%         |
| Sociedad Financiera Campesina, S.A. de C.V., SOFOM ENR. .... | August 2008      | 9.00%         | 9                | 0.2%          |
| <b>Total</b> .....   |                  |               | <b>3,443</b>     | <b>60.8%</b>  |
| <b>Media content</b>   |                  |               |                  |               |
| Inbursa Private Capital, S.A. de C.V. ....                   | September 2007   | 99.99%        | 110              | 1.9%          |
| Argos Comunicación S.A. de C.V. ....                         | March 2007       | 33.00%        | 56               | 1.0%          |
| <b>Total</b> .....   |                  |               | <b>166</b>       | <b>2.9%</b>   |
| <b>Publicity and Media</b>                                   |                  |               |                  |               |
| In Store de México S.A. de C.V. ....                         | December 2001    | 30.00%        | -                | 0.0%          |
| Havas Media, S.A. de C.V. ....                               | November 1997    | 5%            | -                | 0.0%          |
| <b>Total</b> .....   |                  |               | <b>-</b>         | <b>0.0%</b>   |
| <b>Total</b> .....   |                  |               | <b>5,668</b>     | <b>100.0%</b> |

Sinca Inbursa's investments are recorded at book value net of goodwill and that contribution to our results is presented under the equity method. Sinca Inbursa is equivalent to 8.8% of our consolidated net income as of December 31, 2016.

## Distribution Channels

### General

Leveraging the infrastructure as part of Grupo Financiero Inbursa, our distribution network provides integrated financial services and products to our customers through a variety of channels, including our traditional proprietary branch network with national coverage, a specialized sales force for Grupo Financiero Inbursa, commercial banking and strategically-located ATMs, as well as complementary distribution channels such as call centers and internet banking, which we refer to as alternative distribution channels. We also have strategic alliances with department stores and telecommunications companies related to deposits and withdrawals. We aim to benefit from the synergies between the distribution channels of our subsidiaries and to direct customers to the most effective channel for the purposes of their transactions. We have established an integrated platform to offer our products and services and we have a single sales force capable of offering all of these products and services.

As of December 31, 2016, the distribution channels of all of our subsidiaries included:

- Branch network: We have 901 total branches and outlet branches throughout Mexico.
- Specialized sales force: We have 29,492 agents in our network, covering all of Mexico.
- ATMs: We have 5,007 ATMs with coverage throughout Mexico, of which we own 845 and 4,162 are operated through an alliance with another bank domiciled in Mexico.
- Call centers: Grupo Financiero Inbursa has three call centers with approximately 2,663 employees.
- Strategic alliances: We have strategic alliances with Walmart de México, S.A.B. de C.V., department stores and telecommunications companies in order to strategically position our ATMs. We also have an alliance with Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (“Scotiabank”), Banca Afirme, S.A., Institución de Banca Múltiple, Afirme Grupo Financiero (“Afirme”), Banco del Bajío, S.A., Institución de Banca Múltiple (“Banco del Bajío”) and Banco Regional de Monterrey, S.A., Institución de Banca Múltiple, Banregio Grupo Financiero (“Banregio”) in which our and their customers can use either of our ATMs with no charge.

### Branch Network

Through our branch network, we offer all of our products and services to our customers. The table below shows the total number of our branches and outlet branches across Mexico’s regions at the dates indicated.

|                    | For the years ended December 31, |            |            |
|--------------------|----------------------------------|------------|------------|
|                    | 2014                             | 2015       | 2016       |
| Central.....       | 185                              | 462        | 440        |
| East.....          | 34                               | 76         | 88         |
| North .....        | 72                               | 124        | 181        |
| West .....         | 32                               | 87         | 111        |
| South .....        | 31                               | 55         | 81         |
| <b>Total .....</b> | <b>354</b>                       | <b>804</b> | <b>901</b> |

## ***Sales Force***

Grupo Financiero Inbursa's sales force, one of the biggest in Mexico, is responsible for selling products and services, offering all of Grupo Financiero Inbursa's products and services, including our own, to clients receiving compensation completely based on performance. The table below sets forth information regarding the training of the sales force:

| <b>As of fiscal year ended December 31, 2016</b> |           |
|--|-----------|
| <b>Aggregate training of our sales force</b>     |           |
| Number of training courses.....                  | 5,014     |
| Hours of training .....                          | 1,362,308 |
| Number of participants .....                     | 98,378    |

As of December 31, 2016, 29,492 agents belonged to our network.

The table below sets forth the average monthly retention rates of the sales force that distributes our products:

|                            | <b>For the years ended December 31,</b> |                          |             |
|----------------------------|---|--------------------------|-------------|
|                            | <b>2014</b>                             | <b>2015</b>              | <b>2016</b> |
|                            |   | <b>average monthly %</b> |             |
| First year retention.....  | 75%                                     | 85%                      | 90%         |
| Second year retention..... | 28%                                     | 31%                      | n.a.        |
| Third year retention.....  | 18%                                     | n.a.                     | n.a.        |

n.a. = not applicable.

## ***ATMs***

We operate an extensive network of 845 ATMs throughout Mexico, including those located in our branches, outlet branches and on-site service units. The clients of Banco Inbursa and our other subsidiaries may use these ATMs to access their accounts and conduct banking transactions.

The following table sets forth the number of our ATMs in the indicated regions of Mexico:

|                    | <b>For the years ended December 31,</b> |             |             |
|--------------------|---|-------------|-------------|
|                    | <b>2014</b>                             | <b>2015</b> | <b>2016</b> |
| Central.....       | 411                                     | 429         | 477         |
| East.....          | 60                                      | 71          | 75          |
| North.....         | 158                                     | 169         | 159         |
| West.....          | 57                                      | 62          | 62          |
| South.....         | 67                                      | 74          | 72          |
| <b>Total</b> ..... | <b>753</b>                              | <b>805</b>  | <b>845</b>  |

We own 845 ATMs and operate 4,162 additional ATMs through other banks domiciled in Mexico.

## ***Alternative Distribution Channels***

### ***Call Centers***

Grupo Financiero Inbursa operates three call centers, two of which are located in Mexico City and one in Toluca, Mexico. Such call centers can be used by customers to make inquiries, execute payment transactions or apply for products and services, such as personal loans. The call centers operate 24 hours per day, 365 days per year. A portion of the call center personnel is dedicated to contacting current account holders to offer them additional products and services, in particular consumer loans.

Our call centers serve various basic functions:

- Report stolen or lost debit cards
- Banking services
- Retirement fund assistance
- Brokerage assistance
- Clarifications and complaints
- Personalized assistance

#### *Internet Banking*

Our strategy includes different main components that seek to ensure the success of our internet banking channel, primarily by focusing on retail strategy:

- Electronic banking
- Consultations about account statements and movement
- Transfers
- Payment of services
- Investments
- Checking requests
- Card activation

#### **Principal Clients**

Our principal market is constituted by individuals and legal entities in Mexico that require financial services in the banking, securities, and asset-management sectors. Currently, we have a client base of over five million clients.

As of December 31, 2016, the performing loan portfolio of our 10 principal clients totaled Ps.85,663 million, which accounted for 30.2% of our total loan portfolio. See Note 11 to our Audited Financial Statements for a description of the concentration of our loan portfolio. A material change affecting our clients within these geographical regions could have a material adverse effect on our results of operations or financial position.

#### **Competition**

##### ***General***

The Mexican financial system consists of a set of institutions that collect, manage and direct the investment of both domestic and foreign savings. It is comprised of financial groups, commercial banking, development banking, brokerage firms, mutual funds, insurance companies, financial leasing companies, surety companies, bonding warehouse deposits, credit unions, foreign exchange and factoring companies.

The Mexican financial sector is highly competitive. We compete with other Mexican commercial banks, financial groups and brokerage firms, as well as with non-Mexican banks and international financial institutions. Our principal competitors in the banking sector are: BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer; Banco Nacional de México, S. A. Integrante de Grupo Financiero Banamex; Banco Santander, S. A., Grupo Financiero Santander México; Banco Mercantil del Norte, S. A. Institución de Banca Múltiple, Grupo Financiero Banorte; HSBC México, S. A. Institución de Banca Múltiple, Grupo Financiero HSBC. In certain areas of Mexico, we also compete with regional banks such as Banco del Bajío, S. A. Institución de Banca Múltiple de Grupo Financiero del Bajío; and Banco Regional de Monterrey, S. A., Institución de Banca Múltiple, Banregio Grupo Financiero.

The following table sets out certain statistics on the Mexican commercial banking system as of December 31, 2016:

|                                      | Assets            |              | Loans            |              | Stockholders' Equity |              |
|--------------------------------------|-------------------|--------------|------------------|--------------|----------------------|--------------|
|                                      | Amount            | Market Share | Amount           | Market Share | Amount               | Market Share |
| (millions pesos, except percentages) |                   |              |                  |              |                      |              |
| Domestic private-sector bank.....    | 8,591,712         | 83%          | 4,825,783        | 83%          | 854,722              | 1%           |
| Developments banks .....             | 1,797,313         | 17%          | 972,962          | 17%          | 134,272,931          | 99%          |
| Total banking system .....           | <b>10,389,025</b> | <b>100%</b>  | <b>5,798,745</b> | <b>100%</b>  | <b>135,127,653</b>   | <b>100%</b>  |

Source: CNBV

We base our operations on five core principles that we believe constitute advantages over our competitors and that allow us to lead the Mexican financial market in terms of solvency and profitability:

- Solid capital base: we have consistently maintained one of the highest Capital Ratios in Mexico;
- Strict risk controls;
- Revenue diversification;
- Cost efficiency; and
- Professional and high-quality services.

### Market Positioning

In relation to our competitors, as of December 31, 2016, we were one of the seven largest Mexican banking institutions, with a market share of 6.5% of the banking loan market. Banco Inbursa shareholder equity represented 10.6% of all banks' equity as of December 31, 2016. Banco Inbursa is one of the best capitalized banks in Mexico, with a Capital Ratio of 18.48% as of December 31, 2016, 3.56 percentage points higher than the market average. This capitalization advantage allows us to remain flexible and adapt its offerings to the demands of the market place by maintaining a wide variety of offerings.

The following table sets forth the Capital Ratio for assets subject to global risk of the six main private-sector banks as of dates indicated:

|                               | For the years ended December 31, |               |               |
|-------------------------------|----------------------------------|---------------|---------------|
|                               | 2014                             | 2015          | 2016          |
| Banco Inbursa .....           | 20.28%                           | 18.51%        | 18.48%        |
| BBVA Bancomer.....            | 15.22%                           | 14.92%        | 13.73%        |
| Banamex .....                 | 15.50%                           | 13.96%        | 14.36%        |
| Santander .....               | 16.17%                           | 15.60%        | 15.74%        |
| Banorte.....                  | 15.26%                           | 14.62%        | 15.30%        |
| HSBC .....                    | 13.31%                           | 12.33%        | 13.21%        |
| Financial system average..... | <b>15.76%</b>                    | <b>14.97%</b> | <b>14.92%</b> |

Source: Banxico



## Employees

Banco Inbursa has no direct employees. We hire other companies to render our operation services, which, in turn, are also subsidiaries of Grupo Financiero Inbursa. The following table shows the breakdown of the employees for the periods indicated:

| Company Name  | As of December 31, |              |              |
|---|--------------------|--------------|--------------|
|   | 2014               | 2015         | 2016         |
| Seguros Inbursa, S.A. Grupo Financiero Inbursa .....                      | 3,666              | 4,584        | 5,545        |
| Outsourcing Inburnet.....   | 1,384              | 1,419        | 2,124        |
| Compañía de Servicios Multifuncionales, S.A de C.V. ....                  |                    |              | 273          |
| SAI Inbursa S.A. de C.V. (f/k/a Sawsa Adelante, S. de R.L. de C.V.) ..... | 205                | 264          | 520          |
| SP Inbursa S.A. de C.V. (f/k/a Saw Supervisión, S. de R.L. de C.V.) ..... | -                  | 548          | 474          |
| Banco Inbursa de Inversiones, S.A. ....                                   | -                  | 440          | 25           |
| Afore Inbursa, S.A. de C.V. ....  | -                  | 26           | 1            |
| <b>Total</b> .....  | <b>5,256</b>       | <b>7,282</b> | <b>8,962</b> |

Under the Mexican Labor Law, we are liable for indemnifying employees who are terminated. We are also required to pay seniority premiums to employees who have been employed for at least 15 years who cease to render their services. Under the Mexican Labor Law, employees have the right to share in business profits. In addition to the employee benefits required by Mexican labor law, we have instituted certain other employee benefits and incentive programs to motivate our workforce.

## Description of our Principal Assets

### Loan Portfolio

The lines of credit granted to our customers are registered in memorandum accounts on the date on which they are authorized by the Credit Committee under the credit commitments account. The drawdowns made against authorized lines of credit are registered as an asset (granted credit) from the date on which the funds are disbursed or otherwise used.

The fees charged for granting lines of credit, if no drawdowns have been made, are registered in deferred results within a period of twelve months. At the time drawdowns are made, the balance remaining in deferred results is registered directly in results. In general, the loan, mortgage and consumer portfolios are considered delinquent when they are in default for ninety days or more. Our total loan portfolio amounted to 68.7% of our total assets.

The credit policies applicable to our loan portfolio are oriented towards corporate loans and, particularly, to companies that belong to recognized commercial and economic solvent holding groups. These policies are carried out in accordance with regulations in force. The credit policies applicable to our mortgage and consumer portfolios are oriented to individuals.

The following table shows, for the periods indicated, the components of our total loan portfolio.

| Performing Loan Portfolio                       | For the years ended December 31, |                |                | % var 2016 vs. |              |
|---|----------------------------------|----------------|----------------|----------------|--------------|
|   | 2014                             | 2015           | 2016           | 2015           | 2014         |
|   | (in millions of pesos)           |                |                |                |              |
| Commercial loans <sup>(1)</sup> .....           | 140,430                          | 163,995        | 189,084        | 15.3%          | 34.6%        |
| Financial institutions <sup>(2)</sup> .....     | 14,556                           | 8,764          | 11,371         | 29.7%          | (21.9)%      |
| Consumer loans .....                            | 17,927                           | 39,116         | 44,829         | 14.6%          | 150.1%       |
| Mortgage loans .....                            | 1,333                            | 4,007          | 6,540          | 63.2%          | 390.6%       |
| Governmental organizations <sup>(3)</sup> ..... | 18,889                           | 14,340         | 23,680         | 65.1%          | 25.4%        |
| <b>Total Performing Loan Portfolio</b> .....    | <b>193,135</b>                   | <b>230,222</b> | <b>275,504</b> | <b>19.7%</b>   | <b>42.6%</b> |

<sup>(1)</sup> Commercial loans or business commercial activity

<sup>(2)</sup> Financial entities

<sup>(3)</sup> Governmental entities

| Non-performing Loan Portfolio  | For the years ended December 31, |                |                | % var 2016 vs. |              |
|--|----------------------------------|----------------|----------------|----------------|--------------|
|  | 2014                             | 2015           | 2016           | 2015           | 2014         |
|  | (in millions of pesos)           |                |                |                |              |
| Commercial loans <sup>(1)</sup> .....  | 5,763                            | 5,064          | 3,930          | (22.4)%        | (31.8)%      |
| Financial institutions <sup>(2)</sup> .....  | 0                                | 0              | 0              | -              | -            |
| Consumer loans .....   | 916                              | 1,991          | 3,517          | 76.6%          | 284.0%       |
| Mortgage loans .....   | 167                              | 201            | 359            | 78.6%          | 115.0%       |
| Governmental organizations <sup>(3)</sup> .....                                    | 0                                | 0              | 0              | -              | -            |
| Total non-performing loan portfolio  | 6,846                            | 7,256          | 7,806          | 7.6%           | 14.0%        |
| Allowance for loan losses .....  | (14,338)                         | (10,739)       | (12,088)       | 12.6%          | (15.7)%      |
| <b>Total performing and non-performing loan portfolios, net of allowance</b> ..... | <b>185,643</b>                   | <b>226,739</b> | <b>271,222</b> | <b>19.6%</b>   | <b>46.1%</b> |

<sup>(1)</sup> Commercial loans or business commercial activity

<sup>(2)</sup> Financial entities

<sup>(3)</sup> Governmental entities

### ***Investment in Securities***

The recognition and valuation of our investment in securities complies with the following guidelines:

#### ***Trading securities***

Trading securities are recognized at their acquisition cost and valued according to their reasonable value using the prices provided by a person authorized by the CNBV. The accounting effect of such valuation is recognized in the income statement.

#### ***Securities available for sale***

Securities available for sale are recognized at their acquisition cost and valued according to their reasonable value using the prices provided by a person authorized by the CNBV. The yield return on these securities is recognized in the income statement. The accounting effect of the valuation is recognized under stockholders' equity account, as a component of net income.

#### ***Securities held to maturity***

Securities held to maturity are initially recognized at their acquisition cost and the yield's return is recognized in the income statement, meaning that they are valued under the amortizing cost method.

The following table shows our investment in securities for the periods indicated.

|   | For the years ended December 31, |               |               | % var 2016 vs. |               |
|---|----------------------------------|---------------|---------------|----------------|---------------|
|   | 2014                             | 2015          | 2016          | 2015           | 2014          |
|   | (in millions of pesos)           |               |               |                |               |
| Securities held for trading .....           | 25,263                           | 23,278        | 63,253        | 171.7%         | 150.4%        |
| Securities available for sale .....         | 303                              | -             | -             | -              | -             |
| Securities held to maturity .....           | -                                | -             | -             | -              | -             |
| <b>Total Investment in Securities</b> ..... | <b>25,566</b>                    | <b>23,278</b> | <b>63,253</b> | <b>171.7%</b>  | <b>150.4%</b> |

For further information, see "Selected Statistical Information—Securities by instrument."

The investment in shares of the following companies has been valued using the participation method based on the financial statements issued by such companies. Such companies' income and stockholders' equity are recognized in Inbursa's financial statements proportionally to its equity holding.

The following table shows the components of the above described investment in shares.

| Company                                     | 2015          | 2016                        |                         |               |               |
|---|---------------|-----------------------------|-------------------------|---------------|---------------|
|   | Balance       | Increases during the period | Participation in income | Other changes | 2016 Balance  |
| <b>Risk capital investments:</b>            |               |                             |                         |               |               |
| Infraestructura y Transporte de México..... | 618           | -                           | 154                     | -             | 772           |
| Havas Media.....                            | 24            | -                           | 1                       | -             | 25            |
| Argos Comunicación .....                    | 90            | -                           | (7)                     | -             | 83            |
| In Store México .....                       | 69            | -                           | 9                       | -             | 78            |
| Salud Interactiva.....                      | 192           | -                           | 16                      | (22)          | 186           |
| Salud Holding.....                          | 40            | -                           | 9                       | (8)           | 41            |
| Giant Motors Latinoamérica.....             | 135           | -                           | 3                       | -             | 138           |
| Gas Natural México.....                     | 1,549         | -                           | 199                     | (56)          | 1,692         |
| Enesa .....                                 | 446           | (312)                       | 47                      | -             | 181           |
| Aspel Holding .....                         | 625           | -                           | 129                     | (33)          | 721           |
| Patia Biopharma .....                       | 13            | 8                           | (6)                     | -             | 15            |
| Grupo IDESA .....                           | 1,607         | 373                         | (176)                   | (4)           | 1,800         |
| Excellence Freights de México...            | 25            | 8                           | 6                       | (3)           | 36            |
| Fideicomiso GEO .....                       | 439           | -                           | -                       | -             | 439           |
| GMéxico Transportes .....                   | 2,491         | -                           | 491                     | (150)         | 2,832         |
| Patiacan .....                              | 3             | -                           | -                       | -             | 3             |
| Hitss Solutions.....                        | 496           | -                           | 11                      | -             | 507           |
| Parque Acuático Inbursa.....                | 93            | -                           | -                       | -             | 93            |
| Star Médica.....                            | 1,500         | -                           | 75                      | (24)          | 1,551         |
| Soficam.....                                | 13            | -                           | 1                       | -             | 14            |
| Sistema de Administración y Servicios ..... | 1             | -                           | -                       | -             | 1             |
|   | <b>10,469</b> | <b>77</b>                   | <b>962</b>              | <b>(300)</b>  | <b>11,208</b> |
| <b>Other investments:</b>                   |               |                             |                         |               |               |
| Inbursa Siefore, S.A. de C.V. ....          | 407           | -                           | 31                      | -             | 438           |
| Inbursa Siefore, Básica, S.A. de C.V. ....  | 133           | -                           | 10                      | -             | 143           |
| Inbursa Siefore, Básica 3, S.A. de C.V..... | 472           | -                           | 41                      | -             | 513           |
| Inbursa Siefore, Básica 4, S.A. de C.V..... | 327           | -                           | 32                      | -             | 359           |
| Inbursa Siefore, Básica 5, S.A. de C.V..... | 62            | -                           | 2                       | -             | 64            |
| Procesar, S.A. de C.V. ....                 | 8             | -                           | -                       | -             | 8             |
| Asociación de Bancos de México, A.C. ....   | 14            | -                           | -                       | (2)           | 12            |
| Others .....                                | (14)          | -                           | 1                       | 10            | (3)           |
|   | <b>1,409</b>  | <b>-</b>                    | <b>117</b>              | <b>8</b>      | <b>1,534</b>  |
|   | <b>11,878</b> | <b>77</b>                   | <b>1,079</b>            | <b>(292)</b>  | <b>12,742</b> |

The following table shows the participation of the above described investments in relation to our total assets.

|   | For the years ended December 31,<br>(percentages) |               |               |
|---|---|---------------|---------------|
|   | 2014  | 2015          | 2016          |
| Total investment in securities, net .....                                     | 65.90%  | 69.32%        | 65.8%         |
| Investment in securities.....   | 9.10%   | 7.11%         | 15.4%         |
| Permanent investment in shares.....   | 3.20%   | 3.63%         | 3.09%         |
| <b>Participation of the investments in relation to our total assets .....</b> | <b>78.20%</b>                                     | <b>80.06%</b> | <b>84.29%</b> |

### *Properties*

As of December 31, 2016, the book value of the real property of Grupo Financiero Inbursa was Ps.2,825 million. We are domiciled in Mexico and own our principal executive offices, which are located in Mexico City, at Paseo de las Palmas No. 736, Colonia Lomas de Chapultepec, C.P. 11000, Mexico City, Mexico. As of December 31, 2016, we owned 47 properties and rented 889 properties with leases of between three and ten years.

### *Patents, Licenses and Trademarks*

As of the date of this offering memorandum, we have entered into trademark use agreements of an indefinite period with Grupo Financiero Inbursa for use of the trademark “Inbursa” and the following logo:



The trademark and the logo are registered in North America (including Mexico), Central America, South America and the European Union.

The right to use the logo and trademark “Inbursa” represent an important asset for us, as well as a means to identify our affiliation with the group, which has wide recognition within the financial sector.

In addition, we have registered various trademarks and commercial names related to the different products offered to the public. Our most popular trademarks are related to our banking and insurance services, including, among others, the following:



As of the date of this offering memorandum, all of our trademarks are in full force and effect, or in the process of renewal with the relevant authorities.

#### ***Other agreements***

Except as described herein, during the past three fiscal years we have not executed any material contracts that differ from those we executed in the ordinary course of business.

#### ***Environmental Performance***

As a bank, we do not have environmental certificates or awards with respect to environmental performance. Our subsidiaries also do not require environmental certificates or awards as a result of the nature of the services they provide. We are not subject to authorizations or programs of an environmental nature and our activities do not represent a significant risk with respect to environmental matters. Our business activities also do not have current or future direct or indirect consequences on climate change.

#### **Applicable Legal and Tax Legislation**

As a regulated financial entity, we are subject to special laws such as the Mexican Banking Law, the Mexican Securities Market Law, the Mutual Funds Law, and the Retirement Savings System Law, as well as to laws of general application such as the Mexican Corporations Law, the General Law of Negotiable Instruments and Credit Operations, the Federal Antitrust Law, the Commercial Code and other regulations issued by competent authorities.

We are also subject to the Income Tax Law, the *Ley del Impuesto al Valor Agregado* (VAT Law), and other applicable fiscal and administrative regulations.

The financial sector is heavily regulated and supervised by different authorities, including the SHCP, Banxico, the CNBV, CONDUSEF and CONSAR, among others, and any amendment to applicable laws or regulations could affect the development of our business.

Given that our activities involve the provision of financial services, laws or governmental regulations related to climate change do not currently and could not materially impact us. Regardless, based on their activities and lines of business, our clients must establish the measures that they consider appropriate for compliance with legal regulations related to climate change, including the impact that could arise thereof.

### **Legal and Regulatory Proceedings**

Due to the nature of our transactions, we are subject to judicial, administrative and arbitration proceedings, including tax and labor claims arising in the ordinary course of our business. We do not believe any of these proceedings is reasonably likely to have a material adverse effect on our financial position or results of operations. No assurances, however, can be given that the current proceedings will be resolved in our favor or that additional proceedings will not arise in the future.

Legal proceedings to which Banco Inbursa and its subsidiaries are subject are related to the ordinary course of business of these companies. No significant event exists that could have a material impact on the results of operations or financial position of Banco Inbursa individually or of its subsidiaries.

## RISK MANAGEMENT

To prevent the risks to which Banco Inbursa is exposed as a result of its transactions, management has prepared policy and procedure manuals that adhere to the guidelines established by the CNBV and Banxico.

The provisions issued by the CNBV establish the obligation whereby credit institutions must disclose, through notes to their financial statements, information on the policies, procedures, methodologies and other measures adopted for risk management purposes, together with data regarding the potential losses they face by risk type in the different markets in which they operate.

On December 2, 2005, the CNBV issued general provisions applicable to credit institutions (*Sole Circular*), requiring the internal audit area perform a comprehensive risk management audit at least once a year or at the year end. Banco Inbursa's internal audit area performed this audit according to current standards and subsequently presented its results to the board of directors at the meeting held on January 25, 2016.

### (a) Environment

Through comprehensive risk management, Banco Inbursa promotes the corporate governance structure used to support the Comprehensive Risk Management Unit (UAIR) and the Risk Committee. Similarly, through these bodies, Banco Inbursa identifies, measures, controls and monitors its quantifiable and unquantifiable operating risks.

The Risk Committee analyzes the information systematically provided to it by Banco Inbursa's operating areas. The committee also has a contingency plan focused on mitigating the weaknesses detected at the operating, legal and recording levels as a result of performing transactions that exceed the maximum risk tolerances approved by the Risk Committee.

### (b) Market risk

To measure and evaluate the risk assumed through its financial transactions, Banco Inbursa utilizes computerized tools to calculate Value at Risk (VaR), while also analyzing the results of sensitivity and stress tests performed under extreme conditions.

To demonstrate statistically that the market risk measurement model generates reliable results, Banco Inbursa tests the reliance level of the hypothesis used to make this measurement. The hypothesis test involves applying a Ji-Squared test (Kupiec Test) to the percentage of times that an observed loss exceeded the estimated risk level.

Banco Inbursa currently calculates the market risk of its money market, international bond, variable income and derivatives portfolios.

The Value at Risk at the end of 2016 was as follows:

| <i>Instrument</i>                    | <b>Market value</b> | <b>Value at risk <sup>(1)</sup></b> | <b>% VaR vs Basic capital</b> |
|--------------------------------------|---------------------|-------------------------------------|-------------------------------|
| Exchange market.....                 | \$ 14,781           | \$ 136                              | 0.22%                         |
| Nominal rate.....                    | 42,334              | 51                                  | 0.08%                         |
| Real rate .....                      | 5,116               | 10                                  | 0.02%                         |
| Derivatives <sup>(2)</sup> .....     | (6,747)             | 838                                 | 1.36%                         |
| Variable income .....                | 7,392               | 175                                 | 0.28%                         |
| Total .....                          | \$ 62,876           | \$ 1,210                            | 1.96%                         |
| Basic capital at September 30, 2016. | \$ 61,844           | -                                   |                               |

<sup>(1)</sup> Value at Risk with a 95% reliance level and a one-day horizon.

<sup>(2)</sup> Using a sensitivity scenario of 100 basis points (bps) and 500 bps, the shortfalls that would be recognized if the derivative instrument positions in effect at December 31, 2016 were to arise would be \$(643) and \$(3,269), respectively.

The VaR or Value at Risk estimates the maximum loss that could be recorded by the exchange market, fixed rate, derivatives and variable income portfolios.

A monthly summary of market risk exposures is presented below:

| <b>Date</b>                   | <b>VaR</b> |
|-------------------------------|------------|
| 01/30/2016.....               | \$ 1,617   |
| 02/27/2016.....               | 947        |
| 03/30/2016.....               | 797        |
| 04/30/2016.....               | 790        |
| 05/29/2016.....               | 953        |
| 06/30/2016.....               | 832        |
| 07/31/2016.....               | 347        |
| 08/31/2016.....               | 521        |
| 09/30/2016.....               | 437        |
| 10/30/2016.....               | 471        |
| 11/30/2016.....               | 632        |
| 12/31/2016.....               | 696        |
| <b>Weighted average .....</b> | <b>697</b> |

To measure market risk, Banco Inbursa utilized the VAR Monte Carlo model to one-day with a 95% reliance level based on the risk factor values of the last 252 days.

Banco Inbursa's most significant risk position is its derivatives position, which is composed of futures and forward currency, options and swap positions denominated in pesos and dollars. The information presented includes the market value of these positions, the generated surplus value/shortfall and the daily Value at Risk with a 95% reliance level.

The model assumes normal distribution of risk factor variations; back testing is utilized to validate this assumption.

Market risk management is supplemented with stress tests based on two sensitivity scenarios of 100bps and 500bps, respectively, together with the replication of historical catastrophic conditions with up to four standard deviations and a 60-day horizon, which simulate the manner in which adverse movements would have an accumulated effect on the portfolio at the calculation date. The new stressed risk factor conditions are used to value portfolios and determine their Value at Risk and new mark-to-market results. In addition, Banco Inbursa has investment mechanisms that include prepayment dynamics of different types of credit.

### **(c) Liquidity risk**

To monitor liquidity, the risk management area calculates liquidity gaps, that take into account Banco Inbursa's financial assets and liabilities, as well as the credits it grants.

Banco Inbursa also measures the adverse margin by taking into account the difference between the purchase and sales prices of financial assets and liabilities.



Furthermore, foreign currency market risk is monitored according to the scheme established for investments and the admission of liabilities denominated in foreign currency by Banxico.

|                     | 2016                 |                 | 2015                 |                 |
|---------------------|----------------------|-----------------|----------------------|-----------------|
|                     | Balance as per index | Liquidity index | Balance as per index | Liquidity index |
| January .....       | \$ 537               | 1.35%           | \$ 285               | 0.71%           |
| February .....      | 632                  | 0.97%           | 457                  | 1.07%           |
| March .....         | 1,122                | 2.48%           | 231                  | 0.80%           |
| April .....         | 3,039                | 6.00%           | 272                  | 0.78%           |
| May .....           | 2,147                | 2.89%           | 823                  | 1.66%           |
| June .....          | 636                  | 1.78%           | 302                  | 0.81%           |
| July .....          | 776                  | 2.10%           | 282                  | 0.85%           |
| August .....        | 863                  | 1.03%           | 390                  | 0.72%           |
| September.....      | 850                  | 1.46%           | 693                  | 2.07%           |
| October.....        | 780                  | 2.20%           | 253                  | 0.63%           |
| November.....       | 633                  | 0.89%           | 532                  | 1.03%           |
| December .....      | 1,035                | 2.09%           | 1,034                | 2.91%           |
| <b>Average.....</b> | <b>\$ 1,087</b>      | <b>2.02%</b>    | <b>\$ 462</b>        | <b>1.15%</b>    |

To determine the liquidity index, Banco Inbursa accounts for liquid assets denominated in foreign currency in accordance with the provisions of Circular 3/2013 issued by Banxico in order to hedge foreign currency liabilities within transaction maturity periods.

#### *Transactions with financial derivative instruments*

An analysis of the liquidity gaps of asset and liability maturities related to financial derivative instruments that indicate remaining contractual maturities is detailed below.

The risk management system utilizes a traditional assets and liabilities management model, which consists of classifying the active and passive components of each instrument recorded in the portfolio based on different maturity windows; for example, the dollar analysis of a long-term currency forwards position will contain the active receivable component denominated in dollars at the spot exchange rate plus the interest accrued by the cost of converting this amount to the passive dollar rate. Similarly, the peso analysis considers the interest accrued by the portion of the conversion cost incurred based on the active position denominated in pesos; liquidity risk analyses can be performed for different time frames and horizons classified by market type and currency.

The calculation of repricing gaps allows Banco Inbursa to determine the rate risk assumed based on liability period differences and investment portfolio duration (for assets), while also enabling it to evaluate the liquidity risk of the day by matching the current net cash flow values recorded in the balance sheet, as detailed below.

|                                 |                                | Unweighted<br>amount (average) | Weighted amount<br>(average) |
|---------------------------------|--------------------------------|--------------------------------|------------------------------|
|                                 |                                | (in millions of pesos)         |                              |
| <b>Computable liquid assets</b> |                                |                                |                              |
|                                 | Total computable liquid assets | n.a.                           | 39,269                       |
| <b>Cash outlays</b>             |                                |                                |                              |
|                                 | Unguaranteed retail financing  | 79,880                         | 5,187                        |
|                                 | Stable financing               | 46,213                         | 1,820                        |
|                                 | Less stable financing          | 33,667                         | 3,367                        |
|                                 | Unsecured wholesale financing  | 36,581                         | 9,132                        |
|                                 | Operational deposits           | -                              | -                            |
|                                 | Nonoperational deposits        | 36,581                         | 9,132                        |
|                                 | Unsecured debt                 |                                |                              |
|                                 | Secured wholesale financing    | n.a.                           | 128                          |
|                                 | Additional requirements        | 100,394                        | 7,805                        |

|  | Unweighted<br>amount (average) | Weighted amount<br>(average) |
|--|--------------------------------|------------------------------|
|  | (in millions of pesos)         |                              |
| Outlays related to financial derivatives and other collateral requirements | 21,574                         | 2,282                        |
| Outlays related to losses of debt securities                               | -                              | -                            |
| Lines of credit and liquidity  | 78,820                         | 5,523                        |
| Other contractual financing obligations                                    | 159,215                        | 17,206                       |
| Other contingent financing obligations                                     | 19,919                         | -                            |
| Total cash outlays   | n.a.                           | 39,458                       |
| <b>Cash receipts</b>   |                                |                              |
| Cash receipts from secured transactions                                    | 15,117                         | 2                            |
| Cash receipts from unsecured transactions                                  | 258,763                        | 10,705                       |
| Other cash receipts  | 6,764                          | 6,764                        |
| Total cash receipts  | 280,645                        | 17,471                       |
| Total computable liquid assets   | n.a.                           | 39,269                       |
| Net total cash outlays   | n.a.                           | 21,987                       |
| Liquidity coverage coefficient   | n.a.                           | 193.54%                      |

n.a. = not applicable.

| Category               | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 181 to 270 days | 271 to 360 days | Greater than 360 days |
|------------------------|--------------|---------------|---------------|----------------|-----------------|-----------------|-----------------------|
| Total assets .....     | \$ 84,920.39 | \$ 14,439.85  | \$ 148,641.60 | \$ 15,974.77   | \$ 14,160.10    | \$ 16,345.54    | \$ 355,195.23         |
| Total liabilities..... | 112,903.13   | 39,709.19     | 134,927.45    | 8,500.72       | 41,042.13       | 12,143.71       | 224,532.33            |
| GAP .....              | (27,982.74)  | (25,269.33)   | 13,714.15     | 7,474.05       | (26,882.03)     | 4,201.83        | 130,662.89            |
| Accumulated GAP ....   | (27,982.74)  | (53,252.08)   | (39,537.93)   | (32,063.87)    | (58,945.90)     | (54,744.08)     | 75,918.82             |

The liquidity model takes into account the liquidity quality of portfolio assets, as well as the collateral exposure of assets and liabilities and their condition during the period.

#### (d) Credit risk

Banco Inbursa analyzes credit risk models based on estimations of the probability of default of a borrower. In order to manage the risk of default, Banco Inbursa considers a number of quantifiable economic factors and variables, as well as qualitative factors, and the overall effect of these factors on total portfolio exposure.

In the case of borrowers, the expected loss is calculated using the regulatory model, whose components include the probability of default, severity of loss and exposure to default. The unexpected loss (PNE) is calculated using the Monte Carlo methodology by means of simulations, and stress is tested by considering different percentiles of the simulated distribution of losses.

The value at risk and its classification as of December 31, 2016 are as follows:

|                      | Total      | Mortgage | Consumer | Commercial |
|----------------------|------------|----------|----------|------------|
| Balance .....        | \$ 243,503 | \$ 6,900 | \$ 3,783 | \$ 232,820 |
| Expected loss .....  | 6,009      | 252      | 759      | 4,998      |
| VaR.....             | -          | 264      | 767      | 9,577      |
| Unexpected loss..... | 4,599      | 12       | 9        | 4,579      |

| Currency      | Performing loan portfolio | Non-performing loan portfolio | Allowance | Number of times for allowance in non-performing loans | % allowance performing loans |
|---------------|---------------------------|-------------------------------|-----------|---|------------------------------|
| Mexican pesos | \$ 125,364                | \$ 3,220                      | \$ 912    | 1.21  | 3.12%                        |
| UDIs .....    | 1                         | 1                             | 1         | 1   | 100%                         |
| US dollars    | 113,715                   | 1,202                         | 2,096     | 1.74  | 1.84%                        |

The average value of the risk credit exposure is as follows:

| Expected impairment as of: | Total           |
|----------------------------|-----------------|
| 01/31/2016.....            | \$ 7,259        |
| 02/28/2016.....            | 6,967           |
| 03/31/2016.....            | 6,876           |
| 04/30/2016.....            | 6,529           |
| 05/31/2016.....            | 6,199           |
| 06/30/2016.....            | 6,097           |
| 07/31/2016.....            | 6,023           |
| 08/31/2016.....            | 5,981           |
| 09/30/2016.....            | 6,111           |
| 10/31/2016.....            | 5,998           |
| 11/30/2016.....            | 6,179           |
| 12/31/2016.....            | 6,009           |
| <b>Average.....</b>        | <b>\$ 6,352</b> |

Details of the performing portfolio are presented below:

| Concept                                     | Amount            |
|---|-------------------|
| Non-revolving consumer .....                | \$ 2,791          |
| Corporate.....                              | 90,678            |
| Financial entities .....                    | 26,047            |
| States and municipalities – guaranteed..... | 12,412            |
| Mortgage .....                              | 5,648             |
| MyPyMes .....                               | 99,984            |
|   | <b>\$ 237,560</b> |

The Unexpected Loss (PNE) as of December 31, 2016, was as follows:

|                  | Balance    | Reserve:<br>Expected loss | VaR (95%) | PNE      |
|------------------|------------|---------------------------|-----------|----------|
| Mortgage .....   | \$ 6,900   | \$ 252                    | \$ 264    | \$ 12    |
| Consumer .....   | \$ 3,783   | \$ 759                    | \$ 767    | \$ 9     |
| Commercial ..... | \$ 232,820 | \$ 4,998                  | \$ 9,577  | \$ 4,579 |

Credit Risk Potential to Maturity, as of December 31, 2015 and 2016:

| Portfolio (Without collateral received) | 2015                              | 2016   |
|---|-----------------------------------|--------|
|   | Credit Risk Potential to Maturity |        |
| Swaps .....                             | \$ 119                            | \$ 185 |
| Foreign exchange and forwards .....     | 1,812                             | 1,151  |
| Nominal rate.....                       | 47                                | 14     |
| Real rate .....                         | 13                                | 13     |
| Total .....                             | 1,979                             | 1,364  |

Furthermore, the credit analysis prepares a daily analysis of Mexico's main economic sectors and performs a quarterly portfolio quality follow-up by rating borrowers. In addition to the quarterly credit follow-up, credit risk concentrations are determined by borrower, group and economic activity.

When executing transactions involving futures and forwards contracts, Banco Inbursa acts for itself with financial intermediaries and participants authorized by Banxico, as well as with other participants, all of which must provide a guarantee for the performance of their obligations under the agreements executed among the parties involved in each case.

### ***Credit management***

The credit management evaluation and analysis activities performed by Banco Inbursa for credit granting, portfolio control and recovery purposes are described below:

### ***Credit analysis***

Credit control and analysis begins when information is received and continues until the credit is fully paid; during this period, this information passes through the filters applied by Banco Inbursa's different areas.

In the case of corporate (commercial) credits, a detailed analysis is performed of the company's financial position and qualitative aspects; Banco Inbursa also reviews the debtor's background and consults a credit bureau.

As regards consumer and housing credits and certain products granted to small and medium enterprises (SMEs), Banco Inbursa performs parametric analyses and verifies the credit background of each debtor by consulting a credit bureau.

Credit follow-up and evaluation is performed monthly by issuing regulatory reports to ensure fulfillment of the requirements established by Banco Inbursa's regulatory authorities. Additionally, monthly internal reports and updates are prepared.

Banco Inbursa has developed specific credit granting policies according to the product or credit type sought. For commercial credits: (i) the Credit Committee determines basic credit criteria such as amounts, guarantees, periods, rates and commissions, among others; (ii) the credit operation area ensures the proper documentation of approved credits; and (iii) credits cannot be utilized without the approval of the credit operation.

For consumer credit evaluations, the Credit Committee authorizes the retail credit analysis area to approve or reject credits requested for up to the amount of ten million Mexican pesos, albeit with specific limits regarding amounts, periods, rates and guarantees, among others. The retail credit analysis area is responsible for the authorization, instrumentation, custody and provision of documentation follow-up for this type of credit.

Banco Inbursa has established different credit recovery procedures, which includes credit restructuring negotiations and legal collection procedures.

### ***Risk concentration determination***

The policies and procedures utilized by Banco Inbursa to determine credit portfolio risk concentrations are

summarized below:

- Banco Inbursa requires that borrowers with authorized credit lines equal to or exceeding 30 million investment units (UDIs) provide the information detailed in bank guidelines to determine joint risks. This data is included in a customer association process to determine and update credit portfolio risks.
- Before credit lines are authorized, the Credit Analysis area verifies that they do not exceed the maximum quarterly financing levels established by Banco Inbursa or those determined by the regulatory authorities.
- If credit transactions exceed the limits established by Banco Inbursa for reasons other than credit granting, the involved areas are notified of the implementation of the required corrective measures.
- The credit analysis area is responsible for notifying the Commission whenever joint risk limits are exceeded.

### ***Distressed portfolio identification***

Banco Inbursa analyzes, on a monthly basis, the economic environment in which its borrowers operate so as to timely identify any indications of a distressed portfolio.

Banco Inbursa has the policy of identifying and classifying commercial credits in which, based on current information and facts and the credit review process, the principal and interest established according to the originally agreed terms and conditions are unlikely to be fully recovered. Both performing and non-performing portfolios may be identified as distressed portfolios.

### **(e) Risk policies applied to derivative products**

When performing transactions with derivative financial instruments, Banco Inbursa's objectives include the following: (i) ensure active short and medium-term participation in these markets; (ii) provide derivative market products to fulfill customers' requirements; (iii) identify and take advantage of derivative product market conditions; and (iv) hedge against the risks derived from any unusual underlying fluctuations (currencies, rates, shares, etc.) to which Banco Inbursa is exposed.

In general terms, the risk assumed by Banco Inbursa when performing currency derivative transactions involves the peso rate because dollar futures are accounted for as a credit portfolio or other assets. These transactions involve a counterparty risk.

Banco Inbursa's policies establish that risk positions in securities and derivative financial instruments cannot be taken by a broker. The decision to assume risks is exclusively made by senior management. The Risk Committee has determined that Banco Inbursa's positions must meet the following guidelines:

|                              | Due date less<br>than one year <sup>(*)</sup> | Due date more<br>than one year <sup>(*)</sup> |
|------------------------------|---|---|
| Nominal rate.....            | 2.5   | 2.0   |
| Real rate .....              | 2.5   | 2.0   |
| International Bonds .....    | 2.5   | 2   |
| Derivatives .....            | 4.0   | 2.5   |
| Capital <sup>(1)</sup> ..... | -   | -   |

<sup>(\*)</sup> Multiplied by the basic capital of the prior quarter calculated by Banxico.

<sup>(1)</sup> Up to the limits described in sections I and II of article 75 of the Credit Institutions Act.

### ***Documentation of hedge ratios***

For transactions with derivative financial instruments held for hedging purposes, Banco Inbursa's management documents hedge ratios to demonstrate their efficiency based on standards detailed in the accounting criteria issued by the CNBV. Hedge ratios are designated when a transaction involving a derivative financial instrument is contracted or at a later date, provided the instrument can be classified as such and the formal documentation conditions established by accounting standards are fulfilled.

The documentation prepared by Banco Inbursa regarding hedge ratios includes the following aspects:

1. The risk management strategy and objective, as well as the rationale used to perform the transaction.
2. The specific risk or risks to be hedged.
3. The identification of the primary position covered by the hedge and the derivative financial instrument utilized for that purpose.
4. The manner in which hedge effectiveness is initially evaluated (prospectively) and subsequently measured (retrospectively) by applying exposure to the fair value changes of the primary position attributed to hedged risks.
5. The treatment of the total gain or loss generated by the hedge instrument when determining its effectiveness.

The effectiveness of financial derivative instruments used for hedging purposes is evaluated monthly. If management determines that a derivative financial instrument is not highly effective as a hedge, Banco Inbursa prospectively ceases to apply the hedge accounting scheme to it.

### ***Obligations with counterparties***

Derivative financial transactions performed outside recognized markets are documented through an outline agreement that establishes the following obligations for Banco Inbursa and its counterparties:

- Deliver the accounting and legal information agreed by parties in the transaction supplement or confirmation;
- Deliver any document agreed in the transaction supplement or confirmation to counterparties;
- Comply with applicable laws, regulations and provisions;
- Ensure the validity of any internal, governmental or any other kind of authorization needed to comply with obligations assumed under the terms of the executed contract; and
- Immediately notify counterparties in writing upon gaining knowledge of any situation implying early termination of the outline agreement.

### ***Regulatory standards***

According to the regulatory standards issued by Banxico with regard to derivative financial instruments, Banco Inbursa must comply with Circular 4/2012. Aside from establishing rules for the operation of derivative financial instruments, these standards require that the Audit Committee of each credit institution issue an annual communication to confirm compliance with the provisions issued by Banxico for this purpose.

Banco Inbursa is also subject to the provisions issued by the CNBV corresponding to transactions performed with derivative financial instruments, which include guidelines for the treatment, documentation and recording of these transactions and their respective risks, as well as recommendations given to customers when executing this type of transactions.

Transactions involving derivative financial instruments, whether intended for trading or hedging purposes, are recognized according to their intended use and valued at fair value.

**(f) Technological risk**

The corporate strategy employed to manage the technological risk is based on a general contingency and business continuity plan that considers the recovery of critical mission operations in Banco Inbursa's systems, together with the use of firewalls, the management of confidential online information and systems access security.

**(g) Legal risk**

The specific legal risk policy utilized by Banco Inbursa defines the following:

1. The UAIR is responsible for quantifying the estimated legal risk.
2. The UAIR informs the Risk Committee of the legal risk for follow-up purposes on a monthly basis.
3. In conjunction with the documentation traffic area, the financial advisor is responsible for the complete and correct maintenance of customer files with respect to legal documents, agreements or contracts.
4. The legal area must monitor the adequate execution of agreements or contracts, including the formalization of guarantees to avoid transaction performance defects, at least once a year.
5. The statutory auditor must complete a legal audit of Banco Inbursa at least once a year.

The model proposed for quantifying the legal risk considers the frequency of unfavorable events and loss severity to estimate the potential risk.

**Unfavorable verdict probability calculation** = (Unfavorable frequency) x (Severity)

**Unfavorable frequency** = (Total unfavorable judgments) / (Total judgments to litigate)

**Severity** = ( $\sum$  unfavorable quantity demanded) / (Total unfavorable judgments)

**Expected loss** = ( $\sum$  unfavorable quantity demanded) x (Unfavorable frequency)

As of December 31, 2016, the loss expected from unfavorable verdicts is less than Ps.1 million.

**Operating risk**

As regards non-discretionary risks, the risk tolerance level is 20% of the average monthly net income of the last 36 months.

Banco Inbursa uses the basic method to calculate the capital requirement for operational risk.

As internal operating risk models are not currently available, the occurrence of operating risks is estimated by means of the simple arithmetic average of the fine and bankruptcy accounts of the last 36 months.

As of December 31, 2016, the monthly average of the fine and bankruptcy, considering the last 36 months was Ps.3.8 million.

## MANAGEMENT

### Board of Directors

Our management is entrusted to our board of directors, which is comprised of 9 proprietary members elected for one-year terms at our annual ordinary general shareholders' meeting.

The following table and discussion set forth the names of our current directors, their alternates, their principal occupation, business experience (including other directorships) and years of service as a director. Such directors were appointed and/or ratified at our annual ordinary shareholders' meeting held on April 28, 2016.

The members of our board of directors are expected to be ratified or removed and replaced at our annual ordinary shareholders' meeting to be held on April 28, 2017.

| Name                                    | Title                          | Year of Appointment |
|---|--------------------------------|---------------------|
| Marco Antonio Slim Domit.....           | Chairman                       | 1994                |
| Javier Foncerrada Izquierdo .....       | Director                       | 1998                |
| José Kuri Harfush .....                 | Director                       | 1995                |
| Héctor Slim Seade.....                  | Director                       | 2005                |
| Juan Fábrega Cardelús.....              | Director                       | 2008                |
| Juan Antonio Pérez Simón.....           | Director                       | 1995                |
| Guillermo Gutiérrez Saldívar.....       | Independent Director           | 2015                |
| David Antonio Ibarra Muñoz.....         | Independent Director           | 2015                |
| Juan Ramón Lecuona Valenzuela.....      | Independent Director           | 2008                |
| Frank Ernesto Aguado Martínez.....      | Alternate Director             | 2008                |
| Luis Roberto Frías Humphrey.....        | Alternate Director             | 2002                |
| Jorge Leoncio Gutiérrez Valdes.....     | Alternate Director             | 2014                |
| Carlos José García Moreno Elizondo..... | Alternate Director             | 2002                |
| María José Pérez Simón Carrera.....     | Alternate Director             | 2010                |
| Raúl Humberto Zepeda Ruiz.....          | Alternate Director             | 2010                |
| Maximino Ricardo Gutmann Lifschuz.....  | Alternate Independent Director | 2009                |
| José Antonio Alonso Espinosa.....       | Alternate Independent Director | 2008                |
| Antonio Cosío Pando.....                | Alternate Independent Director | 2015                |



Raúl Humberto Zepeda Ruiz is the Secretary and an alternate member of the board of directors and Guillermo René Caballero Padilla is the Alternate Secretary and is not a member of the board of directors.

**Marco Antonio Slim Domit** has a bachelor's degree in business administration from the Universidad Anáhuac. He is 48 years old. He has been a member of the board of directors of the Grupo Financiero Inbursa since April 21, 1994, as well as having served as the Chairman since October 12, 1998. He served as the CEO of the Grupo Financiero Inbursa from October 12, 1998 until April 23, 2012. The companies in which he acts as a board member are: all the subsidiaries of Grupo Financiero Inbursa: GCarso and Ideal (as Chairman). He is part of the executive board of the Instituto Carlos Slim de la Salud, A.C. (as Chairman), Fundación Carlos Slim, A.C. and the Fundación Inbursa, A.C. (as Chairman).

**Javier Foncerrada Izquierdo** has a bachelor's degree in business administration from the Universidad La Salle. He is 62 years old and serves as CEO of Grupo Financiero Inbursa, Banco Inbursa, and Sociedad Financiera Inbursa. He is the Chairman of the board of directors of Pensiones Inbursa, Patrimonial Inbursa, and Seguros de Crédito Inbursa and is a member of the board of directors for the rest of the subsidiaries of Inbursa.

**José Kuri Harfush** has a bachelor's degree in business administration from the Universidad Anáhuac. He is 68 years old and serves as CEO of Janel, S.A. de C.V. Additionally, he is a member of the board of directors of the subsidiaries of Group Financiero Inbursa, Telmex, GCarso, GSanborns, and Minera Frisco e Ideal, among others.

**Héctor Slim Seade** has a bachelor's degree in business administration from the Universidad Anáhuac. He is 54 years old and serves as Director General of Telmex. He is a member of the board of directors of various subsidiaries of Grupo Financiera Inbursa and Telmex.

**Juan Fábrega Cardelús** has a law degree from the University of Barcelona and completed courses on Organizational Development Consulting and Senior Management. He is 65 years old and presently serves as a board member for all the subsidiaries of Group Financiero Inbursa, and as the Director of Banca de Menudeo of Banco Inbursa.

**Juan Antonio Pérez Simón** is a public accountant and graduate of the Universidad Nacional Autónoma de México. He is 74 years old. Since 1995, he has been the Vice-president of Telmex as well as Chairman of the board of directors for Sanborns Hermanos, S.A. de C.V. He is a board member of Grupo Carso, Telmex, and some of Grupo Financiero Inbursa's other subsidiaries.

**Guillermo Gutiérrez Saldívar** studied electrical and mechanical engineering at the Universidad Iberoamericana. He is 75 years old and acts as the Chairman of the board of directors of Grupo IDESA, S.A. de C.V., and is a board member of Minera Frisco and various subsidiaries of Financiero Inbursa.

**David Antonio Ibarra Muñoz** is a public accountant and has a bachelor's degree in economics from the Universidad Nacional Autónoma de México. He is 87 years old. From 1970 to 1973 he served as the Director of the Mexican office of the Economic Commission for Latin America and the Caribbean (CEPAL). He served as the head of the SHCP from 1977 to 1982. In 1982 he was the CEO of Banxico. From 1983 to 1986 he served as a consultant for the Banco Interamericano de Desarrollo; from 1987 to 1994 he served as an adviser to the CEO of Petróleos Mexicanos and from 1983 to 2001 he served as a consultant for CEPAL. Presently, he is an independent consultant and a member of the board of directors of Ideal.

**Juan Ramón Lecuona Valenzuela** has a bachelor's degree in economics from the Universidad de Anáhuac, with a master's and doctorate in economics from Cornell University in Ithaca, New York, having specialized in economic theory, econometrics, and other specializations in mathematic theory. He is 64 years old and presently serves as the Director of the School of Economics and Business at the Universidad Anáhuac.

**Frank Ernesto Aguado Martínez** has a bachelor's degree in economics from the Universidad Anáhuac, with a master's in economics and business from the same institution. He is 48 years old and presently serves as the Manager of Credit and Investor Relations at Banco Inbursa.

**Luis Roberto Frías Humphrey** is an industrial engineer who graduated from the Universidad Iberoamericana. He is 51 years old and presently serves as the Director of Corporate and International Banking at Banco Inbursa. He sits on the board of directors of Fianzas Guardiana, Operadora Inbursa, and Sociedad Financiera Inbursa.

**Jorge Leoncio Gutiérrez Valdés** is an actuary who graduated from the Universidad Nacional Autónoma de México. He is 52 years old and presently serves as the Director of Retail Banking and as a board member in a wide array of the subsidiaries of Grupo Financiero Inbursa.

**Carlos José García Moreno Elizondo** has a bachelor's degree in economics from the Universidad Anáhuac, and has also studied and completed postdoctoral work at Cornell University, in Ithaca, New York. He is 60 years old and presently serves as the Finance Director of América Móvil.

**María José Pérez Simón Carrera** has a bachelor's degree in economics from the Universidad Anáhuac and completed a course in negotiations at Harvard University. She is 42 years old. Since April 2004, she has acted as the CEO of JUJOMA, S.A. de C.V. She is board member and alternate board member of some subsidiaries of Grupo Financiero Inbursa.

**Raúl Humberto Zepeda Ruiz** has a law degree from the Universidad Nacional Autónoma de México. He is 48 years old and presently serves as the secretary of the board of directors of Ideal and Grupo Financiero Inbursa, as well as for their subsidiaries.

**Maximino Ricardo Gutmann Lifschutz** has a bachelor's degree in business administration from the Universidad Autónoma de México. He is 69 years old and is an independent investor.

**José Antonio Alonso Espinosa** has a bachelor's degree in international relations from the Universidad Iberoamericana. He is 50 years old and presently serves as CEO of Grupo JAAE.

**Antonio Cosío Pando** is an industrial engineer who graduated from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM). He is 48 years old and serves as General Manager of Compañía Industrial de Tepeji del Río, S.A. de C.V.; he is a member of the board of directors of América Móvil, GSanborns, Inmuebles Carso, S.A.B. de C.V., of several subsidiaries of Grupo Financiero Inbursa, GCarso, Bodegas de Santo Tomás, S.A. de C.V., Hoteles Las Brisas, S.A. de C.V., Hoteles Las Hadas, S.A. de C.V. and La Suiza, S.A. de C.V.

## **Actions of the Board**

Our board of directors is authorized to take any action in connection with our operations not expressly reserved to our shareholders, and is responsible for carrying out the duties and obligations established in the Mexican Banking Law, Mexican Corporations Law and our by-laws.

Our board of directors is authorized to, among other things:

- design our general strategy;
- monitor our management and that of our subsidiaries;
- approve, with prior input from the audit and corporate practices committees, on an individual basis: (i) the guidelines on the use of our assets and that of our subsidiaries, (ii) transactions with related parties, subject to certain limited exceptions, (iii) unusual or non-recurrent transactions and, subject to certain limited exceptions, any transactions or series of related transactions during any calendar year, (iv) the election of our chief executive officer, his compensation and removal and guidelines for the appointment and compensation of other members of senior management, (v) the guidelines on the granting of loans and guarantees to related parties, (vi) waivers regarding conflicts of interest to members of the board of directors and members of senior management; (vii) the guidelines on our internal control and internal audit and those of our subsidiaries; (viii) our accounting principles and policies; (ix) our financial statements and those of our subsidiaries, and (x) the appointment and the agreements with external auditors;

- call shareholders' meetings and act on their resolutions;
- create special committees and grant them powers and authority to the extent provided under applicable Mexican law;
- approve policies to report to and communicate with shareholders and the market as well as with board members and senior management;
- determine the courses of action necessary to correct irregularities that they become aware of and implement the corresponding measures; and
- carry out any other duty pertaining to them under the Mexican Banking Law, the Mexican Corporations Law or our by-laws.

Meetings of our board of directors will be validly convened and held if a majority of our directors are present. Resolutions at the meetings will be valid if approved by a majority of the members of the board of directors present at such meeting. The chairman of the board of directors has a casting vote in case of tie on votes. Resolutions held unanimously outside a board meeting are as valid as if adopted in a meeting, provided they are evidenced in writing. In accordance with Mexican applicable law, our shareholders may at all times override the decisions of our board of directors.

### **Audit Committee**

The Mexican Banking Law requires us to have an audit committee, which is a consulting body and must be comprised of at least three and up to five members of our board of directors, including at least one independent director to serve as Chairman of the committee.

The members of our audit committee were designated at the shareholders' annual general ordinary meeting held on April 28, 2015 and ratified by the same corporate body on April 28, 2016. The audit committee members are Guillermo Gutiérrez Saldívar (Chairman), David Antonio Ibarra Muñoz and Antonio Cosío Pando. Within the meaning of the Mexican Banking Law, members of the Audit Committee must be chosen for their professional reputation and at least one member must qualify as a financial, auditing and internal controls expert. Standards for independence and financial expertise under Mexican law, however, differ from the New York Stock Exchange, NASDAQ Stock Market LLC or U.S. securities law standards.

The audit committee's principal duties include, among others, following up on internal and external auditing activities and informing the board of directors with respect to the development of all auditing activities.

### *Examiner*

Banco Inbursa has one proprietary examiner and one alternate examiner appointed by the Bank's class O shareholders. They have the power to call a meeting of our board of directors and may attend the board of directors' and shareholders' meetings but may not vote.

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).

When discharging their duties the examiners must evaluate (i) the observance of the Bank's internal control and audit guidelines on the basis of the reports provided by our audit committee and compliance officers and (ii) the sufficiency and reasonableness of the Bank's internal control and audit system and issue a report to this effect.

Because of the relationship between the examiners and the Bank, the examiners are bound by confidentiality obligations. 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.

### Corporate Practices Committee

Although not required under applicable law, our shareholders ratified the members of our corporate practices committee for an indefinite term at the shareholders' annual general ordinary meeting held on April 28, 2016. The corporate practices committee members are Juan Ramón Leucona Valenzuela (Chairman), Héctor Slim Seade, José Kuri Harfush, and Guillermo Gutiérrez Saldívar.

The corporate practices committee is responsible for, among other duties: (i) requesting an opinion of independent experts to adequately perform its duties; (ii) calling Shareholders' meetings and requiring the discussion of certain topics during those meetings; and (iii) providing assistance to the board of directors in the preparation of reports for the annual Shareholders' meeting.

### Risk Management Committee

Our board of directors, together with those of Grupo Financiero Inbursa's other subsidiaries, created the risk management committee that will exist for an indefinite period. The principal duties of our risk management committee include, among others, (i) measuring, evaluating and monitoring risks in the market, credit, liquidity and other relevant factors in the operations held by our subsidiaries; (ii) creating programs to review the objectives, goals and operational and control procedures, such as the levels of risk tolerance, and (iii) communicating immediately to the chief executive officer and periodically to the board of directors any deviation from established risk tolerance levels.

### Senior Management

The following table sets forth the names and positions of our current members of senior management:

| Name                                   | Position  | Year Joined<br>Banco Inbursa |
|--|---|------------------------------|
| Javier Foncerrada Izquierdo .....      | CEO Banco Inbursa                                 | 1992                         |
| Raúl Reynal Peña.....                  | Administration and Finance<br>Manager             | 1986                         |
| Guillermo René Caballero Padilla ..... | Legal and Institutional Relations<br>Manager      | 1994                         |
| José Ignacio Jimenez Santos.....       | General Manager of Afore<br>Inbursa               | 1996                         |
| Jorge Leoncio Gutiérrez Valdés .....   | Manager of Retail Banking                         | 1995                         |
| Luis Roberto Frías Humphrey .....      | Manager of Corporate and<br>International Banking | 1990                         |
| Frank Ernesto Aguado Martínez.....     | Manager of Loans and Investor<br>Relations        | 1996                         |

**Raúl Reynal Peña** has a bachelor's degree in public accounting from La Salle University. He has been Administration and Finance Manager of Grupo Financiero Inbursa and its subsidiaries since June 2006. He is 51 years old.

**Guillermo René Caballero Padilla** has a law degree from the Universidad Nacional Autónoma de México. He is 45 years old and presently serves as the General Counsel and Director of Institutional Relations, as well as alternate secretary of the board of directors of Grupo Financiero Inbursa and its subsidiaries.

**José Ignacio Jimenez Santos** has a bachelor's degree in Economics from the Instituto Tecnológico Autónomo de México (ITAM). He is 42 years old and CEO of Afore Inbursa.

For biographical information of Javier Foncerrada Izquierdo, Jorge Leoncio Gutiérrez Valdés, Luis Roberto Frías Humphrey and Frank Ernesto Aguado Martínez, see "Management—Board of Directors."

### **Compensation of Directors and Senior Management**

In the annual general ordinary shareholders' meeting held on April 28, 2016, the shareholders resolved to increase the compensation of the members of the board of directors to Ps.7,500.00 for each board meeting of the board of directors they attend and Ps.3,500.00 for each audit committee and corporate practices committee meeting they attend.

The compensation arrangements described above are the only forms of compensation approved and payable to members of our board of directors and members its committees. There are no special compensation packages, agreements or benefits approved for members of our board of directors or of our different committees. Additionally, there are no agreements or stock option plans allowing members of our board of directors, executive officers or employees to beneficially own our capital stock.

## RELATED PARTY TRANSACTIONS

### Conflicts of Interests

Articles 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law regulate and limit transactions pursuant to which related parties may be liable to a bank. Transactions covered under the Articles are deposits, any type of loan, restructurings and amendments to such loan, net derivatives positions and investments in securities other than equity securities. For purposes of these provisions, the term “related parties” refers to (1) holders, either directly or indirectly, of 2% or more of our, Grupo Financiero Inbursa’s or any of our or its subsidiaries’ shares; (2) principal and alternate board members of our board of directors or the board of directors of Grupo Financiero Inbursa or any of our or its subsidiaries; (3) relatives of a board member or of any person specified in (1) and (2) above; (4) any person that is not an officer or employee of Grupo Financiero Inbursa or us who, nevertheless, is empowered to contractually bind Grupo Financiero Inbursa or us; (5) any corporation (or its directors or executive employees) in which Grupo Financiero Inbursa, we or any of our or its subsidiaries owns, directly or indirectly, 10% or more of its equity stock; (6) any corporation who has a director or officer in common with us, Grupo Financiero Inbursa or any of our or its subsidiaries; or (7) any corporation in which Grupo Financiero Inbursa’s or our external auditors, our employees, holders of 2% or more of Grupo Financiero Inbursa’s shares, 2% or more of our shares, or we or any director or officer of Grupo Financiero Inbursa or us holds 10% or more of the outstanding capital stock. Three-fourths of the members of our board of directors present at the relevant meeting must approve such loans. Prior to such approval, however, the loan must undergo our customary review procedures for loans, which will vary depending on the nature and amount of the loan. In addition, certain filings must be made with the CNBV with respect to such loans. Loans to individuals in amounts less than the greater of (1) two million UDIs (*Unidades de inversión*, a peso-equivalent unit of account indexed for Mexican inflation) or (2) 1% of a bank’s Tier 1 net capital (approximately Ps.628 million at 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.

The SHCP has adopted rules which exclude from the category of loans to related parties loans granted to the Mexican government, provided that the recipient does not make a loan to a related party, and loans to our directors or officers if they fall within the minimum thresholds set forth above. The SHCP rules also exclude from the category of loans to related parties loans to companies that provide ancillary services to us, meaning our affiliates that provide the necessary auxiliary services we need in order to carry out our operations, such as administrative, accounting, finance, legal, IT and other services, provided that such companies do not make a loan to a related party. These three categories of loans are not considered for purposes of determining the 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.

Additionally, we have established general criteria to avoid conflicts of interest among the entities of our financial group.

As of December 31, 2016, our loans to related parties under Articles 73, 73 Bis and 73 Bis 1 of the Mexican Banking Law totaled Ps.13,502 million, which represented 4.8% of our total loan portfolio at such date. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of the related party loans outstanding on December 31, 2016, 83% were graded “A” and 17% were graded “B” under the Loan Classification and Rating Rules.

### Affiliate Transactions

In our ordinary course of business, we engage in certain financial and commercial transactions with related parties, including Telmex, Telmex Internacional, América Móvil, Ideal and Grupo Carso, among others. We plan to continue our transactions with these related parties in the future.

The Mexican Banking Law sets limits for the provision of financing by us to related parties, signaling that the total sum of the amount of total loans granted plus the lines of available credit irrevocably granted to related parties may not exceed 35% of Banco Inbursa’s basic net capital. As of December 31, 2016 the balance of loans granted to related parties did not exceed this limit.

For more information on regulations governing related party loans, see “Supervision and Regulation—Related Party Loans.”

For more information about our affiliate transactions, see Note 33 to our Audited Financial Statements.

### ***Banco Inbursa***

In conformity with CNBV accounting criteria C-3, “Related Parties,” transactions with related parties subject to disclosure are those that represent more than 1% of net capital of the month prior to the date on which the financial information is prepared. As of December 31, 2014, 2015 and 2016, the balance of qualifying related party transactions was Ps.588 million, Ps.728 million and Ps.633 million, respectively.

Related party transactions are conducted using market prices that are set based on existing market conditions at the date of the transactions.

### ***Contracts***

Material agreements and transactions with related parties are described below:

- We develop sale and repurchase agreements on Inversora Bursatil’s (affiliated money market in both buyer and seller roles).
- We have entered into trust agreements with our related parties.
- We have outstanding loans extended to our related parties, which are mainly to related companies of Grupo Financiero Inbursa.
- We maintain demand and time deposits from related parties; however, the balances for these deposits do not exceed the limits established by the CNBV.
- We have personnel administrative services and fixed assets leasing for our bank branches.

### ***Operations***

An analysis of Banco Inbursa’s transactions with related parties as of December 31, 2014, 2015 and 2016 is as follows:

| <b>Relationship</b>           | <b>Transaction</b>                                     | <b>2014</b>  | <b>2015</b>  | <b>2016</b>  |
|-------------------------------|--|--------------|--------------|--------------|
| <b>(millions of pesos)</b>    |  |              |              |              |
| <b>Revenues:</b>              |  |              |              |              |
| Affiliates                    | Interest income  | 1,334        | 1,315        | 1,781        |
| Affiliates                    | Premiums collected from sale and repurchase operations | 63           | 40           | 53           |
| Affiliates                    | Commissions and fees collected                         | 87           | 135          | 153          |
| Affiliates                    | Income from derivatives                                | 1,017        | 1,223        | 485          |
| Affiliates                    | Commission from shares distribution                    | 17           | 7            | 7            |
| Affiliates                    | Fiduciary transactions                                 | 25           | 25           | 35           |
|                               |  | <b>2,543</b> | <b>2,745</b> | <b>2,514</b> |
| <b>Expenses:</b>              |  |              |              |              |
| Affiliates                    | Interest expense                                       | 53           | 47           | 62           |
| Affiliates                    | Premiums paid from sale and repurchase agreements      | 549          | 606          | 555          |
| Affiliates                    | Losses from derivatives                                | 1,375        | 2,494        | 343          |
| Affiliates                    | Personnel service administration                       | 1,734        | 1,954        | 1,269        |
| Affiliates                    | Leasing  | 46           | 70           | 31           |
| Affiliates                    | Commissions from public share offering                 | 81           | 40           | 59           |
|                               |  | <b>3,838</b> | <b>5,211</b> | <b>2,319</b> |
| <b>Variations in capital:</b> |  |              |              |              |
| Shareholders                  | Dividend paid  | <b>460</b>   | <b>1,770</b> | <b>992</b>   |

### ***Compensation for officers and management***

Banco Inbursa has no employees. Our personnel service administration is carried out by Seguros Inbursa, S.A., Grupo Financiero Inbursa. Short-term benefits paid to our directors and advisors in 2014, 2015 and 2016 was Ps.1 million, Ps.2 million and Ps.2 million over a period of three years. There is no stock-based compensation plan.

### ***Balances***

An analysis of Banco Inbursa's principal balances due from/to related parties as of December 31, 2014, 2015 and 2016 is as follows:

| <b>Relationship</b>       | <b>Transaction</b>                               | <b>2014</b>   | <b>2015</b>                | <b>2016</b>   |
|---------------------------|--|---------------|----------------------------|---------------|
|                           |  |               | <b>(millions of pesos)</b> |               |
| Affiliates and associates | Derivatives <sup>(1)</sup>                       | 2,145         | 2,367                      | 15,198        |
| Affiliates                | Loan portfolio                                   | 8,828         | 14,683                     | 13,502        |
| Affiliates                | Receivables under security repurchase agreements | 2,399         | 1,952                      |               |
| Affiliates                | Deposits   | 2,094         | 3,319                      | 1,804         |
| Affiliates                | Time Deposits                                    | 441           | 82                         | 70            |
| Affiliates                | Loan commitments (letters of credit)             | 985           | 983                        | 2,013         |
|                           |  | <b>16,892</b> | <b>23,386</b>              | <b>32,587</b> |

As of December 31, 2014, 2015 and 2016, we have forward and swaps contracts with related parties. Regarding forward contracts, we have 15, 31 and 10 as of December 31 2014, 2015 and 2016 with related parties with a notional value of Ps.45,494 million, Ps.43,482 million and Ps.26,018 million, respectively. Regarding operations in swaps as of December 31, 2014, 2015 and 2016, we have 138, 105 and 130 contracts, respectively with related parties at a notional value of Ps.49,627 million, Ps.51,465 million and Ps.46,337 million, respectively.

As of December 1, 2012, changes to the Mexican Federal Labor Law reform became effective. These changes may affect how Banco Inbursa receives professional and personnel services from affiliated companies. As of December 2013, we have evaluated the possible impact on financial information of this reform, concluding that there are no significant effects which should be recognized. Banco Inbursa will continue to analyze the effects of this reform, particularly about the rights, determinations and recognition of employees' benefits.



## THE MEXICAN FINANCIAL SYSTEM

### General

Mexico's financial system is currently comprised of commercial banks, national development banks, brokerage firms, development trust funds and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loans companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies, multiple purpose financial institutions (known as SOFOMs) and specialized banks. In 1990, Mexico adopted the first Mexican Financial Groups Law, which permitted a number of financial services companies to operate as a single financial services holding company. Most major Mexican financial institutions are members of financial groups.

The main financial authorities that regulate financial institutions are SHCP, Banxico, CNBV, CONSAR, CNSF, IPAB and CONDUSEF.

### History of the Mexican 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 Gross Domestic Product, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the Mexican peso in December 1994 initiated a financial 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, high 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 took over or intervened in the operations of 13 banks and adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- the creation of a temporary capitalization program to assist banks;
- the establishment of a foreign exchange credit facility with Banxico to help banks with dollar liquidity problems;
- an increase in the level of required loan loss reserves;
- the establishment of a temporary program for the reduction of interest rates on certain loans;
- the establishment of various programs to absorb a portion of debt service cost for mortgage loan debtors (including debt restructuring and conversion support programs); and
- the invitation for foreign and Mexican investors to participate in Mexican financial institutions.

In addition, to address the deterioration of asset quality, the Mexican government established debt restructuring and conversion support programs to help restructure and convert loans of borrowers facing cash-flow problems. Finally, the Mexican government created a program to promote increased capitalization of Mexican banks by, among other things, providing for the transfer of loans and other assets to the *Fondo Bancario de Protección al Ahorro* (Banking Fund for the Protection of Savings, or the "FOBAPROA"). Effective January 20, 1999, FOBAPROA was replaced by the new bank savings protection institute known as IPAB, which was created to manage the bank savings protection system and regulate financial support granted to banks.

### ***Mechanisms to Strengthen the Stability of the Banking Sector***

As credit quality and Capital Ratios deteriorated in the banking system following December 1994, the Mexican financial authorities and some banks entered into capitalization and asset sale programs.

Mexican Banking GAAP adopted significant changes in the accounting practices applicable to Mexican banks, with a view toward making those practices more consistent with international accounting standards and Basel Committee recommendations.

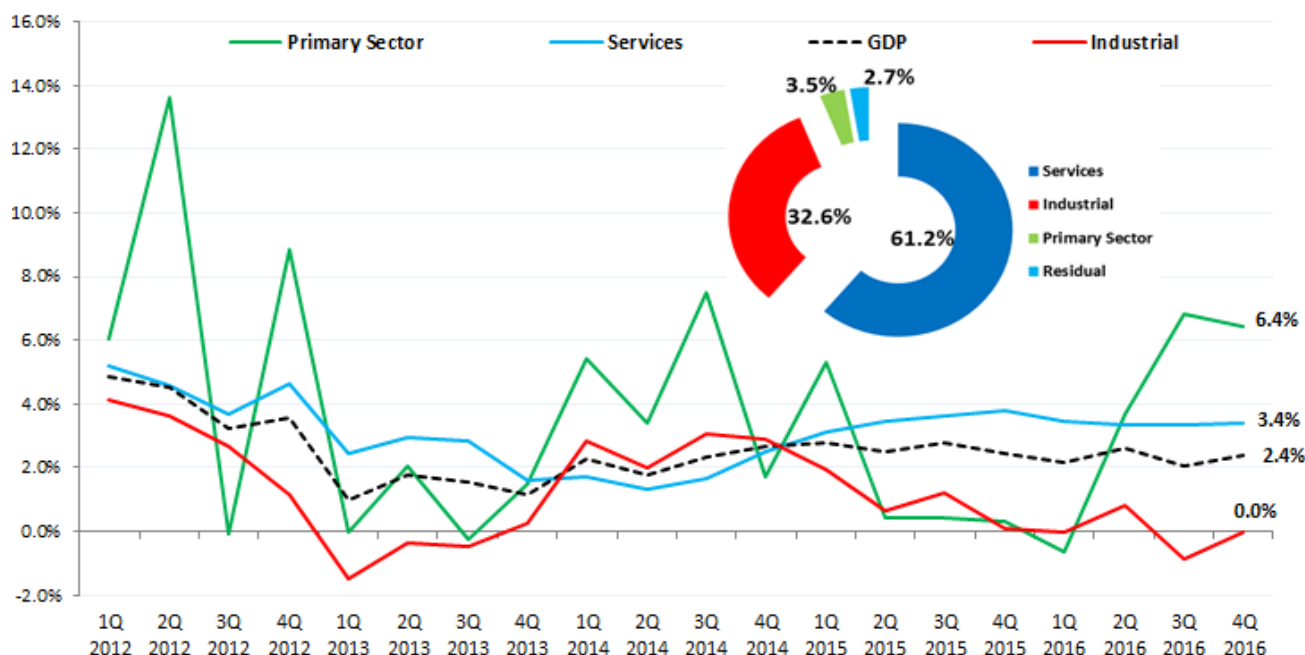
Other measures to strengthen the financial sector included a significant enhancement of the CNBV's supervisory activities through closer and more frequent inspections and the application of heightened reporting requirements.

### **Current Situation of the Mexican Financial System**

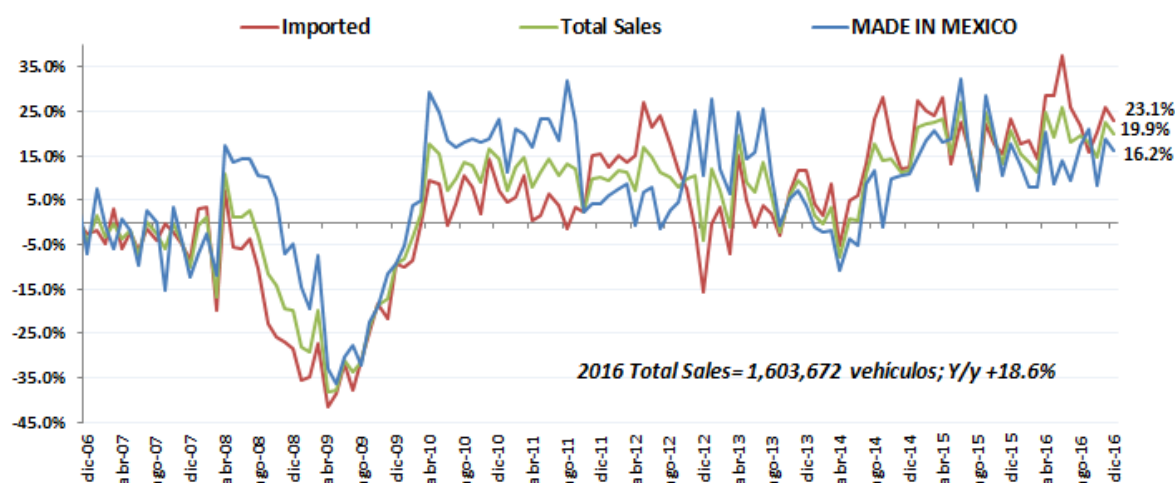
The moderate growth of Mexico's GDP (2.5% in 2015 and 2.3% in 2016) was driven by the private consumption during the last two years, which has offset the significant decline of mining in the industrial sector, resulting from the decreased oil production of Petróleos Mexicanos (the Mexican state productive enterprise).

The manufacturing sector (which represents 16.3% of GDP) has been growing slowly as Mexico's principal trade partner, the United States, has experienced a decline in the industrial sector. During the past ten years, the correlation of the GDPs of Mexico and the United States has been approximately 93.6 %.

**Quarterly Mexican GDP by Sector (Y/y growth %)**

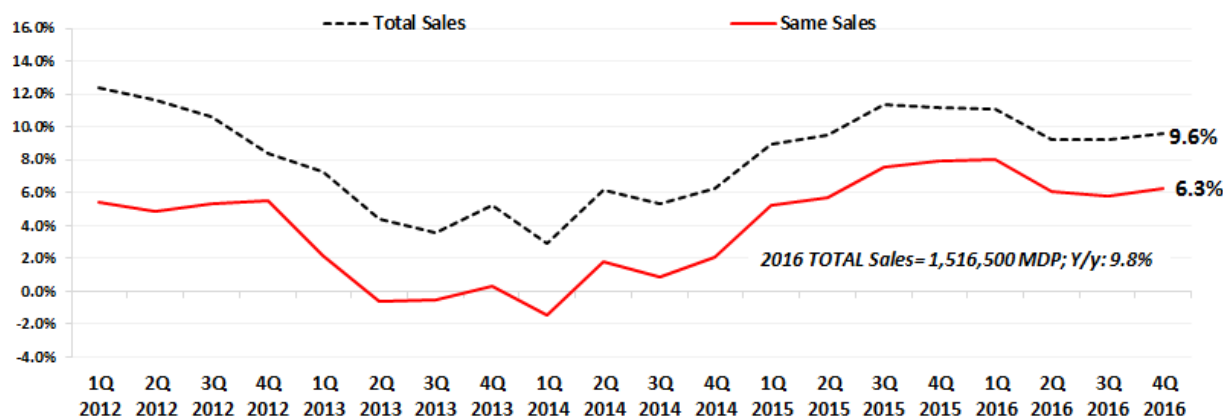


## Monthly Vehicles Sales (Y/y Growth)



In the services sector, commerce has been growing as a result of low inflation, the increase in general wages and the historical level of remittances. Consumption indicators such as vehicle sales (which grew 18.6% for the year ended December 31, 2016) and supermarket and department store sales (which grew 9.8% for the year ended December 31, 2016) in nominal terms, demonstrate the current environment of strong domestic demand in Mexico.

## Quarterly Supermarkets and Departmentals Stores (Y/y Growth)



The banking sector is performing well, with a growth in loans portfolios, as corporate loans, consumer loans and mortgage loans grew 12.5%, 12.2% and 10.6%, respectively, in 2016, respectively, driven by the expansion of and increased participation in the banking sector.

## Financial Groups

The enactment of the Mexican Financial Groups Law in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions became part of financial groups controlled by a financial services holding company, such as us, and made up of a number of financial operating entities. The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial services operating subsidiaries. Such subsidiaries, whether direct or indirect, may include Mexican banks, broker-dealers, insurance companies, bonding companies, mutual fund operators, mutual funds, auxiliary credit organizations (such as factoring, financial leasing and bond-warehousing companies), SOFOMs, foreign exchange service providers and retirement fund administrators. Financial groups may

be comprised by a holding company and any two financial institutions (which may be of the same type of financial institution), provided that a financial group may not be comprised solely by the holding company and two SOFOMs.

The Mexican Congress recently approved the new Mexican Financial Groups Law, which permits entities controlled by the same financial services holding company:

- to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;
- use similar corporate names; and
- conduct their activities in the offices and branches of other entities 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 (i) agrees to be secondarily liable if its subsidiaries are unable to meet their obligations and without limitation for the satisfaction of the obligations incurred by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and (ii) is fully responsible for the losses of its subsidiaries, up to the total amount of the holding company's assets. For such purposes, a financial subsidiary is deemed to have losses when, among others, the assets of the subsidiary are not sufficient to cover payment obligations. In accordance with Article 120 of the Mexican Financial Groups Law, a holding company is liable for the amount of losses of the banking institution forming part of such financial group, only upon the determination by the IPAB of the amount payable. Grupo Financiero Inbursa has entered into such an agreement with each of its financial services subsidiaries, including Banco Inbursa.

No subsidiary of any such holding company is responsible for the losses of the holding company or any other subsidiary thereof.

Certain provisions of the Mexican Financial Groups Law (i) allow financial services holding companies to hold minority interests in financial institutions with the authorization from the SHCP, (ii) set forth specific duties of care and loyalty applicable to board members, even if the financial services holding company is not public, (iii) permit foreign governmental entities to acquire controlling interests and indirect interests in financial services holding companies in certain cases, and (iv) strengthen the required regulatory supervision of consolidated financial groups. In addition, financial services holding companies may be required, pursuant to general rules issued by Mexican regulators, to maintain consolidated capital in connection with risks affecting such companies. Furthermore, financial services holding companies could be required to maintain a minimum net capital, arising from permanent investments made in subsidiaries, and may be subject to corrective measures (such as non-distribution of dividends, suspending payments of interest and deferring payments of principal, ordering the sale of assets or suspending payments of bonuses).

The recent reforms to the Mexican financial system have modified corporate governance standards applicable to holding companies of financial groups, to make them similar to those applicable to public companies and have permitted the creation of sub-holding companies, to control financial entities..

### **Authorities of the Mexican Financial System**

The principal authorities that regulate financial institutions are SHCP, Banxico, CNBV, CONSAR, CNSF, 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, our 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.

### ***Banxico***

Banxico is an autonomous entity, independent from any other body in the Federal Government. Its primary purpose is to issue the Mexican currency, as well as maintaining the acquisition power of such currency, regulate foreign exchange, 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 Banxico, it is the primary regulator of holding companies for financial groups, 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 agency subordinated to the SHCP, having independent technical and executive powers. The CNBV is in charge of the supervision and regulation of financial entities, with the purpose of ensuring their stability and sound performance, as well as the maintenance of a safe and sound financial system. The scope of the CNBV's authority includes inspection, supervision, prevention and correction powers. The primary financial entities regulated by the CNBV are commercial banks, national development banks, regulated multiple purpose financial institutions, brokerage firms, as well as publicly traded companies and other entities that have issued debt securities to the public. The CNBV is also in charge of granting and revoking banking and securities brokerage licenses in Mexico.

### ***CONSAR***

The CONSAR is a governmental agency subordinated to the SHCP, having independent technical and executive powers. The CONSAR was created in 1997 as part of a comprehensive reform of the retirement savings and pensions system, and is in charge of protecting the retirement savings of employees through the regulation and supervision of *Administradoras de Fondos para el Retiro* (Pension Funds Managers) and *Sociedades de Inversión de Fondos para el Retiro* (Pension Funds). 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 agency subordinated to the SHCP, having independent technical and executive powers. The CNSF is in charge of the supervision and regulation of insurance and bonding companies, promoting the safe and sound development of the insurance and guaranty bond financial sectors.

### ***CONDUSEF***

The CONDUSEF is a governmental agency subordinated to the SHCP. The CONDUSEF is in charge of the provision of financial orientation, guidance and information to customers of financial services, as well as implementation of corrective measures through the processing of claims by such customers, with the primary purpose of protecting customer's interests. The CONDUSEF may also act as arbitrator in disputes between financial institutions and their customers. CONDUSEF can establish regulations and impose sanctions to financial institutions in order to protect their users. CONDUSEF is also in charge of supervising standard contracts of used by and between financial institutions and their clients. As described below, the recent financial reforms have broadened the authority of CONDUSEF.

## **IPAB**

After the 1994 financial crisis, the Mexican 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. The IPAB is also entitled to acquire assets from distressed banking institutions.

### **Reforms to Mexican Banking Law and Other Financial System Laws**

On January 10, 2014, several amendments to several Mexican financial laws, including the Mexican Banking Law, were published in the 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 Mexican Banking Regulations. 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 the 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 the CNBV and Banxico, 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 forth 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 the 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.

*Evaluation of Mexican Banks.* One of the main aspects of the recent changes in the Mexican Banking Law consists of the authority granted to the SHCP to conduct evaluations of Mexican banks. On December 31, 2014, the SHCP issued Guidelines for the Performance Evaluation for Banking Institutions, the evaluations are based upon the size of the banks and their participation in the relevant markets, and determine whether or not a particular bank is lending to all sectors of the economy. Evaluations are not based upon financial condition, liquidity or solvency. Results of evaluations are required to be made publicly available by the SHCP. Negative results from evaluations may result in the SHCP ordering corrective measures.

*Banxico's Authority to Regulate Interest Rates and Fees.* Under recent changes to the Law for the Transparency and Ordering of Financial Services, Banxico has broad authority to determine that no reasonable competitive conditions exist and to issue temporary regulations that relate to interest rates and fees. In addition, Banxico has broad authority to issue regulations in respect of credit and debit cards, checks, fund transfers and other means of payment, as a means to ensure competition, free access, no discrimination and protection of the interest of users.

*Authority of COFECE to investigate Competition.* In connection with the financial reform approved by the Mexican Congress, the COFECE carried out an investigation in 2014 to evaluate competitive conditions exist in the Mexican financial system and formulate recommendations to enhance competition. At the conclusion of their investigation, the COFECE issued a report providing an overview of the salient features of the structure and practices of the financial sector with respect to: (i) financial and regulated entities; (ii) credit; (iii) savings, including pension funds and investment funds; (iv) stock-exchange related financing and (v) insurance. Although as of the date of this offering memorandum, this investigation has not resulted in any regulatory actions by the COFECE or other financial authority, including any forced sales of assets, it generally reflects increased regulatory scrutiny of anti-competitive activities in the Mexican financial system.

*Broad Authority of CONDUSEF.* As part of the financial reform approved in Mexico in January 2014, the Mexican Congress approved changes to the Law for the Protection and Defense of Financial Services Users pursuant to which CONDUSEF is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services.

CONDUSEF has broad powers to regulate our activities and activities of other Mexican banks, which may have an adverse impact on us. Under recent changes approved by the Mexican Congress to the Law for the Protection and Defense of Financial Services Users, CONDUSEF is entitled to (i) 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, (ii) order the attachment of our assets for the benefit of our customers, and (iii) initiate class action law suits. CONDUSEF has broad and discretionary authority to take this and other similar actions, including the imposition of laws and the publication of information, such as issuing fines, which may be detrimental to our business and reputation.

## **Improvement of Creditors' Rights and Remedies**

### ***Bankruptcy Law***

Mexico's bankruptcy law was enacted on May 12, 2000, and modified on January 10, 2014, and has been frequently used to resolve complex insolvency situations affecting Mexican companies, by providing expedited and clear procedures, while at the same time granting creditors and other participants the certainty of an in-court solution. The law provides for a single insolvency proceeding encompassing two successive phases: a conciliatory phase of mediation between creditors and debtor, and bankruptcy.

The law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the *interventor* (auditor), *conciliador* (conciliator) and *síndico* (receiver). The IPAB acts as the liquidator and receiver and the CONDUSEF may appoint up to three intervenors. On the date the insolvency judgment is entered, all peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into pesos at the rate of exchange for that date and then converted into UDIs. Only creditors with a perfected security interest (i.e., mortgage, pledge or security trust) continue to accrue interest on their loans. The bankruptcy law mandates the netting of derivative transactions upon the declaration of insolvency.

The bankruptcy law provides for a general rule as to the period when transactions may be scrutinized by the judge to determine if they were entered into for fraudulent purposes, which is 270 calendar days prior to the judgment declaring insolvency or a longer period, not to exceed three years, as determined by the bankruptcy judge. This period is referred to as the retroactivity period. A restructuring agreement must be entered into by the debtor, as well as recognized creditors representing more than 50.0% of the sum of the total recognized amount corresponding to common creditors and the total recognized amount corresponding to secured or privileged creditors subscribing the agreement. Any such agreement, when confirmed by the court, becomes binding on all creditors, and the

insolvency proceeding is then considered to be concluded. If an agreement is not reached, the debtor is declared bankrupt.

The bankruptcy law incorporates provisions relating to pre-agreed insolvency proceedings, frequently used in jurisdictions different from Mexico, that permit debtors and creditors to agree upon the terms of a restructuring and thereafter file, in order to obtain the judicial recognition of a restructuring reached on an out-of-court basis. This also provides protection against dissident minority creditors.

### **Deregulation of Lending Entities and Activities**

In July 2006, the Mexican Congress enacted amendments to the *Ley General de Organizaciones y Actividades Auxiliares del Crédito* (General Law of Auxiliary Credit Organizations and Credit Activities), the Mexican Banking Law and the *Ley de Inversión Extranjera* (Foreign Investment Law), with the objective of creating a new type of financial entity called SOFOMs (the “SOFOMs Amendments”). The SOFOMs Amendments were published in the Official Gazette on July 18, 2006.

The main purpose of the SOFOM Amendments is to deregulate lending activities, including financial leasing and factoring activities. SOFOMs are Mexican corporations (*sociedades anónimas*) that expressly include as their main corporate purpose in their by-laws, engaging in lending and/or financial leasing and/or factoring services. Pursuant to the SOFOM Amendments, the SHCP has ceased to authorize the creation of limited purpose financial institutions (known as SOFOLs), and all existing SOFOL authorizations terminated on July 19, 2013. On or prior to that date, existing SOFOLs ceased operating as a SOFOL. Failure to comply with this requirement resulted in the dissolution or liquidation of the SOFOL. The then-existing SOFOLs also had the option of converting to SOFOMs or otherwise extending their corporate purposes to include activities carried out by SOFOMs.

Among others, SOFOMs that are affiliates of Mexican credit institutions (i.e., private or public banks) or the holding companies of financial groups that hold a credit institution will be regulated and supervised by the CNBV, and will be required to comply with a number of provisions and requirements applicable to credit institutions such as capital adequacy requirements, risk allocation requirements, related party transactions rules, write-offs and assignment provisions, as well as reporting obligations. Regulated SOFOMs 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 SOFOMs and must so indicate in their corporate denomination by including the words “*entidad no regulada*” (non-regulated entity) or the abbreviation thereof, “*E.N.R.*” Non-regulated SOFOMs are not subject to the supervision of the CNBV.

SOFOMs (regulated or non-regulated) will be subject to the supervision of the CONDUSEF as is the case with any other financial entity.

The SOFOM Amendments also eliminated the restrictions on foreign equity investment applicable to SOFOLES, financial leasing and factoring companies, which until the SOFOM Amendments became effective, was limited to 49.0%. Accordingly, the SOFOM Amendments may result in an increase in competition in the banking industry, from foreign financial institutions.

### **The Mexican Securities Market Law**

On December 30, 2005, the current Mexican Securities Market Law was enacted. The Mexican Securities Market Law sets standards for authorizing companies to operate as brokerage firms, which authorization is granted by the CNBV with the approval of its Governing Board. In addition to setting standards for brokerage firms, the Mexican Securities Market Law authorizes the CNBV, among other things, to regulate the public offering and trading of securities, corporate governance, disclosure and reporting standards and to impose sanctions for the illegal use of insider information and other violations of the Mexican Securities Market Law.



## Retirement Savings System

The Retirement Savings System Law (*Ley de los Sistemas de Ahorro para el Retiro*) sets the framework for the retirement fund managers (*Administradoras de Fondos para el Retiro* or “Afores”). Under the Retirement Savings System Law, each employee may hold an independent retirement savings account which will be managed by an authorized Afore. Employees and employers, as well as the government, are required to make mandatory contributions to the independent retirement savings account held by each employee. In addition to the mandatory contributions, employees may make voluntary contributions to their independent retirement account.

In terms of the Retirement Savings System Law, the main functions of Afores are, to: (i) manage pension funds; (ii) create and manage individual pension accounts for each employee; (iii) incorporate, manage and operate mutual funds specialized in retirement funds (*Sociedades de Inversión Especializadas de Fondos para el Retiro*, or “Siefors”), (iv) distribute and acquire capital stock in Siefors, (v) acquire pension insurance and (vi) in certain cases, distribute the individual funds directly to the corresponding employee.

## SUPERVISION AND REGULATION

*The following is a summary of certain matters relating to the Mexican banking system, including provisions of Mexican law and regulations applicable to financial institutions in Mexico. This summary is not intended to constitute a complete analysis of all laws and regulations applicable to financial institutions in Mexico.*

### Introduction

Our operations are primarily regulated by the Mexican Banking Law, the Mexican Securities Market Law, the Retirement Savings System Law and the rules issued thereunder by the SHCP and the CNBV, as well as rules issued by Banxico and the IPAB. The authorities that supervise us and our operations are the SHCP, Banxico, the CNBV, and CONDUSEF.

### Banking Regulation

The SHCP, either directly or through the CNBV, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities. Reports to bank regulators are often supplemented by formal or informal periodic meetings between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets.

Additionally, banks must publish on their website, among other information:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's board of directors, identifying independent and non-independent directors and their background, education and experience;
- a description and the total sum of compensation and benefits paid to the members of the board of directors and senior officers during the past year;
- unaudited quarterly financial statements for the periods ending March, 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.

The CNBV has authority to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations promulgated thereunder. In addition, Banxico has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of Banxico Law (*Ley del Banco de México*) and regulations adopted by it and the Law for the Transparency and Ordering of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), particularly as violations relate to interest rates, fees and the terms of disclosure of fees charged by banks to clients. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

Under the Mexican Banking Law, the approval of the CNBV, in addition to, under certain circumstances, approvals from the COFECE and Banxico, is required prior to the merger of a commercial bank with any other entity.

The Mexican Banking Law permits foreign governments to acquire equity securities of Mexican banks on a temporary basis in connection with rescue or similar packages and to acquire control of Mexican banks, with the prior approval of the CNBV.

Mexican banks are required to obtain express approval, from their boards of directors of compensation payable to officers and, for that purpose, are required to observe general rules issued by the CNBV and to establish and maintain a compensation committee.

The Mexican Banking Law includes a provision for self-correcting irregularities arising from non-compliance with applicable law. Programs for self-correction are required to be approved by the board of directors of the applicable Mexican bank and must be supervised by the bank's audit committee. General rules implementing the provisions are expected to be issued by the CNBV.

A Mexican bank may only be dissolved and liquidated if the CNBV has issued a determination to that effect. Prior to such dissolution and liquidation, IPAB may provide temporary financial assistance to Mexican banks experiencing liquidity problems.

Non-viable Mexican banks will be liquidated pursuant to a procedure set forth in the Mexican Banking Law, under which IPAB will act as liquidator, conducting the procedures necessary to collect fees and pay creditors (respective parties specified under the Mexican Banking Law) and taking all measures conducive to the bank's liquidation. The Mexican Banking Law reflects provisions related to the dissolution and liquidation of Mexican banks. Liquidation proceedings may be conducted in court or out of court, depending upon the circumstances affecting that bank. In addition to liquidation proceedings, Mexican banks may be declared in bankruptcy pursuant to a specialized proceeding set forth in the Mexican Bankruptcy Law.

The SHCP is authorized to conduct evaluations of Mexican banks. On December 31, 2014, the SHCP issued Guidelines for the Performance Evaluation for Banking Institutions, the evaluations are based upon the size of the banks and their participation in the relevant markets and will determine whether or not a particular bank is lending to all sectors of the economy (primarily to small and medium-sized businesses). Results of evaluations are required to be made publicly available by the SHCP. Negative results from evaluations may result in the SHCP ordering corrective measures, however it is uncertain what such measures may include.

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 Banco Inbursa has not complied with applicable requirements, it may be forced to lend to certain sectors of the economy or to certain persons that may not meet its credit quality standards or other standards specified in its policies, which in turn may impact its financial condition and results of operations. Furthermore, if Banco Inbursa were to fail any evaluation, publicity surrounding such failure may impact its reputation, which in turn may adversely impact its ability to conduct business in Mexico and its financial condition and results of operations.

## ***Licensing of Banks***

Authorization of the Mexican government is required to conduct banking activities. The CNBV, with the approval of its Governing Board and subject to the prior favorable opinion of Banxico, has the power to authorize the establishment of new banks, subject to minimum capital standards, among other things. Approval of the CNBV is also required prior to opening, closing or relocating offices, including branches, of any kind outside of Mexico or transfer of assets or liabilities between branches.

## ***Intervention***

The CNBV, with the approval of its Governing Board, may declare “the managerial intervention” (*intervención*) of a banking institution pursuant to Articles 129 through 141 of the Mexican Banking Law (a “CNBV Intervention”). In addition, the Governing Board of IPAB may also appoint a “peremptory manager” (*administrador cautelar*) if IPAB provides liquidity, in accordance with applicable law, to a banking institution.

A CNBV Intervention pursuant to Articles 129 through 141 of the Mexican Banking Law will only occur when (i) during a calendar month, the Capital Ratio of a bank is reduced from a level equal to or below the minimum Capital Ratio required under Article 50 of the Mexican Banking Law, to 50% or less than such minimum Capital Ratio; (ii) the bank does not maintain the minimum Capital Ratio required in accordance with the Mexican Banking Law, and such bank does not operate under the conditional regime referred to in Article 29 Bis 2 of the Mexican Banking Law; or (iii) the bank (a) for an amount in pesos exceeding the equivalent of twenty million UDIs (1) does not pay loans granted by another bank, foreign financial entity or Banxico, or (2) does not pay the principal and interest amounts of securities issued by it and deposited in a securities deposit institution, (b) within two or more business days and for an amount in pesos exceeding the equivalent of two million UDIs (1) does not pay one or more participants the amounts due under any compensation process carried out through a clearing house or central counterparty, or does not pay three or more checks for a total amount of two million UDIs, excluded from a clearing house for causes attributable to the drawee institution in terms of the applicable provisions, or (2) does not pay in the bank windows of two or more branches the banking deposits and cash withdrawals carried out by one hundred or more of their customers and that total said amount.

The peremptory manager will be appointed by IPAB if IPAB has granted extraordinary financial support to a bank in accordance with the Mexican Banking Law. The peremptory manager appointed by IPAB will assume the authority of the board of directors and the shareholders’ meeting. The peremptory manager will have the authority to represent and manage the bank with the broadest powers under Mexican law and will prepare and submit to IPAB the bank’s budget (for approval), will be authorized to contract liabilities, make investments, undertake acquisitions or dispositions and incur expenses, hire and fire personnel and suspend operations if necessary. The appointment of the peremptory manager must be registered in the Public Registry of Commerce of the corresponding domicile.

## ***Revocation of a Banking License; Payment of Guaranteed Obligations***

*Revocation of Banking License.* In the case that the CNBV revokes a license to be organized and operate as a banking institution, IPAB’s Governing Board will determine the manner under which the corresponding banking institution shall be dissolved and liquidated in accordance with Articles 166 through 187 of the Mexican Banking Law. In such a case, IPAB’s Governing Board may determine to undertake the liquidation through any or a combination of the following transactions: (i) transfer the liabilities and assets of the banking institution in liquidation to another banking institution directly or indirectly through a trust set up for such purposes; (ii) constitute, organize and manage a new banking institution owned and operated directly by IPAB with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or (iii) any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that IPAB considers as the best and least expensive option to protect the interests of bank depositors. As described above, amendments to the Mexican Banking Law approved by the Mexican Congress will substitute these provisions.

*Causes to Revoke a Banking License.* The following are the events upon which the CNBV may revoke a banking license:

- (i) if a shareholder decision is made to request the revocation;
- (ii) if the banking institution is dissolved or initiates liquidation procedures;
- (iii) 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 more than one special corrective measure ordered by the CNBV pursuant to such Article 122; or (c) repeatedly does not comply with an additional special corrective measure ordered by the CNBV;
- (iv) if the banking institution does not comply with the minimum Capital Ratio required under the Mexican Capitalization Requirements;
- (v) if the banking institution: (a) does not timely repay loans or debt securities issued or (b) it does not timely pay deposits or clear checks; or
- (v) if the institution repeatedly undertakes prohibited or sanctioned transactions in accordance with the Mexican Banking Law or if it continues not complying with preventive or corrective actions imposed by the CNBV.

Upon publication of the resolution of the CNBV revoking a banking license in the Official Gazette and in and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation or the declaration of bankruptcy of a banking institution, IPAB is required to proceed to make payment of all “guaranteed obligations” of the relevant banking institution in accordance with the terms and conditions set forth in the Mexican Banking Law and the IPAB Law.

Liabilities of a banking institution in liquidation that are not considered “guaranteed obligations” pursuant to the IPAB Law, and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- (i) term obligations will become due (including interest accrued);
- (ii) unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;
- (iii) obligations subject to a condition precedent, shall be deemed unconditional; and
- (iv) obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference: (i) secured claims, (ii) labor claims and tax claims, (iii) claims entitled to special privileges under applicable law, (iv) claims guaranteed by IPAB, up to the amount guaranteed by IPAB, (v) claims in excess of the amount guaranteed by IPAB, (vi) other senior claims, (vii) preferred subordinated debentures, and (viii) non-preferred subordinated debentures. The remainder, if any, shall be paid to the shareholders.

## ***Financial Support***

*Determination by the Banking Stability Committee.* The Banking Stability Committee, or the “BSC,” includes representatives of the SHCP, Banxico, 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 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) result in the operation of the payments’ system to be put at risk, then the BSC may determine, on a case-by-case basis, that a general percentage of all of the outstanding obligations of the troubled bank that are not considered “guaranteed obligations” under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may transactions such as liabilities or deposits in favor of shareholders, members of the board of directors and certain senior officers, and certain illegal transactions or the liabilities resulting from the issuance of subordinated debentures, be covered or paid by IPAB or any other Mexican governmental agency.

*Types of Financial Support.* In the 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 commercial bank will receive financial support, which may be through either of the following options:

- (a) If the BSC determines that the full amount of all of the outstanding liabilities of the relevant troubled bank (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (i) capital contributions granted by IPAB in accordance with the Mexican Banking Law, or (ii) credit support granted by IPAB also in accordance with the Mexican Banking Law, and in either case the CNBV shall refrain from revoking the banking license granted to such commercial bank.
- (b) If the 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 transferring the assets and liabilities of such bank to any third party, as set forth in Articles 188 through 197 of the Mexican Banking Law.

*Conditional Management Regime.* As an alternative to revoking the banking license, a new conditional management regime was created, which can be established in respect of commercial banks with a Capital Ratio below the minimum required pursuant to the Mexican Capitalization Requirements. To adopt this regime, the relevant bank must voluntarily request from the CNBV, with prior approval of its shareholders, the application of the conditional management regime. To qualify for such regime, the relevant commercial bank should (i) deliver to the CNBV a plan for the reconstitution of its capital, and (ii) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions with a Capital Ratio equal to or below 50% of the minimum Capital Ratio required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

## ***Capitalization***

The minimum subscribed and paid-in capital for banks is set in accordance with three different components; credit risk, market risk and operation risk. Pursuant to the Mexican Banking Law and the Mexican Banking Regulations, 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, the minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law (such as Banco Inbursa), is 90,000,000 UDIs.

The Mexican Capitalization Requirements set forth the methodology to determine the net capital (*capital neto*) relative to market risk, risk-weighted assets and operations risk. Under the relevant regulations, the CNBV may impose additional capital requirements. The Mexican 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 Mexican Banking Regulations currently specify that Mexican banks may be classified in several categories based on their Capital Ratio, Tier 1 capital and Tier 1 capital 1. The relevant corrective measures applicable to Banco Inbursa are determined based on the following classifications:

| Category Class  | Capital Ratio                                   | Tier 1 Capital (Basic Capital) | Tier 1 Capital 1 (Basic Capital 1) |
|-----------------|---|--------------------------------|------------------------------------|
| Class I .....   | Equal to or greater than 10.5%                  | Equal to or greater than 8.5%  | Equal to or greater than 7%        |
| Class II .....  | Equal to or greater than 8% and less than 10.5% | Equal to or greater than 6%    | Equal to or greater than 4.5%      |
| Class III ..... | Equal to or greater than 7% and less than 8%    | Equal to or greater than 6%    | Equal to or greater than 4.5%      |
| Class IV .....  | Equal to or greater than 4.5% and less than 7%  | Equal to or greater than 4.5%  | Equal to or greater than 4.5%      |
| Class V .....   | Less than 4.5%                                  | N/A                            | Less than 4.5%                     |

This table is based upon the tables set forth in Article 220 of the Mexican Banking Regulations, which should be consulted for a complete understanding of the applicable requirements.

Furthermore, the Mexican Banking Regulations provide that:

- i. None of Capital Ratio, Tier 1 capital or Tier 1 capital 1 shall be subject to a maximum limit if (a) the Capital Ratio is equal to or exceeds 10.5%, (b) Tier 1 capital is equal to or exceeds 8.5%, and (c) Tier 1 capital 1 is equal to or exceeds 7.0%, and
- ii. if any of the ratios referred to in (1)(a), (b) or (c) above are not satisfied, then (i) Tier 1 capital 2 when added to Tier 1 capital 1 for purposes of determining Capital Ratio shall be subject to a maximum limit equal to 9.99% and (ii) Capital Ratio (Tier 2 capital plus Tier 1 capital) shall also be subject to a maximum limit equal to 9.99% only if the maximum limit in (i) is not satisfied.

For clarification purposes, Tier 1 capital means the two components of Tier 1 capital (Tier 1 capital 1 and Tier 1 capital 2) as such terms are defined in the Rules for Capitalization. Tier 1 capital 1 means only the amount of the basic capital 1 of Tier 1 capital as such term is defined in the Rules for Capitalization. Tier 2 capital refers to the additional portion (*parte complementaria*) of total net capital, as such term is defined in the Rules for Capitalization. Tier 1 capital refers to the basic portion (*parte básica*) of total net capital, as such term is defined in the Rules for Capitalization.

The Mexican Banking Regulations require Mexican banks to maintain a Capital Ratio of at least 10.5% to avoid the imposition of corrective measures notwithstanding that the minimum required Capital Ratio is 8%.

The net capital of a bank is composed of Tier 1 capital and Tier 2 capital. The Mexican Capitalization Requirements provide that the Tier 1 capital 1 is mainly composed of paid-in capital, which represents the most subordinated right to collect in case of liquidation of a credit institution, which is not due and does not grant reimbursement rights, profits (mainly including retained profits), and capital reserves, and subtract from such Tier 1 capital 1, 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). Tier 1 capital 2 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, which 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 or are subject to write-down procedures, and the general preventive reserves up to an amount that does not exceed 1.25% 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*), included that are considered to be part of Tier 1 capital. Banks must separate and allocate 10.0% of their net income to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The remainder of net income, to the extent not distributed to shareholders as dividends, is added to the retained earnings account. Under Mexican law, dividends may not be paid out against the legal reserve. As of December 31, 2016 we, and our subsidiaries operating in the financial sector, had set aside an aggregate of Ps.11,357 million in legal reserves (including Ps.10,902 million in legal reserves for Banco Inbursa on an individual basis), compared to the aggregate paid in capital without adjustment for inflation of Ps.25,377 million, Ps.8,344 million of which correspond to Banco Inbursa on an individual basis, in each case as determined in accordance with Mexican Banking GAAP.

### **Disclosure of Leverage Ratio**

Mexican banks are required to calculate and disclose, on a monthly basis, their leverage ratio, consisting of a ratio of adjusted assets (giving effect to derivatives, repurchase transactions, securities loans and certain memoranda account transactions) to basic capital. This ratio expresses the bank's leverage profile.

### **Corrective Measures**

The Mexican Banking Law and the Mexican Banking Regulations establish the minimum corrective and special additional measures that banks must fulfill according to the category in which they were classified based on their capital. These corrective measures are designed to prevent and, when necessary, correct the operations of the banks that could negatively affect their solvency or financial stability. The CNBV is required to notify the relevant bank in writing of the corrective measures that it must observe, within five business days after Banxico has notified the CNBV the capitalization ratio of the bank, as well as verify its compliance with the corrective measures imposed. Class I is exempted from any corrective measure, but for the remaining categories such corrective measures include:



For Class II:

- requiring the bank to (a) inform the board of directors about the bank's classification, as well as the causes that caused the CNBV to make such classification, and submit a detailed report containing a comprehensive evaluation of the bank's financial situation, its level of compliance with the regulatory framework and the main indicators that reflect the degree of stability and solvency of the bank within 20 business days after the bank has received the CNBV notification of the corrective measure,, (b) include in such report any observations mandated, in accordance with their respective scope of authority, by each of the CNBV and Banxico, (c) report in writing the financial situation to the chief executive officer and chairman of the board of directors of the bank or the board of directors of the bank's holding company, in the event the bank is part of a financial group, (d) abstain from entering transactions that will cause its Capital Ratio to be lower than required under the Capitalization Requirements, (e) abstain from increasing the current amounts of the financings granted to relevant related parties, and (f) submit for approval to the CNBV, a plan for capital restoration which has as a result an increase of its Capital Ratio in order for the institution to be placed in Class I. Such plan shall be presented to the CNBV no later than 20 business days after the date on which the bank receives the CNBV notification of the corrective measure;

For Class III and above:

- requiring the bank's board of directors to (a) within 15 business days as of the notice of its classification, submit to the CNBV, for its approval, a plan for capital restoration that will result in an increase in its Capital Ratio, which may contemplate a program for improvement in operational efficiency, streamlining costs and increasing profitability, the carrying out of contributions to the capital and limits to the operations that the banks may carry out in compliance with their by-laws, or to the risks derived from such operations. The capital restoration plan shall be approved by such bank's board of directors before being presented to the CNBV. The bank shall determine in the capital restoration plan that, in accordance with this subsection, it must submit, periodic targets, as well as the date in which the capital of such bank will get the capitalization level required in accordance with the applicable provisions. The CNBV, through its governing board, must resolve all that corresponds to the capital restoration plan that has been presented to them, in a maximum of 60 calendar days from the date the plan was submitted; and (b) comply with the plan within the period specified by the CNBV, which in no case may exceed 270 calendar days starting the day after the bank was notified of the respective approval. To determine the period for the completion of the restoration plan, the CNBV shall take into consideration the bank's category, its financial situation, as well as the general conditions prevailing in the financial market. The CNBV, by agreement of its governing board, may extend the deadline once by a period that will not exceed 90 calendar days. The CNBV will monitor and verify compliance with the capital restoration plan, without prejudice of the provenance of other corrective measures depending on the category in which the corresponding bank is classified;
- requiring the bank to suspend any payment of dividends to its shareholders, as well as any mechanism or act that involves the transfer of any economic benefits to the shareholders. If the bank belongs to a holding company, the measure provided in this subsection will apply to the holding company to which the bank belongs, as well as the financial entities or companies that are part of such holding company. This restriction on the payment of dividends for entities that are part of the same financial group will not apply in the event the dividend is being applied to the capitalization of the bank;
- requiring the bank to suspend any capital stock buyback programs of the bank and, in the event that the bank belongs to a financial group, also the programs of the holding company of such group;
- requiring the bank to defer or cancel the interest payments on outstanding subordinated debt and, when applicable, defer the payment of the principal or convert the debt into shares of the bank in the amount necessary to cover the capital deficiency, in advance and proportionately, according to the nature of such obligations. This corrective measure will be applicable to those obligations that are identified as subordinated debt in their indenture or issuance document;

- requiring the bank to suspend payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the chief executive officer or any officer within the next two levels, as well as not granting any new benefits in the future for the chief executive officer and the officers until the bank complies with the minimum levels of capitalization required by the CNBV in accordance with the provisions referred to in Article 50 of the Mexican Banking Law; and
- requiring the bank to refrain from increasing outstanding amounts of any credit granted to any individual who is a related party.

For Class IV and above:

- requiring the bank to request authorization from the CNBV to undertake new investments on non-financial assets, open branches or perform activities other than those made in the ordinary course of business, provided those investments or activities do not require authorization from SHCP or Banxico; and
- requiring the bank to undertake other corrective measures provided for in the general rules of Articles 225 I and IV and 226, 227 and 228 of the Mexican Banking Regulations and Article 134 Bis 1 of the Mexican Banking Law, from time to time.

Regardless of the Capital Ratio of the banks, the CNBV may order the implementation of additional and special corrective measures. The additional and special corrective measures that, if applicable, the banks must comply with are: (a) define the concrete actions that it will carry out in order not to deteriorate its Capital Ratio; (b) hire the services of external auditors or any other specialized third party for special audits on specific issues; (c) refrain from agreeing to increases in the salaries and benefits of the officers and employees in general, except for agreed salary revisions and in compliance with labor rights; (d) substitute officers, members of the board or external auditors with appointed persons occupying the respective positions; or (e) undergo other actions or be subject to other limitations as determined by the CNBV, based on the result of its functions of monitoring and inspection, as well as with sound banking and financial practices.

On July 26, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee reached broad agreement on the overall design of a capital and liquidity reform package for internationally active banking organizations around the world, known as Basel III, which includes, among other things, the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard. On September 12, 2010, the Basel Committee announced a substantial strengthening of existing capital requirements in connection with Basel III. The full text of the Basel III rules and the results of a quantitative impact study to determine the effects of the reforms on banking organizations were published on December 16, 2010.

The Basel III rules for capitalization were implemented in Mexico through an amendment to the Mexican Banking Regulations published in the Official Gazette on November 28, 2012, effective as of January 1, 2013. Banco Inbursa currently complies with the minimum capital requirements.

### ***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 Banxico's monetary policy is to maintain the stability of the purchasing power of the Mexican peso and in this context, to maintain a low inflation level. Given the historic inflation levels in Mexico, the efforts of Banxico have been directed towards a restrictive monetary policy.

Under the Banxico Law, Banxico has the authority to determine the percentage of the liabilities of financial institutions that must be deposited in interest or non-interest-bearing deposits with Banxico (Depósitos de Regulación Monetaria). These deposits may not exceed 20% of the aggregate liabilities of the relevant financial institution. Banxico also has the authority to order that 100% of the liabilities of Mexican banks resulting from specific funding purposes, or pursuant to special legal regimes, be invested in specific assets created in respect of any such purpose or regime.

Banxico imposes reserve and compulsory deposit requirements on Mexican commercial banks. Bulletin 09/2014 published on June 9, 2014, stated that the total compulsory reserve deposit required of Mexican commercial banks was Ps.278.5 billion, which had to be deposited by June 19, 2014. The amount of the deposit that each bank had to make was equal to the amount of the compulsory deposits allocated as of June 18, 2014. Additionally, according to Bulletin 11/2014 published on June 25, 2014, an additional deposit of Ps.41.5 billion was required which had to be deposited in four installments, on August 14, September 11, October 9 and November 6, 2014. The amount of the deposit that each bank had to make was determined based on the total amount of the traditional customer deposits in Mexican pesos of each Mexican bank as of May 31, 2014.

The compulsory deposit reserves required under the terms of the Bulletin 09/2014 and 11/2014 have an indefinite term. During the time these reserves are maintained on deposit with Banxico, each banking institution receives interest on such deposits every 27, 28, 29 or 30 days so that the last day of the period falls on a Thursday. Banxico will provide advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

### ***Classification of Loans and Allowance for Loan Losses***

#### ***Non-performing loan portfolio***

In accordance with Mexican Banking GAAP, the Bank applies the following criteria to classify non-performing loans as non-performing:

- Loans with a single payment of principal and interest at maturity are considered non-performing 30 calendar days after the date of maturity.
- Loans with a single payment of principal at maturity and with scheduled interest payments are considered non-performing 30 calendar days after principal becomes past due and 90 calendar days after interest becomes past due.
- Loans with scheduled payment of principal and interest are considered non-performing 90 days after the first installment is due.
- In the case of revolving credit granted, loans are considered non-performing when payment has not been received for two normal successive billing periods, or 60 days after they become due.
- Mortgage loans with periodic partial payments of principal and interest are considered non-performing when a payment is 90 days or more past due.
- Customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

Restructured or renewed non-performing loans are not considered performing until there is evidence of sustained payment; i.e., performance of payment by the borrower without arrears for the total amount due and payable in terms of principal and interest, for at least three consecutive installments under the credit payment scheme, or in the case of credits with installments that cover periods in excess of 60 calendar days, the payment of one installment as established in Mexican Banking GAAP.

Loans with a single payment of principal upon maturity and periodic payments of interest, which were restructured or renewed during the loan term, are considered to be non-performing until there is evidence of sustained payment. This also applies to those loans in which at least 80% of the original term of the loan has not elapsed that did not cover the total amount of the accrued interest or cover the principal of the original amount of the loan and that should have been settled as of the date of renewal or restructuring in question.

Interest is recognized as income when it is accrued. However, the accrual of interest is suspended when loans become non-performing.

For accrued but uncollected regular interest on non-performing loans, the Bank creates an allowance for an equal amount when the loan is transferred to the non-performing portfolio.

The loan classification and rating rules set forth under the Mexican Banking Regulations, provide a methodology to classify (i) consumer loans (*i.e.*, each of credit card exposure and loans to individuals, divided as separate groups), considering as principal elements (a) for credit card exposure, the possibility of non-payment and potential losses, and (b) for loans to individuals, the possibility of non-payment, potential losses (taking into account collateral and guarantees received), and credit exposure (net of allowance for loan losses); (ii) mortgage loans (*i.e.*, residential, including loans for construction, remodeling or improvements), considering as principal elements delinquency periods, possibility of non-payment and potential losses (taking into account collateral and guarantees received); and (iii) commercial loans, based principally on an evaluation of the borrower's ability to repay its loan (including country risk, financial risk, industry risk and payment history) and an evaluation of the related collateral and guarantees. The loan classification and rating rules also permit banks, subject to prior approval by the CNBV, to develop and adopt specific internal procedures within certain parameters to grade the loans in their loan portfolio. Generally, our subsidiaries follow the methodology set forth in the loan classification and rating rules.

The loan classification and rating rules require that consumer loans to individuals be stratified on a loan-by-loan basis, considering the type of loan, amounts due, the number of unpaid billing periods applicable to the relevant loans, collateral received, borrower's experience with the financial institution granting the loan and other factors that may influence delinquency, on an expected loss basis, considering the information provided by credit information companies about the credit behavior of the borrower with other financial institutions; and that a statutory percentage be applied to loans that are past due for each level, as a means to create an allowance for loan losses.

The allowance for loan losses created in accordance with Mexican Banking GAAP may be decreased as the maturity of the applicable loan approaches and past due payments are made. Credit card loans must be reserved, on a loan-by-loan basis, considering amounts due, amounts paid to the relevant date, credit limits, and minimum payments required. Consumer loans to individuals may be classified as A, B, C, D or E, depending upon the percentage of allowance required (from 0% to 100%); credit card consumer loans may be classified as A, B, C, D or E also depending upon the percentage of allowance required.

Under the loan classification and rating rules, mortgage loans must also be stratified on a loan-by-loan basis, considering the number of unpaid monthly installments applicable to the relevant loans, the current loan-to-value ratio and other factors that may influence the recovery process, on an expected loss basis; and a statutory percentage must be applied to loans that are past due for each level, as a means to create allowance for impairment losses. Mortgage loans to individuals may be classified as A, B, C, D or E, depending upon the percentage of allowance for loan losses required (ranging from 0% to 100%).

Since September 2011, the grading of loans to government entities, such as states and municipalities, is also based on an expected loss model that is calculated on a loan-by-loan basis. In this model the expected loss is based on both qualitative and quantitative characteristics of the debtor as well as other factors established by the CNBV. The qualitative characteristics include socio-economic risk and financial strength. The quantitative characteristics include payment experience, coverage of the debtor by rating agencies and financial statement ratios that capture the financial risk of the debtor.

The loan classification and rating rules establish the following categories corresponding to levels of risk and applicable allowance for loan losses and set forth procedures for the grading of commercial loans: A-1, A-2, B-1, B-2, B-3, C-1, C-2, D and E.

Since June 2013, the grading of commercial loan portfolios is also based on an expected loss model that is calculated on a loan-by-loan basis. In this model, the expected loss is based on both qualitative and quantitative characteristics of the debtor, as well on the type and coverage of the collaterals and guarantees that cover the loans. The qualitative characteristics include country and industry risk, market position, corporate governance and quality of the management. The quantitative characteristics include payment experience in the credit bureau, payment experience with Infonavit, the *Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, or the Mexican Institute of the National Fund for Workers' Housing, and financial statement ratios that capture the financial risk of the debtor.

The loan classification and rating rules require that Mexican banks grade their commercial loan portfolio (except loans made to or guaranteed by the Mexican federal government) as of the end of each quarter and the classification must be reported to the CNBV. The classification of mortgage and consumer loans is required to be made monthly and reported to the CNBV.

The allowance for loan losses is held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this allowance. Mexican banks are required to obtain authorization from their board of directors to write-off loans.

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

### ***Liquidity Requirements for Foreign Currency-Denominated Liabilities***

#### ***Foreign Currency-Denominated Liabilities***

Pursuant to regulations of Banxico, the total amount of maturity-adjusted (by applying a factor, depending upon the maturity of the relevant liability) net liabilities denominated or indexed to foreign currencies that Mexican banks, their subsidiaries or their foreign agencies or branches may maintain (calculated daily), is limited to 1.83 times the amount of their Tier 1 capital. To calculate such limit, maturity-adjusted foreign currency-denominated or indexed assets (including liquid assets, assets with a maturity of less than one year, short term derivatives and spot foreign exchange transactions) are subtracted from maturity-adjusted foreign currency-denominated or indexed liabilities, and the aforementioned factor is applied to the resulting amount.

The maturity-adjusted net liabilities of Mexican banks denominated or indexed to foreign currencies (including dollars) are subject to a liquidity coefficient (*i.e.*, to maintaining sufficient foreign currency-denominated or indexed liquid assets). These permitted liquid assets include, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible;
- deposits with Banxico;
- treasury bills, treasury bonds and treasury notes issued by the United States government or debt certificates issued by agencies of the United States government, which have the unconditional guarantee of the United States government;
- demand deposits or one to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P;
- investments in mutual or similar funds or companies approved by Banxico, that satisfy certain requirements; and
- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements.

Such liquid assets may not be posted as collateral, lent or be subject to repurchase transactions or any other similar transactions that may limit their transferability.

We are in compliance with the applicable reserve requirement and liquidity coefficients in all material aspects.

### ***Lending Limits***

In accordance with the Mexican Banking Regulations, limits relating to the diversification of a bank's lending transactions are determined in accordance with the bank's compliance with Mexican Capitalization Requirements. For a bank with:

- a Capital Ratio greater than 8.0% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank, is limited to 12.0% of the bank's Tier 1 capital;
- a Capital Ratio greater than 9.0% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 capital;
- a Capital Ratio greater than 10.0% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 capital;
- a Capital Ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's Tier 1 capital; and
- a Capital Ratio greater than 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 40.0% of the bank's Tier 1 capital.

These lending limits are required to be measured on a quarterly basis. The CNBV has discretion to reduce the aforementioned limits, if internal control systems or the risk management of the bank are inadequate.

The following financings are exempt from these lending limits: (i) financings guaranteed by unconditional and irrevocable security interests or guarantees, that may be enforced immediately and without judicial action, granted by foreign financial institutions with investment grade ratings and established in a country member of the European Union or the Organization for Economic Cooperation and Development (which guarantees must be accompanied with a legal opinion as to their enforceability), (ii) securities issued by the Mexican government, and financings made to the Mexican government, Mexican local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), Banxico, the IPAB and development banks guaranteed by the Mexican government, and (iii) cash (transferred to the bank lender under a deposit that may be freely disposed of by the lender). However, such financings may not exceed 100% of a bank's Tier 1 capital.

Likewise, financings granted to SOFOMs for which the bank owns at least 99% of its capital stock are exempted from the aforementioned limits, but such financings may not exceed 100% of a bank's Tier 1 capital. In turn, the controlled SOFOMs maintain or grant financing (regardless of the origin of the resources) to a person or a group of persons representing common risk, such financing shall comply with the aforementioned limits. The aggregate amount of financings granted to the three largest borrowers of a bank may not exceed 100% of the bank's Tier 1 capital.

Banks are not obligated to comply with the aforementioned limits with respect to financings granted to the Mexican federal government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), Banxico, IPAB and development banks guaranteed by the Mexican government.

Banks are required to disclose, in the notes to their financial statements, for Mexican Banking GAAP purposes, (i) the number and amount of financings that exceed 10.0% of Tier 1 capital, and (ii) the aggregate amount of financings made to their three largest borrowers.

### ***Funding Limits***

In accordance with the Mexican Banking Regulations, Mexican banks are required to diversify their funding risks. In particular, a Mexican bank is required to notify the CNBV, on the business day following the occurrence of the event, in the event it receives funds from a person or a group of persons acting in concert that represent in one or more funding transactions more than 100% of such bank's Tier 1 capital. None of our liabilities to a person or group of persons exceeds the 100% threshold.

### ***Related Party Loans***

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 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."

Tier 1 capital is calculated taking into account the balance of last day of the month. When calculating Tier 1 capital, the Mexican Banking Regulations establish that in case the aggregate amount of operations subject to credit risk relating to relevant related parties exceed 25% of the bank's Tier 1 capital then the excess must be subtracted in order to determine Tier 1 capital.

On a monthly basis, we monitor and implement controls relating to the consumption of both the 35% and 25% limits in order to ensure strict compliance with the abovementioned regulations.

### ***Foreign Currency Transactions***

Banxico regulations govern transactions by banks, denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot, foreign exchange transactions (*i.e.*, transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 capital. In addition, Mexican banks must maintain liquid assets, prescribed by regulations issued by Banxico, in connection with maturities of obligations denominated in foreign currencies (as discussed under "—Liquidity Requirements for Foreign Currency-Denominated Liabilities" above).

### ***Derivative Transactions***

Certain rules of Banxico apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares, that are listed in a securities exchange,
- stock exchange indexes,
- Mexican currency, foreign currencies and UDIs,
- inflation indexes,
- gold or silver,
- pork meat, pork and cattle,
- natural gas, diesel, gasoline and crude oil,
- aluminum, copper, nickel, platinum, lead and zinc,
- wheat, corn, soybean and sugar,

- rice, sorghum, cotton, oats, coffee, orange juice, cocoa, barley, milk, canola, soybean oil and soybean paste,
- nominal or real interest rates with respect to any debt instrument,
- loans or other advances, and
- futures, options and swaps with respect to the underlying assets mentioned above.

Mexican banks require an express general approval, issued in writing by Banxico, to enter into, as so-called intermediaries, derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval, would require a specific approval from Banxico 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 Banxico, 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 or debtor are related parties, shall comply with the corresponding limits set forth in the Mexican Banking Law in respect of related party transactions. Institutions may collateralize derivative transactions through cash deposits, receivables and/or securities of its portfolio. Derivative transactions that are entered into in over-the-counter (OTC markets, may be collateralized only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, mutual funds managers of pension funds, SOFOMs, and any other counterpart authorized by Banxico.

Mexican banks are required to periodically inform their board of directors with respect to the derivative transactions 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 Banxico periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of hedging derivatives transactions entered into by Mexican banks must be other Mexican banks, Mexican financial entities authorized to enter into such derivatives by Banxico or foreign financial institutions or recognized markets. Derivatives must be entered into pursuant to master agreements that must include terms and guidelines, similar to international standards such as International Swap and Derivatives Association (ISDA) master agreements and master agreements approved for the domestic market. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

We have received approval from Banxico to engage in swaps, forwards and options related to stocks, indexes, currencies, interest rates and gold and silver.

### ***Restrictions on Liens and Guarantees***

Under the Mexican Banking Law, banks are specifically prohibited from (i) pledging their securities or other assets as collateral, except (a) if Banxico or the CNBV so authorizes, including as described above with respect to derivative transactions or (b) for obligations in favor of Banxico, IPAB, Mexican development banks or governmental trusts; (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers' acceptances and (iii) make loans secured by subordinated debt or rights of trusts funded by subordinated debt.



### ***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 (including information on accounts or agreements involving federal public resources), (vi) the supervisory unit of the Federal Electoral Agency, (vii) the Federal Attorney General (*Procuraduría General de la República*) for purposes of criminal proceedings, (viii) the Treasurer of the Federation (*Tesorería de la Federación*), as applicable, to request account statements and any other information regarding the personal accounts of public officers, assistants and, as the case may be, individuals related to the corresponding investigation; and (ix) the Secretary and undersecretaries of the Ministry of Public Function (*Secretaría de la Función Pública*) when investigating or auditing the estates and assets of federal public officers; among others. In most cases, the information needs to be requested through the CNBV.

The CNBV is authorized to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws, provided that an agreement must be in effect between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit-related information to duly authorized Mexican credit bureaus.

### ***Money Laundering Regulations***

Mexico has in effect rules relating to money laundering and terrorist financing; the most recent set of rules have been in effect since April 21, 2009, and have subsequently been amended, the "General Provisions on Money Laundering and Terrorist Financing."

Under these provisions, our subsidiaries operating in the financial sector are required to satisfy various requirements, including:

- the establishment and implementation of procedures and policies, including client identification and know-your-customer policies, to prevent and detect actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (*Código Penal Federal*));
- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the General Provisions on Money Laundering and Terrorist Financing);
- reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV; and
- the establishment of a communication and control committee (which, in turn, must appoint a compliance officer) in charge of, among other matters, supervising compliance with anti-money laundering provisions.

Our subsidiaries operating in the financial sector are also required to organize and maintain a file before opening an account or entering into any kind of transaction, for the identification of each client (each, an "Identification File").

An individual's Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained and updated): (i) full name, (ii) sex, (iii) date of birth, (iv) nationality and country of birth, (v) tax identification number and the certificate evidencing the tax identification number issued by the SHCP or the population registry identification number and evidence thereof issued by the Ministry of Interior, as the case may be, (vi) occupation, profession, main activity or line of business, (vii) complete domicile (including telephone number), (viii) e-mail address, if any, and (ix) advanced electronic signature series number, when applicable.

An entity's Identification File shall include, among other information, a copy of the following documentation or data (which must be maintained and updated): (i) corporate name, (ii) domicile, (iii) nationality, (iv) name of the sole administrator, the members of the Board of Directors, the general manager or any relevant attorney-in-fact, (v) main activity or line of business, (vi) tax identification number and the certificate evidencing the tax identification number issued by the SHCP, (vii) advanced electronic signature series number, when applicable, and (viii) copy of the public deed containing its constitutive documents.

Identification Files shall be maintained for the complete duration of the corresponding agreement entered into with such client, and for a minimum term of ten years from the date such agreement is terminated.

The Mexican Banking Law requires banks to have a manual for money laundering procedures that is approved by the board of directors and certified by the CNBV.

Under the General Provisions on Money Laundering and Terrorist Financing, our subsidiaries operating in the financial sector must provide to the SHCP, through the CNBV, (i) quarterly reports (within ten business days from the end of each quarter) with respect to cash transactions equal to, or exceeding, U.S.\$10,000, (ii) monthly reports (within 15 business days from the end of the month) with respect to international funds transfers, received or sent by a client, with respect to cash transactions equal to, or exceeding, U.S.\$10,000, (iii) reports of unusual transactions, within 60 calendar days counted from the date an unusual transaction is detected by our financial subsidiaries' systems, and (iv) periodic reports of suspicious transactions, within 60 calendar days counted from the date the suspicious transaction is detected. There is an additional required quarterly report for cash transactions effected in U.S. dollars for any amount equal to, or exceeding, U.S.\$500.

In June 2010 new regulations were issued by the SHCP, as amended in September and December 2010 and August 2011, which restrict cash transactions denominated in U.S. dollars that may be entered into by Mexican banks. Pursuant to such regulations, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals in excess of U.S.\$4,000 per month for deposits. Mexican banks are also not permitted to receive physical cash amounts, in U.S. dollars, from their corporate clients, except in very limited circumstances.

Also, Mexican banks are not permitted to receive physical cash amounts, in U.S. dollars, from individuals, in excess of U.S.\$300 per day for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S.\$1,500.

In addition, the newly enacted regulations set forth certain reporting obligations for Mexican banks regarding their U.S. dollar cash transactions to the SHCP (through the CNBV).

The Federal Law to Prevent and Identify Transactions with Illegal Proceeds (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) was published in the Official Gazette (the "New Money Laundering Law"). The New Anti-Money Laundering Law became effective on July 17, 2013. The law punishes "Vulnerable Activities," which is defined in the applicable regulations as all acts that have a high tendency to result in a crime through the use of illegal proceeds. In addition, under such law, the SHCP is given broad authority to obtain information about unlawful activities, coordinate activities with foreign authorities and present claims related to unlawful activities. This law also grants authority to the Federal Attorney General (*Procuraduría General de la República*) to investigate and prosecute illegal activities, in coordination with the SHCP.

## ***Rules on Interest Rates***

Banxico regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For peso-denominated loans, banks may choose any of a fixed rate, the Mexican benchmark interbank money market rate (*Tasa de Interés Interbancaria de Equilibrio*, or TIIE), Mexican Treasury bills (*Certificados de la Tesorería de la Federación*, or Cetes) rate, average cost of term deposits (*costo de captación promedio a plazo*, or CPP), the rate determined by Banxico as applied to loans funded by or discounted with Nacional Financiera, Sociedad Nacional de Crédito, Development Banking Institution (*Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo*, or NAFIN), the rate agreed upon with development banks in loans funded or discounted with them, the weighted bank funding rate (*tasa ponderada de fondeo bancario*) and the weighted governmental funding rate (*tasa ponderada de fondeo gubernamental*). For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose any of a fixed rate or floating market reference rates that are not unilaterally determined by a financial institution, including LIBOR or the rate agreed upon with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar denominated loans, banks may choose either a fixed rate or any of the rates referred to in the prior sentence or CCP-Dollars, as calculated and published in the Official Gazette by Banxico.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. A rate or the mechanism to determine a rate, may not be modified unilaterally by a bank. Rates must be calculated annually, based upon 360-day periods.

On November 11, 2010, Banxico published new rules that regulate the issuance and use of credit cards. These rules standardize the regulations and forms that enable cardholders to authorize charges for recurrent payments relating to goods and services and standardize the procedures for objecting to improper charges and cancelling such services quickly and securely. The rules also establish the way in which credit card issuers determine the amount of the minimum payment in each period by means of a formula that favors payment of a part of the principal at the time of each minimum payment with the aim of achieving payment of debts within a reasonable time period. These rules also include certain protection provisions for card users in case of theft or loss of their credit cards, the creation of incentives to credit card issuers to adopt additional measures to reduce risks derived from use of credit cards in internet transactions and the wrongful use of information contained in credit cards. These rules did not have a material impact on our operations or financial condition because we do not participate in any credit card business.

In June 2014, the Mexican Supreme Court of Justice issued a jurisprudential thesis, of mandatory application, allowing federal judges to determine ex officio if an interest rate agreed in a promissory note is evidently excessive, violating an individual's human rights, and consequently establishing a reduced rate. The elements the judge should take into account to determine if a rate is evidently excessive are: (a) the type of relationship between the parties; (b) the qualification of the persons intervening in the subscription of the note and if the activity of the creditor is regulated; (c) the purpose of the credit; (d) the amount of the loan; (e) the term of the loan; (f) the existence of guaranties for the payment of the loan; (g) the interest rates applied by financial institutions in transactions similar to the one under analysis, as a mere reference; (h) the variation of the national inflation index during the term of the loan; (i) market conditions; and (j) other issues that may be relevant for the judge.

## ***Fees***

Under Banxico regulations, Mexican banks, SOFOMs may not, in respect of loans, deposits or other forms of funding and services with their respective clients, among others, (i) charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (*costo anual total*), (ii) charge alternative fees, except if the fee charged is the lower fee, and (iii) charge fees for the cancellation of credit cards issued. In addition, among other things, Mexican banks may not (i) charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts, (ii) charge fees for returned checks received for deposit in a deposit account or as payment for loans granted, (iii) charge fees for cancellation of deposit accounts, debit or teller cards, or the use of electronic banking services, or (iv) charge different fees depending upon the amount of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks and SOFOMs operating or permitting customers to use 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 banks and SOFOMs issuing credit or debit cards may not charge cardholders any additional fee (credit or debit card issuers are entitled to charge operators the respective fee), or (ii) permit credit card or debit card issuers to charge a fee to clients, in which case banks and SOFOMs may not charge additional fees to clients.

Banxico, on its own initiative or as per request from the CONDUSEF, banks, or SOFOMs may assess whether reasonable competitive conditions exist in connection with fees charged by banks, or SOFOMs in performing financial operations. Banxico must obtain the opinion of the COFECE in carrying out this assessment. Banxico may take measures to address these issues.

On April 16, 2010, Banxico published regulations that modified the rules on ATM user fees which limited the Bank's ability to charge fees for the use of ATMs by its customers and the amount of such fees for services including: (i) cash withdrawals, (ii) checking account balances, (iii) deposits and (iv) payments, both at bank windows and ATMs operated by the clients' bank. The rules also specify that ATMs shall show a clear legend on their screens regarding costs of the transaction so the client may decide whether to proceed with the transaction.

## **New Regulations Applicable to our Business**

### ***Reserves Requirements***

On June 24, 2013, the CNBV amended the rules applicable to the allowance for loan losses for commercial loans, effective as of December 31, 2013 in an effort to conform its regulations to the most recent recommendations issued by the Basel Committee.

Additionally, in 2015, the CNBV published a new rating methodology for revolving consumer loan portfolios that took effect in April 2016. The methodology is based on expected losses and incorporates new factors based on recent information relating to industry 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 takes into consideration information provided by credit information companies about a borrower's credit behavior with other financial institutions.

### ***Law on Government Accounting***

On November 12, 2012, the *Ley General de Contabilidad Gubernamental* (Government Accounting Law) was published in the Official Gazette, replacing various provisions of the *Ley Federal de Presupuesto y Responsabilidad Hacendaria* (Law on Federal Budget and Fiscal Responsibility). These new regulations, as amended in 2014, focus mainly on establishing general policies and principles relating to accounting matters and financial reporting for government entities in order to achieve a single accounting and reporting standard for these entities, which would provide transparency and comparability of financial information to credit institutions. The government entities targeted include entities from the executive, legislative and judicial branches of the federal government, the different states in Mexico and the Federal District, city councils in municipalities, political and administrative entities within the Federal District, federal, state and municipal quasi-government entities, and federal and state self-governing entities.

We estimate that as a result of the above-mentioned new regulations the accounting and financial records of our clients will improve.

## **IPAB**

The IPAB Law, which became effective January 20, 1999, provides for the creation, organization and functions of IPAB, the new Mexican bank savings protection agency. IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits and other bank credits.

Only in exceptional cases may IPAB grant financial support to banking institutions.

According to the IPAB Law, banks must provide the information required by IPAB for the assessment of their financial situation and notify IPAB about any event that could affect their financial stability. The IPAB Law expressly excludes the release of such data from bank secrecy provisions contained in the Mexican Banking Law and expressly provides that IPAB and the CNBV can share information databases of banks.

IPAB will manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to Congress prepared by IPAB with a detailed account of the transactions conducted by IPAB in the prior year.

IPAB has a governing board of seven members: (i) the Minister of the SHCP, (ii) the Governor of Banxico, (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 the dissolution and liquidation, or bankruptcy of a bank. IPAB will act as liquidator or receiver in the dissolution and liquidation, or bankruptcy of banks, either directly or through designation of a representative. IPAB will guarantee obligations of banks to certain depositors and creditors only up to the amount of 400,000 UDIs (or approximately Ps.2,225,121 as of December 31, 2016), per person per bank.

Banks have the obligation to pay IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of IPAB. For such purposes, banks must promptly deliver to IPAB information regarding their liabilities for the determination of their ordinary quotas. Under the IPAB Law, banks are required to make monthly ordinary contributions to IPAB, equal to 1/12 of 0.004% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less (i) holdings of term bonds issued by other commercial banks; (ii) financing granted to other commercial banks; (iii) financing granted by IPAB; (iv) subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and (v) restricted assets and liabilities resulting from the repurchase transactions (*reportos*) and lending of securities with the same counterparty, pursuant to the provisions issued by IPAB.

IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) may not exceed, on an annual basis, the amount equivalent to 0.003% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB ordinary contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.008% multiplied by the total amount of the bank's liabilities subject to IPAB contributions.

The Mexican Congress allocates funds to IPAB on a yearly basis to manage and service IPAB's liabilities. In emergency situations, IPAB is authorized to incur additional financing every three years in an amount not to exceed 6.0% of the total liabilities of Mexican banks.

### **Limitations on Investments in Other Entities**

Article 75 of the Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines:

- up to 5.0% of the capital of such companies at any time, without any approval;
- more than 5.0% and up to 15.0% of the capital of such companies, for a period not to exceed three years, upon prior authorization of a majority of the members of the bank's Board of Directors; and
- higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, whether directly or indirectly, with prior authorization of the CNBV.

The total of all such investments (divided considering investments in listed and in non-listed companies) made by a bank may not exceed 30.0% of such bank's Mexican Tier 1 Capital.

Subject to Article 88 of the Mexican Banking Law, a Mexican bank requires the prior approval of the CNBV to invest in the capital stock of companies that: (i) render ancillary services to such bank; and/or (ii) hold real estate where the offices of the applicable bank may be located.

Under Article 89 of the Mexican Banking Law, a Mexican bank is required to obtain prior clearance from the CNBV to invest, directly or indirectly, in the capital stock of a financial entity from abroad. A Mexican bank that is a subsidiary of a financial holding company may invest in the capital stock of capital funds, mutual funds managers, pension funds, managers of pension funds and SOFOMs, subject to the prior authorization of the CNBV.

Under the Mexican Banking Law, the approval of the CNBV is required prior to the merger or spin-off of a commercial bank with any other entity taking into consideration the opinion of the Mexican Antitrust Commission and the favorable opinion of the Mexican Central Bank, provided that when a Mexican bank is a subsidiary of a financial holding company, the relevant authority to approve such merger or spin-off is the SHCP.

At the end of 2014, pursuant to the new Mexican Financial Groups Law, the SHCP issued the General Rules for Financial Groups. These rules repealed the previous General Rules for the Incorporation and Operation of Financial Groups and provide the requirements for the operation of financial groups.

### **Law for the Protection and Defense of Users of Financial Services**

The Law for the Protection and Defense of Users of Financial Services (*Ley Federal de Protección y Defensa al Usuario de Servicios*) 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 mediator and arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. We and our subsidiaries must submit to CONDUSEF's jurisdiction in all conciliation proceedings (initial stages of a dispute) and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks to maintain an internal unit designated to resolve any and all controversies submitted by clients. Our financial subsidiaries 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. This Registry will be replaced as explained below. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions. Furthermore, CONDUSEF may scrutinize banking services provided by approving and supervising the use of standard accession agreements.

We and our subsidiaries may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. Our financial subsidiaries may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. Our financial subsidiaries may be subject to coercive measures or sanctions imposed by CONDUSEF. Our financial subsidiaries are not the subject of any material proceedings before CONDUSEF.

As part of the financial reform approved in Mexico in 2014, the Mexican Congress approved changes to the Law for the Protection and Defense of Financial Services Users pursuant to which, among other things, CONDUSEF is entitled to initiate class actions against Mexican financial institutions, in connection with events affecting groups of users of financial services.

CONDUSEF has broad powers to regulate our activities and activities of other Mexican banks, which may have an adverse impact on us. Under recent changes approved by the Mexican Congress to the Law for the Protection and Defense of Financial Services Users, CONDUSEF (i) 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, (ii) to order the attachment of our assets for the benefit of our customers, and (iii) has the authority to initiate class actions. CONDUSEF has broad and discretionary authority to take this and other similar actions, including the imposition of laws and the publication of information, such as imposing fines that may be detrimental to our business and reputation.

### **Law for the Transparency and Ordering of Financial Services**

The Law for the Transparency and Ordering of Financial Services regulates (i) the fees charged to clients of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds, (ii) the fees that financial institutions charge to each other for the use of any payment system, (iii) interest rates that may be charged to clients, and (iv) other aspects related to financial services, all in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants Banxico the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements (see “—Rules on Interest Rates” and “—Fees” above). Banxico 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. Our subsidiaries operating in the financial sector must inform Banxico of any changes in fees at least 30 calendar days before they become effective.

As part of the financial reform passed in 2013, the Mexican Congress approved changes to the Law for the Transparency and Ordering of Financial Services pursuant to which Banxico may issue temporary regulations applicable to interest rates and fees if it or the COFECE determines that no reasonable competitive conditions exist among financial institutions. Banxico and the CNBV were also given authority to issue rules regulating the means to obtain funds (i.e., credit cards, debit cards, checks and funds transfers), as a means to ensure competition, free access, no discrimination and protecting the interests of users.

### **Law on Transparency and Development of Competition for Secured Credit**

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,” provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (i.e., purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following: (i) the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable; (ii) the compliance by credit institutions and borrowers with certain requirements in the application process; (iii) the binding effect of offers made by credit institutions granting secured loans; (iv) the inclusion of mandatory provisions in loan agreements; and (v) the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among credit institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers.

## DESCRIPTION OF THE NOTES

The Notes will be issued pursuant to an indenture dated as of April 11, 2017, among Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa (the “Bank”), The Bank of New York Mellon, as trustee, registrar, transfer agent and paying agent and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish paying agent, which may be amended or supplemented from time to time.

The indenture provides for the issuance of the Notes but does not limit the aggregate principal amount of Notes that may be issued under the indenture, and provides that, subject to certain conditions, additional Notes may be issued under the indenture from time to time. The indenture does not limit the amount of senior, secured or other additional indebtedness or other obligations that we may incur.

This summary describes certain terms and provisions of the Notes and does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the indenture and the Notes, including the definitions therein of certain terms. We urge you to read each of the indenture and the form of the Notes because they, and not this description, define your rights as a holder of Notes. In case of any conflict regarding the rights and obligations of the holders of the Notes under the indenture, the Notes, and this offering memorandum, the terms of the indenture 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 form of the Notes by contacting the trustee at the address indicated in this offering memorandum and, for so long as the Notes are admitted to listing on the Official List of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange, at the office of the Irish paying agent.

### General

The Notes will initially be issued in the aggregate principal amount of U.S.\$750,000,000 in registered form, in minimum denominations of U.S.\$150,000 and integral multiples of U.S.\$1,000 in excess thereof. The Notes will be unsecured, not guaranteed by any affiliates of the Bank, and not guaranteed, or otherwise eligible for reimbursement, by the IPAB or any other Mexican governmental agency, or by any other entity that is part of Grupo Financiero Inbursa, S.A.B. de C.V., and are not convertible, by their terms, into our shares or equity capital or into the shares or equity capital of Grupo Financiero Inbursa, S.A.B. de C.V.

The Notes will mature and be payable in full on April 11, 2027 (the “Maturity Date”) unless earlier redeemed or permitted under the indenture. We may redeem the Notes in whole, but not in part, under the circumstances described below under “—Redemption—Withholding Tax Redemption.” We may also redeem the Notes, in whole or in part, at our option at any time, as described below under “—Redemption—Optional Redemption.” Other than in accordance with a Withholding Tax Redemption or an Optional Redemption, the Notes will not be redeemable prior to the Maturity Date.

### Ranking

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

As of December 31, 2016, we had Ps.191,918 million (approximately U.S.\$9,308 million) aggregate principal amount of indebtedness outstanding that ranked *pari passu* with the Notes and Ps.85,311 million (approximately U.S.\$4,137 million) outstanding in demand obligations to depositors that ranked senior to the Notes.



## **Principal and Interest**

The Notes will bear interest from (and including) April 11, 2017, or the “Issue Date,” to (but excluding) the Maturity Date, at a rate per annum equal to 4.375%, payable semi-annually in arrears on April 11 and October 11 of each year (each an “Interest Payment Date”), commencing on October 11, 2017. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date to (but excluding) the Maturity Date is called an “Interest Period.” 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.

## **Further Issuances; Additional Notes**

The Bank may issue additional Notes from time to time without the consent of the holders of the Notes then outstanding. The issuance of additional Notes may not change the terms of the outstanding Notes.

The Bank may issue Notes from time to time having terms identical to the Notes but for the original issue date, the issue price, the first interest payment date and the first interest accrual date (“Additional Notes”). Once any Additional Notes have been issued, whether Regulation S Global Notes or Rule 144A Global Notes, such Additional Notes together with the prior and subsequent Notes issued shall constitute one and the same series of Notes for all purposes; provided, however, that if the Additional Notes are not part of the same issue or are not issued pursuant to a qualified reopening for United States federal income tax purposes, the Additional Notes will have a separate ISIN number, CUSIP number and Common Code. The offering memorandum relating to any Additional Notes will set forth matters related to the issuance, exchange and transfer of Additional Notes, including identifying the prior Notes, their original issue date and aggregate principal amount.

## **Payment and Administration of the Notes**

The Notes will bear interest at the rate specified above. See “Principal and Interest” above. Interest on the Notes will be paid on the dates specified above to the person in whose name a Note is registered at the close of business on the 15th day preceding the respective Interest Payment Date (such date, a “record date,” whether or not a Business Day).

If any Interest Payment Date or maturity date for the Notes falls on a day that is not a Business Day, the related payment of principal or interest will be made on the next succeeding Business Day with the same force and effect as if it were made on the date such payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date or maturity date, as the case may be. For purposes hereof, the term Business Day is defined in the indenture for the Notes as any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York or Mexico City are authorized or required by law, regulation or executive order to remain closed.

## **Payment of Additional Amounts**

All payments made by or on our behalf in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature and interest, penalties and fines in respect thereof, imposed or levied by or on behalf of Mexico or any authority or agency therein or thereof having power to tax (any such amount, a “Relevant Tax”) unless the withholding or deduction of such Relevant Tax is required by law. In that event, we will pay as additional distributions of interest such additional amounts (“Additional Amounts”) as may be necessary so that the net amounts received by the holders of the Notes after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder to the extent that such Relevant Tax:

- (1) is imposed only by virtue of the existence of any present or former connection between such holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder or beneficial owner, if such holder or beneficial owner is an estate, a trust, a partnership, a limited liability company or a corporation) and Mexico, including, without limitation, the holder or beneficial owner (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident of Mexico or being or having been engaged in a trade or business or present in Mexico or having, or having had, a permanent establishment for tax purposes in Mexico, other than the mere receipt of payment in respect of the Notes or ownership of the Notes or the enforcement of rights thereunder;
- (2) is imposed only by virtue of the failure of such holder or beneficial owner to comply with certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with Mexico of such holder or beneficial owner, if compliance is required by statute or by regulation of Mexico as a precondition to relief or exemption from the Relevant Tax, provided that (x) we have or our agent has provided the holder of the Notes or its nominee with at least 60 days' written notice that such holder will be required to provide any such information, documentation or reporting requirement, and (y) in no event, shall such holder's requirement to make such a declaration or claim require such holder to provide any materially more onerous information, documents or other evidence than would be required to be provided had such holder been required to file IRS Forms W-8BEN, W-8ECI, W-8EXP and/or W-8IMY, except to the extent required under applicable law, regulation, published administrative interpretation, or a double taxation treaty, so that we may determine the appropriate rate for tax withholding, and to the extent reasonably necessary to enable the Bank to rely on the provisions of Article 166, Section II, subsection a), of the Mexican Income Tax Law or any successor provision, as a means to withhold taxes at the lowest available generalized rate;
- (3) is imposed on a holder (or beneficial owner) that has presented a Note (where presentation is required) for payment on a date more than 30 days after the date on which such payment becomes due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent such holder would be entitled to Additional Amounts had the Notes been surrendered during such 30 day period;
- (4) is imposed 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 Notes are made) having failed to comply with any certification, information, identification, documentation or other reporting requirements (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 date of issuance of the Notes or any successor or amended version of these provisions;
- (5) in the case of any Relevant Tax required to be withheld by any paying agent in the European Union from any payment of the principal of, or interest on, any Note results from the presentation by a holder in the European Union of any Note for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment by presenting such note to another paying agent in a member state of the European Union;
- (6) is an estate, inheritance, gift, sale, transfer or personal property tax or any similar tax, duty, assessment or governmental charge;
- (7) is payable other than by withholding or deduction from payments on or in respect of any Note; or
- (8) is imposed as a result of any combination of the above.

Nor will Additional Amounts be paid with respect to any payment on a Note to a holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment to the extent that payment would be required by the laws of Mexico to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in a limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the holder.

We will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in Mexico in accordance with applicable law.

We will provide the trustee with documentation, which may be certified copies of filed returns, evidencing the payment of any such taxes in respect of which we have paid any Additional Amount. We will make copies of such documentation available to the holders of the Notes or the relevant paying agent upon request.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Notes is due and payable, in which case it will be promptly thereafter), if we will be obligated to pay Additional Amounts with respect to such payment, we will deliver to the trustee an officer's certificate stating that such Additional Amounts will be payable and the amounts so payable and setting forth such other information as is necessary to enable the trustee to pay such Additional Amounts to the holders of such Notes on the payment date (except that no such other information shall be required with respect to any reliance by the Bank on the provisions of Article 166, Section II, subsection a), of the Mexican Income Tax Law or any successor provision, as a means to withhold taxes at the lowest available generalized rate).

We will also pay any present or future stamp, administrative, court, or any similar documentary taxes or any other excise or property taxes, charges or similar taxes or levies arising in Mexico in connection with the execution, delivery or registration of the Notes or any other document or instrument referred to herein or therein and will indemnify the holders for any such taxes paid by holders.

All references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by us under the Notes or the indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the indenture.

If we shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the indenture and such payment gives rise to the right on our part to effect a Withholding Tax Redemption, as described below, we will use our reasonable efforts to obtain an exemption (such measures not involving any material cost to us or the incurring by us of any other tax or penalty or changing our place of residence) from the payment of the Relevant Tax that has resulted in the requirement that we pay such Additional Amounts.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder or beneficial owner of the Notes, and as a result thereof such holder or beneficial owner is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder or beneficial owner shall, by accepting the Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such a refund or credit and incurs no other obligation with respect thereto, except for such assignment and transfer and for reasonably assisting us in obtaining such refund. We will inform the trustee in writing of the refund or credit within 30 Business Days of our determination that we are entitled to receive such refund or credit.

None of the provisions relating to the provision of information set forth herein shall be deemed to require any holder that is a pension fund or a financial or similar institution to register, for tax purposes, with the SHCP or the SAT.

In the event of any merger or other transaction described and permitted under “—Consolidation, Merger, Conveyance or Transfer” and the successor is incorporated in the United States of America, then all references to Mexico, Mexican law or regulations, and Mexican taxing authorities under this section “Additional Amounts” shall be deemed to also include the United States and any political subdivision therein or thereof, United States law or regulations, and any taxing authority of the United States or any political subdivision therein or thereof, respectively.

## **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, if any, on the Notes remains unclaimed for two years, the trustee or such paying agent, upon our request, shall return the money to the Bank subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to the Bank for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the indenture does not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

## **Redemption**

### ***Withholding tax redemption***

We have the option under the indenture for the Notes to redeem the Notes at any time prior to the Maturity Date, in whole but not in part, at par plus accrued and unpaid interest due on, or with respect to, the Notes and Additional Amounts upon the occurrence of a Withholding Tax Event (as defined below) affecting the Notes (a “Withholding Tax Redemption”). For the purposes of the foregoing, the term Withholding Tax Event is defined in the indenture to mean (i) the receipt by us and the delivery to the trustee of an opinion of a nationally recognized law firm (which may be our counsel) experienced in such matters to the effect that, as a result of (a) any amendment to or change (including an official announcement of any prospective change) in the laws or treaties (or any rules or regulations thereunder) of Mexico affecting taxation, (b) any judicial decision, or administrative pronouncement or regulatory procedure of general application, of Mexico (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, of general application, with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction, irrespective of the manner in which such amendment or change is made known, which amendment or change is effective or such pronouncement or decision is announced on or after the date of issuance of the Notes (collectively, a “Change in Tax Law”), there is more than an insubstantial risk that we are or will be liable for a payment of Additional Amounts in excess of the Additional Amounts attributable to a 4.9% withholding tax in respect of interest payments on the Notes, and (ii) the delivery to the trustee of a certificate signed by our chief financial officer or general counsel stating that the requirement to make such withholding or deduction cannot be avoided by taking reasonable measures available to us (such measures not involving any material cost to us or the incurring by us of any other tax or penalty or changing our place of residence). For the avoidance of doubt, reasonable measures shall include a change in the jurisdiction of a paying agent.

Following any merger or other transaction described and permitted under “—Consolidation, Merger, Conveyance or Transfer” below, in which we or the successor corporation are organized under the laws of the United States or any state thereof, all references to Mexico, Mexican law or regulations, and Mexican political subdivisions or taxing authorities under this section “—Redemption” will be deemed also to include the laws of the United States or any state thereof, such jurisdictions’ law or regulations, and any taxing authority of such jurisdictions or any political subdivision therein or thereof, respectively; provided, that for this purpose, the above reference to an amendment to or change of laws, rules or regulations occurring “on or after the date of issuance of the Notes” shall instead be deemed to refer only to such amendments or changes occurring after the effective date of such merger or other transaction, and the above reference to “a 4.9% withholding tax” shall instead refer to the applicable rate of United States withholding tax as of the effective date of such merger or other transaction.

### ***Optional redemption***

The Notes will be redeemable in whole or in part, at our option at any time, at a redemption price, as calculated by us, equal to the greater of (i) 100% of the principal amount of the Notes and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 35 basis points, plus, in each case, accrued interest thereon to the date of redemption and any Additional Amounts payable with respect thereto. Additionally, any outstanding Notes will be redeemable, in whole, but not in part, on any date on or following January 11, 2027 (the date that is three

months prior to the Maturity Date), at their original principal amount, plus any Additional Amounts and accrued but unpaid interest up to the date of redemption.

On and after the redemption date, interest on the Notes or any portion of the Notes called for redemption will cease to accrue (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with the trustee funds sufficient to pay the redemption price and accrued interest, through the redemption date, on the Notes subject to redemption. If the redemption date falls after a record date but on or prior to the corresponding interest payment date, we will pay accrued interest to the holder of record on the corresponding record date, which may or may not be the person who will receive payment of the redemption price (which will exclude such accrued interest). If less than all the Notes are to be redeemed, the Notes to be redeemed that are not held through DTC will be selected by the trustee by lot pro rata, or by such other method as the trustee shall deem fair and appropriate, and the Notes to be redeemed that are held through DTC will be selected by DTC in accordance with its procedures.

### ***Redemption procedures***

If we give a notice of a Withholding Tax Redemption or Optional Redemption in respect of the Notes by 12:00 noon, New York City time, on the applicable Redemption Date, to the extent funds are legally available, with respect to the Notes being redeemed and held by DTC or its nominee, the trustee or the paying agent will pay the applicable redemption price to DTC. Such notice will also be made in accordance with the procedure set forth in “—Notices.” With respect to the Notes being redeemed and held in certificated form, the trustee, to the extent funds are legally available, will pay the applicable redemption price to the holders thereof upon surrender of their certificates evidencing the Notes. Interest payable on or prior to the Redemption Date shall be payable to the holders of the Notes on the relevant record dates. If notice of redemption shall have been given and funds deposited with the trustee to pay the applicable redemption price for the Notes being redeemed, then upon the date of such deposit, all rights of the holders of the Notes will cease, except the right of the holders of the Notes to receive the applicable redemption price, but without interest on such redemption price, and the Notes will cease to be outstanding. In the event that any Redemption Date in respect of the Notes is not a Business Day then the applicable redemption price payable on such date will be paid on the next succeeding day that is a Business Day (without any interest or other payment in respect of any such delay) with the same force and effect as if made on such date. In the event that payment of the applicable redemption price is improperly withheld or refused and not paid by us (1) interest due on the Notes being redeemed will continue to accrue at the then applicable rate, from the Redemption Date originally established by us to the date such applicable redemption price is actually paid, and (2) the actual payment date will be the Redemption Date for purposes of calculating the applicable redemption price.

In the event of a partial optional prepayment of the Notes, the Notes shall be redeemed from each holder thereof pro rata according to the aggregate principal amount of the Notes held by the relevant holder in relation to the aggregate principal amount of all Notes. In respect of the Notes held by DTC or its nominee, the distribution of the proceeds from such redemption will be made to DTC or its nominee and disbursed by DTC or its nominee in accordance with the procedures applied by DTC or its nominee. In determining the proration of the Notes to be redeemed, we may make such adjustments as may be appropriate in order that only the Notes in authorized denominations shall be redeemed, subject to the minimum denominations set forth in this offering memorandum.

We shall deliver notice of any redemption to the trustee at least 40 days prior to the applicable Redemption Date. The trustee shall in turn mail or, if the Notes are held through DTC, transmit electronically notice of any such redemption to each holder of the Note at least 30 days but not more than 60 days prior to the Redemption Date to each holder of the Notes in accordance with the procedures described in the indenture. Unless we default in payment of the applicable amounts due on, or in the repayment of, the Notes, on and after the applicable Redemption Date, interest due will cease to accrue on the Notes called for redemption.

## Rule 144A Information

For so long as any of the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer shall furnish, upon the request of any holder, such information as is specified in Rule 144A(d)(4) under the Securities Act: (i) to such holder, (ii) to a prospective purchaser of such Note (or beneficial interests therein) who is a qualified institutional buyer (“QIB”) designated by such holder and (iii) to the trustee for delivery to any applicable holders or such prospective purchaser so designated, in each case in order to permit compliance by such holder with Rule 144A in connection with the resale of such Note (or beneficial interest therein) in reliance upon Rule 144A. All such information shall be in the English language.

## Periodic Reports

So long as any Notes of a particular series are outstanding, we will furnish to the trustee:

- (a) Within 120 days following the end of each of our fiscal years, (i) our consolidated audited income statements, balance sheets and cash flow statements and the related notes thereto for the two most recent fiscal years in accordance with Mexican Banking GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the SEC, together with an audit report thereon by our independent auditors; (ii) an English translation of our annual financial statements; and (iii) annual financial information included in our annual report, translated into English; 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 Mexican Banking GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the SEC and (ii) quarterly financial information included in our quarterly report, translated into English.

None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the SEC. In addition, we shall furnish to the holders of the Notes and to prospective investors, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by Persons who are not “affiliates” under the Securities Act.

In addition, if and so long as the Notes are admitted to listing on the Official List of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, copies of such reports and information furnished to the trustee will also be made available at the specified office of the Irish paying agent.

## Events of Default

An “Event of Default” with respect to the Notes is defined in the indenture as:

- (i) our default in the payment of any principal of any of the Notes, when due and payable, whether at maturity or otherwise; or
- (ii) our default in the payment of any interest (including any Additional Amounts) when due and payable on any of the Notes and the continuance of such default for a period of 30 days; or
- (iii) our default in the performance or observance of any other term, covenant, warranty, or obligation in respect of the Notes or the indenture, not otherwise expressly defined as an Event of Default in (i) or (ii) above, and the continuance of such default for more than 60 days after written notice of such default has been given to us by the trustee or the holders of at least 25% in aggregate principal amount

of the Notes outstanding specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default;” or

- (iv) certain events involving our bankruptcy or insolvency (including *concurso mercantil* or *quiebra*), liquidation or dissolution with respect to us; or
- (v) if any of our Indebtedness (as defined below) becomes due and repayable prematurely by reason of an event of default (however described) or as a result of acceleration by any applicable creditors, or we fail to make any payment in respect of any Indebtedness on the due date for such payment or within any originally applicable grace period or any security given by us for any Indebtedness becomes enforceable and steps are taken to enforce the same or if we default in making any payment when due (or within any originally applicable grace period in respect thereof) under any guarantee and/or indemnity given by us in relation to any Indebtedness of any other person, provided that no such event as aforesaid shall constitute an Event of Default unless such Indebtedness either alone or when aggregated with other Indebtedness in respect of which one or more of the events mentioned in this paragraph (v) has occurred shall amount to at least U.S.\$50,000,000 (or its equivalent in any other currency on the basis of the middle spot rate for any relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates).

For purposes of the above, “Indebtedness” means money borrowed and premiums and accrued interest in respect thereof evidenced by any bonds, notes, debentures, or similar instruments.

The indenture provides that (i) if an Event of Default (other than an Event of Default described in clause (iv) above) shall have occurred and be continuing with respect to the Notes, either the trustee or the holders of not less than 25% of the total principal amount of the Notes then outstanding may declare the principal of all outstanding Notes and the interest accrued thereon, if any, to be due and payable immediately and (ii) if an Event of Default described in clause (iv) above shall have occurred, the principal of all outstanding Notes and the interest accrued thereon, if any, shall become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder of Notes. The indenture provides that the Notes owned by us or any of our affiliates shall be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the Notes. Upon the satisfaction by us of certain conditions, the declaration described in clause (i) of this paragraph may be annulled by the holders of a majority of the total principal amount of the Notes then outstanding. Past defaults, other than non-payment of principal, interest and compliance with certain covenants, may be waived by the holders of a majority of the total principal amount of the Notes outstanding.

#### **Modification of Indenture; Waiver of Covenants**

We and the trustee may, without the consent of any holders of Notes, amend, waive or supplement each of the indenture or the Notes in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the indenture or the Notes to any provision in this “Description of the Notes” and to make any change that does not adversely affect the rights of any relevant holder in any material respect.

In addition, we and the trustee may amend, waive or supplement the indenture or the Notes with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Notes. However, without the consent of the holder of each Note we may not, among other things:

- change the maturity date of the principal of or any interest payment date (or periods on any Note);
- reduce the principal amount of or interest on any Note;
- change the currency of payment of principal or interest on any Note;
- modify any other payment provision of any Note;
- impair the right to sue for the enforcement of any payment on or with respect to any Note; or

- reduce the percentage in principal amount of outstanding Notes that is required for the consent of the holders in order to modify or amend the indenture or to waive compliance with some provisions of the indenture or to waive some defaults.

The holders of a majority in aggregate principal amount of the outstanding Notes may waive any past default or Event of Default under the indenture, except a default under a provision that cannot be modified without the consent of each holder of a Note that would be affected.

### **Consolidation, Merger, Conveyance or Transfer**

We may not consolidate with or merge into any other corporation or convey or transfer our properties and assets substantially as an entirety to any person, unless:

- (i) the successor corporation, if other than us, shall be a corporation organized and existing under the laws of Mexico or the United States of America or any state thereof, and shall expressly assume by a supplemental indenture, delivered to and in a form satisfactory to the trustee, the due and punctual payment of the principal of, premium, if any and interest on all the outstanding Notes and the performance of every covenant in the indenture on our part to be performed or observed,
- (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both would become an Event of Default, shall have happened and be continuing, and
- (iii) we shall have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer and, if a supplemental indenture is required, such supplemental indenture comply with the foregoing provisions relating to such transaction and all conditions precedent in the indenture relating to such a transaction have been complied with. In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for us as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of our obligations by any such successor corporation in such circumstances, subject to certain exceptions, we will be discharged from all obligations under the Notes and the indenture.

### **Notices**

Notice to holders of the Notes held in non-global form will be given by mail to the addresses of such holders as they appear in the security register. Notice to the registered holders of the Notes held in global form will be given to DTC in accordance with its applicable procedures.

For so long as the notes are listed on the Official List of the Irish Stock Exchange and trading on the Global Exchange Market and the rules of such exchange so require, publication of such notice to the holders of the notes will be in English in a leading newspaper having general circulation in Ireland (which is expected to be the Irish Times). Notices may also be published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)).

### **Book-Entry System**

The Notes will be 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 transferee of the beneficial interest in the form provided in the indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing the Notes to a transferee who takes delivery of the interest through a Regulation S Global Note representing the Notes will be made only upon receipt by the trustee of a certification from the transferor that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144A under the Securities Act.

Any beneficial interest in one of the Global Notes representing the Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note representing the Notes will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

#### ***Book-entry procedures for the Global Notes***

Ownership of beneficial interests in a Global Note representing the Notes will be limited to DTC and to persons that may hold interests through institutions that have accounts with DTC. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by DTC, and its respective participants for that Global Note. The conveyance of notices and other communications by DTC to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect.

DTC holds the securities of its respective participants and facilitates the clearance and settlement of securities transactions among its respective participants through electronic book-entry changes in accounts.

Principal and interest payments on the Notes represented by a Global Note will be made to DTC, as the sole registered owner and the sole holder of the Notes represented by the Global Note for all purposes under the indenture. Accordingly, we, the trustee and any paying agent will have no responsibility or liability for:

- any aspect of DTC's records relating to, or payments made on account of, beneficial ownership interests in a Note represented by a Global Note;
- any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a Global Note held through those participants; or
- the maintenance, supervision or review of any of DTC's records relating to those beneficial ownership interests.

### ***DTC***

DTC has advised us that upon receipt of any payment of principal of or interest on a Global Note representing the Notes, DTC will immediately credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Note as shown on DTC's records. The initial purchasers of the Notes will initially designate the accounts to be credited. Payments by participants to owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices, as is the case with securities held for customer accounts registered in "street names," and will be the sole responsibility of those participants.

The Notes represented by a Global Note can be exchanged for definitive Notes of the same series in registered form only if:

- DTC notifies us that it is unwilling or unable to continue as depositary for that Global Note or at any time DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by us within 90 calendar days; we, in our sole discretion, determine that such Global Note will be exchangeable for definitive Notes in registered form and notify the trustee of our decision; or an Event of Default with respect to the Notes of such series represented by that Global Note has occurred and is continuing and DTC so requests.
- A Global Note representing the Notes that can be exchanged under the preceding sentence will be exchanged for definitive Notes that are issued in authorized denominations in registered form for the same aggregate amount. Those definitive Notes will be registered in the names of the owners of the beneficial interests in the relevant Global Note as directed by DTC and may bear the legend as set forth under "Transfer Restrictions."

### **Registrar, Transfer Agent and Paying Agents**

The trustee will act as registrar for the Notes. The trustee will also act as transfer agent and paying agent for the Notes. We have the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as we may require) in respect of any tax or other governmental charges that may be imposed in relation to it. We will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

### **Listing**

Application is expected to be made to admit the Notes for listing on the Official List of the Irish Stock Exchange (the "ISE") and for admission to trading on the Global Exchange Market of the ISE. In the event that the Notes are admitted to listing on the Official List of the ISE and to trading on the Global Exchange Market of the ISE, we will use our reasonable best efforts to maintain such listing, provided that if, as a result of the European Union regulated market amended Directive 2001/34/EC (the "Transparency Directive") or any legislation implementing the Transparency Directive we could be required to publish financial information either more regularly than we otherwise would be required to or according to accounting principles which are materially

different from the accounting principles which we would otherwise use to prepare its published financial information, or we determine that it is unduly burdensome to maintain a listing on the ISE, we may delist the Notes from the Global Exchange Market in accordance with the rules of the ISE and seek an alternative admission to listing, trading and/or quotation for the Notes on a different section of the ISE or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as we may decide. Although there is no assurance as to the liquidity that may result from a listing on the ISE, delisting the Notes from the ISE may have a material effect on the ability of holders of the Notes to resell the Notes in the secondary market. The Global Exchange Market of the ISE is not a regulated market for the purposes of Directive 2004/39/EC.

## **Trustee**

The Bank of New York Mellon will act as trustee under the indenture. Notices to the trustee should be directed to the trustee at its Corporate Trust Office, located at 101 Barclay Street, Floor 7 East, New York, New York 10286, Attn: International Corporate Trust. The trustee also will initially act as registrar, paying agent and transfer agent for service of demands and notices in connection with the Notes and the indenture. The trustee may resign or be removed under circumstances described in the indenture and we may appoint a successor trustee to act in connection with the Notes. Any action described in this offering memorandum to be taken by the trustee may then be taken by the successor trustee.

The trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with us or our affiliates with the same rights it would have if it were not trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

The indenture contains some limitations on the right of the trustee should it become a creditor of ours, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The trustee will be permitted to engage in transactions with us. The occurrence of a default under the indenture could create a conflicting interest (as defined in the indenture) for the trustee. In this case, if the default has not been cured or waived within 90 days after the trustee has or acquires a conflicting interest, the trustee generally is required to eliminate the conflicting interest or resign as trustee for the Notes. In the event of the trustee's resignation, we will promptly appoint a successor trustee for the Notes.

The trustee may be removed by the holders of a majority of the outstanding Notes if an Event of Default under the indenture has occurred and is continuing. No resignation or removal of the trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the indenture.

## **Governing Law; Consent to Jurisdiction**

The indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

We will consent to the jurisdiction of the Supreme Court of the State of New York, County of New York or the United States District Court for the Southern District of New York, each in the Borough of Manhattan, City of New York, and will agree that all disputes under the indenture may be submitted to the jurisdiction of such courts. We will irrevocably consent to and waive to the fullest extent permitted by law any objection that we may have to the laying of venue of any suit, action or proceeding against us or our properties, assets and revenues with respect to the indenture or any such suit, action or proceeding in any such court and any right to which we may be entitled on account of place of residence or domicile.

To the extent that we or any of our revenues, assets or properties shall be entitled to any immunity from suit, from the jurisdiction of any such court, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process remedy, we will irrevocably agree not to claim and will irrevocably waive such immunity to the fullest extent permitted by the laws of such jurisdiction.

We will agree that service of all writs, claims, process and summons in any suit, action or proceeding against us or our properties, assets or revenues with respect to the indenture or any suit, action or proceeding to enforce or execute any judgment brought against us in the State of New York may be made upon CT Corporation System, 111 Eighth Avenue, New York, New York 10011, and we will irrevocably appoint CT Corporation System as our agent to accept such service of any and all such writs, claims, process and summonses.

### **Currency Rate Indemnity**

We have agreed that, to the greatest extent permitted under applicable law, if a judgment or order made by any court for the payment of any amount in respect of any Notes is expressed in a currency other than U.S. dollars, we will indemnify the relevant holder against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from our other obligations under the indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the indenture or the Notes.

### **Replacement of Notes**

In case of mutilated, destroyed, lost or stolen Notes, application for replacement thereof may be made to the trustee or us. Any such Note shall be replaced by the trustee in compliance with such procedures, on such terms as to evidence and indemnification as the trustee and we may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

### **Certain Definitions**

“Comparable Treasury Issue” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of the Notes.

“Comparable Treasury Price” means, with respect to any redemption date, (A) the average, as calculated by the Bank, of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Bank obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Bank.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Bank, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Bank by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Reference Treasury Dealer” means Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated or their respective affiliates or successors which are primary U.S. Government securities dealers, and no less than two other leading primary U.S. Government securities dealers in The City of New York reasonably designated by the Bank; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a “Primary Treasury Dealer”), the Bank shall substitute therefor another Primary Treasury Dealer.

## 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 (also “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, 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. The Parties in Interest 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, or “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 Law).

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 Law, as applicable.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement, each Initial Purchaser named below has severally agreed to purchase, and we have agreed to sell, the principal amount of the Notes opposite such Initial Purchaser's name.

| <u>Initial Purchasers</u>                                   | <u>Principal Amount of Notes</u> |
|---|----------------------------------|
| Citigroup Global Markets Inc. ....                          | U.S.\$250,000,000                |
| Credit Suisse Securities (USA) LLC .....                    | U.S.\$250,000,000                |
| Merrill Lynch, Pierce, Fenner & Smith<br>Incorporated ..... | U.S.\$250,000,000                |
| Total .....   | <u>U.S.\$750,000,000</u>         |

Subject to the terms and conditions set forth in the purchase agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement if any Notes are purchased. If an Initial Purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting Initial Purchaser may be increased, the commitments of the defaulting Initial Purchaser may be assumed by other persons satisfactory to the non-defaulting Initial Purchasers and us or the purchase agreement may be terminated.

We have agreed to indemnify the Initial Purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the purchase agreement, such as the receipt by the Initial Purchasers of officer's certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

### Commissions and Discounts

The Initial Purchasers have advised us that they propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed. The Initial Purchasers may offer and sell Notes through certain of their affiliates.

### The Notes Are Not Being Registered

The Notes have not been, and will not be, registered under the Securities Act or the securities law of any other jurisdiction, and they may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. In connection with sales outside the United States, each of the Initial Purchasers has agreed that it will not offer, sell or deliver the Notes to, or for the account of, U.S. persons (unless in reliance on Rule 144A) (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and that it will send to each dealer to whom it sells such Notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Resales of the Notes are restricted as described below 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 dealer that is not participating in the offering may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

## **New Issue of Notes**

The Notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the Notes on any U.S. national securities exchange. Application is expected to be made to admit the Notes to listing on the Official List of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange. However, we cannot assure you that the listing application will be approved. We have been advised by each Initial Purchaser that it presently intends to make a market in the Notes after completion of the offering. However, it is under no obligation to do so and may discontinue any market-making activities at its own discretion at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

## **No Sales of Similar Securities**

We have agreed that we will not, for a period of 30 days after the date of this offering memorandum, without first obtaining the prior written consent of each Initial Purchaser, directly or indirectly, issue, sell, offer to contract or grant any option to sell, pledge, transfer or otherwise dispose of, any dollar-denominated debt securities, except for the Notes sold to the Initial Purchasers pursuant to the purchase agreement.

## **Short Positions**

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The Initial Purchasers must close out any short position by purchasing Notes in the open market.

Similar to other purchase transactions, purchases by the Initial Purchasers to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

## **Other Relationships**

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.

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. Certain of the Initial Purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such 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.



## **Sales Outside of the United States**

Neither we nor the Initial Purchasers are making an offer to sell, or seeking offers to buy, the Notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the Initial Purchasers will have any responsibility therefor.

### **Notice to Prospective Investors in Mexico**

The Notes have not been and will not be registered with the RNV maintained by the CNBV, and, therefore, may not be offered or sold publicly in Mexico, except that the Notes may be offered to institutional and qualified investors pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law. As required under the Mexican Securities Markets Law, we will notify the CNBV of 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 thereof by, the CNBV is not a requirement for the validity of the Notes and does not imply any certification as accuracy or completeness of the information set forth herein. The information contained in this offering memorandum is exclusively our responsibility and has not been reviewed or authorized by the CNBV. The acquisition of the Notes by an investor who is a resident of Mexico will be made under its own responsibility.

### **Notice to Prospective Investors in the European Economic Area**

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospective Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) an offer to the public of any Notes which are the subject of the offering contemplated by this offering memorandum may not be made in that Relevant Member State (the “Securities”), except that an offer to the public in that Relevant Member State may be made at any time under the following exemptions under the Prospectus Directive:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant dealer or dealers nominated by us for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Securities shall result in a requirement for the publication by us, the Initial Purchasers or any representative of a prospectus pursuant to Article 3 of the Prospectus Directive.

Any person making or intending to make any offer of Notes within the EEA should only do so in circumstances in which no obligation arises for us or the Initial Purchasers to produce 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 offering of Notes contemplated in this offering memorandum.

For the purposes of this provision, and your representation below, the expression an “offer to the public” in relation to any Securities 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 any Notes to be offered so as to enable an investor to decide to purchase any Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in each Relevant Member State.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Notes under, the offer of Notes contemplated by this offering memorandum will be deemed to have represented, warranted and agreed to and with us and the Initial Purchasers that:

(a) it is a “qualified investor” within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (1) 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 Initial Purchasers has been given to the offer or resale; or (2) where Notes have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

### **Notice to Prospective Investors in the United Kingdom**

Each of the Initial Purchasers has:

(a) only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act of 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of the FSMA does not, or would not, apply to us; and

(b) complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Securities in, from or otherwise involving the United Kingdom.

### **Notice to Prospective Investors in 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.

### **Notice to Prospective Investors in Peru**

The Notes and the information contained in this offering memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the Notes and therefore, the disclosure obligations set forth therein will not be applicable to the issuer or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this offering memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to Peruvian Securities Market Superintendency (*Comisión Nacional Supervisora de Empresas y Valores*) nor have they been

registered under the Securities Market Law (*Superintendencia del Mercado de Valores*) or any other Peruvian regulations. Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein.

#### **Notice to Prospective Investors in Chile**

Neither the issuer nor the Notes are registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros de Chile*), or SVS, or subject to the control and supervision of the SVS. This offering memorandum and other offering materials relating to the offer of the Notes do not constitute a public offer of, or an invitation to subscribe for or purchase, the Notes in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (an offer that is not “addressed to the public at large or to a certain sector or specific group of the public”).

*Ni el emisor ni los valores están inscritos en el Registro de Valores o el Registro de Valores Extranjeros de la Superintendencia de Valores y Seguros de Chile ("SVS"), o sujetos al control y la supervisión de la SVS. El presente prospecto y los otros materiales relativos a la oferta de los valores no constituye una oferta pública de, ni una invitación a suscribir o comprar, tales valores en la República de Chile, salvo a compradores individualmente identificados conforme a una oferta privada en los términos del artículo 4 de la Ley de Mercado de Valores (una oferta que no está "dirigida al público en general o a un cierto sector o grupo específico de éste").*

#### **Notice to Prospective Investors in Switzerland**

This offering memorandum, as well as any other material relating to the Notes which are the subject of the offering contemplated by this offering memorandum, do not constitute an issue prospectus pursuant to Article 652a of the Swiss Code of Obligations. The Notes will not be listed on the SWX Swiss Exchange and, therefore, the documents relating to the Notes, including, but not limited to, this document, do not claim to comply with the disclosure standards of the listing rules of the SWX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SWX Swiss Exchange. The Notes are being offered in Switzerland by way of a private placement, (i.e., to a small number of selected investors only, without any public offer and only to investors who do not purchase the Notes with the intention to distribute them to the public). The investors will be individually approached by the Initial Purchasers from time to time. This document, as well as any other material relating to the Notes, is personal and confidential and do not constitute an offer to any other person. This document may only be used by those investors to whom it has been provided in connection with the offering described herein and may neither directly nor indirectly be distributed or made available to other persons without our express consent. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

#### **Notice to Prospective Investors in Hong Kong**

The notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### **Notice to Prospective Investors in Japan**

The notes offered in this offering memorandum have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. 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 (including any corporation or other entity organized under the laws of Japan), except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

### **Notice to Prospective Investors in Singapore**

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except:
- to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

## TRANSFER RESTRICTIONS

The Notes are subject to restrictions on transfer as summarized below. By purchasing Notes you will be deemed to have made the following acknowledgements, representations to and agreements with the Initial Purchasers and us:

1. You acknowledge that:

- The offering is being made in accordance with Rule 144A and Regulation S under the Securities Act;
- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

2. You represent that either:

- you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the Initial Purchasers are selling the Notes to you in reliance on Rule 144A; or
- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.

3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers has made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Notes. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from us. You agree that you have sufficient knowledge and experience in financial and business matters so as to be capable of independently evaluating the merits and risks of an investment in the Notes, and that you are able to bear the economic risk of the investment. You agree that you made your own investment decision regarding the Notes based on your own knowledge.

4. You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that the Notes may be offered, sold or otherwise transferred only:

- (a) under a registration statement that has been declared effective under the Securities Act;
- (b) for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;

(c) through offers and sales that occur outside the United States to non-U.S. purchasers within the meaning of Regulation S under the Securities Act; or

(d) under any other available exemption from the registration requirements of the Securities Act,

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller's or account's control; provided that

- with respect to the Regulation S Notes, the above restrictions on resale will only apply from the closing date until the date that is 40 days after the later of the closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes (the "Resale Restriction Period"), and will not apply after the applicable Resale Restriction Period ends; and provided further that
- we and the trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clauses (d) and (e) above the delivery of an opinion of counsel, certifications and/or other information satisfactory to us and the trustee.

Each Note will contain a legend substantially to the following effect:

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

IN THE CASE OF THE REGULATION S NOTES: UNTIL 40 DAYS AFTER THE COMMENCEMENT OF THE OFFERING, AN OFFER OR SALE OF SECURITIES WITHIN THE UNITED STATES BY A DEALER (AS DEFINED IN THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")) MAY VIOLATE THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IF SUCH OFFER OR SALE IS MADE OTHERWISE THAN IN ACCORDANCE WITH RULE 144A THEREUNDER.

THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (2) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON THE HOLDER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULES 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT, ACCOMPANIED BY AN OPINION OF COUNSEL REGARDING THE AVAILABILITY OF SUCH EXEMPTION OR (5) TO THE ISSUER OR AN AFFILIATE OF THE ISSUER AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN THIS LEGEND. THIS LEGEND SHALL ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

5. You represent that either (i) you are not, and for so long as you hold the Notes or any interest therein will not be, and you are not purchasing the Notes with the assets of, or for or on behalf of, (1) an employee benefit plan (as defined in Section 3(3) of ERISA), (2) any other plan or arrangement that is subject to ERISA or Section 4975 of the Code (each of (1) and (2), a “Plan”), or (3) any governmental, church or non-U.S. plan or other arrangement (a “Non-ERISA Arrangement”), that is subject to any applicable federal, state, local, non U-S or other regulation, rule or law that is substantially similar to ERISA or Section 4975 of the Code (“Similar Laws”), 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 (ii) your 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 exemption provided by U.S. Department of Labor Prohibited Transaction Class Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or another applicable statutory or administrative exemption or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Law.

6. You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

**Each purchaser that is acquiring Notes pursuant to Regulation S under the Securities Act represents that it is not acquiring the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person or in the United States.**

## TAXATION

The following discussion summarizes certain Mexican federal income tax and U.S. federal income tax consequences to beneficial owners arising from the purchase, ownership or disposition of the Notes. The summary does not purport to be a comprehensive description of all potential Mexican federal income tax and U.S. federal income tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes, and is not intended as tax advice to any particular investor. The discussion is for general information purposes only and is based upon the federal tax laws of Mexico (including the *Ley del Impuesto sobre la Renta* (Mexican Income Tax Law) and the Mexican Federal Tax Code) and the United States as in effect on the date of this offering memorandum (including the Tax Treaty), which are subject to change, and such changes may have retroactive effect. This summary does not describe any tax consequences arising under the laws of any state, municipality or other taxing jurisdiction other than federal income tax consequences applicable in Mexico and the United States.

***Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican, United States or other tax consequences (including tax consequences arising under double-taxation treaties that are in effect) of the purchase, ownership and disposition of the Notes, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, municipal, foreign or other tax laws.***

### Certain Mexican Income Tax Considerations

The following summary contains a description of the principal Mexican federal income tax consequences of the purchase, ownership and disposition of the Notes by a Non-Mexican Holder (as defined below). This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or dispose of the Notes. In addition, it does not describe any tax consequences (i) arising under the laws of any taxing jurisdiction other than Mexico, (ii) arising under the laws other than the federal tax laws of Mexico (excluding the laws of any state or municipality within Mexico), or (iii) that are applicable to a resident of Mexico for tax purposes that may purchase, own or dispose of the Notes.

For purposes of this summary, the term “Non-Mexican Holder” shall mean a holder that is not a resident of Mexico for tax purposes, as defined by the Mexican Federal Fiscal Code (*Código Fiscal de la Federación*), and that does not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico to which income in respect of the Notes is attributable.

For purposes of Mexican taxation:

- individuals are residents of Mexico for tax purposes, if they have established their principal place of residence in Mexico or, if they have established their principal place of residence outside Mexico, if their core of vital interests (*centro de intereses vitales*) is located within Mexican territory. This will be deemed to occur if (i) at least 50.0% of their aggregate annual income derives from Mexican sources, or (ii) the main center of their professional activities is located in Mexico. Mexican nationals who filed a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico, in which their income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law (*Ley del Impuesto Sobre la Renta*), will be considered Mexican residents for tax purposes during the year of filing of the notice of such residence change and during the following three years;
- unless otherwise evidenced, a Mexican national individual shall be deemed a Mexican resident for tax purposes. An individual will also be considered a resident of Mexico for tax purposes, if such individual is a Mexican federal government employee, regardless of the location of the individual’s core of vital interests; and
- a legal entity is a resident of Mexico for tax purposes if it maintains the principal administration of its business or the place of its effective management, in Mexico.



Non-residents of Mexico (whether individuals or corporate entities) who are deemed to have a permanent establishment in Mexico for tax purposes, shall be subject to the Mexican income tax laws, and all income attributable to such permanent establishment in Mexico, will be subject to Mexican income taxes in accordance with the Mexican Income Tax Law.

This summary is based upon the Mexican Income Tax Law and the Mexican Federal Fiscal Code in effect as of the date of this offering memorandum, all of which are subject to change.

Mexico has entered into, and is negotiating, several double taxation treaties with various countries, that may affect the Mexican withholding tax liabilities applicable to Non-Mexican Holders. Prospective purchasers of the Notes should consult their own tax advisers as to the tax consequences, if any, of such treaties.

### ***Payments of Interest***

Under the Mexican Income Tax Law, payments of interest we make in respect of the Notes (including payments of principal in excess of the issue price of the Notes, if any, which, under Mexican law, are deemed to be interest) to a Non-Mexican Holder, will be subject to a Mexican withholding tax assessed at a rate of 4.9%, if (i) the Notes are placed through banks or brokerage houses (*casas de bolsa*) in a country with which Mexico has entered into a tax treaty for the avoidance of double taxation, which is in effect, (ii) we deliver notice of the offering of the Notes to the CNBV in accordance with Article 7 of the *Ley del Mercado de Valores* (the Mexican Securities Market Law), and (iii) the information requirements specified by the SHCP or the SAT under general rules are satisfied.

Payments of interest we make in respect of the Notes to a non-Mexican pension or retirement fund will be generally exempt from Mexican withholding taxes, provided that (i) the fund is the effective beneficiary of such interest income, (ii) the fund is duly established pursuant to the laws of its country of residence, (iii) the relevant interest income is exempt from taxation in such country, and (iv) the fund provides information to the SAT, through us, in accordance with certain general rules issued for these purposes.

We have agreed, subject to specified exceptions and limitations, to pay Additional Amounts to Non-Mexican Holders of the Notes in respect of the Mexican withholding taxes attributable to interest payments under the Notes, as described above. If we pay Additional Amounts in respect of such Mexican withholding taxes attributable to interest payments, any refunds of such additional amounts will be for our account. See “Description of the Notes—Payment of Additional Amounts.”

Holders or beneficial owners of the Notes may be requested by us or on our behalf, to provide information or documentation necessary to enable us to determine the appropriate Mexican withholding tax rate applicable to interest and deemed interest payments made by us to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner is required under applicable law, and, if requested is not provided to us, or on our behalf, on a complete or timely basis, our obligations to pay additional amounts may be limited as set forth under “Description of the Notes—Payment of Additional Amounts.”

### ***Payments of Principal***

Under the Mexican Income Tax Law, payments of principal we make in respect of the Notes to a Non-Mexican Holder, will not be subject to any Mexican withholding or similar taxes.

### ***Sale or Other Disposition of the Notes***

Gains from the sale or other disposition of the Notes by a Non-Mexican Holder to another Non-Mexican Holder (other than to a permanent establishment in Mexico of a Non-Mexican Holder) will not be subject to Mexican withholding taxes. However, gains resulting from the sale or other disposition of the Notes by a Non-Mexican Holder to a Mexican resident for tax purposes or to a permanent establishment for tax purposes in Mexico of a Non-Mexican Holder, will be subject to the Mexican withholding taxes pursuant to the rules described above applicable to interest payments, in respect of the difference between the nominal value (or the face value) of the Notes and the price obtained upon sale by the seller, and any such withholding taxes will not benefit from our obligations to pay Additional Amounts.

A Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership, or disposition of the Notes, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

### **Certain United States Federal Income Tax Considerations**

The following summary describes certain U.S. federal income tax consequences pertaining to the acquisition, ownership and disposition of the Notes. Unless otherwise stated, this summary deals only with Notes held as capital assets (generally, property held for investment purposes) by U.S. Holders and Non-U.S. Holders (each as defined below) who purchased the Notes upon original issuance at their original offering price. As used in this offering memorandum, a “U.S. Holder” means a beneficial owner of a Note that is a citizen or resident of the United States or a domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of the Note (a “U.S. Holder”). As used in this offering memorandum, a “Non-U.S. Holder” means a beneficial owner of a Note that is not a U.S. Holder.

This summary does not deal with special classes of holders such as banks or other financial institutions, thrifts, real estate investment trusts, regulated investment companies, insurance companies, brokers or dealers in securities or currencies, tax-exempt investors, investors that own or have owned stock constituting 10% or more of our total combined voting power (whether such stock is directly, indirectly or constructively owned), partnerships (or entities treated as partnerships for U.S. federal income tax purposes), or partners therein, securities traders who elect to use the mark-to-market method of accounting for their securities holdings, U.S. expatriates, or persons who hold the Notes as part of a hedge or an integrated investment (including a “straddle”) or as other than a capital asset. This summary does not address the tax consequences to U.S. Holders that have a functional currency other than the U.S. dollar or the tax consequences to shareholders, partners, or beneficiaries of a holder of Notes. Further, this summary does not address the alternative minimum tax, the Medicare tax on net investment income or other aspects of U.S. federal income or state and local taxation that may be relevant to a holder in light of such holder’s particular circumstances. This summary is based on the Code, Treasury regulations promulgated thereunder, and administrative and judicial interpretations thereof, as of the date hereof, all of which are subject to change, possibly on a retroactive basis, and to different interpretations.

### **PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS AS TO THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES, AS WELL AS THE EFFECT OF ANY STATE, LOCAL, OR FOREIGN TAX LAWS.**

#### ***Interest income***

It is expected and this discussion assumes that either the issue price of the Notes will equal the stated principal amount of the Notes or the Notes will be issued with no more than a de minimis amount of original issue discount (“OID”). Payments of stated interest on a Note (including any Additional Amounts) will generally be taxable to a U.S. Holder as ordinary interest income when such interest is accrued or received, in accordance with the U.S. Holder’s regular method of tax accounting. Interest on the Notes generally will be treated as foreign-source income for U.S. federal income tax purposes. In the event that the Notes are issued with more than de minimis OID, U.S. Holders will be required to accrue OID on a constant-yield method and include such amounts in gross income over the life of the Notes.

#### ***Redemption, sale or other taxable disposition of the Notes***

Upon redemption, sale or other taxable disposition of the Notes, a U.S. Holder will recognize gain or loss equal to the difference between the amount realized on the redemption, sale or other taxable disposition of the Notes and the U.S. Holder’s adjusted tax basis in such Notes (less an amount equal to any accrued but unpaid interest, which will be treated as such). A U.S. Holder’s adjusted tax basis in a Note generally will equal the cost of such Note to such holder, increased by amounts includable in income by the holder as OID (if any). Such gain or loss will be a capital gain or loss and will be long-term capital gain or loss if the Notes have been held for more than one year at the time of disposition. Certain non-corporate U.S. Holders (including individuals) may qualify for preferential rates of tax on long-term capital gains for U.S. federal income tax purposes. Any such gain or loss

realized on the redemption, sale or other taxable disposition of the Notes generally will be treated as U.S.-source gain or loss for U.S. federal income tax purposes. The deductibility of capital losses is subject to limitations.

### ***Foreign Source Income and Foreign Tax Credits***

The Mexican withholding tax that is imposed on interest will be treated as a foreign income tax eligible, subject to generally applicable limitations and conditions under U.S. tax law, for credit against a U.S. Holder's U.S. federal income tax liability or, at the U.S. Holder's election, for deduction in computing the holder's taxable income. Interest and additional amounts paid on the Notes generally will constitute foreign source "passive category income." Gain or loss realized by a U.S. Holder on the sale, exchange or other taxable disposition of a Note generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Accordingly, if Mexican tax is imposed on the sale or other disposition of Notes, such tax generally will not be available as a credit for the U.S. Holder against U.S. federal income tax unless such holder has other income from foreign sources, in the appropriate category, for purposes of the foreign tax credit rules or such U.S. Holder is entitled to treat such gain as Mexican source under the U.S.-Mexico Tax Treaty because the U.S. Holder is considered a resident of the United States for purposes of, and otherwise meets the requirements of, the U.S.-Mexico Tax Treaty. Alternatively, a U.S. Holder may take a deduction for the Mexican income tax if such U.S. Holder does not take a credit for any foreign taxes paid or accrued during the taxable year.

The calculation and availability of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign taxes, the availability of deductions, involves the application of complex rules that depend on a U.S. Holder's particular circumstances. U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits and the treatment of additional amounts

### ***Information reporting and backup withholding***

A U.S. Holder (other than an "exempt recipient," which includes corporations and certain other recipients that, when required, demonstrate their exempt status) may be subject to backup withholding at the applicable statutory rate on, and to information reporting requirements with respect to, payments of principal or interest on, and to proceeds from the sale, exchange or other taxable disposition, including a redemption, of the Notes. In general, if a non-corporate U.S. Holder subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding may apply. The backup withholding tax is not an additional tax and may be credited against a U.S. Holder's regular U.S. federal income tax liability or refunded, provided the required information is timely furnished to the IRS.

Non-U.S. Holders are generally exempt from backup withholding so long as such Non-U.S. Holders provide us (or our paying agent) with a properly executed appropriate IRS Form W-8 (or other applicable form). Backup withholding is not an additional tax. Any backup withholding tax generally will be allowed as a credit or refund against the Non-U.S. Holders U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

**THE UNITED STATES FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN UNITED STATES FEDERAL OR OTHER TAX LAWS.**

## **LEGAL MATTERS**

The validity of the Notes will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP, our United States counsel, and for the Initial Purchasers by Paul Hastings LLP, United States counsel to the Initial Purchasers. Certain matters of Mexican law relating to the Notes will be passed upon for us by our Corporate General Counsel, Guillermo René Caballero Padilla and for the Initial Purchasers by Ritch, Mueller, Heather y Nicolau, S.C., Mexican counsel to the Initial Purchasers.

## **GENERAL INFORMATION**

### **Clearing Systems**

We have applied to have the Notes accepted for clearance through Euroclear and Clearstream. In addition, application has been made to have the Notes accepted for trading in book-entry form by DTC. For the Rule 144A Global Note, the ISIN number is US05969LAB71 and the CUSIP number is 05969L AB7, and for the Regulation S Global Note, the ISIN number is USP13296AM37 and the CUSIP number is P13296 AM3.

### **Listing**

We have applied to list the Notes on the Irish Stock Exchange for trading on the Global Exchange Market of that Exchange. Copies of our bylaws, the Indenture, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements and any published quarterly unaudited consolidated financial statements will be available 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 Irish paying agent, as such addresses are listed on the inside back cover page of this offering memorandum. We believe the auditor's reports included herein have been accurately reproduced. We will maintain a paying agent in Ireland for so long as any of the Notes are listed on the Irish Stock Exchange.

### **Authorization**

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes.

## LISTING INFORMATION

1. This offering memorandum forms, in all material respects, the listing particulars for admission to the Irish Stock Exchange.
2. Banco Inbursa S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa was registered in the Commerce Section of the Public Registry of Property and Commerce of Mexico City (*Registro Público de la Propiedad y de Comercio de la Ciudad de México*) on October 14, 1993, under number 179934. Banco Inbursa is validly incorporated under the laws of Mexico.
3. We are the principal subsidiary of Grupo Financiero Inbursa, S.A.B de C.V. (“Grupo Financiero Inbursa”), a Mexican financial services holding company. As of December 31, 2016, we accounted for approximately 77.7% of Grupo Financiero Inbursa’s total assets and for the year ended December 31, 2016, we accounted for approximately 62.1% of Grupo Financiero Inbursa’s net income.
4. The Irish Stock Exchange has approved this document as Listing Particulars for purposes of the Notes being listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market thereof.
5. There has been no material adverse change in our prospects since December 31, 2016.
6. Our current directors and their alternates, as set forth in these listing particulars under the section entitled “Management”, may be contacted at the following address: Paseo de las Palmas No. 736, Colonia Lomas de Chapultepec, C.P. 11000, Mexico City, Mexico.
7. 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.
8. There has been no actual, pending or threatened governmental, legal or arbitration proceeding of which we are aware during the previous 12 months which may have, or has had in the recent past, significant effects on our financial position or profitability.
9. Other than as specified in these listing particulars, there has been no significant change in our financial or trading position which has occurred since December 31, 2016.
10. For so long as the Notes are listed on the Global Exchange Market of the Irish Stock Exchange, copies of the following items will be available in physical form at Paseo de las Palmas No. 736, Colonia Lomas de Chapultepec, C.P. 11000, Mexico City, Mexico:
  - these Listing Particulars;
  - a copy of our bylaws and articles of association;
  - copies of our audited financial statements as of December 31, 2014, 2015 and 2016, for the years ended December 31, 2014, 2015 and 2016;
  - copies of the Indenture governing the Notes;
  - any other documents related to the offering of the Notes referred to herein.
11. The expenses relating to admission to trading are estimated to be €4,540.00.

Any websites mentioned do not form part of the listing particulars.

## **INDEPENDENT PUBLIC ACCOUNTANTS**

Our Audited Financial Statement as of and for the years ended December 31, 2016, 2015 and 2014 included elsewhere in this offering memorandum has been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited, independent auditors, as stated in their report herein.

Galaz, Yamazaki, Ruiz Urquiza, S.C. is a member of the Association of Public Accountants of Mexico (*Código de Contadores Públicos de México, A.C.*).

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**Banco Inbursa, S.A.,  
Institución de Banca  
Múltiple, Grupo Financiero  
Inbursa and Subsidiaries  
(subsidiary of Grupo Financiero  
Inbursa, S.A.B. de C.V.)**

Consolidated Financial  
Statements for the Years Ended  
December 31, 2016, 2015 and  
2014, and Independent  
Auditors' Report Dated February  
27, 2017

**Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa and Subsidiaries**

**Independent Auditors' Report and Consolidated Financial Statements for 2016, 2015 and 2014**

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# **Independent Auditors' Report to the Board of Directors and Stockholders of Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa and Subsidiaries**

## ***Opinion***

We have audited the accompanying consolidated financial statements of Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa and Subsidiaries (the "Institution"), which comprise the consolidated balance sheets as of December 31, 2016, 2015 and 2014, the consolidated statements of income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and a summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements are prepared, in all material respects, in accordance with the accounting criteria established by the Mexican National Banking and Securities Commission (the "Commission") as set forth in the General Provisions Applicable to Credit Institutions (the "Provisions").

## ***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 "*Auditors' Responsibilities for the Audit of the 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.

## ***Key Audit Matters***

The key audit matters are those matters which, in our professional judgment, have been of most significance in our audit of the consolidated financial statements for the current period. These matters have been addressed in the context of our audit of the consolidated financial statements taken as a whole and in the formation of our opinion thereon, and we do not express a separate opinion on those matters.

We have determined that the matters described below are the key audit matters which should be communicated in our report.

- **Valuation of financial derivatives (see notes 3 and 9 to the consolidated financial statements)**

The valuation of the financial derivatives of the Institution was considered as a key approach area of our audit, given the degree of complexity involved in the valuation of some of the financial derivatives and the materiality of the judgments and estimates made by management.

In the accounting policies of the Institution (Note 3), management has described the principal sources of estimates involved in the determination of the valuation of financial derivatives and in particular when fair value is established by using a valuation technique due to the complexity of the instrument or the unavailability of market-based data.

Our audit procedures to cover this significant caption focused on tests of the valuation adjustments, including those for inclusion of the collateral, in addition to tests of:

1. The design and implementation as well as the operating efficiency of the key controls in the processes of identification, management and supervision of the valuation risk of financial derivatives of the Institution, including the controls over data sources, pricing confirmation and other inputs used in the valuation models.
2. The design and operational efficiency of the controls over the approval of the models or changes in existing models.
3. The analysis of the variables used in the models. This work included the calculation of the valuation as of September 30 and December 31, 2016 for a sample of financial derivatives with the use of independent variables and in certain cases they resulted in valuations different from those calculated by the Institution, while noticing that the differences were within reasonable ranges.
4. We have tested as of December 31, 2016, the entry data into the valuation model and involved internal specialists from our valuation area to review the results of the model.
5. We validated as of December 31, 2016 their correct presentation and disclosure in the consolidated financial statements.

The results of our audit procedures were reasonable.

- **Allowance for loan losses - commercial credit portfolio (see Notes 3 and 12 to the consolidated financial statements)**

The Institution establishes the allowance for loan losses of its commercial credit portfolio based on the portfolio classification rules established in the General provisions applicable to credit institutions, issued by the Commission, which establish methodologies for evaluation and creation of reserves by type of credit. When classifying the commercial credit portfolio, the Institution considers the Probability of Default, Severity of Loss and Exposure to Default and also classifies the aforementioned commercial credit portfolio into different groups and establishes different variables for the estimate of the probability of default. It has been considered a key audit matter due to the importance of the integrity and accuracy of the information used in the determination and updating of the risk parameters in the determination of the calculation.

Our audit procedures to cover this key audit matter included:

1. Tests of the design and operating efficiency of the relevant controls, focusing on review-type controls, for the classification of the commercial credit portfolio into different groups and the review of the variables to the estimate the probability of default.

2. Tests of the design and operating efficiency of the determination of the credit rating and/or score, determined based on the quantitative factors related to the financial information of the borrower, credit bureau information and qualitative factors related to their environment, behavior and performance.
3. Of a sample of credits as of September 30 and December 31, 2016, we validated the estimate through an independent calculation exercise and a comparison of the results against those determined by the Institution, with the aim of evaluating any indicator of management error or bias, and identified that the results were within reasonable ranges.

The results of our audit procedures were reasonable.

***Other information included in the document containing the audited consolidated financial statements***

The Institution's management is responsible for the information included in the Annual Report to the Mexican Stock Market (Annual Report). 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 Fraction I, clause b) of Title Four, First Chapter of the "General Provisions Applicable to Issuers and Other Securities Market Participants" (Stock Exchange Rules) in Mexico and the Instructions accompanying those rules (collectively, the Regulations). The Annual Report is expected to be available after the date of this audit report.

Our opinion on the consolidated financial statements will not cover the information that will be included in the Annual Report and we will not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when 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 the declarations surrounding the reading of the annual report, required by Article 33 Fraction I, subsection b) numeral 1.2. of the Regulations.

***Responsibilities of Management and the Audit Committee of the Institution for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with the accounting criteria issued by the Commission as set forth in the Provisions, 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.

The Audit Committee is responsible for supervising the Institution's financial reporting process, reviewing the content of the consolidated financial statements and presenting them for approval by the Institution's Board of Directors.

### ***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 auditors' 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 assess 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 to the Audit Committee 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 provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S.C.  
Member of Deloitte Touche Tohmatsu Limited



C.P.C. Rony Emmanuel García Dorantes

February 27, 2017

Banco Inbursa, S.A. Institución de Banca Múltiple, Grupo Financiero Inbursa and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2016, 2015 and 2014  
(In millions of Mexican pesos)

| Assets  | 2016              | 2015              | 2014              |
|---|-------------------|-------------------|-------------------|
| Funds available (Note 5)                                      | \$ 19,293         | \$ 17,127         | \$ 13,554         |
| Margin accounts (Note 6)                                      | 4,895             | 2,723             | 3,434             |
| Investment in securities (Note 7):                            |                   |                   |                   |
| Trading securities  | 63,253            | 23,278            | 25,263            |
| Securities available for sale                                 | -                 | -                 | 303               |
|   | <u>63,253</u>     | <u>23,278</u>     | <u>25,566</u>     |
| Receivables under sale and repurchase agreements (Note 8)     | -                 | 7,386             | 13,008            |
| Derivatives (Note 9):   |                   |                   |                   |
| Trading purposes  | 7,624             | 6,566             | 8,820             |
| Hedging purposes  | 3,249             | 558               | 949               |
|   | <u>10,873</u>     | <u>7,124</u>      | <u>9,769</u>      |
| Valuation adjustment for hedged financial assets (Note 10)    | 647               | 928               | 1,066             |
| Performing loan portfolio:                                    |                   |                   |                   |
| Commercial loans:   |                   |                   |                   |
| Commercial or business activity                               | 189,084           | 163,995           | 140,430           |
| Loans to financial entities                                   | 11,371            | 8,764             | 14,556            |
| Loans to government entities                                  | 23,680            | 14,340            | 18,889            |
| Consumer loans  | 44,829            | 39,116            | 17,927            |
| Mortgage loans  | 6,540             | 4,007             | 1,333             |
| Total performing loan portfolio                               | <u>275,504</u>    | <u>230,222</u>    | <u>193,135</u>    |
| Non-performing loan portfolio:                                |                   |                   |                   |
| Commercial loans:   |                   |                   |                   |
| Commercial or business activity                               | 3,930             | 5,064             | 5,763             |
| Consumer loans  | 3,517             | 1,991             | 916               |
| Mortgage loans  | 359               | 201               | 167               |
| Total non-performing portfolio                                | <u>7,806</u>      | <u>7,256</u>      | <u>6,846</u>      |
| Total loan portfolio (Note 11)                                | 283,310           | 237,478           | 199,981           |
| Allowance for loan losses (Note 12)                           | (12,088)          | (10,739)          | (14,338)          |
| Loan portfolio, net   | <u>271,222</u>    | <u>226,739</u>    | <u>185,643</u>    |
| Other receivables, net (Note 13)                              | 21,876            | 21,755            | 15,357            |
| Foreclosed assets, net (Note 14)                              | 1,935             | 2,931             | 3,077             |
| Property, furniture and fixtures, net (Note 15)               | 2,048             | 1,871             | 1,449             |
| Long-term investment in shares (Note 16)                      | 12,742            | 11,878            | 8,973             |
| Deferred taxes, net (Note 23)                                 | 211               | 390               | -                 |
| Other assets, deferred charges and intangibles, net (Note 17) | <u>2,966</u>      | <u>2,934</u>      | <u>688</u>        |
| Total assets  | <u>\$ 411,961</u> | <u>\$ 327,064</u> | <u>\$ 281,584</u> |

Memorandum accounts (Note 32)

|  |  |
|--|--|
| Guarantees issued                                      |  |
| Credit commitments                                     |  |
| Assets in trust or under mandate                       |  |
| Assets in custody or under administration              |  |
| Other record accounts                                  |  |
| Collateral received                                    |  |
| Uncollected interest earned on past due loan portfolio |  |
| Collateral received and sold or pledged as guarantee   |  |

The accompanying notes are part of these consolidated financial statements.

| Liabilities and Stockholders' equity                        | 2016              | 2015              | 2014              |
|---|-------------------|-------------------|-------------------|
| Desposits:  |                   |                   |                   |
| Demand deposits (Note 18a)                                  | \$ 81,996         | \$ 76,895         | \$ 69,328         |
| Time deposits (Note 18b):                                   |                   |                   |                   |
| Customer deposits   | 22,248            | 17,180            | 12,326            |
| Money market  | 25,479            | 48                | 2,909             |
|   | <u>47,727</u>     | <u>17,228</u>     | <u>15,235</u>     |
| Credit instruments issued (Note 18c)                        | 117,728           | 109,798           | 91,787            |
| Global demand deposits accounts (Note 18d)                  | 65                | -                 | -                 |
|   | <u>247,516</u>    | <u>203,921</u>    | <u>176,350</u>    |
| Bank and other loans (Note 19):                             |                   |                   |                   |
| Demand loans  | -                 | 1,070             | 1,380             |
| Short-term loans  | 3,315             | 1,995             | 1,052             |
| Long-term loans   | 26,398            | 5,805             | 2,923             |
|   | <u>29,713</u>     | <u>8,870</u>      | <u>5,355</u>      |
| Derivatives (Note 9):                                       |                   |                   |                   |
| Trading purposes  | 14,354            | 12,459            | 14,726            |
| Hedging purposes  | 13,442            | 7,535             | 3,277             |
|   | <u>27,796</u>     | <u>19,994</u>     | <u>18,003</u>     |
| Other payables:   |                   |                   |                   |
| Income taxes payable (Note 20)                              | 737               | 901               | 358               |
| Payables arising from settlement of transactions (Note 5b)  | 9,293             | 7,096             | 4,170             |
| Cash collateral received (Note 21)                          | 2,264             | -                 | 314               |
| Sundry creditors and other payables (Note 22)               | 3,376             | 3,276             | 1,509             |
|   | <u>15,670</u>     | <u>11,273</u>     | <u>6,351</u>      |
| Deferred taxes, net (Note 23)                               | -                 | -                 | 2,379             |
| Deferred revenues and other advances                        | 1,027             | 647               | 363               |
| Total Liabilities   | <u>321,722</u>    | <u>244,705</u>    | <u>208,801</u>    |
| Stockholders' equity (Note 25):                             |                   |                   |                   |
| Paid-in capital:  |                   |                   |                   |
| Capital stock   | 17,579            | 17,579            | 17,579            |
| Share premium   | 7,685             | 7,685             | 7,685             |
|   | <u>25,264</u>     | <u>25,264</u>     | <u>25,264</u>     |
| Other capital:  |                   |                   |                   |
| Capital reserves  | 10,902            | 9,905             | 8,377             |
| Retained earnings   | 40,804            | 34,193            | 23,427            |
| Result from valuation of available for sale securities, net | -                 | -                 | 11                |
| Result from valuation of cash flow hedge instruments, net   | 874               | (619)             | (305)             |
| Accumulated conversion effect                               | 126               | (57)              | -                 |
| Gain (loss) from holding non-monetary assets                | 1,782             | 1,082             | 265               |
| Net income  | <u>7,743</u>      | <u>9,890</u>      | <u>14,554</u>     |
|   | <u>62,231</u>     | <u>54,394</u>     | <u>46,329</u>     |
| Non-controlling interest                                    | <u>2,744</u>      | <u>2,701</u>      | <u>1,190</u>      |
| Total stockholders' equity                                  | <u>90,239</u>     | <u>82,359</u>     | <u>72,783</u>     |
| Total liabilities and stockholders' equity                  | <u>\$ 411,961</u> | <u>\$ 327,064</u> | <u>\$ 281,584</u> |

| 2016                | 2015                | 2014                |
|---------------------|---------------------|---------------------|
| \$ -                | \$ -                | \$ 2                |
| 102,579             | 73,856              | 106,669             |
| 385,786             | 374,153             | 382,866             |
| 410,796             | 399,814             | 604,793             |
| 1,241,340           | 968,634             | 940,913             |
| 19,506              | 20,962              | 69,218              |
| 3,228               | 4,073               | 3,609               |
| <u>19,506</u>       | <u>13,584</u>       | <u>56,214</u>       |
| <u>\$ 2,182,741</u> | <u>\$ 1,855,076</u> | <u>\$ 2,164,284</u> |



**Banco Inbursa, S.A. Institución de Banca Múltiple,  
Grupo Financiero Inbursa and Subsidiaries**

## **Consolidated Statements of Income**

**For the years ended December 31, 2016, 2015 and 2014**

**(In millions of Mexican pesos)**

|  | 2016            | 2015            | 2014             |
|--|-----------------|-----------------|------------------|
| Interest income  | \$ 27,229       | \$ 19,871       | \$ 17,112        |
| Interest expense                                       | <u>(10,780)</u> | <u>(7,811)</u>  | <u>(7,425)</u>   |
| Financial margin (Note 28)                             | 16,449          | 12,060          | 9,687            |
| Provisions for loan losses (Note 12)                   | <u>(6,613)</u>  | <u>(3,477)</u>  | <u>(2,438)</u>   |
| Financial margin after provisions for loan losses      | 9,836           | 8,583           | 7,249            |
| Commission and fee income (Note 29)                    | 5,450           | 4,207           | 2,991            |
| Commission and fee expense                             | (1,845)         | (753)           | (93)             |
| Net gain on financial assets and liabilities (Note 30) | 409             | (2,582)         | (4,443)          |
| Other operating income (Note 31)                       | 1,107           | 6,302           | 13,631           |
| Administrative and promotional expenses                | <u>(7,081)</u>  | <u>(5,676)</u>  | <u>(4,964)</u>   |
| Total operating income                                 | 7,876           | 10,081          | 14,371           |
| Equity in results of associates (Note 16)              | <u>1,079</u>    | <u>1,195</u>    | <u>949</u>       |
| Income before income taxes                             | <u>8,955</u>    | <u>11,276</u>   | <u>15,320</u>    |
| Current income taxes (Note 20)                         | 2,277           | 2,592           | 1,896            |
| Deferred income taxes (Note 23)                        | <u>(1,067)</u>  | <u>(1,426)</u>  | <u>(1,332)</u>   |
|  | 1,210           | 1,166           | 564              |
| Net income   | <u>7,745</u>    | <u>10,110</u>   | <u>14,756</u>    |
| Non-controlling interest                               | <u>(2)</u>      | <u>(220)</u>    | <u>(202)</u>     |
| Net income attributable to controlling interest        | <u>\$ 7,743</u> | <u>\$ 9,890</u> | <u>\$ 14,554</u> |

The accompanying notes are part of these consolidated financial statements.

Consolidated Statements of Changes in Stockholders’ Equity

For the years ended December 31, 2016, 2015 and 2014  
(In millions of Mexican pesos)

|  | Paid-in capital |               | Other capital    |                   |   |   |                               |  |            |                          | Total stockholders' equity |
|--|-----------------|---------------|------------------|-------------------|---|---|-------------------------------|--|------------|--------------------------|----------------------------|
|  | Capital stock   | Share premium | Capital reserves | Retained earnings | Result from valuation of available for sale securities, net | Result from valuation of cash flow hedge instruments, net | Accumulated conversion effect | Gain (loss) from holding non-monetary assets | Net income | Non-controlling interest |                            |
| Balances as of January 1, 2014   | \$ 17,579       | \$ 7,685      | \$ 7,182         | \$ 12,903         | \$ 20   | \$ (28)   | \$ -                          | \$ 265                                       | \$ 12,179  | \$ 1,003                 | \$ 58,788                  |
| Changes arising from stockholders’ decisions   |                 |               |                  |                   |   |   |                               |  |            |                          |                            |
| Transfer of net income from previous year to retained earnings and increases in capital reserves | -               | -             | 1,195            | 10,984            | -   | -   | -                             | -  | (12,179)   | -                        | -                          |
| Dividends declared   | -               | -             | -                | (460)             | -   | -   | -                             | -  | -          | -                        | (460)                      |
| Total  | -               | -             | 1,195            | 10,524            | -   | -   | -                             | -  | (12,179)   | -                        | (460)                      |
| Comprehensive income (Note 26b)  |                 |               |                  |                   |   |   |                               |  |            |                          |                            |
| IPAB charges   | -               | -             | -                | -                 | -   | -   | -                             | -  | -          | 187                      | 187                        |
| Results from valuation of available for sale securities  | -               | -             | -                | -                 | (9)   | -   | -                             | -  | -          | -                        | (9)                        |
| Results from valuation of cash flow hedge instruments  | -               | -             | -                | -                 | -   | (277)   | -                             | -  | -          | -                        | (277)                      |
| Net income   | -               | -             | -                | -                 | -   | -   | -                             | -  | 14,554     | -                        | 14,554                     |
| Total  | -               | -             | -                | -                 | (9)   | (277)   | -                             | -  | 14,554     | 187                      | 14,455                     |
| Balances, December 31, 2014  | 17,579          | 7,685         | 8,377            | 23,427            | 11  | (305)   | -                             | 265  | 14,554     | 1,190                    | 72,783                     |
| Changes arising from stockholders’ decisions   |                 |               |                  |                   |   |   |                               |  |            |                          |                            |
| Transfer of net income from previous year to retained earnings and increases in capital reserves | -               | -             | 1,528            | 13,026            | -   | -   | -                             | -  | (14,554)   | -                        | -                          |
| Dividends declared   | -               | -             | -                | (1,770)           | -   | -   | -                             | -  | -          | -                        | (1,770)                    |
| Total  | -               | -             | 1,528            | 11,256            | -   | -   | -                             | -  | (14,554)   | -                        | (1,770)                    |
| Comprehensive income (Note 26b)  |                 |               |                  |                   |   |   |                               |  |            |                          |                            |
| Results from valuation of available for sale securities  | -               | -             | -                | -                 | (11)  | -   | -                             | -  | -          | -                        | (11)                       |
| Results from valuation of cash flow hedge instruments  | -               | -             | -                | -                 | -   | (314)   | -                             | -  | -          | -                        | (314)                      |
| Gain (loss) from holding non-monetary assets   | -               | -             | -                | -                 | -   | -   | -                             | 817  | -          | -                        | 817                        |
| Cumulative translation adjustment  | -               | -             | -                | -                 | -   | -   | (57)                          | -  | -          | -                        | (57)                       |
| Non-controlling interest   | -               | -             | -                | -                 | -   | -   | -                             | -  | -          | 1,291                    | 1,291                      |
| Others   | -               | -             | -                | (490)             | -   | -   | -                             | -  | -          | -                        | (490)                      |
| Net income   | -               | -             | -                | -                 | -   | -   | -                             | -  | 9,890      | 220                      | 10,110                     |
| Total  | -               | -             | -                | (490)             | (11)  | (314)   | (57)                          | 817  | 9,890      | 1,511                    | 11,346                     |
| Balances, December 31, 2015  | 17,579          | 7,685         | 9,905            | 34,193            | -   | (619)   | (57)                          | 1,082  | 9,890      | 2,701                    | 82,359                     |
| Changes arising from stockholders’ decisions   |                 |               |                  |                   |   |   |                               |  |            |                          |                            |
| Transfer of net income from previous year to retained earnings and increases in capital reserves | -               | -             | 997              | 8,893             | -   | -   | -                             | -  | (9,890)    | -                        | -                          |
| Dividends declared   | -               | -             | -                | (992)             | -   | -   | -                             | -  | -          | -                        | (992)                      |
| Total  | -               | -             | 997              | 7,901             | -   | -   | -                             | -  | (9,890)    | -                        | (992)                      |
| Comprehensive income (Note 26b)  |                 |               |                  |                   |   |   |                               |  |            |                          |                            |
| Results from valuation of cash flow hedge instruments  | -               | -             | -                | (1,579)           | -   | 1,493   | -                             | -  | -          | -                        | (86)                       |
| Gain (loss) from holding non-monetary assets   | -               | -             | -                | -                 | -   | -   | -                             | 700  | -          | -                        | 700                        |
| Cumulative translation adjustment  | -               | -             | -                | -                 | -   | -   | 183                           | -  | -          | -                        | 183                        |
| Non-controlling interest   | -               | -             | -                | -                 | -   | -   | -                             | -  | -          | 41                       | 41                         |
| Others   | -               | -             | -                | 289               | -   | -   | -                             | -  | -          | -                        | 289                        |
| Net income   | -               | -             | -                | -                 | -   | -   | -                             | -  | 7,743      | 2                        | 7,745                      |
| Total  | -               | -             | -                | (1,290)           | -   | 1,493   | 183                           | 700  | -          | 43                       | 8,872                      |
| Balances, December 31, 2016  | \$ 17,579       | \$ 7,685      | \$ 10,902        | \$ 40,804         | \$ -  | \$ 874  | \$ 126                        | \$ 1,782                                     | \$ 7,743   | \$ 2,744                 | \$ 90,239                  |

The accompanying notes are part of these consolidated financial statements.

**Banco Inbursa, S.A. Institución de Banca Múltiple,  
Grupo Financiero Inbursa and Subsidiaries**

**Consolidated Statements of Cash Flows**

For the years ended December 31, 2016, 2015 and 2014  
(In millions of Mexican pesos)

|   | 2016      | 2015      | 2014      |
|---|-----------|-----------|-----------|
| Net income  | \$ 7,743  | \$ 9,890  | \$ 14,554 |
| Adjustments for items that do not require cash flows:         |           |           |           |
| Depreciation of property, furniture and fixtures              | 375       | 346       | 132       |
| Amortization of intangible assets                             | 28        | 214       | 4         |
| Provisions  | 79        | 113       | 9         |
| Current and deferred income taxes                             | 1,210     | 1,166     | 564       |
| Equity in net income of associates                            | (1,079)   | (1,195)   | (949)     |
| Adjustment for noncash items                                  | 8,356     | 10,534    | 14,314    |
| Operating activities:   |           |           |           |
| Margin accounts   | (2,172)   | 711       | (2,783)   |
| Investment in securities                                      | (39,975)  | 2,277     | 4,374     |
| Receivables under sale and repurchase agreements              | 7,386     | 5,622     | (11,869)  |
| Derivatives (asset)   | (1,058)   | 2,254     | (1,112)   |
| Loan portfolio, net   | (44,483)  | (41,096)  | (14,487)  |
| Foreclosed assets, net  | 996       | 146       | (1,193)   |
| Other operating assets, net                                   | (121)     | (6,398)   | (1,857)   |
| Deposits  | 43,595    | 27,571    | 19,712    |
| Bank and other loans  | 20,843    | 3,515     | (7,585)   |
| Derivatives (liability)                                       | 1,895     | (2,267)   | 8,109     |
| Payment of income tax   | (1,195)   | (3,392)   | (2,399)   |
| Other operating liabilities                                   | 5,745     | 5,310     | (8,570)   |
| Collateral sold or pledged as guarantee                       | 3,411     | 4,473     | 1,633     |
| Net cash used in operating activities                         | (5,133)   | (1,274)   | (18,027)  |
| Investing activities:   |           |           |           |
| Payments for acquisition of property, furniture and equipment | (552)     | (554)     | (451)     |
| Acquisition of HF Walmart, S.A. de C.V.                       | -         | (1,682)   | -         |
| Acquisition of Banco Standard de Inversiones, S.A.            | -         | (860)     | -         |
| (Acquisitions) sales of other permanent investments           | 215       | 832       | (693)     |
| Payments for acquisition of intangible assets                 | (60)      | (3,156)   | (191)     |
| Net cash used in investing activities                         | (397)     | (5,420)   | (1,335)   |
| Financing activities:   |           |           |           |
| Cash payment of dividends                                     | (992)     | (1,770)   | (460)     |
| Non-controlling interest                                      | 43        | 1,511     | 187       |
| Others  | 289       | (8)       | -         |
| Net cash used in financing activities                         | (660)     | (267)     | (273)     |
| Net increase (decrease) in cash and cash equivalents          | 2,166     | 3,573     | (5,321)   |
| Funds available at the beginning of the year                  | 17,127    | 13,554    | 18,875    |
| Funds available at the end of the year                        | \$ 19,293 | \$ 17,127 | \$ 13,554 |

The accompanying notes are part of these consolidated financial statements.

# **Banco Inbursa, S.A. Institución de Banca Múltiple, Grupo Financiero Inbursa and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**For the years ended December 31, 2016, 2015 and 2014**

**(In millions of Mexican pesos, except foreign currency and exchange rates)**

### **1. Activity and economic regulatory environment**

Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa (the Bank) is a subsidiary of Grupo Financiero Inbursa, S.A.B. de C.V. (the Financial Group), which owns 99.99% of the Bank's share capital. The Bank and its subsidiaries (collectively the Institution), are regulated, among others, by the Credit Institutions Law (LIC) and the General Provisions issued by the National Banking and Securities Commission ("the Commission") and Banco de México (Banxico), and its main purpose is to provide the credit and financial services in terms of those laws, performing operations that include, among others, receiving deposits, granting loans, securities, transactions and providing trust services.

The Institution, (except Banco Inbursa de Inversiones, S.A.) has no employees; the administration and control of its operations are carried out by services provided by parties that are part of the Financial Group (Note 33), therefore, the Institution (except Banco Inbursa de Inversiones, S.A.) is not subject to labor obligations.

Banking regulations require multiple banking institutions to maintain a minimum capitalization ratio relative to market, credit and operational risks, the fulfillment of certain limits of acceptance of deposits, obligations and other types of funding that can be denominated in foreign currency, as well as the establishment of minimum limits of paid-in equity and capital reserves, with which the Institution satisfactory fulfills.

The Institution is subject to regulations promulgated by the Mexican Treasury Department (SHCP) regarding resources of illegal origin.

#### ***Significant events 2016 -***

- a. *Capital contributions in Sociedad Financiera Inbursa, S.A. de C.V., SOFOM, ER (Sociedad Financiera Inbursa)* – In 2016, the following capital contributions were approved by the shareholders of Sociedad Financiera Inbursa:

On April 28, 2016, an increase in the variable portion of the capital stock of \$1,000 (one billion pesos); as a result, 387,253,680 ordinary, nominative Series "B" shares with no par value were issued at a value of \$2.5823 pesos per share.

On July 28, 2016, an increase in the variable portion of the capital stock of \$800 (eight hundred million pesos); as a result, 324,504,084 ordinary, nominative Series "B" shares with no par value were issued at a value of \$2.4653 pesos per share.

On September 23, 2016, an increase in the variable portion of the capital stock of \$850 (eight hundred fifty million pesos); as a result, 354,726,651 ordinary, nominative Series "B" shares with no par value were issued at a value of \$2.3962 pesos per share.

On October 28, 2016, an increase in the variable portion of the capital stock of \$800 (eight hundred million pesos); as a result, 347,560,420 ordinary, nominative Series "B" shares with no par value were issued at a value of \$2.3018 pesos per share.

On December 23, 2016, an increase in the variable portion of the capital stock of \$500 (five hundred million pesos); as a result, 205,087,754 ordinary, nominative Series “B” shares with no par value were issued at a value of \$2.4380 pesos per share.

- b. *Capital Contributions in FC Financial, S.A. de C.V., SOFOM, ER (FC Financial)* – In 2016, the following capital contributions were approved by the shareholders of FC Financial:

- 1. On April 28, 2016, an increase in the variable portion of the capital stock of \$750 (seven hundred fifty million pesos); as a result, 750,000,000 ordinary, nominative Series “B” shares with no par value were issued at a value of \$1 peso per share.

On December 23, 2016, an increase in the variable portion of the capital stock of \$1,000 (one billion pesos); as a result, 1,092,482,727 ordinary, nominative Series “B” shares with no par value were issued at a value of \$0.915346279886767 pesos per share.

- c. *Liquidation of Seguridad Inbursa, S.A. de C.V. (Seguridad Inbursa)* - During a stockholders’ ordinary general meeting held on February 29, 2016, the early dissolution and liquidation of Seguridad Inbursa was approved. Also, during a stockholders’ special meeting held on July 25, 2016 the liquidation financial statements for the period from January 1, 2016 to May 31, 2016 were approved, and such statements were published on June 30, 2016 via the Electronic System of Publications of Business Entities established by the Economy Department. Finally, on June 16, 2016, through official notice No. 312-2/113699/2016, the Commission authorized the Bank to divest the common stock of Seguridad Inbursa, and on July 26, 2016, the capital was reimbursed accordingly.

#### ***Significant events 2015 -***

- a. *Capital contribution in Sociedad Financiera Inbursa and restructuring* – During the meeting of stockholders on March 30, 2015, an increase in variable capital stock was approved through the issuance of 1,283,515,744 Series “B” no par value shares, which were offered for subscription and payment at \$3.89555018968275 Mexican pesos per share for a total of \$5,000. The Institution made the contribution thereby becoming the holding entity of Sociedad Financiera Inbursa.
- b. *Capital contribution in CF Credit Services* – During a meeting of stockholders on February 27, 2015, an increase in the variable capital stock was approved through the issuance of 900,000,000 Series “B” no par value shares, which were offered for subscription and payment at \$1 Mexican peso per share for a total of \$900.
- c. *Capital contribution in FC Financial* - Furthermore, on December 9, 2015, an additional increase in the variable capital stock was approved through the issuance of 300,000,000 Series “B” no par value shares, which were offered for subscription and payment at \$1 Mexican peso per share for a total of \$300.

#### ***Significant events 2014 and related updates thereto in 2015 -***

- a. *Placement in foreign currency US\$1,000 M* - On June 6, 2014, the Bank placed debt instruments denominated "Senior Notes" in the United States in the amount of US\$1,000 million dollars, with a term of 10 years, maturing on June 6, 2024 and bearing interest at a rate of 4.125%. The Senior Notes gave rise to interest expense of \$346 in 2015. The securities were issued and placed under Rule 144A and Regulation S of the US Securities Act of 1933, as amended.
- b. *Liquidation of positions (unwinds) of hedging derivatives instruments* - During 2014, the Institution canceled in advance 43 swap instruments that were classified as cash flow hedges generating a \$259 charge to equity, \$11 of which was recycled to income in 2014, with the remaining amount of \$248 to be recycled over a 12 year period.

- c. *Mexican Real Estate:* As of July 23, 2014 the Institution foreclosed on fiduciary rights of companies in the real estate industry for the amount of \$1,616 and assets of \$199. As of December 31, 2015, rights to foreclosed property have not been modified.
- d. *Release of surplus portfolio in accordance with the Fifth Transitory Provisions:* As a result of changes to the classification and rating methodology for commercial loans published by the Commission on June 24, 2013, which established a deadline for the recognition of the related financial effect of no later than December 31 of the same year, the Institution determined surplus allowance for loan losses in the amount of \$18,831.

During 2015 and 2014, the Institution released surplus allowance for loan losses of \$5,722 and \$13,109, respectively, as established in Section II of the Fifth Transitory Provisions, which states that management may release such surplus, so long as the loans giving rise to the surplus allowances have not been liquidated, impaired, subject to renewal or restructured. The release of surplus allowances is recognized in the income statement under "Other operating income" in accordance with the accounting criteria established by the Commission. During 2013, there was not released surplus allowance for loan losses.

- e. *Banco Standard de Inversiones, S.A. (now Banco Inbursa de Inversiones, S.A.)* - As was communicated to public investors on March 14, 2014, the Institution reached an agreement to acquire Banco Standard de Inversiones, S.A. ("BSI"), a bank that is incorporated and licensed under the laws of the Federal Republic of Brazil ("Brazil"), with assets of approximately US\$45 million dollars. Such transaction has been authorized in Mexico by the SHCP and the Commission.

On March 26, 2015, the Institution announced the investing public that on such date, the Central Bank of Brazil had granted its authorization to acquire control of BSI.

The price paid for this acquisition was US\$56 million dollars, equivalent to \$860, of which \$535 was allocated to identifiable net assets and \$325 was allocated to goodwill. In accordance with Financial Reporting Standard ("NIF") B-7, "Business Acquisitions" (NIF B-7).

The net assets acquired in this transaction are comprised mainly of \$491 in investment securities, \$31 of other accounts receivables and liabilities of \$74.

- f. *Acquisition of HF Wal-Mart, S.A. de C.V. ("HF Wal-Mart")* - On December 18, 2014, the Institution announced that it had reached an agreement with Wal-Mart de México, S.A.B. de C.V., for the acquisition of HF Wal-Mart. The price paid for this acquisition was \$3,612, of which \$2,191 was allocated to identifiable net assets and \$1,421 was allocated to goodwill in accordance with NIF B-7. As permitted by NIF B-7, the Institution has a maximum of one year from the acquisition date to identify and value intangible assets resulting from the business acquisition. As a result of the analysis performed, the following net assets and liabilities acquired were identified:

|   |              |                 |
|---|--------------|-----------------|
| <b>Amount paid in transaction</b>                                 |              | <b>\$ 3,612</b> |
| Recognized amounts of identifiable assets and liabilities assumed |              |                 |
| Funds available   | \$ 1,930     |                 |
| Loan portfolio, net   | 4,809        |                 |
| Other account receivable and payable                              | 223          |                 |
| Deferred taxes (asset)  | <u>1,007</u> |                 |
| Total identifiable assets   |              | <u>7,969</u>    |
| Deposits  | (5,346)      |                 |
| Deferred revenues and other advances                              | (139)        |                 |
| Other accounts payable  | <u>(293)</u> |                 |
| Total identifiable liabilities                                    |              | <u>(5,778)</u>  |
| Net assets acquired   |              | <u>2,191</u>    |
| Goodwill  |              | <u>\$ 1,421</u> |

The accompanying consolidated cash flows statement reports an investing cash outflow to acquire this business of \$1,682, which amount is net of funds available acquired.

On June 18, 2015, through Official Letter No. UBVA/031/2015, the SHCP authorized the merger of HF Walmart and Banco Walmart, both of which ceased to exist as merged companies that were absorbed by the Institution in its capacity as surviving company. The merger became effective when it was registered with the Public Registry of Commerce, which occurred on September 3, 2015.

On July 23, 2015, Banco Walmart de México Adelante, S.A., Institución de Banca Múltiple (Banco Walmart) entered into a contract through which it assigned the rights to its loan portfolio to SOFOM Inbursa (related party under common control). The transaction involved a loan portfolio with a nominal value of \$5,392, an intangible asset of \$481 and excess purchase price paid of \$2,553, which represents the difference between the nominal value and the fair value of the assets which was recognized to equity in both entities.

The SHCP authorized to the Institution to directly acquire 99.99% of the outstanding capital stock of SAWSA Adelante, S. de R.L. de C.V. and SAW Supervisión, S. de R.L. de C.V. for an amount of \$3 and \$4, respectively, which was effective as of August 31, 2015.

- g. *Placement of subordinated debentures in Mexico* - The Commission released an official communication (reference no. 153/107353/2014) dated September 23, 2014, authorizing the registration of debt securities with the National Securities Registry. The authorized was \$100,000, or the equivalent amount in UDIs.
- h. *Merger Banco Inbursa - Inmobiliaria Inbursa* - On December 19, 2014, an Extraordinary Meeting of the Bank's shareholders was held in order to approve the merger of the Bank with Inmobiliaria Inbursa, pursuant to which the latter ceased to exist as the merged company and the Bank continued as the merging entity.

This merger is subject to approval by the SHCP, which, as of February 26, 2016, the date of issuance of the Institution's audited financial statements, was still pending.

## 2. Basis of presentation

***Explanation for translation into English*** - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of accounting criteria prescribed by the Commission. Certain accounting practices applied by the Institution may not conform to accounting principles generally accepted in the country of use.

***Monetary unit of the financial statements*** - The consolidated financial statements and notes as of December 31, 2016, 2015 and 2014 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power.

***Comprehensive income*** - This item is composed of the net result for the year plus other items that represent 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 available for sale securities, the result from valuation of cash flow hedge instruments and the accumulated conversion effect.

***Consolidated financial statements*** - The consolidated financial statements include entities over which the Institution has a controlling interest. The financial statements of these entities are prepared considering the same accounting period and in accordance with the same accounting policies. All intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements.

The Bank's consolidated subsidiaries as of December 31, 2016, 2015 and 2014 are detailed below:

|  | 2016<br>%<br>Equity percentage | 2015<br>%<br>Equity percentage | 2014<br>%<br>Equity percentage | Activity   |
|--|--------------------------------|--------------------------------|--------------------------------|--|
| Financing activity:  |                                |                                |                                |  |
| Afore Inbursa, S.A. de C.V., Grupo Financiero Inbursa (Afore Inbursa)  | 94.2995%                       | 94.2995%                       | 94.2995%                       | Manage employee retirement savings pursuant to the Retirement Savings Systems Law.   |
| Banco Inbursa de Inversiones, S.A. (Banco Inbursa de Inversiones)  | 99.9999%                       | 99.9999%                       | 99.9999%                       | Grant loans to business entities in Brazil, which operates in accordance with the standards issued by the Banco Central de Brasil (BCB).   |
| CF Credit Services, S.A. de C.V., SOFOM, ER Grupo Financiero Inbursa (CF Credit Services)                    | 99.9999%                       | 99.9999%                       | 99.9999%                       | Grant loans to manufacturers, distributors and consumers from the automotive sector.   |
| FC Financiera, S.A. de C.V., SOFOM, ER, Grupo Financiero Inbursa (FC Financiera)                             | 99.9999%                       | 99.9999%                       | -                              | Grant loans for finance leases.  |
| Sinca Inbursa, S.A. de C.V. (Sinca Inbursa)  | 84.2052%                       | 84.2052%                       | 84.2052%                       | Make transactions exclusively with investment assets whose nature is that of shares or partnership interests, debentures and bonds payable by portfolio companies, which require capitalization. |
| Sociedad Financiera Inbursa, S.A. de C.V., SOFOM, ER, Grupo Financiero Inbursa (Sociedad Financiera Inbursa) | 85.5378%                       | 73.2647%                       | -                              | Grant revolving consumer loans based on credit cards.  |
| Complementary activity:  |                                |                                |                                |  |
| Inmobiliaria Inbursa, S.A. de C.V. (Inmobiliaria Inbursa)  | 99.9999%                       | 99.9999%                       | 99.9999%                       | Purchase-sale, management and leasing of real properties.  |
| Seguridad Inbursa, S.A. de C.V. (Seguridad Inbursa)  | -                              | 99.9980%                       | 99.9980%                       | Provide services and development of security policies, standards and procedures as protection and oversight in its capacity as a supplemental services company.                                  |

**Conversion of financial statements of subsidiaries in foreign currency** - To consolidate the financial statements of the foreign subsidiary, these are valued in the recording currency to be presented in accordance with the accounting criteria established by the Commission. The financial statements are converted to Mexican pesos, based on the following methodology:



- The foreign operations whose recording and functional currency are the same, convert the financial statements using the following exchange rates: 1) the closing rate for monetary assets and liabilities and 2) the historical rate for nonmonetary assets and liabilities and stockholders' equity and 3) that of the accrual date for the 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 used to convert assets and liabilities from recording and functional currency to Mexican pesos | Exchange rate used to convert results from recording and functional currency to Mexican pesos |
|------------------------------|-----------------------------------|--|---|
| Banco Inbursa de Inversiones | Brazilian Reals                   | \$3.255208 pesos   | \$3.255208 pesos  |

### 3. Significant accounting policies

The significant accounting policies applied by the Institution are in conformity with the accounting criteria established by the Commission in the General Provisions Applicable to Credit Institutions and Regulated Multiple Purpose Financing Entities (the Provisions), in its regulations and in general and specific official communications, which require that management make certain estimates and utilize certain assumptions to determine the valuation of items included in the consolidated financial statements and to make required disclosures. Although the actual results may differ, management believes that the estimates and assumptions utilized were appropriate under the circumstances.

Based on accounting criteria of the Commission, the accounting principles adopted by the Institution shall be in conformity with Mexican Financial Reporting Standards ("MFRS", which are comprised of individual accounting standards that are known as "NIF") as promulgated by the Mexican Board of Financial Reporting Standards ("CINIF"), except when the Commission believes that a specific regulation or accounting treatment should be applied on the basis that the subsidiaries carry out specialized operations.

The regulation of the Commission mentioned in the previous paragraph, is at level of recognition rules, valuation, presentation and, if applicable, disclosure, suitable for specific captions in the consolidated financial statements, as well as those applicable to its preparation.

To that effect, the Commission clarifies that it will not apply the accounting criteria, or the concept of supplementary, in the case of transactions that are expressly allowed or prohibited by express legislation or are not expressly authorized.

#### **Accounting Changes –**

##### *Changes occurring during 2016*

##### *Modifications in accounting criteria issued by the Commission*

As of January 1, 2016, the Institution adopted the following modifications to the accounting criteria for credit institutions issued on November 9, 2015 through the Federal Official Gazette. These modifications reflect the constant updating of the accounting criteria issued by the Commission in order to ensure reliable financial information.

The most significant changes are described below:

- Accounting Criterion C-5, *Consolidation of special purpose entities*, is eliminated.
- 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 statements*, 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 non-performing 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 “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 “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 “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 borrower, a joint obligor of such borrower, 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 preestablished 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 non-performing 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 non-performing portfolio as long as there is no evidence of sustained payment of the dispositions which originated the transfer to non-performing portfolio, and the total dispositions granted under the line of credit fulfilled the due and payable obligations at the date of transfer to performing portfolio.

- 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 non-performing 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 loans 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 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.
- y. The item stating that overdrafts in customer checking accounts should be reported as non-performing 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 non-speculative purposes which are backed by the savings from the borrower's housing subaccount, will be considered as non-performing portfolio.
- aa. 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 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 loans 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 non-performing 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 performing portfolio provided that there are grounds to justify the payment capacity of the borrower. 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 non-performing 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 non-performing portfolio as long as there is no evidence of sustained payment of the dispositions which originated the transfer to non-performing 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 performing 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. Performing loans with periodic partial payments of principal and interest which are restructured or renewed more than once may remain in performing portfolio if there are elements to justify the payment capacity of the borrower. 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 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.

- 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 performing 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 “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. 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.
- jj. 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.

- kk. The definition of “Joint Arrangement”, “Joint Control” is incorporated, and the definition of “Associate”, “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.

- 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 segment of Treasury and investment banking operations.
- 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: 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.
- oo. The requirement is established to present on the balance sheet as a liability under 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.

- pp. 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*.
- qq. The heading “Collateral granted” is incorporated at the foot of the balance sheet within memorandum accounts.
- rr. 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.
- ss. The statement of changes in stockholders’ equity should be included in the movements inherent to the recognition of comprehensive income, the re-measurements for defined employee benefits as a result of the enactment of NIF D-3, *Employee benefits*.

At the date of issuance of these consolidated financial statements, the adoption of these new standards did not have a material effect on the Company’s financial information.

On July 23, 2015 a modification was published in the Federal Official Gazette to the Provisions, which establish the accounting criteria for market participants in derivatives contracts listed on a stock exchange. This modification establishes that the markets for derivatives and traders who take part in the derivatives contracts market listed in the same market must keep their accounting in accordance with the NIF. For such purpose, the clearinghouses and the settlement partners who take part in the derivatives contracts markets, should observe for the same purposes the “Accounting Criteria for Clearinghouses” and “Accounting Criteria for Settlement Partners”, respectively, established in such Provisions. These modifications went into effect on the day after their publication.

### ***Changes in NIF issued by the CINIF applicable to the Institution***

#### ***Improvements to NIF’s 2016***

NIF B-7, *Business acquisitions* – Clarifies that the acquisition and/or merger of entities under common control, and the acquisition of noncontrolling interest 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 adoption of these improvements did not have a material effect on the Institution's financial information.

### ***Change in accounting estimates applicable in 2016***

*Methodology for the determination of the allowance for loan losses from consumer credit portfolio related to credit card transactions and other revolving credits*

On December 16, 2015, the Commission issued a Ruling that modifies the Provisions, whereby it made certain adjustments to the general methodology for the classification of the consumer credit portfolio in relation to credit card operations and other revolving credits, with the aim of more accurately calculating the reserves that the credit institutions have to create, taking into account the possible risks related to the payment behavior and the level of indebtedness of its borrowers, which is in line with the expected loss model, used as the basis of the methodology for the classification of the credit portfolio.

Such Provisions went into effect on April 1, 2016, and for purposes of establishing the reserves using the new methodology, the Institution recognized in stockholders' equity, as part of the result from previous years, the initial cumulative financial effect from applying the new methodology for the first time. The initial cumulative financial effect was the difference between the reserves to be created under the new methodology as of April 1, 2016, less the reserves that would be generated using the methodology in effect as of March 31, 2016. If such difference were greater than the balance of results from previous years, the effect would be carried to results for the year. Also, if the difference resulted in a release of reserves, the effect would be recognized in results for the year. The institutions had a deadline of six months as of April 1, 2016 to establish 100% of the reserves.

The Institution recognized the initial cumulative financial effect which resulted in the recording of credit reserves on the consolidated balance sheet in the caption "Allowance for loan losses" for the amount of \$265, with a corresponding charge in the consolidated statements of income under the caption "Allowance for loan losses" for the same amount as of and for the nine-month period ended September 30, 2016.

As of September 30, 2016 (application date of the change of methodology by the Institution), the amount of the allowance for loan losses for the consumer credit portfolio in relation to credit card operations and other revolving credits calculated using the previous methodology amounted to \$1,770, compared to \$2,035, which is the amount of the estimate calculated using the methodology based on an expected loss model.

#### ***Change in accounting estimates applicable in 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, with relation to the credits 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 creditors, or the bankruptcy of the borrower is determined in accordance with the Commercial Bankruptcies Law, such methodology can no longer be applied.

It is also established that authorization may be requested from the Commission to continue using the methodology for the calculation of the allowances for expected losses due to credit risk, with regard to credits granted to borrowers declared commercially bankrupt with a prior restructuring plan, for a term which cannot exceed six months computed as of the adoption of the agreement.

The aforementioned changes 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, with relation to the credits 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 creditors, or the bankruptcy of the borrower is determined in accordance with the Commercial Bankruptcies Law, such methodology can no longer be applied.

It is also established that authorization may be requested from the Commission to continue using the methodology for the calculation of the allowances for expected losses due to credit risk, with regard to credits granted to borrowers declared commercially bankrupt with a prior restructuring plan, for a term which cannot exceed six months computed as of the adoption of the agreement.



The aforementioned changes did not have a material effect on the Institution's consolidated financial statements as of December 31, 2015.

*The most significant accounting policies applied by the Institution's management for the preparation of its consolidated financial statements are described below:*

**Reclassifications** – Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2015 and 2014 have been reclassified to conform to the presentation of the 2016 consolidated financial statements, such reclassifications have no significant effect considering the consolidated financial statements as a whole.

**Recognition of the effects of inflation in the financial information** – Beginning on January 1, 2008, the Institution discontinued recognition of the effects of inflation in its financial statements. However, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007.

Cumulative inflation rates over the three-year periods ended December 31, 2016, 2015 and 2014 were 10.39%, 12.08% and 11.80%, respectively. Accordingly, the economic environment is not inflationary in either such year and no inflationary effects were recognized in the accompanying consolidated financial statements. Inflation rates for the years ended December 31, 2016, 2015 and 2014 were 3.35%, 2.10% and 4.08%, respectively.

**Offsetting of financial assets and financial liabilities** - The recognized financial assets and financial liabilities are subject to offsetting so that the debit or credit balance, are presented on the consolidated balance sheet, as the case may be, 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 is mainly represented by checking accounts and short term investments of not more than 90 days duration, which are presented at acquisition cost, plus accrued interest at the balance sheet date.

Call money transactions granted and received have a maximum term of three business days and are recorded within Cash and Demand Deposits, respectively. Accrued interest income and expense from call money transactions are recorded within Financial Margin in the Income Statement.

Time Deposits are recognized as cash equivalents, if they are collectible within 2 business days (if national) or 5 business days (if international) after the contract is signed. Deposits with maturities in excess of the above terms are classified as Loans or Other receivables.

In case time deposits are reclassified to other receivable accounts, within the next 15 days an allowance for doubtful accounts is recorded for the total amount.

**Margin accounts** - The margin accounts given in cash (and other cash equivalents) required from entities when performing transactions with derivative financial instruments through recognized stock markets or exchanges are recorded at their face value.

In the case of margin accounts granted to the clearinghouse and composed by items other than cash, such as debt instruments or share certificates, the clearinghouse is entitled to sell the component assets embodied in these margin accounts or give them in guarantee. Financial assets given in guarantee are presented as restricted assets; the respective valuation and disclosure standards are then utilized according to the applicable accounting criterion based on the nature of these assets.

Margin accounts are used to ensure the fulfillment of obligations derived from the performance of transactions with derivative financial instruments on recognized stock markets and exchanges. Accordingly, they reflect the initial margin, contributions and withdrawals made during each contractual period.

***Investments in securities*** – These consist of debt instruments and share certificates and their classification is determined based on management's intention at the time they are acquired. Each category has specific standards for recording, valuation and presentation in the financial statements, as described below:

- **Trading securities**

Trading securities represent investments in debt and equity securities, in proprietary position and pledged as guarantee, which are acquired with the intention of selling them to realize gains from increases in fair value. Upon acquisition, they are initially recorded at fair value, which includes applicable the discounts or premiums. Furthermore, the cost is determined by the average costs method. They are subsequently valued at fair value determined by the price supplier engaged by the Institution in accordance with the Provisions of the Commission. The difference between the historical cost, which is determined using the average cost method, of the investments in debt securities plus accrued interest and of equity securities compared with their fair value is recorded in the consolidated statements of income under the item “Net gain on financial assets and liabilities”. The effects of valuation will be treated as unrealized and, therefore, cannot be distributed to stockholders until the securities are sold.

Fair value is the amount at which an asset may be exchanged or a liability may be settled by informed, willing and interested parties in an arm's length transaction.

The transaction costs for the acquisition of trading securities are recognized in earnings on the acquisition date.

Cash dividends of shares are recognized in earnings in the same period in which the right to receive such payment is generated.

The exchange gain or loss on foreign currency-denominated investments in securities is recognized in earnings.

This heading is used to record outstanding transactions derived from the purchase-sale of assigned, unpaid securities, which are valued and recorded as securities held for trading purposes. The movements of the securities embodied in each transaction are recorded in the respective debit or credit settlement account.

The accounting criteria used by the Commission allow for reclassifications of trading securities to available-for-sale only in extraordinary circumstances (for example, a lack of market liquidity, no active market for the instrument, among others), which will be evaluated and, if applicable, validated with the express authorization by the Commission. As of December 31, 2016, 2015 and 2014, the Institution did not make transfers of securities between categories.

- **Securities available for sale**

Securities available for sale are debt instruments and equity shares that are not held for purposes of realizing gains derived from increases in fair value and, in the case of debt instruments, those that the entity does not intend or is able to hold to maturity and, therefore, represent a residual category, i.e., they are acquired for purposes other than those of trading securities or securities held to maturity because the entity intends to trade them at some point in the future prior to maturity.

Upon acquisition they are initially recorded at fair value plus the acquisition transaction cost, including applicable discounts or premiums, which is the acquisition cost for the Institution. They are subsequently valued at fair value.

The Institution determines the increase or decrease in the fair value using current prices provided by the price supplier, which uses various market factors for their determination. The yield on debt securities is recorded using the imputed interest or effective interest method depending on the nature of the security; such yield is recognized as earned in the consolidated statements of income under "Interest income". Unrealized gains or losses resulting from changes in fair value are recorded in comprehensive income items under stockholders' equity, specifically, under the heading "Result from valuation of available for sale securities, net", provided such securities were not defined as hedged in a fair value hedging relationship through a derivative financial instrument, in which case they are recognized in earnings.

Cash dividends of shares are recognized in earnings in the same period in which the right to receive such payment is generated.

The exchange gain or loss on foreign currency-denominated investments in securities is recognized in earnings.

The accounting criteria of the Commission allow for the transfer of securities classified as "held to maturity" to that of "available for sale", provided that there is no intention or capacity to hold them to maturity, as well as reclassifications from the category of trading securities to available for sale under extraordinary circumstances (for example, a lack of market liquidity, or when there is no active market for the securities, among others), which should be assessed and, if applicable, validated through the express authorization of the Commission. As of December 31, 2016, 2015 and 2014, the Institution did not make transfers of securities between categories.

During 2016 and 2015, the Institution does not have securities available for sale.

- **Securities available for sale**

Securities held to maturity are those with fixed or determinable payments and fixed maturity, which the Institution has both the intention and the ability to hold until maturity. These securities are initially recorded at fair value plus acquisition transaction costs, including applicable discount or premium. They are subsequently valued at amortized cost. Interest earned is recorded in the consolidated statements of income under "Interest income" using the imputed interest or effective interest method, in accordance with the nature of the instrument.

The accounting criteria of the Commission allow for the transfer of securities classified as "held to maturity" to that of "available for sale", provided that there is no intention or capacity to hold them to maturity, as well as reclassifications from the category of trading securities to available for sale under extraordinary circumstances (for example, a lack of market liquidity, or when there is no active market for the securities, among others), which should be assessed and, if applicable, validated through the express authorization of the Commission.

The cash dividends of equity securities are recognized in earnings during the same period in which the fair value of these securities is affected as a result of the coupon cutoff date.

During 2016, 2015 and 2014, the Institution does not have securities held to maturity.

***Impairment in the value of a financial instrument*** - The Institution must evaluate whether there is objective evidence that a financial instrument is impaired as of the consolidated balance sheet date.

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

Objective evidence that a credit instrument is impaired includes observable information such as, among others, the following events:

- a) Significant financial difficulties of the issuer of the instrument;
- b) It is probable that the issuer of the instrument will be declared bankrupt or another financial restructuring will take place;
- c) Noncompliance with the contractual clauses, such as default on payment of interest or principal;
- d) Disappearance of an active market for the instrument in question due to financial difficulties, or
- e) A measurable decrease in the estimated future cash flows of a group of securities since the initial recognition of such assets, even though the decrease cannot be matched 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 on the securities of the Institution.

The management of the Institution has not identified objective evidence of impairment of a credit instrument held as of December 31, 2016, 2015 and 2014.

***Sale and repurchase agreements*** - Sale and repurchase agreements are those in which the buying party acquires for a sum of money the ownership of securities and agrees within the agreed term and against reimbursement of the same price plus a premium, to transfer to the selling party the ownership of the other securities of the same kind. Unless otherwise agreed, the premium is for the buying party.

For legal purposes, sale and repurchase agreements are considered as a sale in which an agreement to repurchase the transferred financial assets is executed. Notwithstanding, the economic substance of sale and repurchase agreements is that of guaranteed financing in which the buying party provides cash as financing in exchange for obtaining financial assets that serve as protection in the event of default.

Sale and repurchase agreements are recorded as indicated below:

When the Institution acts as the buying party on the contracting date of the sale and repurchase agreements, the withdrawal of funds available or a credit settlement account is recognized, recording an account receivable, initially at the price agreed, which represents the right to recover the cash delivered. The account receivable will be valued subsequently during the useful life of the sale and repurchase agreements at amortized cost, recognizing the interest on the sale and repurchase agreements based on the effective interest method in earnings.

On the contracting date of the repurchase transaction, when the Institution acts as the selling party, the entry of the cash or asset or a debit settlement account is recognized, as well as an account payable, initially at the price agreed, which represents the obligation to repay such cash to the buying party. The account payable will be valued subsequently during the useful life of the sale and repurchase agreements at amortized cost, recognizing the interest on the sale and repurchase agreements based on the effective interest method in earnings.

When the transactions performed are considered to be cash-oriented, the transaction is intended to obtain cash financing by using financial assets as collateral for such purpose; by the same token, the buying party obtains a return on its investment at a certain rate, and as it is not seeking a specific value, receives financial assets as collateral to mitigate the exposure to credit risk which it faces in relation to the selling party. In this regard, the selling party pays the buying party the interest on the cash that it received as financing, calculated based on the rate negotiated in the sale and repurchase agreements. Also, the buying party obtains yields on its investment, whose payment is assured through the collateral.

When the transactions performed are considered to be securities-oriented, the intention of the buying party is to temporarily accept certain specific securities held by the selling party, by granting cash as collateral, which serves to mitigate the exposure to risk faced by the selling party in relation to the buying party. In this regard, the selling party pays the buying party the interest rate negotiated in the sale and repurchase agreements for the implicit financing obtained on the cash that it received, which rate is generally lower by comparison than the rates specified in “cash-oriented” sale and repurchase agreements.

Regardless of the economic intent, the accounting for “cash-oriented” or “securities-oriented” repurchase transactions is the same.

***Collateral granted and received other than cash in sale and repurchase agreements*** - In relation to the collateral granted by the selling party to the buying party (other than cash), the buying party recognizes the collateral received in memorandum accounts, following the valuation guidelines for the securities established in Criterion B-9, *Custody and Management of Assets*, issued by the Commission, in the account named “Custody and management of assets”. The securities vendor presents the financial asset on its consolidated balance sheet as a restricted asset. It then applies valuation, presentation and disclosure standards according to the respective accounting criterion.

Memorandum accounts recognized for collateral received by the buying party are cancelled when the sale and repurchase agreements matures or when the selling party defaults.

When the buying party sells the collateral, the proceeds from the sale are recorded and an account payable for the obligation to repay the collateral to the selling party (measured initially at the agreed-upon price) is valued at fair value. If the collateral is pledged as guarantee in another repurchase or resale agreement, it will be measured at amortized cost (any difference between the price received and the value of the account payable is recognized in earnings).

Similarly, if the buying party becomes a selling party due to other sale and repurchase agreements with the same collateral received as guarantee of the initial transaction, the interest on the second sale and repurchase agreements must be recognized in earnings as accrued, according to the implied interest method or effective interest method, while also affecting the account payable valued at amortized cost.

For transactions where the buying party sells or pledges as guarantee the collateral received (for example, when another repurchase or resale agreement securities loan transaction is established), memorandum accounts are used to control the collateral sold or pledged as guarantee, which is valued using the standards applicable to custody transactions included in Criterion B-9 “*Custody and Management of Assets*” issued by the Commission.

Memorandum accounts which are recognized for collateral received that in turn was sold or pledged as guarantee by the buyer, are cancelled when the collateral sold is purchased to return it to the selling party, or when the second transaction matures or the other party defaults.

***Securities loans*** - A securities loan is a type of transaction in which the transfer of securities is agreed between the lender and the borrower, with the obligation to return such securities or other substantially similar instruments on a given date, or upon request, with a premium received as consideration. In this transaction, collateral or guarantee in the form of assets permitted under current regulations, other than cash, is requested by the lender from the borrower.

For legal purposes, securities loans are considered a sale in which it is agreed to return the securities in question on a specified date. Notwithstanding, the economic substance of securities loans is that the borrower may temporarily use a certain type of security whereby the collateral serves to mitigate the risk exposure faced by the lender in relation to the borrower.

Securities loans are recorded as indicated below:

At the contracting date of the securities loan, when it acts as the lender, the Institution records the securities transferred in connection with the loan as restricted, and applies the applicable rules for valuation, presentation and disclosure in accordance with the respective accounting treatment.

The premium is recorded initially as deferred revenue, recording the debit settlement account or the entry of the cash. The amount of the accrued premium is recognized in earnings through the effective interest method over the effective term of the transaction.

When it acts as the borrower, at the contracting date of the securities loan, the Institution records the security subject to the loan received in memorandum accounts, following the valuation guidelines established for securities recognized included in Criterion B-9, “*Custody and Management of Assets*” issued by the Commission.

The amount of the premium is recognized initially as a deferred charge, by recording the creditor settlement account or the cash outlay. The amount of the premium earned is recognized in results for the year through the imputed interest method or effective interest method for the effective term of the transaction.

The security subject matter of the transaction, as well as the collateral delivered, are presented as restricted, based on the type of financial asset in question.

The security subject matter of the transaction, as well as the collateral received, are presented in memorandum accounts under the heading of “Collateral received”.

***Derivatives*** - The Institution carries out two types of transactions with financial derivatives:

- For trading purposes - Their objective is different from that of covering open risk positions by assuming risk positions as a participant in the derivatives market.
- For hedging purposes - Their objective is to mitigate the risk of an open risk position through transactions with financial derivatives.

The Institution recognizes all its derivatives (including hedging derivatives) as assets or liabilities (depending on the related rights and/or obligations) in the consolidated balance sheet, initially at fair value, which presumably is equal to the price agreed in the transaction.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in earnings.

Subsequently, all derivatives are valued at fair value without deducting any transaction costs incurred on the sale or another type of disposal, recognizing the valuation effect earnings under the heading “Net gain on financial assets and liabilities”, except when the financial derivative forms part of a cash flow hedging relationship.

The rights and obligations of derivatives that are traded in recognized markets or stock exchanges are considered to have matured when the risk position is closed, i.e., when an opposite derivative with the same characteristics is traded in such market or stock exchange.

The rights and obligations of derivatives that are not traded in recognized markets or stock exchanges are considered to have expired when they reach their maturity date, when the rights are exercised by either party or when the parties early exercise the rights in accordance with the related conditions and the agreed consideration are settled.

Derivatives are presented under a specific heading of assets or liabilities, depending on whether their fair value (as a result of the rights and/or obligations they may establish) refers to a debit or credit balance, respectively. Such debit or credit balances may be offset subject to compliance with the respective offsetting rules.

Derivative assets and liabilities are segregated between derivatives for trading purposes from derivatives for hedging purposes.

*Transactions performed for trading purposes*

- *Warrants:*

Warrants are documents which represent the temporary right acquired by holders in exchange for the payment of a premium to the issue Shares or Indexes. Consequently, as this right expires at the end of the validity period, holding warrants means recognizing the fact that their intrinsic value and secondary market price may fluctuate based on the market price of the reference assets.

– *Forward and future contracts:*

The forward and future contracts are those that establish an obligation to buy or sell an underlying asset on a future date at a pre-established quantity, quality and price on a trading contract. Both forward and futures contracts are recorded by the Institution as assets and liabilities in the consolidated balance sheets at fair value, which is theoretically represents the fair value of rights or obligations, established in the underlying asset purchase-sale contract, to receive and/or deliver the underlying asset, and to receive and/or deliver the cash equivalent to the underlying asset subject specified in the contract.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in earnings.

Differences between the exchange rate agreed in the forward contract for trading purposes and the monthly forward exchange rate, as well as the valuation effects, are recorded in the consolidated statements of income under “Net gain on financial assets and liabilities”.

Futures entered into for trading purposes are recorded at market value and the difference between such value and the agreed-upon price is recorded in the consolidated statements of income.

For financial information classification purposes, the asset and liability positions of derivatives that have both rights and obligations, such as forwards and futures are offset on a contract by contract basis; if the result is a debit balance, the difference is presented under the asset line item “Derivatives”; and if it is a credit balance, under the liability line item “Derivatives”.

– *Option contracts:*

Options are contracts that, in exchange for a premium, grant the right, but not the obligation, to buy or sell a specified number of underlying instruments at a fixed price within a specified period.

The holder of a call has the right, but not the obligation, to buy from the issuer a specified number of underlying assets at a fixed price (exercise price) within a specified period.

The holder of a put has the right, but not the obligation, to sell a specified number of underlying assets at a fixed price (exercise price) within a specified period.

Considering the rights granted, options are divided into buy options (calls) and sell options (puts).

Options may be exercised at the end of the specified period (European options) or at any time during such period (American options); the exercise price is established in the contract and may be exercised at the holder’s discretion. The instrument used to set this price is the reference value or underlying asset. The premium is the price paid by the holder to the issuer in exchange for the rights granted by the option.

The Institution records the premium paid for the option on the transaction date as an asset or liability. Any fluctuations from valuation of the premium at market are recognized in the consolidated statements of income under “Net gain on financial assets and liabilities”, with the adjustment to the appropriate consolidated balance sheet account. When an option matures or is exercised, the related premium is canceled against earnings under “Net gain on financial assets and liabilities”.

Recognized options that represent rights are presented, without offsetting, as a debit balance under the asset line item "Derivatives". Recognized options that represent obligations are presented, without offsetting, as a credit balance under the liability line item "Derivatives".

Trading option contracts are recorded in memorandum accounts at their exercise price, multiplied by the number of securities, distinguishing between options traded on the stock market from over-the-counter transactions, in order to control risk exposure.

All valuation gains or losses recognized before the option is exercised or before its expiration, are treated as unrealized and are not capitalized or distributed to stockholders until realized in cash.

– *Swaps:*

A swap contract is an agreement between two parties establishing a bilateral obligation for the exchange of a series of cash flows within a specified period and on dates previously established.

Swaps are initially recognized by the Institution in the consolidated balance sheet as an asset or liability, at fair value, which presumably is equal to the agreed-upon price.

The Institution recognizes both an asset and a liability arising from the rights and obligations of the contractual terms, valued at the present value of the future cash flows to be received or delivered according to the projection of the implicit future rates to be applied, discounting the market interest rate on the valuation date using curves provided by the price vendor, which are reviewed by the market risk area.

Transaction costs that are directly attributable to the purchase of the derivative are recognized directly in earnings.

Subsequently, all derivatives other than hedging derivatives are valued at fair value without deducting any transaction costs incurred during the sale or any other type of disposal, through earnings.

If the counterparty credit risk of a financial asset related to the rights established in the derivatives is impaired, the book value must be reduced to the estimated recoverable value and the loss is recognized in earnings. If the impairment situation subsequently disappears, the impairment is reversed up to the amount of the previously recognized impaired loss, recognizing this effect in earnings when it arises.

A swap contract may be settled in kind or in cash, according to the conditions established.

For purposes of classification in the financial information, with financial derivatives that incorporate rights and obligations at the same time, such as swaps, the asset and liability positions are offset contract by contract; if the offsetting results in a debit balance, the difference is presented as part of the assets, under the heading "Derivatives". If a credit balance is generated, it is presented as part of the liabilities under the heading "Derivatives".

*Derivative hedging transaction*

The Institution management carries out derivative transactions for hedging purposes, which involve swap contracts.

The financial assets and liabilities which are designated and comply with the requirements to be designated as hedged items, as well as the derivative financial instruments which form part of the hedge relationship, are recognized in accordance with the Provisions related to hedge accounting for the recognition of the gain or loss on the hedge instrument and of the hedged item, as established in Criterion B-5, *Derivatives and Hedge Transactions* issued by the Commission.

A hedge relationship qualifies for the use of hedge accounting when all the following conditions are met:

- Formal designation and sufficient documentation of the hedge relationship.
- The hedge must be highly effective in achieving the offsetting of the changes in fair value or in the cash flows attributable to the hedged risk.



- For cash flow hedges, it must be highly probable that the forecast transaction that is intended to be hedged will occur.
- The hedge must be reliably measurable.
- The hedge must be evaluated periodically (at least quarterly).

All hedging derivatives are recognized as assets or liabilities (depending on the rights and/or obligations that they contain) in the consolidated balance sheet, initially at fair value, which refers to the price agreed for the transaction.

The result of offsetting the asset and liability positions, whether borrower or creditor, is presented independently of the hedged primary position, forming part of the heading "Derivatives". Accrued interest is included in financial margin in the consolidated statements of income.

Derivative financial instruments contracted for hedging purposes are valued at the market value and the effect is recognized according to the type of accounting hedge, as follows:

- a. Fair value hedge- This represents a hedge of exposure to changes in the fair value of recognized assets and liabilities or of unrecognized firm commitments, or a portion of both, which is attributable to a specific risk and which may affect earnings. The primary position for the risk hedged is valued at market and the hedging derivative instrument at market, and the net effect is recorded in earnings under the heading "Net gain on financial assets and liabilities". In fair value hedges, the adjustment to the book value for the valuation of the hedged item is presented under a separate heading on the consolidated balance sheet.
- b. Cash flow hedge- This represents a hedge of exposure to variations in the cash flows of a forecast transaction which (i) is attributable to a specific risk associated with a recognized asset or liability, or with a highly probable event, and which (ii) may affect earnings. The hedging derivative instrument is valued at market. The portion of the gain or loss on the hedging instrument that is effective in the hedge is recorded within the comprehensive income account and the ineffective part is recorded in earnings as part of "Net gain on financial assets and liabilities ".

The effective hedge component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lower (in absolute terms) of the accumulated gain or loss of the hedging instrument from the start of the hedge, and the accumulated change in the present value of expected future cash flows of the hedged item from the start of the hedge.

Any remaining gain or loss of the hedging instrument is recognized directly in earnings.

The Institution suspends hedge accounting when the derivative instrument has matured, been sold, is canceled or exercised, when the derivative financial instrument does not attain a high degree of effectiveness to offset changes in the fair value or cash flows of the hedged item, or when the hedge designation is canceled.

By ceasing to apply fair value hedge accounting on a prospective basis, any adjustment to the book value for the valuation of the hedged item attributable to the hedged risk is amortized in earnings. The amortization is carried out based on the straight-line method during the remaining life of the hedged item.

By suspending cash flow hedge accounting, the accrued gain or loss related to the effective part of the hedging derivative that was recorded in the stockholders' equity as part of comprehensive income, remains in stockholders' equity until the effects of the forecast transaction or firm commitment affect earnings. If it is no longer probable that the firm commitment or the forecast transaction will take place, the gain or loss that was recognized in the comprehensive income account is recorded immediately in earnings. When the hedge of a forecast transaction initially qualified for hedge accounting, but subsequently is not highly effective, the effects accumulated in comprehensive income within the stockholders' equity are proportionally carried to earnings to the degree that the forecast asset or liability affects earnings.

Packages of derivative instruments quoted on a recognized market as a single instrument are jointly recognized and valued (i.e., without individually disaggregating each derivative financial instrument). Packages of derivative instruments which are not quoted on a recognized market are recognized and valued in a disaggregated manner for each component derivative.

The result of offsetting the asset and liability positions, whether debit or credit, is presented separately from the hedged item, as part of the heading of "Derivatives".

***Embedded derivatives*** - An embedded derivative is a component of a hybrid (combined) financial instrument that includes a non-derivative contract (known as the host contract) in which certain cash flows vary in a manner similar to that of an independent derivative. An embedded derivative causes certain cash flows required by the contract (or even all cash flows) to be modified according to changes in a specific interest rate, the price of a financial instrument, an exchange rate, a price or rate index, a credit rating or index, or other variables allowed by applicable laws and regulations, as long as any non-financial variables are not specific to a portion of the contract. A derivative that is attached to a financial instrument but that contractually cannot be transferred independently from that instrument or that has a different counterparty, is not an embedded derivative but a separate financial instrument (for example, in structured transactions).

An embedded derivative is separated from the host contract for purposes of valuation and receives the accounting treatment of a derivative if all the following characteristics are met:

- a) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- b) A separate financial instrument that has the same terms of the embedded derivative would comply with the definition of a derivative, and
- c) The hybrid (compound) financial instrument is not valued at fair value with changes recognized in earnings (for example, a derivative that is not embedded in a financial asset or a financial liability valued at fair value should not be separated).

The effects of the valuation of embedded derivatives are recorded under the same line item in which the host contract is recorded.

A foreign currency embedded derivative in a host contract, which is not a financial instrument, is an integral part of the agreement and therefore closely related to the host contract provided that it is not leveraged, does not contain an optional component and requires payments denominated in:

- The functional currency of one of the substantial parties to the contract;
- The currency in which the price of the related good or service that is acquired or delivered is regularly denominated for commercial transactions around the world;
- A currency which is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction is performed (for example, a stable and liquid currency which is commonly used in local transactions, or in foreign trade transactions).

***Collateral granted and received for derivatives transactions which are not performed on recognized stock markets or exchanges*** - The account receivable generated by granting collateral in cash for derivatives transactions which are not performed on recognized stock markets or exchanges is presented under the heading of "Other receivables (net)", while the account payable generated by receiving collateral in cash is presented under the heading of "Sundry creditors and other accounts payable".

Granted collateral other than cash remains under its original heading. The account payable, which represents the assignee's obligation to reconstitute sold collateral other than cash to the assignor, is presented in the consolidated balance sheet under the heading of "Collateral sold or pledged as guarantee".

The collateral other than cash for which a right is granted to enable it to be sold or given in guarantee is presented in memoranda accounts under “Collateral received and sold or delivered as collateral”.

**Credit portfolio** - Represents the outstanding balance of cash disbursed to borrowers, plus the uncollected accrued interest. The “Allowance for loan losses” is presented as a reduction to the balances of the portfolio.

The Institution must classify their portfolios under the following headings:

- a. **Commercial:** direct or contingent loans, including bridge loans denominated in Mexican pesos or foreign currency, investment units, multiples of the minimum wage (VSM) and accrued interest, granted to entities or individuals with business activities for commercial or financial purposes. These loans include those granted to financial entities other than interbank loans for periods of less than three business days, those involving factoring transactions or finance lease transactions performed with entities or individuals; credits granted to trustees acting under the auspices of trusts and credit schemes generally known as “structured” in which a net worth effect allows the associated risks to schemes be individually evaluated. Also included are the credits granted to States, Municipalities and their decentralized agencies, as well as those assumed by the Federal Government or with an express federal guarantee, registered with the General Department of Public Credit of the Mexican Treasury Department and Banco de México.
- b. **Housing mortgage:** direct loans denominated in Mexican pesos, foreign currency, investment units or Minimum Daily Wage (SMG), as well as the interest generated, granted to individuals and intended for the acquisition, construction, remodeling or improvement of housing, without any speculative purpose; including those liquidity credits guaranteed by the borrower's home and those granted for such purposes to the former employees of the credit Institution. Furthermore, housing loans are considered to include those intended for remodeling or improvements of the home which are backed by the savings from the borrower's housing subaccount, or have collateral granted by a development bank or a public trust established by the Federal Government for economic development. Also, they include the credits granted for such purposes to the former employees of the states and those liquid credits secured by the home of the borrower.
- c. **Consumer:** direct credits, including liquidity credits which do not have collateral from real estate property, denominated in Mexican pesos, foreign currency, UDIS or VSM, as well as any interest generated, granted to individuals, derived from credit card transactions, personal loans, payroll transactions (different from those granted through a credit card), loans for the acquisition of consumer durables (known as ABCD), which includes among others automotive loans and credits for capitalizable leases which are carried out with individuals, including those credits granted for such purposes to the former employees of the states.

**Performing loan portfolio** - 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 demonstrate the 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 uncollected loans as non-performing:

- Loans with a single payment of principal and interest at maturity are considered non-performing 30 days after the date of maturity.
- Loans with a single payment of principal at maturity and with periodic interest payments are considered non-performing 90 days after interest is due or 30 days after principal is due.
- Loans whose principal and interest payments have been agreed in periodic installments are considered non-performing 90 days after an installment becomes due.
- If loans 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 non-performing.
- Customer checking accounts showing overdrafts will be reported in the non-performing portfolio at the date of the overdraft.
- If the borrower is declared bankrupt, except for:
  - i. Loans for which the Institution continues receiving payment under the terms of that established in section VIII of article 43 of the Commercial Bankruptcy Law, or,
  - ii. Must be granted under the terms of Article 75, in relation to sections II and III of article 224 of the aforementioned Law.
- The highly liquid notes referred to in Accounting Criterion B-1, Funds available, issued by the Commission, when they were not collected within the deadline (two or five days, as the case may be).

Non-performing portfolio which are restructured or renewed will remain in the non-performing portfolio, until there is evidence of sustained payment; i.e., performance of payment by the borrower without arrears for the total amount due and payable in terms of principal and interest, for at least three consecutive installments under the credit payment scheme, or in the case of credits with installments that cover periods in excess of 60 calendar days, the payment of one installment as established in the accounting criteria of the Commission.

The credit payments referred to by 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, as well as those in which at least 80% of the original term of the credit has not elapsed, which did not cover the total amount of the accrued interest or cover the principal of the original amount of the credit, and which should have been settled as of the date of renewal or restructuring in question.

The accrual of interest earned on the credit transactions is suspended at the time the credit is classified as non-performing portfolio, including those credits which, in accordance with the respective contract, capitalize interest to the amount of the debt. While a credit remains in the non-performing portfolio, accrued interest is recorded in memoranda accounts. When this non-performing interest is collected, it is directly recognized in results of the year under the heading of "Interest income".

With regard to ordinary uncollected accrued interest on credits which are considered as non-performing portfolio, the Institution creates an allowance for the total amount of the interest at the time the credit is transferred to non-performing portfolio.

***Transfers to non-performing portfolio*** - When the repayments of commercial loans or accrued interest are not collected in accordance with the payment scheme, the total amount of principal and interest is transferred to non-performing portfolio, under the following circumstances:

- When it is known that the borrower is declared bankrupt, in accordance with the Commercial Bankruptcy Law; or
- When the repayments have not been fully settled under the original terms, as follows:
  - Loans with a single payment of principal and interest upon maturity are transferred to non-performing portfolio when the payment is 30 or more days in arrears;
  - Loans with a single payment of principal upon maturity and periodic payments of interest are transferred to non-performing portfolio when interest payments are 90 or more days in arrears, or when principal payments are 30 or more days in arrears;
  - Loans with periodic payments of principal and interest, including housing loans are transferred to non-performing portfolio when payments are 90 or more days in arrears;
  - Revolving loans are transferred to non-performing portfolio when payment is non-performing by two monthly billing periods or, as the case may be, 60 or more days.

Non-performing loans are transferred to the performing portfolio if there is evidence of sustained payment, which consists of proper compliance by the borrower without delay, for the total due and payable amount of principal and interest for a minimum of three consecutive payments under the loan payment scheme or, in the case of loans with payments that cover periods in excess of 60 days, sustained payment is achieved with a single payment.

In the case of operating leases it is recognized as expired amount of amortization that has not been paid in full, within 30 calendar days of default. The accumulation of accrued uncollected income is also suspended when the lease has three non-performing rent payments under the scheme. While the operation is maintained in nonperforming loans, control of the income accrued is carried in Memorandum accounts.

***Restricted loans*** - Are considered those loans for which there are circumstances which cannot provide or make used of them, having to be submitted as restricted; for example, the loan portfolio given the transferor as security or collateral in securitization transactions.

***Evidence of sustained loan payment*** - Payment compliance by the borrower without arrears for the total due and payable amount of principal and interest, in relation to at least three consecutive repayments under the credit payment scheme, or, in the case of credits with repayments that cover periods longer than 60 calendar days, the payment of one repayment.

***Restructuring and renewal processes*** - Credit restructurings consist of extensions of collateral which cover the disbursements taken by the borrowers, as well as modifications to the original conditions contracted for the loans with regard to the payment scheme, interest rates or currency, or granting a grace period during the credit term.

Loan renewals are operations in which the repayment term is extended during or upon the maturity of the loan or when it is settled at any time with financing derived from another loan contracted with the Institution by same borrower or another party, which due to common equity relationships with the original borrower, constitute common risks. Notwithstanding the above, a loan will not be considered renewed due to dispositions made during the effective term of a preestablished line of credit, provided that the borrower has settled the total amount of the payments due and payable therefrom under the original credit conditions.

Loans with a single payment of principal and/or interest upon maturity which are restructured during the credit term or renewed at any time are considered as non-performing portfolio as long as there is no evidence of sustained payment.

Credits granted under a line of credit, revolving or otherwise, which are restructured or renewed at any time, may be kept in performing portfolio provided that there are elements to substantiate the payment capacity of the borrower.

Furthermore, the borrower must have:

- a. Settled the total amount of due and payable interest, and
- b. Covered the total amount of payments due and payable under the terms of the contract at the date of the restructuring or renewal.

Credit dispositions made under a line of credit, when they are restructured or renewed independently from the underlying line of credit, must be assessed in accordance with the present section based on the characteristics and conditions applicable to the restructured or renewed disposition or dispositions. When based on such analysis it is concluded that one or more dispositions granted under a line of credit have to be transferred to non-performing portfolio as a result of their restructuring or renewal and such dispositions, whether individually or collectively, represent at least 25% of the exercised balance of the line of credit at the date of the restructuring or renewal, such balance, as well as the subsequent dispositions, must be transferred to non-performing portfolio until there is evidence of sustained payment of the dispositions which generated the transfer to non-performing 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 performing portfolio.

Performing loans which are restructured or renewed, before at least 80% of the original term of the credit has elapsed, will continue to be considered performing, only when:

- a. The borrower has covered the total amount of the interest accrued at the date of the renewal or restructuring, and
- b. The borrower has covered the principal of the original amount of the credit which should have been covered at the date of the renewal or restructuring.

Absent compliance with all of the above conditions, they will be considered as overdue from the time they are restructured or renewed until there is evidence of sustained payment.

If as a result of a restructuring or renewal, different credits granted by the same entity to the same borrower are consolidated, each of the consolidated credits must be analyzed as if they were restructured or renewed separately, and if based on such analysis it is concluded that one or more of such credits would have been transferred to non-performing portfolio through such restructuring or renewal, the total balance of the consolidated credit must be transferred to non-performing portfolio.

**Acquisition of loan portfolios** - The contractual value of the portfolio acquired must be recognized under the loan portfolio line item as of the portfolio acquisition date based on the portfolio type classified by the originator; any difference in relation to the acquisition price is recorded as follows:

- a) When the acquisition price is lower than the contractual value, in earnings under "other operating income" up to the amount of the allowance for loan losses created as discussed above, and the excess as a deferred credit, which will be amortized as the respective collections are made, based on the percentage they represent of the total contractual value of the loan;
- b) When the portfolio acquisition price exceeds its contractual value, it is considered as a deferred charge which is applied as outstanding amounts are collected, based on the proportion they represent of the contractual value of the credit;
- c) When related to the acquisition of revolving loans, the difference will be directly recorded in earnings on the acquisition date.

For the year ended December 31, 2016, the Institution did not make acquisitions of loan portfolio at a discount or at a premium.

**Classification of leasing transactions** - Leases are recognized as finance leases if the contract implies a transfer of the risks and benefits from the lessor to the lessee; otherwise, they are considered operating leases. In this regard, a transfer of risks and benefits takes place if, at the starting date of the lease, any of the assumptions described below is fulfilled:

- The lease agreement transfers ownership of the leased good to the lessee at the end of the lease term.
- The lease agreement contains a purchase option at a reduced price.
- The lease term is substantially the same as the remaining useful life of the leased asset.
- The present value of the minimum payments is substantially the same as the market value of the leased asset or scrap value which the lessor may keep for itself.
- The lessee may cancel the lease agreement and the losses associated with the cancellation will be covered by the latter.
- The profits or losses derived from fluctuations in the residual value accrue to the lessee, or
- The lessee may extend the lease for a second term with a rental substantially lower than market value.

For the application of the above-mentioned requirements it is understood that:

- The lease term is substantially the same as the remaining useful life of the leased asset, if the lease agreement covers at least 75% of such useful life.
- The present value of the minimum payments is substantially the same as the market value of the leased asset, if it constitutes at least 90% of the value of the asset.
- The minimum payments consist of those payments which the lessee is required to make or may be required to make in relation to the property leased, plus the guarantee of a third party not related to the Institution, of the residual value or rental payments beyond the term of the lease agreement.

The classification of the leases based on the aforementioned policies presents differences, both in the legal form in which the transactions are contracted, and in the criteria of their classification for tax purposes. This situation generates effects in the recognition of the allowance for loan losses and of deferred taxes.

Finance lease transactions are recorded as direct financing, considering the total rentals agreed in the respective contracts as loan portfolio. The financial revenue from these operations is equivalent to the difference between the value of the rentals and the cost of the leased assets, which is recorded in results as it is accrued. The reduced-price purchase option of the finance lease agreements is recognized as revenue on the date that it is collected or as amortizable revenue during the remaining term of the lease, at the time that the lessee undertakes to exercise such option. For purposes of presentation, the balance of the portfolio refers to the unpaid balance of the loan granted, plus the uncollected interest accrued.

During the effective term of the contract the Institution recognizes interest income as it is accrued, canceling the deferred credit already recognized (financial charge). When the loan portfolio is considered non-performing the recognition of interest is suspended.

The rentals agreed in the operating leases are recognized as they are accrued. The costs and expenses associated with granting the lease are recognized as a deferred charge, which is amortized in results within the financial margin, as the rental income from the respective contracts is recognized.

**Allowance for loan losses** - The Institution creates the allowance for loan losses based on the portfolio classification rules established in the Provisions issued by the Commission, which establish methodologies for the recognition and measurement of reserves based as follows:

#### *Commercial loans*

The Institution rates commercial loan portfolio considering the Probability of Default, Loss Severity and Exposure at Default and classifies the aforementioned commercial loan portfolio into different groups and provides different variables for estimating the probability of default.

The Institution adopted this change of methodology on December 31, 2013, whereby the amount of the allowance for loan losses of each loan will be the result of applying the following formula:

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

In which:

$R_i$  = The amount of the allowance for loan losses to be created for the  $i$ th credit.

$PI_i$  = The Probability of Default of the  $i$ th credit.

$SP_i$  = The Loss Severity of the  $i$ th credit.

$EI_i$  = The Exposure at Default of the  $i$ th credit.

The probability of default of each credit ( $PI_i$ ), will be calculated by using the following formula:

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

For the above purposes:

The total credit score of each borrower is obtained by applying the following formula:

$$Total\ Credit\ Score_i = \alpha \times (Quantitative\ Credit\ Score_i) + (1 - \alpha) \times (Qualitative\ Credit\ Score_i)$$

In which:

*Quantitative credit score<sub>i</sub>* = Is the score obtained for the  $i$ th borrower when evaluating risk factors.

*Qualitative credit score<sub>i</sub>* = Is the score obtained for the  $i$ th borrower when evaluating risk factors.

$\alpha$  = Is the relative weight of the quantitative credit score.

### *Unsecured loans*

The Loss Severity ( $SP_i$ ) 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 at Default ( $EI_i$ ) of each loan is determined based on the following:

- I. In the case of uncommitted, utilized credit lines which can be unconditionally canceled or which can be automatically canceled at any time and without prior notice:

$$EI_i = S_i$$

- II. In the case of all other credits lines:

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

In which:

$S_i$ : The outstanding balance of the  $i$ th credit at the rating date, which represents the amount of the loan granted to the borrower, adjusted for accrued interest, less principal and interest payments, as well as forgiveness of debt, rebates and discounts. In any case, the amount to be rated must not include uncollected accrued interest recognized in memoranda accounts on the balance sheet for loans included in the non-performing portfolio.

*Authorized Credit Line*: The maximum authorized credit line amount at the rating date.

The Institution may recognize the security interests in real property, or personal or credit-derived collateral when estimating the Loss Severity of loans, so as to reduce portfolio rating reserves.

In any case, it can opt to not recognize credit enhancements if they result in larger reserves. For this purpose, the Provisions established by the Commission are utilized.

### *Loans granted under the Commercial Bankruptcy Law*

On March 26, 2015, the Commission issued a Ruling which modifies the Provisions, whereby it adjusts the methodology applicable to the classification of commercial credit portfolio for credits granted under sections II and III of article 224 of the Commercial Bankruptcies Law in order to make it more consistent with the modifications made to such statute on January 10, 2015.

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 for each type of admissible security interest in real or personal property.

As discussed above, in the case of loans granted under Section II of Article 224 of the Commercial Bankruptcy Law, the Severity of the Loss will be subject to the following treatment:

$$SP_i = \text{Max} \left( \text{Min} \left( 1 - \frac{\text{Collateral} + \text{AdjustedEstate}}{S_i}, 45\% \right), 5\% \right)$$



In which:

*Collateral* = Any collateral created under the terms of Article 75 of the Commercial Bankruptcy Law by applying, as the case may be, the respective adjustment factors or discount percentages to each type of admissible security interest in real or personal property.

*Adjusted Estate* = The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in Section I of Article 224 of such law, and applying a 40% discount to the resulting amount.

$S_i$  = Unpaid balance of the loans granted under section II of article 224 of the Commercial Bankruptcy Law as of the classification date.

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

$$SP_i = \text{Max}\left(\text{Min}\left(1 - \frac{\text{AdjustedEstate}}{S_i} \cdot 45\%, 5\%\right)\right)$$

In which:

*Adjusted Estate* = The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in Section I of Article 224 of such law, and applying a 40% discount to the resulting amount.

$S_i$  = Unpaid balance of the loans granted under Section II of Article 224 of the Commercial Bankruptcy Law as of the classification date.

#### *Credit portfolio of States and Municipalities*

When classifying the credit portfolio of States and municipalities, the Institution considers the Probability of Default, Severity of Loss and Exposure to Default, while also classifying the aforementioned portfolio of States and municipalities into different groups and establishing different variables for the estimate of the Probability of Default of the commercial portfolio, in relation to credits granted to States and municipalities.

The allowance for loan losses of each credit will be the result of applying the following expression:

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

In which:

$R_i$  = Amount of allowance for loan losses to be created for the nth credit..  
 $PI_i$  = Probability of Default on the nth credit.  
 $SP_i$  = Loss Given Default on the nth credit.  
 $EI_i$  = Exposure at Default on the nth credit.

The Probability of Default on each credit ( $PI_i$ ), will be calculated by using the following formula:

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

For purposes of obtaining the respective  $PI_i$ , the total credit score of each borrower is calculated by using the following expression:

$$\text{Total Credit Score} = \alpha (\text{PCCT}) + (1-\alpha) \text{PCCI}$$

Where:

$PCCt = \text{Quantitative Credit Score} = IA + IB + IC$

$PPCI = \text{Qualitative Credit Score} = IIA + IIB$

$\alpha = 80\%$

$IA =$  Average number of days in arrears with banks (IFB) + % of timely payments with IFB + % of timely payments with non-bank financial institutions.

$IB =$  Number of recognized ratings agencies in accordance with the provisions which provide a rating to the State or Municipality.

$IC =$  Total debt to eligible participations + debt service to total adjusted revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + proprietary revenues to total revenues.

$IIA =$  Local unemployment rate + presence of financial services of regulated entities.

$IIB =$  Contingent obligations derived from retirement benefits to total adjusted revenues + operating balance sheet to local GDP + level and efficiency of collections + soundness and flexibility of the regulatory and institutional framework for the approval and execution of the budget + soundness and flexibility of the regulatory and institutional framework for the approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the securities market.

### ***Unsecured loans***

The Loss Given Default ( $SP_i$ ) on the credits granted to States or Municipalities which have no real, personal or credit-based collateral will be:

- a. 45%, for Senior Positions.
- b. 100%, for Subordinated Positions or when the credit reports 18 or more months of payment arrears for the amount due and payable under the terms originally agreed.

The Exposure to Default on each credit ( $EI_i$ ) will be determined based on the following:

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

$S_i =$  The unpaid balance of the nth credit at the classification date, which represents the amount of credit effectively granted to the borrower, adjusted for accrued interest, less payments of principal and interest, as well as any reductions, amounts forgiven, rebates and discounts granted. In every case, the amount subject to the rating must not include the uncollected accrued interest, recognized in memorandum accounts within the consolidated balance sheet of credits in non-performing portfolio.

*Credit Line Authorized* = Maximum authorized amount of the credit line as of the classification date.

The Institution may recognize the real collateral, personal collateral and credit-based collateral in the estimate of the Loss Given Default on the credits, with the aim of reducing the allowance derived from the portfolio classification. For such purpose, they will use the provisions established by the Commission.

Eligible real collateral may be financial and non-financial. Furthermore, only the real collateral which complies with the requirements established by the Commission will be recognize.

### *Mortgage loan portfolio*

When classifying the housing mortgage loan portfolio, considers the type of credit, the estimated Probability of Default of the borrowers, the Loss Given Default associated with the value and nature of the loan collateral and the Exposure at Default.

Furthermore, the Institution classifies, creates and records the allowances for loan losses on the housing mortgage loan portfolio as follows:

*Due and Payable Amount* - Amount the borrower has to pay in the billing period agreed, without considering any previous due and payable amounts that were not paid.

If the billing is half monthly or weekly, the due and payable amounts of the two half months or four weeks in the month, respectively, must be added up so that the due and payable amount reflects a monthly billing period.

The discounts and rebates may reduce the due and payable amount only when the borrower complies with the conditions required in the loan contract for such purpose.

*Payment Made* - Totals the payments made by the borrower in the billing period. Write-offs, reductions, amounts forgiven, rebates and discounts made to the loan or group of loans are not considered as payments. If the billing is half monthly or weekly, the payments made for the two half months or four weeks of a month, respectively, must be added up so that the payment made reflects one full monthly billing period.

The variable “payment made” must be greater than or equal to zero.

*Value of the Home Vi* - The value of the home at the time of the loan origination, restated in accordance with the following:

I. For loans with an origination date prior to January 1, 2000, in two stages:

a) First stage, based on the SMG

$$\text{Value of Home 1st Stage} = \frac{\text{SMG}_{\text{Dec 31, 1999}}}{\text{SMG}_{\text{in the month of the origination}}} \times \text{Value of Home at Origination}$$

In which:

The value of the home on the origination date reflects the home value ascertained through an appraisal at the time the loan was originated.

b) Second stage, based on the monthly National Consumer Price Index (INPC).

$$\text{Value of Home} = \frac{\text{INPC}_{\text{month of classification}}}{\text{INPC}_{\text{Jan 1, 2000}}} \times \text{Value of Home 1st Stage}$$

II. For loans with an origination date prior to January 1, 2000, in accordance with subsection b) of numeral I above.

$$\text{Value of Home} = \frac{\text{INPC}_{\text{month of classification}}}{\text{INPC}_{\text{month of origination}}} \times \text{Value of Home at Origination}$$

In any case, the home value at the time of the origination may be restated based on a formal appraisal.

*Loan Balance  $S_i$*  - The unpaid balance at the classification date, which represents the amount of the loan granted to the borrower, adjusted for accrued interest, less any insurance payments which were financed, collections of principal and interest, as well as reductions, amounts forgiven, rebates and discounts granted, as the case may be.

*Days in Arrears*- Number of calendar days at the classification date during which the borrower did not fully settle the due and payable amount under the terms originally agreed.

*Loan Denomination (MON)* - This variable will take the value of one (1) when the housing loan is denominated in Investment Units (UDI), minimum wages or a currency other than Mexican pesos, and zero when it is denominated in Mexican pesos.

*Completion of File (INTEXP)* - This variable will take the value of one (1) if the selling party of the real estate property participated in obtaining the proof of income or in contracting the appraisal, and zero in any other case.

The total amount of reserves to be created by the Institution will be equal to the allowance for loan losses, as follows:

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

In which:

$R_i$  = Amount of allowances for loan losses to be created for the nth credit.

$PI_i$  = Probability of Default on the nth credit.

$SP_i$  = Loss Given Default on the nth credit.

$EI_i$  = Loss Given Default on the nth credit.

In any case, the amount subject to the classification must not include uncollected accrued interest recorded on the consolidated balance sheet, of loans classified within non-performing portfolio.

*Consumer loan portfolio*

On August 27, 2015, the Commission made certain adjustments to the methodology applicable to the classification of consumer loan portfolio in order to recognize in such classification the expected losses coverage scheme, known as *pari passu* or first losses.

The Institution obtains the Loss Severity adjusted for actual financial guarantees ( $SP^*$ ) using the following formula:

$$SP_i^* = SP_i \left( \frac{EI_i^*}{EI_i} \right)$$

- a)  $SP_i^*$  = Effective Severity of the Loss of the nth credit adjusted for financial security interest in real or personal property;
- b)  $SP_i$  = 65% for loans from the nonrevolving consumer loan portfolio with no credit enhancements, different from group credit, or  
79% for loans from the nonrevolving consumer loan portfolio with no credit enhancements for group credit, or  
75% for credit card positions and other revolving credits with no credit enhancements.  
100% for any of the loans described above with a number of monthly arrears equaling or exceeding 10 ( $ATR_i M > 10$ ), or its equivalent in less billing periods in accordance with article 91-Bis, section II or article 92, section III, subsection b), numeral 2, of the Provisions.
- c)  $EI_i^*$  = Exposure to Default of the nth credit after the risk coverage by the comprehensive method, contained in articles 2- Bis 36, 2 Bis 37 and 2 Bis 38 of the Provisions, for the financial security interest in real or personal property referred to in Exhibit 24, section II subsection a) of the Provisions. This item is only used to calculate the effective Severity of the Loss. ( $SP^*$ ).
- d)  $EI_i$  = Exposure to Default of the nth credit, in conformity with article 91 Bis 3 and article 92, section III, subsection c) of the Provisions, whether in relation to nonrevolving consumer loan portfolio or credit card portfolio and other revolving credits, respectively.

Increases or decreases in the allowance for loan losses as a result of the classification and rating process, are recorded in results adjusting the financial margin, up to the amount of the recognized estimate for the same type of loan; surplus allowances are released to “Other operating income (expense)”.

#### ***The consumer credit portfolio related to credit card transactions***

The allowances for credit card losses are calculated by considering a base credit by credit, using the figures for the last period of known payment and taking into account factors such as: i) balance payable, ii) payment made, iii) credit limit, iv) minimum payment required, v) nonpayment vi) amount payable to the Institution, vii) amount payable reported in the credit information companies, as well as viii) seniority of the borrower in the Institution.

#### ***- Provisioning and classification by degree of risk***

The total amount of reserves to be created by the Institution for the loan portfolio is equal to the sum of the reserves for each loan.

Allowance for loan losses that should be create for credit portfolio are calculated based on the general methodology, should be classified according to risk levels A-1, A-2, B-1, B-2, B-3, C-1, C-2, D and E in accordance with the following table:

|     | Consumer      |                       | Commercial        |
|-----|---------------|-----------------------|-------------------|
|     | Nonrevolving  | Other revolving loans |                   |
| A-1 | 0 to 2.0      | 0 to 3.0              | 0 to 0.9          |
| A-2 | 2.01 to 3.0   | 3.01 to 5.0           | 3.01 to 1.5       |
| B-1 | 3.01 to 4.0   | 5.01 to 6.5           | 1.501 to 2.0      |
| B-2 | 4.01 to 5.0   | 6.51 to 8.0           | 2.001 to 2.50     |
| B-3 | 5.01 to 6.0   | 8.01 to 10.0          | 2.501 to 5.0      |
| C-1 | 6.01 to 8.0   | 10.01 to 15.0         | 5.001 to 10.0     |
| C-2 | 8.01 to 15.0  | 15.01 to 35           | 10.001 to 15.5    |
| D   | 15.01 to 35.0 | 35.01 to 75.0         | 15.501 to 45.0    |
| E   | 35.01 to 100  | Greater than 75.01    | Greater than 45.0 |

**Other receivables, net** - The amounts related to sundry debtors of the Institution which are not recovered within 90 days or 60 days after the initial recording (depending on whether the balances are identified or not), are reserved with a charge to results for the year, regardless of the likelihood of recovery.

The balances of the assets and liabilities settlement accounts represent the purchase and sale transactions of foreign currency and securities which are recorded on the day they are performed.

**Foreclosed assets, net** - Foreclosed assets are recorded at the lower of cost or fair value less direct and incremental costs and expenses incurred in the foreclosure process. In the case of foreclosures, the cost is the amount established for purposes of the foreclosure, whereas for accord and satisfaction, it is the price negotiated between the parties.

The Institution creates allowances on the book value of these assets based on percentages established by the Commission, by type of property (movable or real property) and based on the time elapsed as of the date of the foreclosure or accord and satisfaction.

The Institution records additional provisions on a quarterly basis on foreclosed judicial and extrajudicial assets or assets received as payment in kind, whether movable or real property, and the collection rights and investment in securities according to the following procedure:

- I. For collection rights and property, the amount of reserves to be created will be the result of applying the reserve percentage shown in the table below, the value of the collection rights or the value of property obtained in accordance with the accounting criteria of the Commission.

| <b>Reserves for collection rights and property</b>               |                           |
|--|---------------------------|
| <b>Time elapsed since collection or payment in kind (months)</b> | <b>Reserve percentage</b> |
| Up to 6  | 0%                        |
| More than 6 until 12   | 10%                       |
| More than 12 until 18  | 20%                       |
| More than 18 until 24  | 45%                       |
| More than 24 until 30  | 60%                       |
| More than 30   | 100%                      |

- II. For investment in securities, the must be valued as set forth in Criterion B-2 "Investment in securities" of the accounting criteria issued by Commission, with annual audited financial statements and monthly reports.

After the foreclosure or payment in kind have been valued, the reserves shall be determined using the percentages in the table contained in section I, considering estimated values determined in accordance with the preceding paragraph.

- III. For real estate assets, the amount of reserves to be created will be the result of applying the reserve percentage in the table below and the value of the foreclosed property calculated in accordance with the accounting criteria issued by the Commission.

| <b>Reserve for real estate assets</b>                            |                           |
|--|---------------------------|
| <b>Time elapsed since collection or payment in kind (months)</b> | <b>Reserve percentage</b> |
| Up to 12   | 0%                        |
| More than 12 until 24  | 10%                       |
| More than 24 until 30  | 15%                       |
| More than 30 until 36  | 25%                       |

|                       |      |
|-----------------------|------|
| More than 36 until 42 | 30%  |
| More than 42 until 48 | 35%  |
| More than 48 until 54 | 40%  |
| More than 54 until 60 | 50%  |
| More than 60          | 100% |

If valuations carried out subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of collection rights, securities or real estate assets, the loss reserve percentages referred to this Article may be applied to the adjusted value.

**Property, furniture and fixtures, net** - Property, installations expenses and leasehold improvements are recorded at acquisition cost. The assets currently on hand that were acquired prior to December 31, 2007 were adjusted for inflation by applying factors derived from the UDI from the date of acquisition until such date. The related depreciation and amortization are recorded by applying a percentage determined based on their estimated economic useful lives or, in the case of leasehold improvements, based on the period for which contracts are executed with leaseholders, which is an average of five years, extendable for another similar period when requested by the leaseholder.

The consolidated financial statements present the cost of these assets, less accumulated depreciation. Depreciation is calculated by the straight-line method on the cost of the assets as follows:

|                          | Rate |
|--------------------------|------|
| Real estate              | 5%   |
| Computer equipment       | 30%  |
| Furniture and equipment  | 10%  |
| Transportation equipment | 25%  |
| Machinery and equipment  | 30%  |

Maintenance expenses and repairs are recorded in the income statement as incurred.

In the case of fixed assets subject to operating leases, depreciation is calculated on the restated value, less residual value, using the straight-line method over the term established in the respective contracts.

**Long-term investment in shares** - Permanent investments in entities in which significant influence is exercised, are recognized initially based on the net fair value of the identifiable assets and liabilities of the Entity at the acquisition date.

- i. Venture capital investments (companies promoted by a mutual fund). - At the time of their acquisition, investments in shares of companies promoted by a mutual fund are recognized for the total amount of resources paid.

In accordance the Criteria of the Commission, acquisitions of shares in promoted companies are considered permanent investments, whether or not in control of them. Under NIF, these investments are considered as risk capital investments and are stated at fair value.

The value of investments in shares of companies promoted by a mutual fund is restated every quarter by the equity method, which consists of recognizing the Institution's participation in the results for the year and other stockholders equity' accounts reported in the financial statements of such promoted companies, and is recorded in results for the year under "Equity in results of unconsolidated subsidiaries and associates", and in stockholders' equity, under "Result from holding nonmonetary assets", respectively.

At December 31, 2016, 2015 and 2014, the financial statements of the promoted companies used in the valuation of the investments are as of September 30, 2016, 2015 and 2014, respectively, or on acquisition dates for promoted companies that are acquired September of each year.

The profit and loss obtained on the sale of shares of such promoted companies is recorded on the date that the transaction is performed.

- ii. Associates and other investments.- Investments in associates and other permanent investments are recorded initially at acquisition cost and are subsequently valued under the equity method, on which basis the equity in results and in stockholders' equity is recognized.

**Income taxes** - Income tax (ISR) is recorded in earnings of the year in which they are incurred. Management determines, based on financial and tax projections, whether the Institution and its subsidiaries will incur ISR, and deferred taxes are recognized based on which tax system the Institution is expected to primarily be subject to. The Institution determines the deferred tax on the temporary differences, tax losses and tax credits, from the initial recognition of the items and at the end of each period. The deferred tax derived from the temporary differences is recognized by using the assets and liabilities method, which compares the accounting and tax values of the assets and liabilities. This comparison produces deductible and taxable temporary differences, which along with tax losses and the tax credit from the un-deducted allowances for loan losses, are then multiplied by the currently enacted tax rate that is projected to be in effect when the temporary differences will reverse, or when the tax benefit carryforward is realized.

The Institution management records a reserve for certain deferred tax assets to recognize only the deferred tax asset for which there is a high probability of recovery over a short-term period, considering for this treatment the amount generated by the tax credit for un-deducted allowances for loan losses expected to reverse in accordance with the financial and tax projections prepared by management. Therefore, the effect of such tax credit is not fully recorded. The deferred tax is recorded either to earnings or stockholders' equity, depending on the classification of the item originating the deferred tax.

**Other assets** - Software, system developments and intangible assets are recorded originally at the face value disbursed, and adjusted for inflation through December 31, 2007, using the factor derived from the UDI.

The amortization of software, informatics developments and intangible assets with defined lives is calculated by using the straight line method over their estimated useful lives.

**Goodwill** - Represents the excess of the price paid over the fair value of the net assets of the entity acquired on the acquisition date, is not amortized and is subject to impairment tests at least once a year.

**Impairment of long-lived assets in use** - The Institution reviews the book value of long-lived assets in use when detecting any sign of impairment that could indicate that this book value might not be recoverable, by considering the higher of the present value of net future cash flows or the net sales price, in the event of its disposal. The impairment is recorded when the book value exceeds the higher of the aforementioned values. The impairment indicators considered for this purpose are, among others, operating losses or negative cash flows generated during the period, combined with a history or projection of losses, depreciation and amortization charged to earnings as revenue percentages, are significantly higher than those of prior years, the services rendered, competition and other economic and legal factors.

**Acceptance of funds** - Liabilities from acceptance of funds through liquid and term deposits, as well as interbank loans and from other agencies, are recorded by taking the contractual value of the obligation as their base. Interest payable is recognized in results, within the financial margin, as it is accrued, based on the interest rate agreed.

The securities included in traditional acceptance of funds which form part of direct bank deposits, are classified and recorded as follows:

- Securities offered at face value; are recorded based on the contractual value of the obligation, recognizing the accrued interest directly in results.



- Securities offered at a price different from face value (with a premium or a discount); are recorded based on the contractual value of the obligation, recognizing a deferred charge or credit for the difference between the face value of the security and the amount of cash received for it, which is amortized by the straight-line method over the term of the security.
- Securities which are offered at a discount and do not accrue interest (zero coupon); are valued at the time of issue, taking the amount of cash received as their basis. The difference between the face value and the aforementioned amount is considered as interest, and should be recognized in results based on the effective interest method.

Term deposits, placed through promissory notes with realizable returns at maturity (PRLV), deposits that can be withdrawn on preestablished days and bank deposit certificates (CEDES), are offered at face value. The promissory notes issued in the interbank market are offered at a discount.

Commissions paid on the loans received by the Institution are recorded in results for the year, under the caption Commissions and charges paid, on the date they are generated.

Issue expenses, as well as the discount or premium on the debt offering, are recorded as a deferred charge or credit, as the case may be, and are recognized in results for the year as interest expense or income, if applicable, as and when accrued, taking into account the term of the underlying securities.

The placement premium or discount is presented as part of the underlying liability, whereas the deferred charge for the issue expenses are presented in the caption "Other assets".

***Liabilities, provisions, contingent assets and liabilities and commitments*** – Liability provisions are recognized when: (i) there is a present obligation (legal or assumed) as a result of a past event, (ii) it is probable the outflow of economic resources as a required to settle the obligation and (iii) the obligation can be reasonably estimated.

The Institution records contingent liabilities only when there is a high probability of outflow of resources.

***Foreign currency transactions*** – Operations are recorded in the currency in which they are originally transacted. Assets and liabilities in foreign currency are converted to Mexican peso applying the official foreign exchange rate published by the Central Bank on the following business day of the financial statements. Financial effects on foreign exchange rates affect income/loss from operations if related to the regular business activities of the Institution.

***Assets and liabilities in Investment Units (UDI's)*** - Assets and liabilities denominated in UDI's are presented on the balance sheet at the peso value of the UDI at the date of the consolidated financial statements. As of December 31, 2016, 2015 and 2014, the value of the UDI (in pesos) was \$5.562883, \$5.381175 and \$5.270368, respectively. The value of the UDI at the date of issuance of these consolidated financial statements, February 27, 2017, is \$5.685467.

***Recognition of interest*** - Interest generated on performing loan credits is recognized and applied to results as it is accrued. Penalty interest on non-performing portfolio is recorded in results at the time it is collected, and its accrual is controlled in memorandum accounts. -Interest returns on financial instruments are applied to results on an accrual basis.

The amortization of commissions collected in the initial granting of loans and for loan restructurings is recognized as interest income.

The interest on liability transactions is recorded in results as accrued, regardless of the date on which it becomes due and payable.

**Financial margin** - The financial margin of the Institution is composed of the difference between total interest incomes less interest expense.

Interest income is composed of the yields generated by the loan portfolio, based on the terms established in the contracts executed with the borrowers, the negotiated interest rates, the application of interest collected in advance, and the premiums or interest on deposits in financial entities, bank loans, margin accounts, investments in securities, sale and repurchase agreements and securities loans, as well as debt placement premiums, commissions charged on initial loan grants, and net equity instrument dividends.

Interest expense is composed of premiums, discounts and interest on deposits in the Institution, bank loans, sale and repurchase agreements and securities loans, and subordinated debentures, as well as debt placement discount and issuance expenses. The amortization of costs and expenses related to initial loan granting is also included under interest expense.

**Commissions charged and associated costs and expenses** - Commissions charged for initial loan granting are recorded as deferred revenues under “Deferred revenues and other advances”, and are amortized to earnings under “Interest income”, using the straight line method over the life of the loan, except for those related to revolving loans, which are amortized over a 12 month period.

The commissions collected for restructuring or renewal are added to those originally generated according to the terms of the preceding paragraph and are recognized as a deferred credit which is applied to results by using the straight line method during the new credit period.

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”.

**Net gain on financial assets and liabilities** - This mainly refers to the result from valuation at fair value of securities, credit instruments to be received or delivered in repurchase agreements and derivatives trading transactions, as well as the result from the purchase and sale of securities, financial derivatives and foreign exchange.

**Comprehensive income** - The comprehensive income amount presented in the consolidated statement of changes in stockholders' equity is the effect of transactions other than those performed with the stockholders of the Institution during the period.

**Earnings per share** Basic earnings per share is calculated by dividing the net income attributable to controlling interest from continuing operations by the weighted average number of shares outstanding in each period, thus giving a retroactive effect to shares issued due to the capitalization of additional paid-in capital or retained earnings.

**Information by segments** - The Institution has identified the operating segments for its different activities by considering each one as a component of its internal structure with specific yield, risks and opportunities. These components are reviewed regularly in order to make decision about allocating monetary resources to the segments and assessing their performance.

**Statement of cash flows** - The consolidated statement of cash flows presents the Institution's capacity to generate cash and cash equivalents, as well as the way in which the Institution uses such cash flows to meet its needs. The preparation of the Statement of Cash Flows is under the indirect method, based on the net result of the period, in conformity with that established in Treatment D-4, *Statements of Cash Flows*, issued by the Commission.

Cash flows, in conjunction with all of the financial statements, provide information which enables the Institution to:

- Evaluate changes in the Institution's assets and liabilities and in its financial structure.
- Evaluate both the amounts and the dates of collection and payment, in order to adapt to circumstances and opportunities for generation and/or application of cash and cash equivalents.

**Memorandum accounts (Note 32) -**

Memorandum accounts are used to record assets or commitments which do not form part of the Institution's consolidated balance sheets because the respective rights are not acquired or such commitments are not recognized as a liability until such eventualities materialize, respectively.

- *Customer securities received in custody, repurchase agreements on account of customers, securities loans transactions on account of customers and collateral received as surety on account of customers:*

The operations of "Settlement of customer transactions", "Customer securities received in custody", "Repurchase agreements on account of customers", "Securities loan transactions on account of customers" and "Collateral received as surety on account of customers" were valued based on the price provided by the price supplier.

- a. Securities in custody and administration are deposited in the company S. D. Indeval, S.A. de C.V. (S.D. Indeval).

- *Credit commitments:*

The balance represents the amount of letters of credit granted by the Institution which are considered as irrevocable commercial loans not utilized by the borrowers, and includes credit lines granted to customers which have not been exercised. The items recorded in this account are subject to classification.

- *Assets in trust or under mandate:*

The value of the assets received in trust is recorded as assets held in trust, and the data related to the management of each one are kept in independent records. The declared value of the assets comprising the subject matter of the agency agreements executed by the Institution is recorded as assets held under agency agreement.

– *Assets in custody or under administration:*

This account is used to record the movement of assets and securities of third parties which are received in custody, or to be administered by the Institution.

– *Collateral received by the Institution:*

This balance represents the total collateral received in repurchase agreements when the Institution acts as the purchasing party, and the collateral received in a securities loan transaction in which the Institution acts as the lender and the securities received when the Institution acts as the borrower.

– *Collateral received and sold or pledged as guarantee by the Institution:*

This balance represents the total collateral received in repurchase agreements in which the Institution acts as the purchasing party, which in turn was sold by the Institution when it acted as the selling party. Furthermore, the balance representing the obligation of the borrower (or lender) to repay the value subject matter of the securities loan transaction to the lender (or borrower) assumed by the Institution, is reported in this heading.

– *Uncollected interest earned on non-performing portfolio:*

The interest accrued is recorded in memorandum accounts once a performing portfolio credits is transferred to non-performing portfolio.

– *Other record accounts:*

This account is used to record the control maturity of the portfolio, control of maturity of liabilities, the classification of the portfolio by degree of risk, inflationary component and control of notional derivatives.

– *Guarantees issued:*

Through the guarantees issued, the Institution supports the payment capacity of an obligation in case of default, so until the event occurs the guarantee will materializes. Meanwhile, it represents only a commitment that is recorded in memorandum accounts.

#### 4. Net monetary position in foreign currency

As of December 31, 2016, 2015 and 2014, the significant foreign currency position of the Institution is comprised as follows:

|                             | 2016                    | 2015                    | 2014                    |
|-----------------------------|-------------------------|-------------------------|-------------------------|
| Assets (USD)                | 11,529,943,602          | 10,088,338,980          | 11,687,285,646          |
| Liabilities (USD)           | <u>(11,587,111,261)</u> | <u>(10,344,926,909)</u> | <u>(12,123,728,888)</u> |
| Net monetary position (USD) | <u>(57,167,659)</u>     | <u>(256,587,929)</u>    | <u>(436,443,242)</u>    |
| Exchange rate (pesos)       | \$ 20.6194              | \$ 17.2487              | \$ 14.7414              |
| Total (millions of pesos)   | <u>\$ (1,179)</u>       | <u>\$ (4,426)</u>       | <u>\$ (6,434)</u>       |

As of December 31, 2016, 2015 and 2014, the exchange rate “Fix” (48 hours) was \$20.6194 Mexican pesos, \$17.2487 Mexican pesos and \$14.7414 Mexican pesos, respectively per US dollar.

As of February 27, 2017, the position in foreign currency (non audited), it is similar to the 2016 closing period and “FIX” Exchange rate was \$19.8322.

In accordance with regulations established by Central Bank, the daily net monetary position in foreign currency maintained by the financial institution must be managed such way that it does not exceed 15% of net equity. As of December 31, 2016, 2015 and 2014, the Institution is in compliance with this regulation.

## 5. Funds available

As of December 31, 2016, 2015 and 2014 funds available were as follows:

|  | 2016             | 2015             | 2014             |
|--|------------------|------------------|------------------|
| Deposits in Banxico (a)  | \$ 9,033         | \$ 9,250         | \$ 8,546         |
| Foreign currency purchase-sale transactions settled in 24-48 hours (b) | 6,933            | 4,491            | 1,341            |
| Call Money (c)   | 204              | -                | 749              |
| Cash   | 1,989            | 1,930            | 2,005            |
| Deposits in national and foreign banks                                 | 1,112            | 1,434            | 891              |
| Other  | <u>22</u>        | <u>22</u>        | <u>22</u>        |
|  | <u>\$ 19,293</u> | <u>\$ 17,127</u> | <u>\$ 13,554</u> |

a. **Deposits in Banxico** – As of December 31, 2016, 2015 and 2014, bank deposits were as follows:

|                                 | 2016            | 2015            | 2014            |
|---------------------------------|-----------------|-----------------|-----------------|
| Special accounts <sup>(1)</sup> |                 |                 |                 |
| Compulsory deposits             | \$ 9,026        | \$ 8,623        | \$ 8,543        |
| TIIE                            | -               | 619             | -               |
| Accrued interest                | 3               | 4               | -               |
| Deposits in US dollars          | <u>4</u>        | <u>4</u>        | <u>3</u>        |
|                                 | <u>\$ 9,033</u> | <u>\$ 9,250</u> | <u>\$ 8,546</u> |

- (1) Banxico requires financial institutions to constitute compulsory deposits, which are established according to traditional deposits in national currency. As the term of this compulsory deposit is indefinite, the Central Bank will timely notify the date and procedure to withdraw the respective balances. Interest accrued on this deposit is based on the Weighted Average Funding Rate.
- (2) As of December 31, 2016 and 2015, the Single Account of Banco de México is comprised mainly of the Institution’s Monetary Regulation Deposits in Banco de México, which amount \$9,026 and \$8,623, respectively. These Monetary Regulation Deposits will have an indefinite duration and Banxico will provide advance notice of the date and the procedure for the withdrawal of the related balances. The interest on the deposits is payable every 28 days at the rate established in the regulation issued for such purpose by Banxico.

Banxico, through circular 9/2014 dated June 17, 2014, established that monetary regulation deposits may be composed of cash, securities or both. As a result, the Institution acquired Limited Trading Monetary Regulation Bonds (BREMS L) issued by Banco de México, which were settled with resources from the monetary regulation cash deposit held by the Institution. Subsequently, on November 24, 2015, Banco de México, through circular 18/2015, published the auction rules to swap BREMS L for Reportable Monetary Regulation Bonds (BREMS R), enabling interested credit institutions to carry out such swap through auctions. The Bank made the swap of the BREMS L held in its position for BREMS R. The amount of BREMS R as of December 31, 2016 and 2015 was \$5,306 and \$5,304, respectively, and they are classified in the caption Investments in securities as “Trading securities” (Note 7).

- b. **Foreign currency purchase-sale transactions (settled in 24-48 hours)** - This item refers to purchase-sale operations involving foreign currency, which mature over periods not exceeding two business days, and which remain classified as restricted cash until then. For the years ended December 31, 2016, 2015 and 2014, foreign currency transactions were as follows:

|  | 2016                                |                             |                             |
|--|-------------------------------------|-----------------------------|-----------------------------|
|  | Purchase (sale) of foreign currency | Exchange rate average value | Mexican pesos (in millions) |
| Purchase of foreign currency (US dollar)       | 449,720,846                         | \$ 20.6633                  | \$ 9,293                    |
| Sale of foreign currency (US dollar)           | <u>(113,487,402)</u>                | 20.6722                     | <u>(2,346)</u>              |
|  | <u>336,233,444</u>                  |                             | <u>\$ 6,947</u>             |
| Exchange rate at the end of the period (pesos) | <u>\$ 20.6194</u>                   |                             |                             |
| Net monetary position (national currency)      | <u>\$ 6,933</u>                     |                             |                             |
|  | 2015                                |                             |                             |
|  | Purchase (sale) of foreign currency | Exchange rate average value | Mexican pesos (in millions) |
| Purchase of foreign currency (US dollar)       | 409,417,740                         | \$ 17.3312                  | \$ 7,096                    |
| Sale of foreign currency (US dollar)           | <u>(149,027,503)</u>                | 17.3188                     | <u>(2,581)</u>              |
|  | <u>260,390,237</u>                  |                             | <u>\$ 4,515</u>             |
| Exchange rate at the end of the period (pesos) | <u>\$ 17.2487</u>                   |                             |                             |
| Net monetary position (national currency)      | <u>\$ 4,491</u>                     |                             |                             |

|  | 2014                                |                             |                             |
|--|-------------------------------------|-----------------------------|-----------------------------|
|  | Purchase (sale) of foreign currency | Exchange rate average value | Mexican pesos (in millions) |
| Purchase of foreign currency (US dollar)       | 283,034,404                         | \$ 14.7329                  | \$ 4,170                    |
| Sale of foreign currency (US dollar)           | <u>(192,041,837)</u>                | <u>14.7240</u>              | <u>(2,828)</u>              |
|  | <u>90,992,567</u>                   |                             | <u>\$ 1,342</u>             |
| Exchange rate at the end of the period (pesos) | \$ <u>14.7414</u>                   |                             |                             |
| Net monetary position (national currency)      | \$ <u>1,341</u>                     |                             |                             |

When the foreign exchange deliverable or receivable on the sales and purchases are recorded under the heading of "Funds available", the settlement accounts of the counter value of these transactions are recorded net in the consolidated balance sheet under the headings of "Other receivable, (net)" and "Creditors from settlement of transactions".

- c. **Call Money** – The "Call money" transactions made represent interbank loan transactions agreed at a term less than or equal to three business days. As of December 31, 2015, there were not agreed call money operations. Likewise as of December 31, 2016 and 2014, balance related to these operation was as follows:

|                | 2016          |               |                 |
|----------------|---------------|---------------|-----------------|
|                | Amount        | Interest rate | Maturity (days) |
| National Banks | \$ <u>204</u> | <u>5.75%</u>  | <u>3</u>        |

|                | 2014          |               |                 |
|----------------|---------------|---------------|-----------------|
|                | Amount        | Interest rate | Maturity (days) |
| National Banks | \$ <u>749</u> | <u>2.95%</u>  | <u>2</u>        |

## 6. Margin accounts

Margin account deposits are necessary for the Institution to operate derivative contracts in the derivatives exchange. These are restricted until the transactions expire. These deposits are carried out to ensure compliance with financial obligations concerning derivative operations to which the Institution is subject to (Note 9).

As of December 31, 2016, 2015 and 2014, the margin accounts for futures were as follows:

|   | 2016            | 2015            | 2014            |
|---|-----------------|-----------------|-----------------|
| Group Inc. Chicago Mercantil Exchange (CME)                         | \$ 3,584        | \$ 2,610        | \$ 3,382        |
| Mexican Derivatives Market (Mercado Mexicano de Derivados - Mexder) | <u>1,311</u>    | <u>113</u>      | <u>52</u>       |
|   | <u>\$ 4,895</u> | <u>\$ 2,723</u> | <u>\$ 3,434</u> |

For the years ended December 31, 2016, 2015 and 2014, these deposits generated interest income of \$1, \$4 and \$3, respectively.

## 7. Investments in securities

As of December 31, 2016, 2015 and 2014, the investments in marketable securities were as follows:

### a. *Trading securities*

|  | 2016                |                      |                           |                  |
|--|---------------------|----------------------|---------------------------|------------------|
|  | Acquisition<br>Cost | Accrued<br>interests | Fair Value Gain<br>(Loss) | Total            |
| Corporate Debt                         | \$ 7,365            | \$ 164               | \$ (1,326)                | \$ 6,203         |
| Unsecured Bonds                        | 3,417               | 61                   | 343                       | 3,821            |
| Stock                                  | 4,792               | -                    | 2,599                     | 7,391            |
| Federal Treasury<br>Securities (CETES) | 36,203              | 13                   | 40                        | 36,256           |
| PRLV                                   | 1,144               | -                    | -                         | 1,144            |
| BREMS R                                | 5,304               | 54                   | (52)                      | 5,306            |
| Mexican Government<br>Bonds            | 2,584               | 68                   | 38                        | 2,690            |
| Other                                  | 442                 | -                    | -                         | 442              |
|  | <u>\$ 61,251</u>    | <u>\$ 360</u>        | <u>\$ 1,642</u>           | <u>\$ 63,253</u> |

|  | 2015                |                      |                           |                  |
|--|---------------------|----------------------|---------------------------|------------------|
|  | Acquisition<br>cost | Accrued<br>interests | Fair Value Gain<br>(Loss) | Total            |
| Corporate Debt                         | \$ 5,740            | \$ 103               | \$ (616)                  | \$ 5,227         |
| Unsecured Bonds                        | 2,745               | 58                   | 159                       | 2,962            |
| Stock                                  | 4,324               | -                    | 1,897                     | 6,221            |
| Federal Treasury<br>Securities (CETES) | 366                 | 19                   | 1                         | 386              |
| PRLV                                   | 916                 | -                    | 1                         | 917              |
| BREMS R                                | 5,304               | -                    | -                         | 5,304            |
| Mexican Government<br>Bonds            | 1,847               | 56                   | 5                         | 1,908            |
| Other                                  | 353                 | -                    | -                         | 353              |
|  | <u>\$ 21,595</u>    | <u>\$ 236</u>        | <u>\$ 1,447</u>           | <u>\$ 23,278</u> |

|  | 2014                |                     |                           |                  |
|--|---------------------|---------------------|---------------------------|------------------|
|  | Acquisition<br>cost | Accrued<br>interest | Fair Value Gain<br>(Loss) | Total            |
| Corporate Debt                         | \$ 5,300            | \$ 78               | \$ (251)                  | \$ 5,127         |
| Unsecured Bonds                        | 2,110               | 48                  | 357                       | 2,515            |
| Stock                                  | 2,623               | -                   | 3,674                     | 6,297            |
| Federal Treasury<br>Securities (CETES) | 2,212               | 23                  | -                         | 2,235            |
| PRLV                                   | 7,028               | -                   | -                         | 7,028            |
| Other                                  | 1,760               | 50                  | 251                       | 2,061            |
|  | <u>\$ 21,033</u>    | <u>\$ 199</u>       | <u>\$ 4,031</u>           | <u>\$ 25,263</u> |



As of December 31, 2016, 2015 and 2014, the maturity period approximately of debt instruments classified as trading securities less than three years were 60.89%, 10.43% and 17.29%, respectively.

During 2016 and 2015, the Institution recognized in results (losses) profits from valuation for a net amount of \$(39) and \$3,243, respectively.

As of December 31, 2016, 2015 and 2014, the main ratings granted to the debt securities classified as trading securities by rating include:

| Rating (mex) | % balance of trading securities |                |                |
|--------------|---------------------------------|----------------|----------------|
|              | 2016                            | 2015           | 2014           |
| AA+          | 4.02%                           | 10.14%         | 9.96%          |
| AAA          | 65.71%                          | 6.58%          | 9.37%          |
| BB-          | 3.74%                           | 9.33%          | 4.00%          |
| BBB          | -                               | -              | 7.62%          |
| BBB+         | 2.23%                           | 8.20%          | -              |
| B+           | 0.97%                           | 0.74%          | -              |
| BBB          | 4.62%                           | -              | 6.00%          |
| CCC          | 1.82%                           | 0.96%          | 1.00%          |
| F1+          | 2.98%                           | 1.49%          | 3.00%          |
| Otras        | 13.91%                          | 62.56%         | 59.05%         |
|              | <u>100.00%</u>                  | <u>100.00%</u> | <u>100.00%</u> |

During 2016, the market price of shares “Yacimientos Petrolíferos Fiscales” (YPF) fluctuated in a range of 16.84 and 20.91 US per share mainly driven by market considerations, generating high volatility in the results of the Institution. It is assumed that the variability and / or volatility in the share price due solely to the supply and demand of securities that are traded on the New York Stock Exchange (NYSE).

During 2015, the market price of shares “Yacimientos Petrolíferos Fiscales” (YPF) fluctuated within the range of US15.23 and US30.54 per share, mainly driven by market considerations, generating high volatility in the results of the Institution.

During 2014, the market price of shares (YPF) fluctuated within the range of US22.19 and US36.99 per share, mainly driven by market considerations, generating high volatility in the results of the Institution.

The price per share in (US dollars) at the close of each month is as follows:

| Month   | USD per share | Month   | USD per share | Month   | USD per share |
|---------|---------------|---------|---------------|---------|---------------|
| Dec-15  | 15.72         | Dec-14  | 26.47         | Dec-13  | 32.96         |
| Jan -16 | 16.84         | Jan -15 | 23.45         | Jan -14 | 22.19         |
| Feb-16  | 18.12         | Feb-15  | 25.69         | Feb-14  | 26.91         |
| Mar-16  | 17.88         | Mar-15  | 27.45         | Mar-14  | 31.16         |
| Apr-16  | 20.15         | Apr-15  | 30.54         | Apr-14  | 28.46         |
| May-16  | 20.91         | May-15  | 27.77         | May-14  | 29.88         |
| Jun-16  | 19.20         | Jun-15  | 27.43         | Jun-14  | 32.68         |
| Jul-16  | 18.47         | Jul-15  | 22.93         | Jul-14  | 35.38         |
| Aug-16  | 16.99         | Aug-15  | 21.54         | Aug-14  | 33.04         |
| Sep-16  | 18.22         | Sep-15  | 15.23         | Sep-14  | 36.99         |
| Oct-16  | 17.76         | Oct-15  | 21.36         | Oct-14  | 35.17         |
| Nov-16  | 16.99         | Nov-15  | 18.30         | Nov-14  | 33.44         |
| Dec-16  | 16.50         | Dec-15  | 15.72         | Dec-14  | 26.47         |

During 2016, the Institution sold 850,000 shares, on its own behalf generating a gain of US\$3,799,289 dollars and sold debt securities generating losses of US\$21,140,202 dollars.

During 2015, the Institution sold 769,384 shares on its own behalf generating a gain of US\$11,664,045 and sold debt securities generating losses of US\$9,105,664.

During 2014, the Institution sold 7,325,595 shares generating a gain of US\$152,683,000 dollars.

As of December 31, 2016, the following credit risk exposure was presented in accordance with the classification levels granted by the different ratings agencies:

|                                     | <b>2016</b>         |                    |
|-------------------------------------|---------------------|--------------------|
|                                     | <b>Market value</b> | <b>Credit risk</b> |
| Corporate debt                      | \$ 9,065            | \$ 1,104           |
| Unsecured Bonds                     | 5,116               | 13                 |
| Stock                               | 7,392               | -                  |
| Federal Treasury Securities (CETES) | 29,594              | -                  |
| Other                               | 5,278               | 11                 |
|                                     | <u>\$ 56,445</u>    | <u>\$ 1,128</u>    |

- b. **Available for sale securities** - As of December 31, 2014 the investments in corporate debt securities, were as follows:

|  | <b>2014</b>   |
|--|---------------|
| Acquisition cost                       | \$ 299        |
| Accrued interest                       | 7             |
| Fair value gain (loss)                 | (3)           |
| Total of available for sale securities | <u>\$ 303</u> |

At January 27, 2015, securities classified as available for sale reached maturity, generating a loss of US\$300,000; as a result, as of December 31, 2015 and 2016, the Institution does not have securities available for sale.

As of December 31, 2014, the main ratings assigned by a rating agency to the debt securities classified as available for sale were:

| <b>Rating</b> | <b>% on balance of trading securities 2014</b> |
|---------------|--|
| A             | <u>100%</u>                                    |

## 8. Sale and repurchase agreements

During 2016, the Institution does not have receivables under repurchase agreements. As of December 31, 2015 and 2014, receivables under repurchase agreements were as follows:

|  | <b>2015</b>     | <b>2014</b>      |
|--|-----------------|------------------|
| Agreed price <sup>(1)</sup>                                  | \$ 20,974       | \$ 69,285        |
| Accrued premium  | 2               | 7                |
| Less:  |                 |                  |
| Collaterals sold or pledged as guarantees <sup>(1) (2)</sup> | 13,589          | 56,279           |
| Accrued premium  | <u>1</u>        | <u>5</u>         |
|  | <u>\$ 7,386</u> | <u>\$ 13,008</u> |

- (1) As of December 31, 2015 and 2014, the average period for the repurchase agreements are between 4, 3 and 3 days, respectively.
- (2) As of December 31, 2015 and 2014, this item relates to repurchase agreements in which the Institution acted as purchaser, i.e. received financing, granting as a guarantee the financial instruments that were simultaneously received in guarantee from other sale agreements (in which the acted as Institution). The financial instruments were comprised as follows:

|   | 2015             | 2014             |
|---|------------------|------------------|
| Federal Government Development Bonds (BONDES)           | \$ -             | \$ 32,193        |
| IPAB Bonds  | 13,000           | 17,062           |
| Fixed rate bonds  | -                | 2,946            |
| Unsecured Bonds   | 589              | 386              |
| Treasury Bills  | -                | 1,761            |
| Federal Government Development Bonds in UDIS (UDIBONDS) | -                | 1,931            |
|   | <u>13,589</u>    | <u>56,279</u>    |
| Fair value adjustment                                   | <u>(5)</u>       | <u>(65)</u>      |
| Recognized value in memorandum accounts                 | <u>\$ 13,584</u> | <u>\$ 56,214</u> |

As of December 31, 2015 and 2014, accrued premiums collected and paid or pending payment and collection, under repurchase agreements on sale and repurchase agreements were \$1 and \$5, respectively.

- a. **Premiums earned and paid** - For the year ended December 31, 2016, 2015 and 2014, the total amount of premiums earned and paid for sale and repurchase agreements were as follows:

|  | 2016          | 2015          | 2014           |
|--|---------------|---------------|----------------|
| Premiums earned (purchaser) (Note 27b) | \$ 745        | \$ 1,190      | \$ 1,902       |
| Premiums paid (seller) (Note 27b)      | <u>(464)</u>  | <u>(978)</u>  | <u>(1,591)</u> |
|  | <u>\$ 281</u> | <u>\$ 212</u> | <u>\$ 311</u>  |

- b. **Collateral received by the Institution** - As of December 31, 2016, 2015 and 2014, the collateral received by the Institution concerning sale and **repurchase** agreements, were comprised as follows:

|   | 2016             | 2015             | 2014             |
|---|------------------|------------------|------------------|
| Federal Government Development Bonds (BONDES)           | \$ 19,506        | \$ 1,430         | \$ 42,868        |
| IPAB bonds  | -                | 18,870           | 19,393           |
| Fixed rate bonds  | -                | 85               | 2,946            |
| Unsecured Bonds   | -                | 589              | 386              |
| Federal Government Development Bonds in UDIS (UDIBONDS) | -                | -                | 1,931            |
| Treasury Bills  | <u>-</u>         | <u>-</u>         | <u>1,761</u>     |
|   | <u>19,506</u>    | <u>20,974</u>    | <u>69,285</u>    |
| Fair value adjustment                                   | <u>-</u>         | <u>(12)</u>      | <u>(67)</u>      |
| Recognized value in memorandum accounts                 | <u>\$ 19,506</u> | <u>\$ 20,962</u> | <u>\$ 69,218</u> |

## 9. Derivatives

As of December 31, 2016, 2015 and 2014, derivative instruments positions were as follows:

| <b>2016</b>          |                          |                   |                  |                  |
|----------------------|--------------------------|-------------------|------------------|------------------|
|                      | <b>Accounting amount</b> |                   | <b>Total net</b> |                  |
|                      | <b>Asset</b>             | <b>Liability</b>  | <b>Asset</b>     | <b>Liability</b> |
| Derivatives          |                          |                   |                  |                  |
| Futures              | \$ 30,730                | \$ 33,132         | \$ -             | \$ 2,402         |
| Forward contracts    | 106,794                  | 107,910           | 1,512            | 2,630            |
| Options              | -                        | 808               | -                | 808              |
| Swaps                | 55,561                   | 60,383            | 299              | 5,121            |
| Currency swaps       | 16,296                   | 14,751            | 2,742            | 1,197            |
| Rates – US dollars   | 46,815                   | 45,943            | 3,071            | 2,196            |
|                      | <u>256,196</u>           | <u>262,927</u>    | <u>7,624</u>     | <u>14,354</u>    |
| Hedging derivative   |                          |                   |                  |                  |
| Swaps:               |                          |                   |                  |                  |
| Currency swaps       | 19,864                   | 33,306            | -                | 13,442           |
| Rates – Mexican peso | 15,670                   | 12,421            | 3,249            | -                |
|                      | <u>35,534</u>            | <u>45,727</u>     | <u>3,249</u>     | <u>13,442</u>    |
|                      | <u>\$ 291,730</u>        | <u>\$ 308,654</u> | <u>\$ 10,873</u> | <u>\$ 27,796</u> |
| <b>2015</b>          |                          |                   |                  |                  |
|                      | <b>Accounting amount</b> |                   | <b>Total net</b> |                  |
|                      | <b>Asset</b>             | <b>Liability</b>  | <b>Asset</b>     | <b>Liability</b> |
| Derivatives          |                          |                   |                  |                  |
| Futures              | \$ 28,066                | \$ 28,996         | \$ -             | \$ 930           |
| Forward contracts    | 95,373                   | 96,069            | 817              | 1,513            |
| Options              | -                        | -                 | -                | -                |
|                      | -                        | 423               | -                | 423              |
| Swaps                |                          |                   |                  |                  |
| Currency swaps       | 16,069                   | 20,247            | 81               | 4,258            |
| Rates – US dollars   | 16,945                   | 17,591            | 1,750            | 2,395            |
| Rates – Mexican peso | 58,628                   | 57,650            | 3,918            | 2,940            |
|                      | <u>215,081</u>           | <u>220,976</u>    | <u>6,566</u>     | <u>12,459</u>    |
| <b>2015</b>          |                          |                   |                  |                  |
|                      | <b>Accounting amount</b> |                   | <b>Total net</b> |                  |
|                      | <b>Asset</b>             | <b>Liability</b>  | <b>Asset</b>     | <b>Liability</b> |
| Hedging derivative   |                          |                   |                  |                  |
| Swaps:               |                          |                   |                  |                  |
| Currency swaps       | 19,843                   | 27,237            | -                | 7,394            |
| Rates – US dollars   | -                        | -                 | -                | -                |
| Rates – Mexican peso | 3,707                    | 3,291             | 558              | 141              |
|                      | <u>23,550</u>            | <u>30,528</u>     | <u>558</u>       | <u>7,535</u>     |
|                      | <u>\$ 238,631</u>        | <u>\$ 251,504</u> | <u>\$ 7,124</u>  | <u>\$ 19,994</u> |

| 2014                 |                   |                   |                 |                  |
|----------------------|-------------------|-------------------|-----------------|------------------|
|                      | Accounting amount |                   | Total net       |                  |
|                      | Asset             | Liability         | Asset           | Liability        |
| Derivatives:         |                   |                   |                 |                  |
| Futures              | \$ 26,236         | \$ 28,419         | \$ -            | \$ 2,183         |
| Forward contracts    | 95,272            | 96,929            | 1,377           | 3,034            |
| Warrants purchase    | 804               | -                 | 804             | -                |
| Options              | -                 | 446               | -               | 446              |
| Swaps:               |                   |                   |                 |                  |
| Currency swaps       | 12,873            | 15,168            | 10              | 2,305            |
| Rates - US dollars   | 21,433            | 22,182            | 2,243           | 2,992            |
| Rates - Mexican peso | 52,798            | 52,177            | 4,386           | 3,766            |
|                      | <u>209,416</u>    | <u>215,321</u>    | <u>8,820</u>    | <u>14,726</u>    |
| Hedging derivative   |                   |                   |                 |                  |
| Swaps:               |                   |                   |                 |                  |
| Currency swaps       | 19,840            | 22,870            | -               | 3,030            |
| Rates - US dollars   | 830               | 622               | 208             | -                |
| Rates - Mexican peso | 4,406             | 3,912             | 741             | 247              |
|                      | <u>25,076</u>     | <u>27,404</u>     | <u>949</u>      | <u>3,277</u>     |
|                      | <u>\$ 234,492</u> | <u>\$ 242,725</u> | <u>\$ 9,769</u> | <u>\$ 18,003</u> |

For “Over the Counter” (OTC) operations with financial derivative instruments on unknown markets, the Institution arranges the delivery and/or reception of the collateral guarantees in order to mitigate credit and market risk exposure. These collaterals are arranged by contract with each of the counterparties with which the Institution operates.

Currently, the collaterals assigned to operations with Mexican and foreign financial entities are comprised principally of cash deposits.

On November 8, 2016, the Bank established interest rate swap positions in pesos for trading purposes with a notional amount of \$29,800, which are covered in Sociedad Financiera Inbursa for \$7,800 and in CF Credit Services for \$12,800, and are classified as cash flow hedge operations in both entities.

Such positions generated a net loss in results for the Bank of \$1,189 and \$390, respectively, which are recorded in stockholders’ equity under the caption “Result from valuation of cash flow hedge instruments”.

Furthermore, the Bank as of December 31, 2016, holds in its position trading swap transactions with a notional individual value of \$29,800 and a profit from valuation of \$1,568. For consolidation purposes this position is presented on the balance sheet classified as a cash flow hedge and the effective valuation is recorded in stockholders’ equity under the caption “Result from valuation of cash flow hedge instruments”.

| Heading                              | <u>Delivered</u> |                  |                  |
|--------------------------------------|------------------|------------------|------------------|
|                                      | 2016             | 2015             | 2014             |
| Margin accounts                      | \$ 4,895         | \$ 2,723         | \$ 3,434         |
| Collateral and/or guarantee received | <u>17,066</u>    | <u>16,705</u>    | <u>10,913</u>    |
| Total                                | <u>\$ 21,961</u> | <u>\$ 19,428</u> | <u>\$ 14,347</u> |
| Heading                              | <u>Received</u>  |                  |                  |
|                                      | 2016             | 2015             | 2014             |
| Financial Institutions               | <u>\$ 2,264</u>  | <u>\$ -</u>      | <u>\$ 314</u>    |

### ***Sensitivity analysis***

The valuation of financial instruments inherently has Market Risk due to the daily fluctuation of risk factors, which is why Banco Inbursa performs a sensitivity analysis for the derivatives of the trading objective to contemplate possible losses due to rate increases, Exchange rates, etc. The sensitivities used to perform the analysis are + 100BPS and +500 BPS applied to the risk factors.

|            | MTM               | MTM +100BPS       | MTM+500BPS         |
|------------|-------------------|-------------------|--------------------|
| Derivative |                   |                   |                    |
| Forwards   | \$ (1,117)        | \$ (1,211)        | \$ (1,592)         |
| Futures    | (2,402)           | (2,497)           | (2,879)            |
| Swaps      | (2,422)           | (2,881)           | (4,713)            |
| Options    | <u>(806)</u>      | <u>(801)</u>      | <u>(833)</u>       |
|            | <u>\$ (6,747)</u> | <u>\$ (7,390)</u> | <u>\$ (10,017)</u> |

### ***Management of derivative financial instrument usage policies***

The policies of the Institution allow the use of derivatives for hedging and/or trading purposes.

The main objectives of these products are covering risks and maximizing profitability.

The instruments used are:

- Forwards
- Futures
- Trading and hedging swaps:
  - Currency swaps
  - Interest Rates swaps (IRS)
- Options:
  - Mexican peso, currency and investment units
  - Nominal interest, real or surcharges rates and debt securities

Additionally, the Institution is authorized to operate in Credit Derivatives OTC credit default (Credit Default Swap), Total Return (Total Return Swap) and Securities Credit Linkage (Credit Link Note).

According to the portfolios, implemented strategies can be of a hedge or trading nature.

Trading markets:

- Listed
- Over the Counter (OTC)

Trading markets are listed and OTC, in which eligible counterparties may be domestic and foreign with internal authorizations.

The designation of calculation agents is determined in the legal documentation signed with counterparties. The prices published by authorized Price Suppliers are used to value derivative financial instruments.

The main terms or conditions of the contracts are based on the International Swap Dealers Association (ISDA) or a local outline agreement.

The specific policies on margins, collateral and lines of credit are detailed in the internal manuals of the Institution.

### ***Authorization levels and processes***

Pursuant to internal regulations, all products or services sold by the Institution are approved by the authorized areas in accordance with the approved development of new products procedure.

All of the areas involved in the operation of the product or service, depending on their nature, as well as those responsible for their accounting, legal documentation, tax treatment, risk assessment participate in the Committee. The authorizations of the Committees must be unanimous as there are no authorizations granted by a majority of members. In addition to the Committees' approval, certain products require the authorization of local authorities; therefore, the approvals of the Committees are conditional upon the authorization required by competent authorities, as applicable.

Finally, all politics and procedures of new products are presented to the Internal Audit Committee and in other cases to the Board of Directors.

### ***Independent reviews***

The Institution is subject to the supervision and oversight of the Commission and Central Bank, which are exercised through follow-up processes, inspection visits, information and documentation requirements and submission of reports.

Likewise, periodic reviews are performed by Internal Auditors.

### ***Generic description of valuation techniques***

Derivative financial instruments are valued at their fair value according to the accounting standards detailed in the Sole Circular for Credit Institutions issued by the Commission through Criterion B-5, *Derivative financial Instruments and Hedge Transactions*.

### ***Valuation methodology***

#### **1. For hedging purposes:**

The Institution suspends hedge accounting when the derivative has matured, has been sold, cancelled or exercised, when it does not reach a sufficiently high effectiveness level to offset the changes in the fair value or cash flows of the hedged item, or when the hedging designation is cancelled.

It must be shown that the hedge effectively complies with the objective for which the derivatives were contracted. This effectiveness requirement assumes that the hedge must comply with a maximum deviation range of 80% to 125% in regard to the initial objective.

The effectiveness of the hedges must be proven by applying two tests:

- a. Prospective test: Shows that in the future the hedge will remain within the maximum range.
- b. Retrospective test: reviews whether the hedge has remained within the maximum range from its establishment to date.

At December 31, 2016, 2015 and 2014, fair value and cash flow hedges are prospectively and retrospectively efficient and are located within the maximum permitted deviation range.

#### **2. Reference variables**

The most relevant reference variables are:

- Exchange rates
- Interest rates

### 3. Valuation frequency

The frequency which the derivatives are valued is in accordance with the Provisions established by the Commission.

As of December 31, 2016, 2015 and 2014, the number of matured derivative financial instruments and closed positions was as follows (unaudited):

|                    |          | <b>2016</b>           |                         |
|--------------------|----------|-----------------------|-------------------------|
| <b>Description</b> |          | <b>Early Maturity</b> | <b>Closed positions</b> |
| Forwards           | Purchase | 31                    | 168                     |
|                    | Sell     | <u>83</u>             | <u>178</u>              |
|                    |          | 114                   | 346                     |
| Swaps              |          | 76                    | 28                      |
| Futures            | Purchase | 123                   | 5                       |
|                    | Sell     | <u>122</u>            | <u>-</u>                |
|                    |          | <u>245</u>            | <u>5</u>                |
|                    |          | <u>435</u>            | <u>379</u>              |
|                    |          | <b>2015</b>           |                         |
| <b>Description</b> |          | <b>Early Maturity</b> | <b>Closed Positions</b> |
| Forwards           | Purchase | 21                    | 154                     |
|                    | Sell     | <u>21</u>             | <u>137</u>              |
|                    |          | 42                    | 291                     |
| Swaps              |          | 62                    | 48                      |
| Futures            | Purchase | 165                   | 15                      |
|                    | Sell     | <u>101</u>            | <u>8</u>                |
|                    |          | <u>266</u>            | <u>23</u>               |
|                    |          | <u>370</u>            | <u>362</u>              |
|                    |          | <b>2014</b>           |                         |
| <b>Description</b> |          | <b>Early maturity</b> | <b>Closed positions</b> |
| Forwards           | Purchase | 65                    | 188                     |
|                    | Sale     | <u>78</u>             | <u>96</u>               |
|                    |          | 143                   | 284                     |
| Swaps              |          | 273                   | 31                      |
| Future             | Purchase | 266                   | 14                      |
|                    | Sale     | <u>102</u>            | <u>44</u>               |
|                    |          | <u>368</u>            | <u>58</u>               |
|                    |          | <u>784</u>            | <u>373</u>              |



- a. **Futures** – As of December 31, 2016, 2015 and 2014, net amount of contracts of futures operations contracted with CME and MexDer were as follows:

|          | 2016                |        |          | 2015                |       |          | 2014                |        |          |
|----------|---------------------|--------|----------|---------------------|-------|----------|---------------------|--------|----------|
|          | Amount of contracts |        |          | Amount of contracts |       |          | Amount of contracts |        |          |
|          | CME                 | MexDer | Maturity | CME                 | CME   | Maturity | CME                 | MexDer | Maturity |
| Purchase | 47,690              | -      | March 17 | 52,919              | -     | March 16 | 24,806              | 5,000  | March 14 |
| Sale     | -                   | 37,800 | March 17 | -                   | 9,800 | -        | -                   | -      | -        |

As of December 31, 2016, the net position for futures contracted with CME and Mexder are referred to notional values of \$25,243 and \$7,144, respectively. As of December 31, 2015 the net position for futures contracted with CME and Mexder are referred to notional values of \$27,300 and \$1,687, respectively. As of December 31, 2014 the net position for futures contracted with CME and Mexder are referred to notional values of \$24,896 and \$341, respectively.

- b. **Forwards** – As of December 31, 2016, 2015 and 2014, forwards operations, were as follows:

| 2016      |                      |                  |                  |                        |
|-----------|----------------------|------------------|------------------|------------------------|
| Due date  | Total US dollars     | Settled price    | Fair value       | Fair value Gain (loss) |
| Purchase: |                      |                  |                  |                        |
| Jan -17   | 130,000,000          | \$ 2,656         | \$ 2,687         | \$ 31                  |
| Feb -17   | 85,000,000           | 1,747            | 1,764            | 17                     |
| Mar-17    | 1,998,226,804        | 44,001           | 43,098           | (903)                  |
| Apr-17    | 2,000,000            | 39               | 42               | 3                      |
| Aug-17    | 7,000,000            | 133              | 149              | 16                     |
| Oct-17    | 5,000,000            | 88               | 107              | 19                     |
| Dec-17    | 2,000,000            | 40               | 43               | 3                      |
| Aug-18    | <u>40,000,000</u>    | <u>785</u>       | <u>891</u>       | <u>106</u>             |
|           | <u>2,269,226,804</u> | <u>\$ 49,489</u> | <u>\$ 48,781</u> | <u>\$ (708)</u>        |
| 2016      |                      |                  |                  |                        |
| Due date  | Total US dollars     | Settled price    | Fair value       | Fair value Gain (loss) |
| Sell:     |                      |                  |                  |                        |
| Mar-17    | 2,604,507,111        | \$ 69,677        | \$ 69,206        | \$ (471)               |
| Mar-17    | 2,000,000            | 42               | 43               | 1                      |
| Jun-17    | 8,843,602            | 397              | 396              | (1)                    |
| Jul-17    | 58,838,863           | 2,700            | 2,756            | 56                     |
| Aug-17    | 7,000,000            | 150              | 151              | 1                      |
| Dec-17    | 2,000,000            | 44               | 44               | -                      |
| Aug-18    | <u>40,000,000</u>    | <u>910</u>       | <u>915</u>       | <u>5</u>               |
|           | <u>2,723,189,576</u> | <u>\$ 73,920</u> | <u>\$ 73,511</u> | <u>\$ (409)</u>        |
|           |                      |                  | Net              | <u>\$ (1,117)</u>      |

| 2015     |                      |                  |                  |                        |
|----------|----------------------|------------------|------------------|------------------------|
| Due date | Total US dollars     | Settled price    | Fair value       | Fair value Gain (loss) |
| Purchase |                      |                  |                  |                        |
| Jan-16   | 197,000,000          | \$ 3,322         | \$ 3,401         | \$ 79                  |
| Feb-16   | 191,000,000          | 3,163            | 3,305            | 142                    |
| Mar-16   | 1,840,974,241        | 33,839           | 33,904           | 65                     |
| Apr-16   | 176,000,000          | 3,020            | 3,059            | 39                     |
| Jun-16   | 7,200,000            | 121              | 126              | 5                      |
| Oct-16   | 2,000,000            | 34               | 35               | 1                      |
| Dec-16   | 60,000,000           | 1,207            | 1,067            | (140)                  |
| Oct-17   | <u>5,000,000</u>     | <u>88</u>        | <u>90</u>        | <u>2</u>               |
|          | <u>2,479,174,241</u> | <u>\$ 44,794</u> | <u>\$ 44,987</u> | <u>\$ 193</u>          |

| 2015     |                      |                  |                  |                        |
|----------|----------------------|------------------|------------------|------------------------|
| Due date | Total US dollars     | Settled price    | Fair value       | Fair value Gain (loss) |
| Sell     |                      |                  |                  |                        |
| Jan-16   | 600,000              | \$ 10            | \$ 10            | \$ -                   |
| Feb-16   | 1,600,000            | 26               | 25               | (1)                    |
| Mar-16   | 2,709,574,241        | 47,951           | 46,941           | (1,010)                |
| Apr-16   | 600,000              | 10               | 10               | -                      |
| May-16   | 600,000              | 10               | 10               | -                      |
| Jun-16   | 600,000              | 10               | 10               | -                      |
| Jul-16   | 20,011,224           | 408              | 408              | -                      |
| Aug-16   | 600,000              | 10               | 10               | -                      |
| Sep-16   | 600,000              | 10               | 10               | -                      |
| Oct-16   | 2,600,000            | 44               | 42               | (2)                    |
| Nov-16   | 33,718,675           | 678              | 663              | (15)                   |
| Dec-16   | <u>60,600,000</u>    | <u>1,218</u>     | <u>1,358</u>     | <u>140</u>             |
|          | <u>2,831,704,140</u> | <u>\$ 50,385</u> | <u>\$ 49,497</u> | <u>(888)</u>           |
|          |                      |                  | Net              | <u>\$ (695)</u>        |

| 2014     |                      |                  |                  |                        |
|----------|----------------------|------------------|------------------|------------------------|
| Due date | Total US dollars     | Settled price    | Fair value       | Fair value Gain (loss) |
| Purchase |                      |                  |                  |                        |
| Jan-15   | 80,874,839           | \$ 1,188         | \$ 1,193         | \$ 5                   |
| Feb-15   | 182,000,000          | 2,687            | 2,691            | 4                      |
| Mar-15   | 2,118,653,582        | 39,137           | 38,113           | (1,024)                |
| Apr-15   | 183,000,000          | 2,698            | 2,715            | 17                     |
| May-15   | 5,000,000            | 64               | 74               | 10                     |
| Dec-15   | 200,000,000          | 3,250            | 3,025            | (225)                  |
| Dec-16   | <u>60,000,000</u>    | <u>1,207</u>     | <u>952</u>       | <u>(255)</u>           |
|          | <u>2,829,528,421</u> | <u>\$ 50,231</u> | <u>\$ 48,763</u> | <u>\$ (1,468)</u>      |

| Due date | Total US dollars     | 2014             |                  |                        |
|----------|----------------------|------------------|------------------|------------------------|
|          |                      | Settled price    | Fair value       | Fair value Gain (loss) |
| Sale     |                      |                  |                  |                        |
| Jan-15   | 3,000,000            | \$ 42            | \$ 40            | \$ (2)                 |
| Feb-15   | 2,000,000            | 27               | 24               | (3)                    |
| Mar-15   | 2,611,653,582        | 44,977           | 44,550           | (427)                  |
| Apr-15   | 13,000,000           | 183              | 174              | (9)                    |
| May-15   | 5,000,000            | 71               | 67               | (4)                    |
| Dec-16   | <u>60,000,000</u>    | <u>1,208</u>     | <u>1,464</u>     | <u>256</u>             |
|          | <u>2,694,653,582</u> | <u>\$ 46,508</u> | <u>\$ 46,319</u> | <u>(189)</u>           |
|          |                      | Net              |                  | <u>\$ (1,657)</u>      |

- c. **Warrants-** On January 2009, the Institution entered into an investment contract which included the acquisition of a purchase option (warrant) on equity shares in the counterparty.

Moreover, this derivative option includes a simple credit, which was settled, and therefore it is considered to be a structured operation. Through this warrant, the Institution has the right to acquire 7,950,000 common shares from its counterparty's capital, at a price of US\$6.3572 dollars per share. As of the date of the transaction (January 2009), the Institution recorded a premium of \$309. As of December 31, 2014, a valuation loss of \$(270) was recognized. The transaction was exercised on January 14, 2015, canceling an accumulated valuation of \$427, and recording the purchase of 7,950,000 shares of New York Times shares.

| 2014                      |               |
|---------------------------|---------------|
| Initial premium           | \$ 349        |
| Valuation                 | <u>455</u>    |
| Warrant's intrinsic value | <u>\$ 804</u> |

- d. **Swaps** – As of December 31, 2016, 2015 and 2014, the swaps position were as follows:

|                               | 2016             |   |  |                   |
|-------------------------------|------------------|---|--|-------------------|
|                               | Reference amount | Present value of future cash flows to be received | Present value of future cash flows to be delivered | Net valuation     |
| <b>Trading</b>                |                  |   |  |                   |
| <b>Foreign currency swaps</b> |                  |   |  |                   |
| Mexican peso – US dollar      |                  |   |  |                   |
| 2017                          | \$ 1,765         | \$ 1,767  | \$ 2,515   | \$ (748)          |
| 2018                          | 10,975           | 10,999  | 12,448   | (1,449)           |
| 2019                          | 12,761           | 12,788  | 13,483   | (695)             |
| 2020                          | 2,677            | 2,683   | 3,117  | (434)             |
| 2021                          | 2,277            | 2,283   | 2,292  | (9)               |
| 2022                          | 1,665            | 1,927   | 2,117  | (190)             |
| 2023                          | 4,593            | 5,318   | 5,851  | (533)             |
| 2024                          | 2,441            | 2,447   | 2,478  | (31)              |
| 2025                          | 2,848            | 2,854   | 2,885  | (31)              |
| 2027                          | <u>916</u>       | <u>1,110</u>                                      | <u>2,107</u>                                       | <u>(997)</u>      |
|                               | <u>42,918</u>    | <u>\$ 44,176</u>                                  | <u>\$ 49,293</u>                                   | <u>\$ (5,117)</u> |

| 2016                         |                     |   |  |                  |
|------------------------------|---------------------|---|--|------------------|
|                              | Reference<br>amount | Present value of<br>future cash flows to<br>be received | Present value of<br>future cash flows to<br>be delivered | Net<br>valuation |
| US dollar - Mexican<br>peso: |                     |   |  |                  |
| 2023                         | \$ 8,610            | \$ 11,385   | \$ 11,090  | \$ 295           |
| <b>Interest rate Swaps</b>   |                     |   |  |                  |
| US dollars                   |                     |   |  |                  |
| 2017                         | \$ 451              | \$ 1  | \$ 6   | \$ (5)           |
| 2026                         | 2,837               | 2,892   | 2,879  | 13               |
| 2027                         | 8,207               | 866   | 624  | 242              |
| 2039                         | 4,124               | 2,099   | 2,088  | 11               |
| 2041                         | 10,516              | 5,994   | 5,884  | 110              |
| 2046                         | 7,011               | 3,767   | 2,812  | 955              |
|                              | -                   | -   | -  | -                |
|                              | \$ 33,146           | \$ 15,619   | \$ 14,293  | \$ 1,326         |
| Euros                        |                     |   |  |                  |
| 2046                         | \$ 2,175            | \$ 677  | \$ 457   | \$ 220           |
| 2047                         | 653                 | -   | -  | -                |
| 2049                         | 3,045               | -   | -  | -                |
|                              | \$ 5,873            | \$ 677  | \$ 457   | \$ 220           |
| Mexican peso                 |                     |   |  |                  |
| 2017                         | \$ 6,400            | \$ 336  | \$ 281   | \$ 55            |
| 2018                         | 400                 | 47  | 47   | -                |
| 2020                         | 4,043               | 968   | 890  | 78               |
| 2021                         | 45,334              | 11,413  | 11,174   | 239              |
| 2022                         | 7,313               | 2,264   | 2,235  | 29               |
| 2023                         | 1,400               | 530   | 528  | 2                |
| 2024                         | 3,050               | 1,337   | 1,237  | 100              |
| 2026                         | 1,892               | 763   | 755  | 8                |
| 2027                         | 4,300               | 2,488   | 2,474  | 14               |
| 2028                         | 1,600               | 984   | 981  | 3                |
| 2029                         | 4,600               | 2,779   | 2,765  | 14               |
| 2033                         | 11,910              | 7,195   | 7,046  | 149              |
| 2034                         | 8,400               | 6,061   | 6,029  | 32               |
| 2040                         | 11,498              | 9,650   | 9,501  | 149              |
|                              | 112,140             | 46,815  | 45,943   | 872              |
|                              | \$ 202,687          | \$ 118,672  | \$ 121,076   | \$ (2,404)       |
| <b>Cash flow hedge</b>       |                     |   |  |                  |
| Foreign exchange<br>swap     |                     |   |  |                  |
| Mexican peso – US<br>dollar  |                     |   |  |                  |
| 2021                         | \$ 1,217            | \$ 1,220  | \$ 2,063   | \$ (843)         |
| 2022                         | 3,260               | 3,265   | 5,319  | (2,054)          |
| 2023                         | 9,247               | 9,272   | 15,447   | (6,175)          |
| 2025                         | 1,251               | 1,253   | 2,123  | (870)            |
| 2028                         | 1,693               | 1,696   | 2,904  | (1,208)          |
| 2033                         | 3,150               | 3,158   | 5,450  | (2,292)          |
|                              | \$ 19,818           | \$ 19,864   | \$ 33,306  | \$ (13,442)      |

| 2016                |                     |   |  |                    |
|---------------------|---------------------|---|--|--------------------|
|                     | Reference<br>amount | Present value of<br>future cash flows to<br>be received | Present value of<br>future cash flows to<br>be delivered | Net<br>valuation   |
| Mexican peso        |                     |   |  |                    |
| 2017                | \$ 6,300            | \$ 172  | \$ 132   | \$ 40              |
| 2018                | 11,400              | 1,355   | 1,040  | 315                |
| 2019                | 14,100              | 2,409   | 1,880  | 529                |
| 2020                | 3,700               | 862   | 623  | 239                |
| 2021                | 1,500               | 427   | 293  | 134                |
| 2023                | 1,300               | 532   | 476  | 56                 |
| 2024                | 500                 | 223   | 153  | 70                 |
| 2025                | 200                 | 100   | 93   | 7                  |
| 2026                | 500                 | 265   | 185  | 80                 |
| 2028                | 1,300               | 591   | 476  | 115                |
| 2029                | 8,096               | 4,665   | 3,765  | 900                |
| 2030                | 800                 | 532   | 390  | 142                |
| 2033                | 1,000               | 757   | 551  | 206                |
| 2034                | <u>3,000</u>        | <u>2,279</u>  | <u>1,900</u>   | <u>379</u>         |
|                     | <u>53,696</u>       | <u>15,169</u>   | <u>11,957</u>  | <u>3,212</u>       |
|                     | <u>\$ 73,514</u>    | <u>\$ 35,033</u>  | <u>\$ 45,263</u>   | <u>\$ (10,230)</u> |
| Fair value hedge    |                     |   |  |                    |
| Interest rate swaps |                     |   |  |                    |
| 2026                | <u>\$ 500</u>       | <u>\$ 501</u>   | <u>\$ 464</u>  | <u>\$ 37</u>       |
| 2015                |                     |   |  |                    |
|                     | Reference<br>amount | Present value of<br>future cash flows to<br>be received | Present value of<br>future cash flows to<br>be delivered | Net<br>valuation   |
| Trading             |                     |   |  |                    |
| Foreign currency    |                     |   |  |                    |
| swaps               |                     |   |  |                    |
| Mexican peso-US     |                     |   |  |                    |
| dollar              |                     |   |  |                    |
| 2016                | \$ 8,149            | \$ 8,178  | \$ 9,732   | \$ (1,554)         |
| 2017                | 715                 | 716   | 928  | (212)              |
| 2018                | 1,299               | 1,302   | 1,773  | (471)              |
| 2019                | 3,278               | 3,279   | 4,354  | (1,075)            |
| 2020                | 619                 | 619   | 862  | (243)              |
| 2022                | 207                 | 259   | 348  | (89)               |
| 2027                | <u>916</u>          | <u>1,139</u>  | <u>1,753</u>   | <u>(614)</u>       |
|                     | <u>\$ 15,183</u>    | <u>\$ 15,492</u>  | <u>\$ 19,750</u>   | <u>\$ (4,258)</u>  |
| US dollar – Mexican |                     |   |  |                    |
| peso                |                     |   |  |                    |
| 2025                | <u>\$ 437</u>       | <u>\$ 577</u>   | <u>\$ 497</u>  | <u>\$ 80</u>       |
|                     | <u>\$ 15,620</u>    | <u>\$ 16,069</u>  | <u>\$ 20,247</u>   | <u>\$ (4,178)</u>  |

| 2015                       |                     |   |  |                  |
|----------------------------|---------------------|---|--|------------------|
|                            | Reference<br>amount | Present value of<br>future cash flows to<br>be received | Present value of<br>future cash flows to<br>be delivered | Net<br>valuation |
| <b>Interest rate swaps</b> |                     |   |  |                  |
| US dollar                  |                     |   |  |                  |
| 2016                       | \$ 394              | \$ 2  | \$ 14  | \$ (12)          |
| 2017                       | 410                 | 4   | 27   | (23)             |
| 2026                       | 2,233               | 2,275   | 2,263  | 12               |
| 2027                       | 7,507               | 798   | 623  | 175              |
| 2039                       | 3,450               | 1,826   | 1,817  | 9                |
| 2040                       | 5,347               | 2,992   | 2,977  | 15               |
| 2041                       | 8,797               | 5,197   | 5,102  | 95               |
| 2043                       | 562                 | 208   | 351  | (143)            |
| 2044                       | <u>7,177</u>        | <u>3,644</u>  | <u>4,417</u>   | <u>(773)</u>     |
|                            | <u>\$ 35,877</u>    | <u>\$ 16,946</u>  | <u>\$ 17,591</u>   | <u>\$ (645)</u>  |

| 2015         |                     |   |  |                   |
|--------------|---------------------|---|--|-------------------|
|              | Reference<br>amount | Present value of<br>future cash flows to<br>be received | Present value of<br>future cash flows to<br>be delivered | Net<br>valuation  |
| Mexican peso |                     |   |  |                   |
| 2017         | \$ 300              | \$ 161  | \$ 203   | \$ (42)           |
| 2018         | 5,400               | 693   | 676  | 17                |
| 2020         | 4,105               | 971   | 1,141  | (170)             |
| 2021         | 46,792              | 12,972  | 12,231   | 741               |
| 2022         | 7,360               | 2,445   | 2,408  | 37                |
| 2023         | 2,700               | 1,059   | 1,124  | (65)              |
| 2024         | 3,050               | 1,311   | 1,421  | (110)             |
| 2025         | 200                 | 95  | 109  | (14)              |
| 2026         | 1,951               | 819   | 810  | 9                 |
| 2027         | 4,300               | 2,639   | 2,587  | 52                |
| 2028         | 2,900               | 1,592   | 1,597  | (5)               |
| 2029         | 12,696              | 7,322   | 7,242  | 80                |
| 2030         | 800                 | 508   | 448  | 60                |
| 2033         | 11,975              | 7,589   | 7,416  | 173               |
| 2034         | 11,400              | 8,498   | 8,450  | 48                |
| 2040         | <u>11,498</u>       | <u>9,954</u>  | <u>9,787</u>   | <u>167</u>        |
|              | <u>127,427</u>      | <u>58,628</u>   | <u>57,650</u>  | <u>978</u>        |
|              | <u>\$ 178,924</u>   | <u>\$ 91,643</u>  | <u>\$ 95,488</u>   | <u>\$ (3,845)</u> |

### Cash flow hedge

Foreign exchange

swap

Mexican peso – US  
dollar

|      |                  |                  |                  |                   |
|------|------------------|------------------|------------------|-------------------|
| 2021 | \$ 1,217         | \$ 1,218         | \$ 1,711         | \$ (493)          |
| 2022 | 3,260            | 3,264            | 4,402            | (1,138)           |
| 2023 | 9,247            | 9,260            | 12,683           | (3,423)           |
| 2025 | 1,251            | 1,252            | 1,733            | (481)             |
| 2028 | 1,693            | 1,695            | 2,346            | (651)             |
| 2033 | <u>3,150</u>     | <u>3,154</u>     | <u>4,362</u>     | <u>(1,208)</u>    |
|      | <u>\$ 19,818</u> | <u>\$ 19,843</u> | <u>\$ 27,237</u> | <u>\$ (7,394)</u> |

| 2015                       |                     |   |  |                    |
|----------------------------|---------------------|---|--|--------------------|
|                            | Reference<br>amount | Present value of<br>future cash flows to<br>be received | Present value of<br>future cash flows to<br>be delivered | Net<br>valuation   |
| Mexican peso               |                     |   |  |                    |
| 2016                       | \$ 9,650            | \$ 191  | \$ 230   | \$ (39)            |
| 2017                       | 6,300               | 371   | 437  | (66)               |
| 2018                       | 2,700               | 624   | 296  | 328                |
| 2020                       | 1,500               | 318   | 297  | 21                 |
| 2021                       | 1,500               | 401   | 369  | 32                 |
| 2024                       | 500                 | 208   | 181  | 27                 |
| 2026                       | 500                 | 251   | 215  | 36                 |
| 2033                       | 1,000               | 725   | 630  | 95                 |
|                            | <u>23,650</u>       | <u>3,089</u>  | <u>2,655</u>   | <u>434</u>         |
|                            | <u>43,468</u>       | <u>22,932</u>   | <u>29,892</u>  | <u>(6,960)</u>     |
|                            | <u>\$ 222,392</u>   | <u>\$ 114,575</u>                                       | <u>\$ 125,380</u>  | <u>\$ (10,805)</u> |
| 2014                       |                     |   |  |                    |
|                            | Reference<br>amount | Present value of<br>future cash flows to<br>be received | Present value of<br>future cash flows to<br>be delivered | Net<br>valuation   |
| <b>Trading</b>             |                     |   |  |                    |
| <b>Foreign currency</b>    |                     |   |  |                    |
| <b>swaps</b>               |                     |   |  |                    |
| Mexican peso - US          |                     |   |  |                    |
| dollar                     |                     |   |  |                    |
| 2015                       | 4,329               | 4,333   | 5,015  | (682)              |
| 2016                       | 1,061               | 1,139   | 1,557  | (418)              |
| 2017                       | 280                 | 281   | 372  | (91)               |
| 2018                       | 1,299               | 1,301   | 1,507  | (206)              |
| 2019                       | 3,278               | 3,281   | 3,690  | (409)              |
| 2020                       | 620                 | 620   | 728  | (108)              |
| 2022                       | 207                 | 266   | 324  | (58)               |
| 2027                       | 916                 | 1,153   | 1,486  | (333)              |
| US dollar - Mexican        |                     |   |  |                    |
| peso                       | 11,990              | 12,374  | 14,679   | (2,305)            |
| 2025                       | 373                 | 499   | 489  | 10                 |
|                            | <u>12,363</u>       | <u>12,873</u>   | <u>15,168</u>  | <u>(2,295)</u>     |
| <b>Trading</b>             |                     |   |  |                    |
| <b>Interest rate swaps</b> |                     |   |  |                    |
| US dollar                  |                     |   |  |                    |
| 2016                       | 363                 | 4   | 30   | (26)               |
| 2017                       | 376                 | 6   | 43   | (37)               |
| 2038                       | 5,897               | 2,848   | 2,831  | 17                 |
| 2039                       | 11,646              | 6,461   | 6,428  | 33                 |
| 2040                       | 6,928               | 4,087   | 4,067  | 20                 |
| 2041                       | 7,518               | 4,576   | 4,496  | 80                 |
| 2043                       | 535                 | 190   | 353  | (163)              |
| 2044                       | 6,261               | 3,261   | 3,934  | (673)              |
|                            | <u>39,524</u>       | <u>21,433</u>   | <u>22,182</u>  | <u>(749)</u>       |

| 2014                |                     |   |  |                   |
|---------------------|---------------------|---|--|-------------------|
|                     | Reference<br>amount | Present value of<br>future cash flows to<br>be received | Present value of<br>future cash flows to<br>be delivered | Net<br>valuation  |
| Mexican peso        |                     |   |  |                   |
| 2015                | 2,465               | 40  | 45   | (5)               |
| 2017                | 300                 | 168   | 217  | (49)              |
| 2018                | 400                 | 77  | 77   | -                 |
| 2019                | 1,200               | 339   | 337  | 2                 |
| 2020                | 6,458               | 1,902   | 2,084  | (182)             |
| 2021                | 47,457              | 15,383  | 14,526   | 857               |
| 2022                | 6,112               | 2,738   | 2,697  | 41                |
| 2023                | 7,300               | 3,181   | 3,236  | (55)              |
| 2024                | 3,050               | 1,404   | 1,547  | (143)             |
| 2025                | 200                 | 100   | 118  | (18)              |
| 2026                | 1,992               | 900   | 890  | 10                |
| 2027                | 4,300               | 2,793   | 2,734  | 59                |
| 2028                | 2,900               | 1,684   | 1,701  | (17)              |
| 2029                | 12,596              | 7,574   | 7,642  | (68)              |
| 2033                | 12,000              | 7,986   | 7,802  | 184               |
| 2034                | 8,500               | 6,529   | 6,524  | 5                 |
|                     | <u>117,230</u>      | <u>52,798</u>   | <u>52,177</u>  | <u>621</u>        |
|                     | <u>\$ 169,117</u>   | <u>\$ 87,104</u>  | <u>\$ 89,527</u>   | <u>\$ (2,423)</u> |
| Fair value hedge    |                     |   |  |                   |
| Interest rate swaps |                     |   |  |                   |
| US dollar           |                     |   |  |                   |
| 2027                | <u>6,964</u>        | <u>830</u>  | <u>622</u>   | <u>208</u>        |
|                     | <u>6,964</u>        | <u>830</u>  | <u>622</u>   | <u>208</u>        |
| Cash flow hedge     |                     |   |  |                   |
| Foreign exchange    |                     |   |  |                   |
| swap                |                     |   |  |                   |
| Mexican peso - US   |                     |   |  |                   |
| dollar              |                     |   |  |                   |
| 2021                | 1,217               | 1,218   | 1,442  | (224)             |
| 2022                | 3,260               | 3,264   | 3,729  | (465)             |
| 2023                | 9,247               | 9,258   | 10,709   | (1,451)           |
| 2025                | 1,251               | 1,252   | 1,458  | (206)             |
| 2028                | 1,693               | 1,694   | 1,949  | (255)             |
| 2033                | <u>3,150</u>        | <u>3,154</u>  | <u>3,583</u>   | <u>(429)</u>      |
|                     | <u>19,818</u>       | <u>19,840</u>   | <u>22,870</u>  | <u>(3,030)</u>    |



| 2014         |                   |   |  |                   |
|--------------|-------------------|---|--|-------------------|
|              | Reference amount  | Present value of future cash flows to be received | Present value of future cash flows to be delivered | Net valuation     |
| Mexican peso |                   |   |  |                   |
| 2015         | 10,150            | 160   | 207  | (47)              |
| 2016         | 9,650             | 650   | 679  | (29)              |
| 2017         | 6,300             | 658   | 729  | (71)              |
| 2018         | 2,700             | 853   | 431  | 422               |
| 2020         | 1,500             | 391   | 355  | 36                |
| 2021         | 1,500             | 466   | 426  | 40                |
| 2024         | 500               | 222   | 198  | 24                |
| 2026         | 500               | 263   | 231  | 32                |
| 2033         | 1,000             | 743   | 656  | 87                |
|              | <u>33,800</u>     | <u>4,406</u>                                      | <u>3,912</u>                                       | <u>494</u>        |
|              | <u>60,582</u>     | <u>25,076</u>                                     | <u>27,404</u>                                      | <u>(2,328)</u>    |
|              | <u>\$ 229,699</u> | <u>\$ 112,180</u>                                 | <u>\$ 116,931</u>                                  | <u>\$ (4,751)</u> |

#### ***Impairment of financial derivatives -***

As of December 31, 2016, 2015 and 2014, there is no evidence of impairment in credit risk (counterparty) that required change the book value of financial assets from rights under derivative financial instruments.

Operations with financial derivative instruments imply liquidity, market, credit and legal risks. In order to reduce risk exposure, the Institution has established specific risk management policies and procedures (Note 34).

#### ***Operations with derivative financial instruments for hedge accounts***

As of December 31, 2016, 2015 and 2014, the Institution holds swaps (Interest Rate and Cross Currency) to cover the financial margin with cash flow and fair value hedges during the period of these hedges.

#### ***Quantitative Information - Fair value hedges***

As of December 31, 2016 and 2014, fair value hedges were entered into with notional amounts of US\$500 and US\$6,694 dollars, further, as of December 31, 2015, there is not swaps classified in this category. The primary positions which are covered are commercial credit loans.

As of December 31, 2016 and 2014, derivative positions for fair value hedges were as follows:

| Financial instrument | Nominal value<br>(in millions)      |            | Element and hedged risk               |
|----------------------|-------------------------------------|------------|---------------------------------------|
| Swap IRS             | 500                                 | US dollars | Commercial loans – Interest rate risk |
| Financial instrument | Nominal value<br>(in millions) 2014 |            | Element and hedged risk               |
| Swap IRS             | 6,964                               | US dollars | Commercial loans - Interest rate risk |

For the years ended December 31, 2014, changes in fair value of fair value hedges recognized as “Interest income” within the income statement was \$(347). As of April 30, 2015, the unwind dollar rates of fair value hedges resulted in a gain of \$207.

### Cash flow hedges

During 2016, 2015 and 2014, the Institution assigned cash flow hedges on commercial loans and debt issuances, as follows:

| Financial instrument | Currency     | Element and hedged risk                          | 2016<br>Nominal value<br>(in millions) | 2015<br>Nominal value<br>(in millions) | 2014<br>Nominal value<br>(in millions) |
|----------------------|--------------|--|--|--|--|
| Swap CCS             | US dollar    | Commercial loans - Foreign<br>Exchange rate risk | 19,818                                 | 19,818                                 | 19,818                                 |
| Swap IRS             | Mexican peso | Unsecured bonds - Interest rate risk             | 21,096                                 | 19,600                                 | 29,750                                 |
| Swap IRS             | Mexican peso | Commercial loans - Interest rate risk            | 2,800                                  | 4,050                                  | 4,050                                  |

The recycling effect of the unwind swaps cash flow is \$259 in the stockholders equity, of which \$32 (for both years) were recycled in the statements of income on 2016, 2015 and 2014, respectively, the remaining amount of \$184 was recycled in an average term of 12 years.

The effectiveness of the cash flow hedges recognized on equity within other comprehensive income is adjusted at the lowest value of accumulated gains or losses of the instrument in absolute terms. As of December 31, 2016, 2015 and 2014, were recognized \$27 and \$5, respectively, in income statements, corresponding to the ineffective portion of cash flow hedges in accordance with the accounting principles established by the Commission.

The effective portion of cash flow hedges, which is recognized within equity as part of other comprehensive income was as follows:

|   | 2016  |          | 2015  |          | 2014  |          |
|---|-------|----------|-------|----------|-------|----------|
| Initial balance   | \$ -  | \$ (619) | \$ -  | \$ (305) | \$ -  | \$ (28)  |
| Swaps CCS valuation   | (701) |          | (376) |          | 326   |          |
| Swaps IRS MXP valuation   | 2,848 |          | (144) |          | (303) |          |
| Amount due of recycling (1)   | 32    |          | 32    |          | (248) |          |
| Exchange rate effect  | (24)  |          | -     |          | (67)  |          |
| Net value before Income Tax (ISR)   | 2,155 |          | (488) |          | (292) |          |
| Amount reclassified from equity to income in the period   | -     |          | (5)   |          | -     |          |
| Taxes   | (662) |          | 179   |          | 15    |          |
| Total amount recognized as other comprehensive income within equity account during the period (net of deferred taxes) |       | \$ 1,493 |       | \$ (314) |       | \$ (277) |
| Ending balance  |       | \$ 874   |       | \$ (619) |       | \$ (305) |

(1) The recycling movement by breaking of cash flow hedges is comprised as follows:

|                               |          |          |          |
|-------------------------------|----------|----------|----------|
| Amount outstanding recycling  | \$ (216) | \$ (248) | \$ (259) |
| Amount recycled in the period | 32       | 32       | 11       |
| Total outstanding recycling   | \$ (184) | \$ (216) | \$ (248) |

### ***Formal hedge documentation -***

Once cash flow and fair value hedges are structured, the Institution prepares an individual file for each instrument containing the following documentation:

- The strategy and objective of the Institution's risk management, as well as the justification to carry out the hedging operation.
- The specific risk or risks to be hedged.
- Hedge structure identifying the derivative financial instruments contracted for hedging purposes and the item generating the hedged risk.
- Definition of the elements composing the hedge, its objective and a reference to the effectiveness valuation method.
- Contracts for the hedged item and hedging instrument, as well as confirmation from the counterparty.
- Periodic hedge effectiveness tests at the prospective level regarding its estimated future evolution and at the retrospective level, concerning its past behavior. These tests are applied at least at the end of each quarter, according to the valuation method defined when creating the hedge files.

## **10. Valuation adjustment from hedging of financial assets**

The Institution determines the valuation adjustment from the hedging of financial assets by individual and portfolio loans from fair value hedges for interest rate risks.

According to the inherent risk of the loans, the portfolio is classified into three groups: National currency portfolio with fixed interest rate, foreign currency portfolio with fixed interest rate (in US dollars) and foreign currency loan portfolio with variable interest rate. For each of these groups, loans which are required to be hedge are identified. Consumer loans, mortgage loans and commercial loans are included within these groups.

As of December 2016, the valuation effect regarding the hedged risk by type of loan was \$500, which is detailed as follows:

|  | 2016   |                          |  |   |
|--|--|--------------------------|--|---|
|  | Valuation<br>adjustment<br>balance as of<br>Dec 31, 2015 | Result from<br>valuation | Valuation<br>adjustment<br>amortization <sup>(1)</sup> | Valuation<br>adjustment<br>balances as of<br>Dec 31, 2016 |
| Loan portfolio with fixed interest<br>rate – Mexican pesos | \$ 537   | \$ -                     | \$ (26)  | \$ 511  |
| Loan portfolio with fixed interest<br>rate – US dollars    | 627  | -                        | (133)  | 494   |
| Loan portfolio with variable<br>interest rate – US dollars | (61)   | -                        | 14   | (47)  |
| Automatically hedged                                       | 223  | -                        | -  | 223   |
| Ineffective loan portfolio                                 | <u>(398)</u>   | <u>-</u>                 | <u>(136)</u>   | <u>(534)</u>  |
|  | <u>\$ 928</u>  | <u>\$ -</u>              | <u>\$ (281)</u>  | <u>\$ 647</u>   |

|   | 2015  |                       |  |  |
|---|---|-----------------------|--|--|
|   | Valuation adjustment balance as of Dec 31, 2014 | Result from valuation | Valuation adjustment amortization <sup>(1)</sup> | Valuation adjustment balances as of Dec 31, 2015 |
| Loan portfolio with fixed interest rate – Mexican pesos | \$ 572  | \$ -                  | \$ (35)  | \$ 537   |
| Loan portfolio with fixed interest rate – US dollars    | 668   | 106                   | (147)  | 627  |
| Loan portfolio with variable interest rate – US dollars | (95)  | -                     | 34   | (61)   |
| Automatically hedged                                    | 223   | -                     | -  | 223  |
| Ineffective loan portfolio                              | <u>(302)</u>                                    | <u>-</u>              | <u>(96)</u>                                      | <u>(398)</u>                                     |
|   | <u>\$ 1,066</u>                                 | <u>\$ 106</u>         | <u>\$ (244)</u>                                  | <u>\$ 928</u>                                    |

|   | 2014  |                       |  |  |
|---|---|-----------------------|--|--|
|   | Valuation adjustment balance as of Dec 31, 2013 | Result from valuation | Valuation adjustment amortization <sup>(1)</sup> | Valuation adjustment balances as of Dec 31, 2014 |
| Loan portfolio with fixed interest rate - Mexican pesos | \$ 98   | \$ 516                | \$ (42)  | \$ 572   |
| Loan portfolio with fixed interest rate - US dollars    | 559   | 271                   | (162)  | 668  |
| Loan portfolio with variable interest rate - US dollars | (167)   | (1)                   | 73   | (95)   |
| Automatically hedged                                    | 232   | (9)                   | -  | 223  |
| Ineffective loan portfolio                              | <u>(158)</u>                                    | <u>-</u>              | <u>(144)</u>                                     | <u>(302)</u>                                     |
|   | <u>\$ 564</u>                                   | <u>\$ 777</u>         | <u>\$ (275)</u>                                  | <u>\$ 1,066</u>                                  |

For those cases in which the fair value hedge on primary position is revoked, the valuation effect regarding the hedged risk is amortized over the remaining period of the loan. As of December 31, 2016, 2015 and 2014, changes in the fair value of derivatives were recognized as financial margin within the income statements, and are comprised as follows (Note 28a):

|   | 2016            | 2015            | 2014          |
|---|-----------------|-----------------|---------------|
| Results from changes in value of hedging instruments (Note 27a) | \$ (8)          | \$ (118)        | \$ (347)      |
| Result from valuation on hedged positions (Note 27a)            | -               | 106             | 777           |
| Amortization from valuation of primary position hedge           | <u>(281)</u>    | <u>(244)</u>    | <u>(275)</u>  |
|   | <u>\$ (289)</u> | <u>\$ (256)</u> | <u>\$ 155</u> |

As of December 31, 2016, 2015 and 2014, effectiveness tests on the Institution hedges were within the range of 80% and 125%, required by the accounting standards of Commission.

# 11. Loan portfolio

## a. Detail of performing and non-performing loan portfolio by type of loan

As of December 31, 2016, 2015 and 2014, the loan portfolio was as follows:

| 2016                        |                           |                 |                   |                               |               |                 |
|-----------------------------|---------------------------|-----------------|-------------------|-------------------------------|---------------|-----------------|
| Concept                     | Performing loan portfolio |                 |                   | Non-performing loan portfolio |               |                 |
|                             | Capital                   | Interest        | Total             | Capital                       | Interest      | Total           |
| Consumer                    | \$ 44,265                 | \$ 564          | \$ 44,829         | \$ 3,427                      | \$ 89         | \$ 3,516        |
| Discounted loans            | 365                       | -               | 365               | 213                           | -             | 213             |
| Unsecured loans             | 18,811                    | 421             | 19,232            | 28                            | -             | 28              |
| Secured loans               | 332                       | 2               | 334               | -                             | -             | -               |
| Simple and current accounts | 177,172                   | 1,358           | 178,530           | 1,870                         | 33            | 1,903           |
| Mortgage loan               | 6,502                     | 32              | 6,534             | 346                           | 7             | 353             |
| Leasing                     | 553                       | -               | 553               | 28                            | -             | 28              |
| Restructured (Note 11f)     | 24,868                    | 82              | 24,950            | 1,734                         | 31            | 1,765           |
| Re-discount                 | 177                       | -               | 177               | -                             | -             | -               |
|                             | <u>\$ 273,045</u>         | <u>\$ 2,459</u> | <u>\$ 275,504</u> | <u>\$ 7,646</u>               | <u>\$ 160</u> | <u>\$ 7,806</u> |

| 2015                        |                           |                 |                   |                               |               |                 |
|-----------------------------|---------------------------|-----------------|-------------------|-------------------------------|---------------|-----------------|
| Concept                     | Performing loan portfolio |                 |                   | Non-performing loan portfolio |               |                 |
|                             | Capital                   | Interest        | Concept           | Capital                       | Interest      | Concept         |
| Consumer                    | \$ 38,724                 | \$ 392          | \$ 39,116         | \$ 1,911                      | \$ 79         | \$ 1,990        |
| Discounted loans            | 422                       | -               | 422               | 210                           | -             | 210             |
| Unsecured loans             | 13,710                    | 33              | 13,743            | 83                            | -             | 83              |
| Secured loans               | 696                       | 1               | 697               | -                             | -             | -               |
| Simple and current accounts | 142,789                   | 678             | 143,467           | 1,755                         | 31            | 1,786           |
| Mortgage loan               | 3,980                     | 18              | 3,998             | 189                           | 4             | 193             |
| Leasing                     | 948                       | -               | 948               | 27                            | -             | 27              |
| Restructured (Note 11f)     | 27,655                    | 43              | 27,698            | 2,911                         | 56            | 2,967           |
| Re-discount                 | 133                       | -               | 133               | -                             | -             | -               |
|                             | <u>\$ 229,057</u>         | <u>\$ 1,165</u> | <u>\$ 230,222</u> | <u>\$ 7,086</u>               | <u>\$ 170</u> | <u>\$ 7,256</u> |

| 2014                        |                           |               |                   |                               |               |                 |
|-----------------------------|---------------------------|---------------|-------------------|-------------------------------|---------------|-----------------|
| Concept                     | Performing loan portfolio |               |                   | Non-performing loan portfolio |               |                 |
|                             | Capital                   | Interest      | Total             | Capital                       | Interest      | Total           |
| Consumer                    | \$ 17,803                 | \$ 124        | \$ 17,927         | \$ 886                        | \$ 29         | \$ 915          |
| Discounted loans            | 299                       | -             | 299               | 209                           | -             | 209             |
| Unsecured loans             | 18,664                    | 31            | 18,695            | 81                            | -             | 81              |
| Secured loans               | 2,270                     | 3             | 2,273             | -                             | -             | -               |
| Simple and current accounts | 124,720                   | 543           | 125,263           | 1,775                         | 25            | 1,800           |
| Mortgage loan               | 1,315                     | 6             | 1,321             | 155                           | 4             | 159             |
| Leasing                     | 117                       | -             | 117               | 33                            | 1             | 34              |
| Restructured (Note 11f)     | 26,796                    | 44            | 26,840            | 3,578                         | 70            | 3,648           |
| Re-discount                 | 400                       | -             | 400               | -                             | -             | -               |
|                             | <u>\$ 192,384</u>         | <u>\$ 751</u> | <u>\$ 193,135</u> | <u>\$ 6,717</u>               | <u>\$ 129</u> | <u>\$ 6,846</u> |

b. **Loan portfolio classified by currency**

As of December 31, 2016, 2015 and 2014, the loan portfolio classified by currency were as follows:

| Concept                        | 2016              |                   |             |                   |
|--------------------------------|-------------------|-------------------|-------------|-------------------|
|                                | Mexican peso      | Foreign currency  | UDIs        | Total             |
| Performing loan portfolio:     |                   |                   |             |                   |
| Consumer                       | \$ 44,829         | \$ -              | \$ -        | \$ 44,829         |
| Discounted loans               | 365               | -                 | -           | 365               |
| Unsecured loans                | 7,392             | 11,840            | -           | 19,232            |
| Collateral credit              | 334               | -                 | -           | 334               |
| Simple and current accounts    | 91,173            | 87,357            | -           | 178,530           |
| Mortgage loan                  | 6,533             | -                 | 1           | 6,534             |
| Leasing                        | 97                | 456               | -           | 553               |
| Restructured (Note 11f)        | 13,921            | 11,029            | -           | 24,950            |
| Re-discount                    | 103               | 74                | -           | 177               |
|                                | <u>164,747</u>    | <u>110,756</u>    | <u>1</u>    | <u>275,504</u>    |
| Non-performing loan portfolio: |                   |                   |             |                   |
| Consumer                       | 3,516             | -                 | -           | 3,516             |
| Discounted loans               | 211               | 2                 | -           | 213               |
| Unsecured loans                | 29                | -                 | -           | 29                |
| Simple and current accounts    | 1,791             | 112               | -           | 1,903             |
| Mortgage loan                  | 352               | -                 | -           | 352               |
| Leasing                        | 28                | -                 | -           | 28                |
| Restructured (Note 11f)        | 676               | 1,088             | 1           | 1,765             |
|                                | <u>6,603</u>      | <u>1,202</u>      | <u>1</u>    | <u>7,806</u>      |
|                                | <u>\$ 171,350</u> | <u>\$ 111,958</u> | <u>\$ 2</u> | <u>\$ 283,310</u> |

| Concept                     | 2015           |                  |          |                |
|-----------------------------|----------------|------------------|----------|----------------|
|                             | Mexican peso   | Foreign currency | UDIs     | Total          |
| Performing loan portfolio:  |                |                  |          |                |
| Consumer                    | \$ 39,116      | \$ -             | \$ -     | \$ 39,116      |
| Discounted loans            | 422            | -                | -        | 422            |
| Unsecured loans             | 12,725         | 1,018            | -        | 13,743         |
| Collateral credit           | 690            | 7                | -        | 697            |
| Simple and current accounts | 88,331         | 55,137           | -        | 143,468        |
| Mortgage loan               | 3,997          | -                | 1        | 3,998          |
| Leasing                     | 174            | 774              | -        | 948            |
| Restructured (Note 11f)     | 16,659         | 11,038           | -        | 27,697         |
| Re-discount                 | 119            | 14               | -        | 133            |
|                             | <u>162,233</u> | <u>67,988</u>    | <u>1</u> | <u>230,222</u> |

| Concept                        | 2015              |                  |             |                   |
|--------------------------------|-------------------|------------------|-------------|-------------------|
|                                | Mexican peso      | Foreign currency | UDIs        | Total             |
| Non-performing loan portfolio: |                   |                  |             |                   |
| Consumer                       | 1,990             | -                | -           | 1,990             |
| Discounted loans               | 209               | 1                | -           | 210               |
| Unsecured loans                | 83                | -                | -           | 83                |
| Simple and current accounts    | 1,769             | 17               | -           | 1,786             |
| Mortgage loan                  | 193               | -                | -           | 193               |
| Leasing                        | 27                | -                | -           | 27                |
| Restructured (Note 11f)        | 2,064             | 902              | 1           | 2,967             |
|                                | <u>6,335</u>      | <u>920</u>       | <u>1</u>    | <u>7,256</u>      |
|                                | <u>\$ 168,568</u> | <u>\$ 68,908</u> | <u>\$ 2</u> | <u>\$ 237,478</u> |

| Concept                        | 2014              |                  |             |                   |
|--------------------------------|-------------------|------------------|-------------|-------------------|
|                                | Mexican peso      | Foreign currency | UDIs        | Total             |
| Performing loan portfolio:     |                   |                  |             |                   |
| Consumer                       | \$ 17,927         | \$ -             | \$ -        | \$ 17,927         |
| Discounted loans               | 299               | -                | -           | 299               |
| Unsecured loans                | 13,532            | 5,163            | -           | 18,695            |
| Secured loans                  | 1,382             | 891              | -           | 2,273             |
| Simple and current accounts    | 85,798            | 39,465           | -           | 125,263           |
| Mortgage loan                  | 1,320             | -                | 1           | 1,321             |
| Leasing                        | 86                | 31               | -           | 117               |
| Restructured (Note 11f)        | 16,915            | 9,925            | -           | 26,840            |
| Re-discount                    | 399               | 1                | -           | 400               |
|                                | <u>137,658</u>    | <u>55,476</u>    | <u>1</u>    | <u>193,135</u>    |
| Non-performing loan portfolio: |                   |                  |             |                   |
| Consumer                       | 915               | -                | -           | 915               |
| Discounted loans               | 208               | 1                | -           | 209               |
| Unsecured loans                | 36                | 45               | -           | 81                |
| Simple and current accounts    | 1,769             | 31               | -           | 1,800             |
| Mortgage loan                  | 159               | -                | -           | 159               |
| Leasing                        | 34                | -                | -           | 34                |
| Restructured (Note 11f)        | <u>2,697</u>      | <u>950</u>       | <u>1</u>    | <u>3,648</u>      |
|                                | <u>5,818</u>      | <u>1,027</u>     | <u>1</u>    | <u>6,846</u>      |
|                                | <u>\$ 143,476</u> | <u>\$ 56,503</u> | <u>\$ 2</u> | <u>\$ 199,981</u> |

#### Loans granted to financing institutions

As of December 31, 2016, 2015 and 2014, loans granted to financing institutions by currency are comprised as follows:

| 2016                               |                 |                  |                  |
|------------------------------------|-----------------|------------------|------------------|
| Concept                            | Mexican peso    | Foreign currency | Total            |
| Non-performing loan portfolio:     |                 |                  |                  |
| To non-bank financial institutions | <u>\$ 5,148</u> | <u>\$ 6,223</u>  | <u>\$ 11,371</u> |
| 2015                               |                 |                  |                  |
| Concept                            | Mexican peso    | Foreign currency | Total            |
| Performing loan portfolio:         |                 |                  |                  |
| To non-bank financial institutions | <u>\$ 3,522</u> | <u>\$ 5,242</u>  | <u>\$ 8,764</u>  |
| 2014                               |                 |                  |                  |
| Concept                            | Mexican peso    | Foreign currency | Total            |
| Performing loan portfolio:         |                 |                  |                  |
| To non-bank financial institutions | <u>\$ 8,791</u> | <u>\$ 5,765</u>  | <u>\$ 14,556</u> |

## Loans granted to governmental institutions

As of December 31, 2016, 2015 and 2014, loans granted to governmental institutions by currency, were as follows:

| 2016  |                  |                  |                  |
|---|------------------|------------------|------------------|
| Concept   | Mexican peso     | Foreign currency | Total            |
| Performing loan portfolio:                                    |                  |                  |                  |
| To State Governments and Municipalities or with its guarantee | \$ 12,412        | \$ -             | \$ 12,412        |
| To decentralized entities                                     | -                | 11,268           | 11,268           |
|   | <u>\$ 12,412</u> | <u>\$ 11,268</u> | <u>\$ 23,680</u> |

As of December 31, 2016 the Institution had not granted loans to received guarantees from the Federal Government.

| 2015  |                  |                  |                  |
|---|------------------|------------------|------------------|
| Concept   | Mexican peso     | Foreign currency | Total            |
| Performing loan portfolio:                                    |                  |                  |                  |
| To State Governments and Municipalities or with its guarantee | \$ 14,340        | \$ -             | \$ 14,340        |
| To decentralized entities                                     | -                | -                | -                |
|   | <u>\$ 14,340</u> | <u>\$ -</u>      | <u>\$ 14,340</u> |

| 2014  |                  |                  |                  |
|---|------------------|------------------|------------------|
| Concept   | Mexican peso     | Foreign currency | Total            |
| Performing loan portfolio:                                    |                  |                  |                  |
| To State Governments and Municipalities or with its guarantee | \$ 18,889        | \$ -             | \$ 18,889        |
| To decentralized entities                                     | -                | -                | -                |
|   | <u>\$ 18,889</u> | <u>\$ -</u>      | <u>\$ 18,889</u> |

As of December 31, 2016 the Institution had not granted loans to received guarantees from the Federal Government.

As of December 31, 2016, 2015 and 2014, there were no non-performing loans balances from governmental institutions.

- c. **Limits for operations** - The Commission and the *Mexican Banking Law (Ley de Instituciones de Crédito "LIC")* establish limits which financial credit institutions must take into consideration when granting loans. The main limits are described below:



- **Financing of common risk**

Loans granted to the same person or group of people, which are considered to be issued to one borrower due to common risk, must adhere to the following maximum limits established:

| Limit as a percentage of<br>the basic capital | Capitalization level of<br>the financing |
|---|--|
| 12%   | More than 8% and up to 9%                |
| 15%   | More than 9% and up to 10%               |
| 25%   | More than 10% and up to 12%              |
| 30%   | More than 12 and up to 15%               |
| 40%   | More than 15%                            |

Loans granted with unconditional and irrevocable guarantee to institutions or financial foreign entities that are rated in the lowest risk classification may exceed the maximum limit established for that type of entity. However it cannot represent more than 100% of the Institution's basic capital. As of December 2016, 2015 and 2014, the Institution's loan portfolio was within the described limits.

- **Loans granted to related parties**

The LIC establishes limits for loans granted to related parties. As per regulations, the total sum of loans with unconditional and irrevocable guarantees granted to related parties cannot exceed the 50% of the basic net capital. As of December 31, 2016, 2015 and 2014, the loan portfolio granted to relate parties do not exceed this limit (Note 33).

| Related parties   | 2016     | 2015     | 2014  |
|---|----------|----------|-------|
| Minera Frisco   | \$ 4,692 | \$ 3,799 | \$ -  |
| Grupo IDESA   | 2,579    | 758      | 59    |
| Cementos Portland Valderrivas                           | 1,752    | -        | -     |
| Etileno XXI   | 915      | 1,399    | 1,150 |
| Galas de México   | 696      | 591      | 509   |
| Janel   | 603      | 551      | 492   |
| Artes Gráficas Unidas                                   | 522      | 492      | 535   |
| Caixia de Estalvis i Pensions de<br>Barcelona la Caixia | 450      | 406      | -     |
| Grupo Convertidor Industrial                            | 449      | 419      | 419   |
| Persona física relacionada                              | 302      | 300      | 300   |
| Parque Acuático Nuevo<br>Veracruz                       | 150      | 41       | -     |
| Grupo Piscimex  | 63       | 72       | 68    |
| Giant Motors Latinoamérica                              | 63       | 65       | 68    |
| Productos Dorel   | 56       | 69       | 67    |
| CIII  | 54       | 34       | 20    |
| Aspel de México   | 40       | 51       | 61    |
| Sears Operadora México                                  | 32       | 43       | 74    |
| Bicicletas de México                                    | 25       | 12       | -     |
| Grupo Sanborns  | 25       | 21       | 18    |
| Tabasco Oil Company                                     | 11       | 14       | 20    |
| Grupo Sedas Cataluna                                    | 10       | 10       | 10    |

| Related parties                            | 2016             | 2015             | 2014             |
|--|------------------|------------------|------------------|
| Selmec Equipos Industriales                | 6                | 5                | -                |
| Operadora Cicsa                            | 4                | 3                | 4                |
| CE G Sanborns Monterrey                    | 2                | -                | -                |
| Sociedad Financiera Inbursa                | 1                | 1                | 2                |
| Autopista Arco Norte                       | -                | 3,280            | 2,633            |
| Promotora del Desarrollo de America Latina | -                | 2,203            | 2,173            |
| Fundación Telmex                           | -                | 21               | 11               |
| Carso Oil and Gas                          | -                | 17               | -                |
| Laboratorio Medico Polanco                 | -                | 6                | -                |
| Enesa                                      | -                | -                | 126              |
| Nacional de cobre                          | -                | -                | 9                |
| Total                                      | <u>13,502</u>    | <u>14,683</u>    | <u>8,828</u>     |
| Basic capital (Sep 2016, 2015 and 2014)    | 61,844           | 61,369           | 59,298           |
| Basic capital to 40%                       | <u>24,737</u>    | <u>30,684</u>    | <u>29,649</u>    |
| <b>Surplus</b>                             | <u>\$ 11,235</u> | <u>\$ 16,001</u> | <u>\$ 20,821</u> |

- **Other financing limits**

The sum of loans granted to the Institution's three largest borrowers, loans granted exclusively to other banks and loans taken out by government agencies and state-owned entities, including public trust funds, may not exceed 100% of the Institution's net capital.

As of December 31, 2016, 2015 and 2014, the maximum balance of loans granted to the three major clients were \$23,236, \$21,099 and \$20,941, this represented 37.57%, 34.38% and 35.32% of the Institutions basic capital, calculated at the end of 2016, 2015 and 2014, respectively.

As of December 31, 2016, 2015 and 2014, the Institution had granted financing 9, 5 and 4, respectively, that exceed 10% of the basic capital. As of December 31, 2016, this funding amounted was \$85,307 and represented 138% of basic capital, while at the end of 2015 was \$41,530, represented by 67.67% of basic capital. As of December 2014, the total balance of these loans was \$40,446 which represents 68.21% of basic capital.

As of December 31, 2016, 2015 and 2014, loans granted to multiple purpose financing entities were \$0, \$406 and \$406, respectively. As of December 31, 2016 exists one loan of \$11,268 granted to governmental institutions, the Institution did not have loans granted to governmental institutions during 2015 and 2014.

d. **Risk concentration analysis**

- **Portfolio by economic sector**

As of December 31, 2016, 2015 and 2014, the percentages of concentration by economic sector were as follows:

|                                      | 2016              |                             | 2015              |                             | 2014              |                             |
|--------------------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
|                                      | Amount            | Percentage of concentration | Amount            | Percentage of concentration | Amount            | Percentage of concentration |
| Private (business and personal)      | \$ 193,014        | 69%                         | \$ 169,059        | 71%                         | \$ 146,193        | 73%                         |
| Finance                              | 11,371            | 4%                          | 8,764             | 4%                          | 14,556            | 7%                          |
| Consumer                             | 48,346            | 17%                         | 41,107            | 17%                         | 18,843            | 9%                          |
| Mortgage                             | 6,899             | 2%                          | 4,208             | 2%                          | 1,500             | 1%                          |
| Credits to governmental institutions | <u>23,680</u>     | <u>8%</u>                   | <u>14,340</u>     | <u>6%</u>                   | <u>18,889</u>     | <u>10%</u>                  |
|                                      | <u>\$ 283,310</u> | <u>100%</u>                 | <u>\$ 237,478</u> | <u>100%</u>                 | <u>\$ 199,981</u> | <u>100%</u>                 |

|                                      | 2016              |                             | 2015              |                             | 2014              |                             |
|--------------------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
|                                      | Amount            | Percentage of concentration | Amount            | Percentage of concentration | Amount            | Percentage of concentration |
| Private (business and personal)      | \$ 193,014        | 69%                         | \$ 169,059        | 71%                         | \$ 146,193        | 73%                         |
| Finance                              | 11,371            | 4%                          | 8,764             | 4%                          | 14,556            | 7%                          |
| Consumer                             | 48,346            | 17%                         | 41,107            | 17%                         | 18,843            | 9%                          |
| Mortgage                             | 6,899             | 2%                          | 4,208             | 2%                          | 1,500             | 1%                          |
| Credits to governmental institutions | <u>23,680</u>     | <u>8%</u>                   | <u>14,340</u>     | <u>6%</u>                   | <u>18,889</u>     | <u>10%</u>                  |
|                                      | <u>\$ 283,310</u> | <u>100%</u>                 | <u>\$ 237,478</u> | <u>100%</u>                 | <u>\$ 199,981</u> | <u>100%</u>                 |

- **Portfolio by region**

As of December 31, 2016, 2015 and 2014, the percentages of concentration by region were as follows:

|                   | 2016              |                             | 2015              |                             | 2014              |                             |
|-------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
| Area              | Amount            | Percentage of concentration | Amount            | Percentage of concentration | Amount            | Percentage of concentration |
| Center            | \$ 171,497        | 61%                         | \$ 156,480        | 66%                         | \$ 128,901        | 65%                         |
| North             | 49,705            | 18%                         | 36,085            | 15%                         | 28,517            | 14%                         |
|                   |                   |                             |                   |                             |                   |                             |
|                   | 2016              |                             | 2015              |                             | 2014              |                             |
| Area              | Amount            | Percentage of concentration | Amount            | Percentage of concentration | Amount            | Percentage of concentration |
| South             | 12,542            | 4%                          | 13,616            | 6%                          | 10,312            | 5%                          |
| Foreign countries | <u>49,566</u>     | <u>17%</u>                  | <u>31,297</u>     | <u>13%</u>                  | <u>32,251</u>     | <u>16%</u>                  |
|                   | <u>\$ 283,310</u> | <u>100%</u>                 | <u>\$ 237,478</u> | <u>100%</u>                 | <u>\$ 199,981</u> | <u>100%</u>                 |

The Institution's main policies in determining the percentages of concentration are described in detail in Note 34.

- e. ***Distressed portfolio analysis*** - Distressed loans include loans that carry risk ratings of D and E. As of December 31, 2016, 2015 and 2014, the distressed portfolio were as follows:

| 2016               |                           |               |                 |                               |               |                 |
|--------------------|---------------------------|---------------|-----------------|-------------------------------|---------------|-----------------|
|                    | Performing loan portfolio |               |                 | Non-performing loan portfolio |               |                 |
|                    | Principal                 | Interest      | Principal       | Interest                      | Principal     | Interest        |
| Leasing            | \$ 1                      | \$ -          | \$ 1            | \$ 28                         | \$ -          | \$ 28           |
| Simple loans       | 507                       | 9             | 516             | 1,870                         | 33            | 1,903           |
| Restructured loans | 28                        | -             | 28              | 1,726                         | 31            | 1,757           |
| Consumer loans     | 3,204                     | 100           | 3,304           | 3,383                         | 89            | 3,472           |
| Mortgage loans     | 128                       | 2             | 130             | 293                           | 6             | 299             |
| Discounted loans   | -                         | -             | -               | 210                           | -             | 210             |
| Unsecured loans    | -                         | -             | -               | 28                            | -             | 28              |
|                    | <u>\$ 3,868</u>           | <u>\$ 111</u> | <u>\$ 3,979</u> | <u>\$ 7,538</u>               | <u>\$ 159</u> | <u>\$ 7,697</u> |

| 2015               |                           |              |                 |                               |               |                 |
|--------------------|---------------------------|--------------|-----------------|-------------------------------|---------------|-----------------|
|                    | Performing loan portfolio |              |                 | Non-performing loan portfolio |               |                 |
|                    | Principal                 | Interest     | Principal       | Interest                      | Principal     | Interest        |
| Leasing            | \$ 1                      | \$ -         | \$ 1            | \$ 27                         | \$ -          | \$ 27           |
| Simple loans       | 582                       | 8            | 590             | 1,755                         | 31            | 1,786           |
| Restructured loans | 540                       | 3            | 543             | 2,910                         | 56            | 2,966           |
| Consumer loans     | 2,733                     | 67           | 2,800           | 1,787                         | 83            | 1,870           |
| Mortgage loans     | 54                        | 1            | 55              | 138                           | 3             | 141             |
| Discounted loans   | -                         | -            | -               | 210                           | -             | 210             |
| Unsecured loans    | <u>155</u>                | <u>1</u>     | <u>156</u>      | <u>83</u>                     | <u>-</u>      | <u>83</u>       |
|                    | <u>\$ 4,065</u>           | <u>\$ 80</u> | <u>\$ 4,145</u> | <u>\$ 6,910</u>               | <u>\$ 173</u> | <u>\$ 7,083</u> |

| 2014               |                           |              |                 |                               |               |                 |
|--------------------|---------------------------|--------------|-----------------|-------------------------------|---------------|-----------------|
|                    | Performing loan portfolio |              |                 | Non-performing loan portfolio |               |                 |
|                    | Principal                 | Interest     | Total           | Principal                     | Interest      | Total           |
| Leasing            | \$ 1                      | \$ -         | \$ 1            | \$ 33                         | \$ 1          | \$ 34           |
| Endorsement loans  | -                         | -            | -               | 2                             | -             | 2               |
| Simple loans       | 423                       | 5            | 428             | 1,725                         | 25            | 1,750           |
| Restructured loans | 535                       | -            | 535             | 3,569                         | 70            | 3,639           |
| Consumer loans     | 930                       | 25           | 955             | 881                           | 28            | 909             |
| Mortgage loans     | 10                        | -            | 10              | 118                           | 3             | 121             |
| Discounted loans   | -                         | -            | -               | 209                           | -             | 209             |
| Unsecured loans    | <u>100</u>                | <u>-</u>     | <u>100</u>      | <u>81</u>                     | <u>-</u>      | <u>81</u>       |
|                    | <u>\$ 1,999</u>           | <u>\$ 30</u> | <u>\$ 2,029</u> | <u>\$ 6,618</u>               | <u>\$ 127</u> | <u>\$ 6,745</u> |

In Note 34, the principal policies for classifying a loan as distressed are described in detail.

f. **Restructured loan portfolio**

- **Balances**

As of December 31, 2016, 2015 and 2014, restructured loan portfolio balances were as follows:

| Concept                                | 2016             |              |                 |                      |              |                 |
|--|------------------|--------------|-----------------|----------------------|--------------|-----------------|
|  | Performing loans |              |                 | Non-performing loans |              |                 |
|  | Principal        | Interest     | Total           | Interest             | Principal    | Total           |
| Simple credits with mortgage guarantee | \$ 6,049         | \$ 11        | \$ 6,060        | \$ 1,415             | \$ 1         | \$ 1,416        |
| Simple credits with pledged guarantee  | 2,184            | 8            | 2,192           | 182                  | -            | 182             |
| Simple credits with endorsement        | 435              | 1            | 436             | 103                  | 4            | 107             |
| Simple credits with other guarantees   | 11,699           | 52           | 11,751          | -                    | 26           | 26              |
| Simple credits with no real guarantees | 4,377            | 10           | 4,387           | 8                    | -            | 8               |
| Unsecured loans                        | -                | -            | -               | 18                   | -            | 18              |
| Consumer                               | -                | -            | -               | 1                    | -            | 1               |
| Mortgage                               | <u>124</u>       | <u>-</u>     | <u>124</u>      | <u>7</u>             | <u>-</u>     | <u>7</u>        |
|  | <u>\$24,868</u>  | <u>\$ 82</u> | <u>\$24,950</u> | <u>\$ 1,734</u>      | <u>\$ 31</u> | <u>\$ 1,765</u> |

| Concept                                | 2015             |          |          |                      |          |        |
|--|------------------|----------|----------|----------------------|----------|--------|
|  | Performing loans |          |          | Non-performing loans |          |        |
|  | Principal        | Interest |          | Principal            | Interest |        |
| Simple credits with mortgage guarantee | \$ 7,475         | \$ 15    | \$ 7,490 | \$ 552               | \$ 3     | \$ 555 |
| Simple credits with pledged guarantee  | 2,048            | 6        | 2,054    | 1,424                | 31       | 1,455  |
| Simple credits with endorsement        | 2,707            | 9        | 2,716    | 89                   | -        | 89     |
| Simple credits with other guarantees   | 10,484           | 11       | 10,495   | 825                  | 22       | 847    |
| Simple credits with no real guarantees | 4,447            | 2        | 4,449    | 12                   | -        | 12     |

| Concept         | 2015             |              |                 |                      |              |                 |
|-----------------|------------------|--------------|-----------------|----------------------|--------------|-----------------|
|                 | Performing loans |              |                 | Non-performing loans |              |                 |
|                 | Principal        | Interest     |                 | Principal            | Interest     |                 |
| Unsecured loans | 340              | -            | 340             | -                    | -            | -               |
| Simple Credit   |                  |              |                 |                      |              |                 |
| guarantee       |                  |              |                 |                      |              |                 |
| securities      | 144              | -            | 144             | -                    | -            | -               |
| Consumer        | -                | -            | -               | 1                    | -            | 1               |
| Mortgage        | 10               | -            | 10              | 8                    | -            | 8               |
|                 | <u>\$27,655</u>  | <u>\$ 43</u> | <u>\$27,698</u> | <u>\$ 2,911</u>      | <u>\$ 56</u> | <u>\$ 2,967</u> |

| Concept        | 2014             |              |                 |                      |              |                 |
|----------------|------------------|--------------|-----------------|----------------------|--------------|-----------------|
|                | Performing loans |              |                 | Non-performing loans |              |                 |
|                | Principal        | Interest     | Total           | Principal            | Interest     | Total           |
| Simple credits |                  |              |                 |                      |              |                 |
| with mortgage  |                  |              |                 |                      |              |                 |
| guarantee      | \$ 18            | \$ -         | \$ 18           | \$ -                 | \$ -         | \$ -            |
| Simple credits |                  |              |                 |                      |              |                 |
| with pledged   |                  |              |                 |                      |              |                 |
| guarantee      | 10,933           | 20           | 10,953          | 703                  | 19           | 722             |
| Simple credits |                  |              |                 |                      |              |                 |
| with           |                  |              |                 |                      |              |                 |
| endorsement    | 2,970            | 6            | 2,976           | 1                    | -            | 1               |
| Simple credits |                  |              |                 |                      |              |                 |
| with other     |                  |              |                 |                      |              |                 |
| guarantees     | 6,409            | 13           | 6,422           | 1,508                | 20           | 1,528           |
| Simple credits |                  |              |                 |                      |              |                 |
| with no real   |                  |              |                 |                      |              |                 |
| guarantees     | 4,599            | 3            | 4,602           | -                    | -            | -               |
| Simple Credit  |                  |              |                 |                      |              |                 |
| guarantee      |                  |              |                 |                      |              |                 |
| securities     | 1,855            | 2            | 1,857           | 1,357                | 31           | 1,388           |
| Consumer       | -                | -            | -               | 1                    | -            | 1               |
| Mortgage       | 12               | -            | 12              | 8                    | -            | 8               |
|                | <u>\$26,796</u>  | <u>\$ 44</u> | <u>\$26,840</u> | <u>\$ 3,578</u>      | <u>\$ 70</u> | <u>\$ 3,648</u> |

- **Additional guarantees for restructured loans**

As of December 31, 2016, 2015 and 2014, additional guarantees received for restructured loans were as follows:

| Type of credit                 | 2016      |  | Nature guarantee  |
|--------------------------------|-----------|--|-------------------|
|                                | Balance   |  |                   |
| Loans granted in national      |           |  |                   |
| currency                       |           |  |                   |
| Simple with mortgage guarantee | \$ 10,127 |  | Pledged, mortgage |
| Simple with other guarantees   | 19,341    |  | Pledged, mortgage |
| Simple with pledged guarantee  | 4,526     |  | Pledged, mortgage |

| 2016                                |                  |                                 |
|-------------------------------------|------------------|---------------------------------|
| Type of credit                      | Balance          | Nature guarantee                |
| Simple with no real guarantees      | 4,452            | Mortgage                        |
| Simple with endorsement             | 46               | Mortgage                        |
| Mortgage                            | <u>199</u>       | Mortgage                        |
|                                     | <u>\$ 38,691</u> |                                 |
| 2015                                |                  |                                 |
| Type of credit                      | Balance          | Nature guarantee                |
| Loans granted in national currency: |                  |                                 |
| Simple with mortgage guarantee      | \$ 15,829        | Pledged, mortgage and insurance |
| Simple with other guarantees        | 6,289            | Pledged, mortgage               |
| Unsecured loans                     | 2,987            | Endorsement                     |
| Simple with pledged guarantee       | 2,188            | Pledged and cash                |
| Simple with no real guarantees      | 4,452            | Mortgage                        |
| Simple with endorsement             | 195              | Mortgage                        |
| Mortgage                            | 2                | Mortgage                        |
| Consumer                            | <u>1</u>         | Pledged                         |
|                                     | <u>\$ 31,943</u> |                                 |
| 2014                                |                  |                                 |
| Type of credit                      | Balance          | Nature guarantee                |
| Loans granted in national currency  |                  |                                 |
| Simple with mortgage guarantee      | \$ 18,315        | Pledged, mortgage and insurance |
| Simple with other guarantees        | 21,507           | Pledged, mortgage               |
| Simple with pledged guarantee       | 2,034            | Pledged and cash                |
| Simple with no real guarantees      | 4,452            | Mortgage                        |
| Simple with endorsement             | 46               | Mortgage                        |
| Mortgage                            | <u>14</u>        | Mortgage                        |
|                                     | <u>\$ 46,368</u> |                                 |

g. *Non-performing loan portfolio*

- **Aging**

As of December 31, 2016, 2015 and 2014, the aging of non-performing loan portfolio were as follows:

|                      | 2016            | 2015            | 2014            |
|----------------------|-----------------|-----------------|-----------------|
| From 1 to 180 days   | \$ 4,372        | \$ 1,783        | \$ 2,520        |
| From 181 to 365 days | 1,189           | 1,129           | 535             |
| More than one year   | <u>2,245</u>    | <u>4,344</u>    | <u>3,791</u>    |
|                      | <u>\$ 7,806</u> | <u>\$ 7,256</u> | <u>\$ 6,846</u> |

As of December 31, 2016, 2015 and 2014, the analysis above included balances from non-performing loan portfolio regarding consumer loans and mortgage loans of \$915 and \$690 in 2016 and \$160 and \$126 in 2015, respectively. The aging analysis of the non-performing loan portfolio is not presented separately as management deems such amounts to be immaterial.

- **Transfers**

For the years ended December 31, 2016, 2015 and 2014, transfers to non-performing portfolio were as follows:

|  | 2016            | 2015            | 2014            |
|--|-----------------|-----------------|-----------------|
| Opening balance  | \$ 7,256        | \$ 6,846        | \$ 8,369        |
| Addition (subtraction):  |                 |                 |                 |
| Net transfers from performing portfolio to non-performing portfolio and viceversa <sup>(1)</sup> | 5,716           | 3,755           | 2,255           |
| Foreclosures   | (82)            | (218)           | (1,573)         |
| Impairments  | <u>(5,084)</u>  | <u>(3,127)</u>  | <u>(2,205)</u>  |
| Ending balance   | <u>\$ 7,806</u> | <u>\$ 7,256</u> | <u>\$ 6,846</u> |

- (1) For the years ended December 31, 2016, 2015 and 2014, the Institution carried out, based on the policy described in Note 3, transfers of current loans of \$47,182, \$46,633, and \$55,465 respectively, for those same years, transfers from non-performing loan to performing portfolio were \$43,284, \$53,010 and \$55,465, respectively.

For the years ended December 31, 2016, 2015 and 2014, the Institution recorded write-offs, impairments and applications of loans granted to related parties, which therefore imply the elimination of the respective assets.

## 12. Allowance for loan losses

On December 16, 2015, the Commission issued a Ruling which modifies the General Provisions Applicable to Credit Institutions, whereby it made certain adjustments to the general methodology for the classification of the consumer credit portfolio related to credit card operations and other revolving credit, with the aim of more accurately calculating the reserves that credit institutions have to create, taking into account the possible risks related to the payment behavior and level of indebtedness of its borrowers, which is in line with the expected loss model used as the basis of the methodology for the classification of credit portfolio.

Such Provisions went into effect on April 1, 2016, and for purposes of establishing the reserves based on the new methodology, the Institutions had to recognize in stockholders' equity, as part of the result from previous years, the initial cumulative financial effect derived from applying the new methodology for the first time. The initial cumulative financial effect will be the difference between the reserves to be established using the methodology as of April 1, 2016, less the reserves that would be generated under the methodology in effect as of March 31, 2016. If such difference exceeds the balance of the results from previous years, the effect would be carried to the result for the year. Furthermore, if the difference resulted in a release of reserves, the effect would be recognized in results for the year. The Institutions had a deadline of six months as of April 1, 2016 to establish 100% of the reserves.



The Institution recognized the initial cumulative financial effect which originated the record of credit reserves on the consolidated balance sheet under the caption “Allowance for loan losses” in the amount of \$265, with a corresponding charge in the consolidated statement of income under the caption “Allowance for loan losses”, for the same amount as of September 30, 2016.

As of September 30, 2016 (application date of the change methodology by the Institution), the amount of the allowance for loan losses for the consumer credit portfolio in relation to credit card operations and other revolving credits calculated using the previous methodology is \$1,770, compared to \$2,035, which is the amount of the allowance for loan losses for the consumer credit portfolio in relation to credit card operations and other revolving credits calculated using the methodology based on an expected loss model.

For the years ended December 31, 2016, 2015 and 2014, the allowance for loan losses were as follows:

|                          | 2016             | 2015             | 2014             |
|--------------------------|------------------|------------------|------------------|
| For commercial loans (a) | \$ 5,926         | \$ 6,494         | \$ 12,844        |
| For consumer loans (b)   | 5,907            | 4,105            | 1,403            |
| For mortgage loans (c)   | <u>255</u>       | <u>140</u>       | <u>91</u>        |
|                          | <u>\$ 12,088</u> | <u>\$ 10,739</u> | <u>\$ 14,338</u> |

As of December 31, 2016, 2015 and 2014, the additional allowance were \$38, \$43 and \$23, respectively.

As of December 31, 2016, 2015 and 2014, the allowance for loan losses disaggregated were as follows:

a. *Commercial loans (includes credits granted to financial and governmental institutions)*

| Degree of credit risk | 2016   |                              | 2015   |                              | 2014   |                              |
|-----------------------|--|------------------------------|--|------------------------------|--|------------------------------|
|                       | Classification of the portfolio by credit risk | Amount of allowance recorded | Classification of the portfolio by credit risk | Amount of allowance recorded | Classification of the portfolio by credit risk | Amount of allowance recorded |
| A-1                   | \$ 167,328                                     | \$ 772                       | \$ 128,087                                     | \$ 894                       | \$ 120,617                                     | \$ 5,117                     |
| A-2                   | 55,373   | 690                          | 29,130   | 343                          | 21,065   | 946                          |
| B-1                   | 12,351   | 199                          | 20,093   | 347                          | 15,221   | 356                          |
| B-2                   | 3,481  | 76                           | 5,064  | 109                          | 4,896  | 113                          |
| B-3                   | 4,529  | 409                          | 13,092   | 439                          | 5,383  | 341                          |
| C-1                   | 1,177  | 83                           | 999  | 68                           | 11,754   | 775                          |
| C-2                   | 313  | 39                           | 542  | 61                           | 373  | 52                           |
| D                     | 1,325  | 503                          | 3,543  | 1,395                        | 3,144  | 1,709                        |
| E                     | <u>3,145</u>                                   | <u>3,145</u>                 | <u>2,810</u>                                   | <u>2,810</u>                 | <u>3,634</u>                                   | <u>3,421</u>                 |
| Rated portfolio       | <u>\$ 249,022</u>                              | <u>5,916</u>                 | <u>\$ 203,360</u>                              | <u>6,466</u>                 | <u>\$ 186,087</u>                              | <u>\$ 12,830</u>             |
| Additional allowance  |  | <u>10</u>                    |  | <u>28</u>                    |  | <u>14</u>                    |
| Allowance created     |  | <u>\$ 5,926</u>              |  | <u>\$ 6,494</u>              |  | <u>\$ 12,844</u>             |

b. *Consumer loans*

| Degree of credit risk | 2016   |                              | 2015   |                              | 2014   |                              |
|-----------------------|--|------------------------------|--|------------------------------|--|------------------------------|
|                       | Classification of the portfolio by credit risk | Amount of allowance recorded | Classification of the portfolio by credit risk | Amount of allowance recorded | Classification of the portfolio by credit risk | Amount of allowance recorded |
| A-1                   | \$ 18,865                                      | \$ 432                       | \$ 15,348                                      | \$ 294                       | \$ 12,284                                      | \$ 157                       |
| A-2                   | 3,183  | 165                          | 2,555  | 131                          | 671  | 17                           |
| B-1                   | 2,255  | 135                          | 2,584  | 172                          | 1,274  | 43                           |
| B-2                   | 8,357  | 420                          | 10,801   | 523                          | 207  | 9                            |
| B-3                   | 3,989  | 241                          | 1,363  | 99                           | 1,062  | 60                           |
| C-1                   | 1,994  | 226                          | 1,666  | 142                          | 703  | 48                           |
| C-2                   | 2,927  | 517                          | 2,119  | 314                          | 777  | 84                           |
| D                     | 2,838  | 1,052                        | 2,203  | 742                          | 660  | 154                          |
| E                     | <u>3,938</u>                                   | <u>2,694</u>                 | <u>2,468</u>                                   | <u>1,675</u>                 | <u>1,205</u>                                   | <u>824</u>                   |
| Rated portfolio       | <u>\$ 48,346</u>                               | <u>5,882</u>                 | <u>\$ 41,107</u>                               | <u>\$ 4,092</u>              | <u>\$ 18,843</u>                               | <u>\$ 1,396</u>              |
| Additional allowance  |  | <u>25</u>                    |  | <u>13</u>                    |  | <u>7</u>                     |
| Allowance created     |  | <u>\$ 5,907</u>              |  | <u>\$ 4,105</u>              |  | <u>\$ 1,403</u>              |

c. *Mortgage loans*

| Degree of credit risk | 2016   |                              | 2015   |                              | 2014   |                              |
|-----------------------|--|------------------------------|--|------------------------------|--|------------------------------|
|                       | Classification of the portfolio by credit risk | Amount of allowance recorded | Classification of the portfolio by credit risk | Amount of allowance recorded | Classification of the portfolio by credit risk | Amount of allowance recorded |
| A-1                   | \$ 3,141                                       | \$ 8                         | \$ 1,551                                       | \$ 3                         | \$ 942   | \$ 2                         |
| A-2                   | 1,683  | 10                           | 91   | 1                            | 49   | -                            |
| B-1                   | 574  | 5                            | 1,473  | 13                           | 123  | 1                            |
| B-2                   | 313  | 4                            | 537  | 6                            | 105  | 1                            |
| B-3                   | 151  | 3                            | 63   | 1                            | 23   | 1                            |
| C-1                   | 405  | 12                           | 210  | 6                            | 68   | 2                            |
| C-2                   | 203  | 16                           | 79   | 7                            | 59   | 5                            |
| D                     | 203  | 46                           | 109  | 24                           | 62   | 16                           |
| E                     | <u>227</u>                                     | <u>148</u>                   | <u>95</u>                                      | <u>77</u>                    | <u>69</u>                                      | <u>61</u>                    |
| Rated portfolio       | <u>\$ 6,900</u>                                | <u>252</u>                   | <u>\$ 4,208</u>                                | <u>\$ 138</u>                | <u>\$ 1,500</u>                                | <u>\$ 89</u>                 |
| Additional allowance  |  | <u>3</u>                     |  | <u>2</u>                     |  | <u>2</u>                     |
| Allowance created     |  | <u>\$ 255</u>                |  | <u>\$ 140</u>                |  | <u>\$ 91</u>                 |

d. *Allowance for loan losses*

For the years ended December 31, 2016, 2015 and 2014, the movements of the allowance for loan losses were as follow:

|   | 2016             | 2015             | 2014             |
|---|------------------|------------------|------------------|
| Opening balance                             | \$ 10,739        | \$ 14,338        | \$ 26,428        |
| Addition (subtraction):                     |                  |                  |                  |
| Consolidated initial effect                 |                  |                  |                  |
| Sofom (1)                                   | <u>-</u>         | <u>1,420</u>     | <u>-</u>         |
| Consolidated opening balance 2015           | 10,739           | 15,758           | 26,428           |
| Increase in allowance                       | 6,613            | 3,477            | 2,438            |
| Release surplus reserve                     | -                | (6,178)          | (13,109)         |
| Reclassification Wal-Mart                   | -                | 575              | -                |
| Transfer to reserves from foreclosed assets | (2,399)          | (386)            | (348)            |
| Applications                                | (3,217)          | (3,127)          | (1,927)          |
| UDI's and foreign currency valuation        | <u>352</u>       | <u>620</u>       | <u>856</u>       |
| Ending balance                              | <u>\$ 12,088</u> | <u>\$ 10,739</u> | <u>\$ 14,338</u> |

- (1) During the stockholders' meeting on March 30, 2015, the stockholders agreed an increase in the variable capital stock of Sociedad Financiera Inbursa, S.A de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada (SOFOM Inbursa), of \$5,000 (five thousand million Mexican pesos), paid by the Institution. Since that date, SOFOM Inbursa consolidates its financial statemenets with Banco Inbursa, thereby recognizing \$1,420 of initial effects of the allowance attributable to SOFOM Inbursa.

During 2015 and 2014, the Institution, as a result of changes relating to the assessment methodology for commercial loans applicable from December 31, 2014, determined a surplus reserve of \$6,178 and \$13,109 which, in accordance with the Commission's rules, the Institution may release so long as the loans are not canceled, renewed or restructured. The effects were recognized in "Other operating income" in accordance with the accounting criteria established by the Commission.

|             | 2015            | 2014             |
|-------------|-----------------|------------------|
| 1st quarter | \$ 3,461        | \$ 762           |
| 2nd quarter | 1,071           | 2,241            |
| 3rd quarter | 1,594           | 4,269            |
| 4th quarter | <u>52</u>       | <u>5,837</u>     |
|             | <u>\$ 6,178</u> | <u>\$ 13,109</u> |

### 13. Other receivables, net

As of December 31, 2016, 2015 and 2014, other receivables were comprised as follows:

|   | 2016             | 2015             | 2014             |
|---|------------------|------------------|------------------|
| Debtors due to swap margin accounts                                       | \$ 17,066        | \$ 16,705        | \$ 10,914        |
| Debtors due to liquidation of operations<br>in foreign currency (Note 5b) | 2,346            | 2,581            | 2,828            |
| Recoverable taxes   | -                | 727              | 654              |
| Other debtors   | 2,464            | 1,742            | 988              |
|   | <u>21,876</u>    | <u>21,755</u>    | <u>15,384</u>    |
| Allowance for bad losses  | -                | -                | (27)             |
|   | <u>\$ 21,876</u> | <u>\$ 21,755</u> | <u>\$ 15,357</u> |

### 14. Foreclosed assets, net

As of December 31, 2016, 2015 and 2014, were as follows:

|   | 2016            | 2015            | 2014            |
|---|-----------------|-----------------|-----------------|
| Securities, sundry assets and rights<br>allocated   | \$ 1,253        | \$ 2,086        | \$ 2,048        |
| Foreclosed assets                                   | <u>2,474</u>    | <u>2,320</u>    | <u>2,118</u>    |
|   | 3,727           | 4,406           | 4,166           |
| Less - Allowance for losses on<br>foreclosed assets | <u>(1,792)</u>  | <u>(1,475)</u>  | <u>(1,089)</u>  |
| Total   | <u>\$ 1,935</u> | <u>\$ 2,931</u> | <u>\$ 3,077</u> |

On July 23, 2014, the Institution foreclosed fiduciary rights under loans with Inmobiliaria Bains, S.A. de C.V. and Punta Raza Development, S.A. de C.V. for an amount of \$1,616.

On March 7, 2014, the Institution sold Promotora Loreto BCS, S.A. de C.V., a property located in Baja California Sur, with a selling price of \$570 and a gain of \$85.

On August 14, 2014, the Institution foreclosed on real estate which was valued at \$549, recognizing an impairment of \$365. The nominal value of the loan was \$914.

In addition, on July 30, 2014, the Institution foreclosed real estate with an appraised value of \$710, recognizing an impairment of \$52. The nominal value of the loan was \$762.

### 15. Property, furniture and fixtures, net

As of December 31, 2016, 2015 and 2014, were as follows:

|  | 2016            |                             |                 | 2015         |                             |                 | 2014         |                             |                 |
|--|-----------------|-----------------------------|-----------------|--------------|-----------------------------|-----------------|--------------|-----------------------------|-----------------|
|  | Investment      | Accumulated<br>Depreciation | Total           | Investment   | Accumulated<br>Depreciation | Total           | Investment   | Accumulated<br>Depreciation | Total           |
| Buildings                                | \$ 527          | \$ (234)                    | \$ 293          | \$ 526       | \$ (210)                    | \$ 316          | \$ 480       | \$ (181)                    | \$ 299          |
| Office furniture                         | 587             | (307)                       | 280             | 531          | (267)                       | 264             | 412          | (233)                       | 179             |
| Computers and<br>communication<br>system | 1,208           | (901)                       | 307             | 1,239        | (1,034)                     | 205             | 1,157        | (976)                       | 181             |
| Machinery and<br>equipment               | 110             | (12)                        | 98              | 79           | (3)                         | 76              | -            | -                           | -               |
| Vehicles                                 | 261             | (99)                        | 162             | 200          | (116)                       | 84              | 37           | (26)                        | 11              |
| Assets in operating<br>leasing           | 639             | (246)                       | 393             | 680          | (233)                       | 447             | 554          | (185)                       | 369             |
| Land                                     | 440             | -                           | 440             | 440          | -                           | 440             | 408          | -                           | 408             |
| Others                                   | <u>139</u>      | <u>(64)</u>                 | <u>75</u>       | <u>90</u>    | <u>(51)</u>                 | <u>39</u>       | <u>2</u>     | <u>-</u>                    | <u>2</u>        |
|  | <u>\$ 3,911</u> | <u>\$ (1,863)</u>           | <u>\$ 2,048</u> | <u>3,785</u> | <u>(1,914)</u>              | <u>\$ 1,871</u> | <u>3,050</u> | <u>(1,601)</u>              | <u>\$ 1,449</u> |

For the years ended December 31, 2016, 2015 and 2014, depreciation was \$375, \$346 and \$132, respectively.

## 16. Long-term investment in shares

As of December 31, 2016, 2015 and 2014, long term investment in shares were as follows:

| Issuer  | Balance<br>2015 | 2016         |                            |                  | Balance<br>2016 |
|---|-----------------|--------------|----------------------------|------------------|-----------------|
|   |                 | Contribution | Contribution<br>to results | Other<br>changes |                 |
| <b>Venture capital investments</b>                |                 |              |                            |                  |                 |
| Infraestructura y Transporte de México            | \$ 618          | \$ -         | \$ 154                     | \$ -             | \$ 772          |
| Havas Media                                       | 24              | -            | 1                          | -                | 25              |
| Argos Comunicación                                | 90              | -            | (7)                        | -                | 83              |
| In Store México                                   | 69              | -            | 9                          | -                | 78              |
| Salud Interactiva                                 | 192             | -            | 16                         | (22)             | 186             |
| Salud Holding                                     | 40              | -            | 9                          | (8)              | 41              |
| Giant Motors Latinoamerica                        | 135             | -            | 3                          | -                | 138             |
| Gas Natural México                                | 1,549           | -            | 199                        | (56)             | 1,692           |
| Enesa   | 446             | (312)        | 47                         | -                | 181             |
| Aspel Holding                                     | 625             | -            | 129                        | (33)             | 721             |
| Patia Biopharma                                   | 13              | 8            | (6)                        | -                | 15              |
| Grupo IDESA                                       | 1,607           | 373          | (176)                      | (4)              | 1,800           |
| Excellence Freight de México                      | 25              | 8            | 6                          | (3)              | 36              |
| Fideicomiso GEO                                   | 439             | -            | -                          | -                | 439             |
| GMéxico Transportes                               | 2,491           | -            | 491                        | (150)            | 2,832           |
| Patiacan  | 3               | -            | -                          | -                | 3               |
| Hitss Solutions                                   | 496             | -            | 11                         | -                | 507             |
| Parque Acuático Inbursa                           | 93              | -            | -                          | -                | 93              |
| Star Médica                                       | 1,500           | -            | 75                         | (24)             | 1,551           |
| Soficam   | 13              | -            | 1                          | -                | 14              |
| Sistema de Administración y Servicios             | <u>1</u>        | <u>-</u>     | <u>-</u>                   | <u>-</u>         | <u>1</u>        |
|   | <u>10,469</u>   | <u>77</u>    | <u>962</u>                 | <u>(300)</u>     | <u>11,208</u>   |
| <b>Other investments:</b>                         |                 |              |                            |                  |                 |
| Inbursa Siefore, S.A. de C.V.                     | 407             | -            | 31                         | -                | 438             |
| Inbursa Siefore Básica, S.A. de C.V.              | 133             | -            | 10                         | -                | 143             |
| Inbursa Siefore Básica 3, S.A. de C.V.            | 472             | -            | 41                         | -                | 513             |
| Inbursa Siefore Básica 4, S.A. de C.V.            | 327             | -            | 32                         | -                | 359             |
| Inbursa Siefore Básica de Pensiones, S.A. de C.V. | 62              | -            | 2                          | -                | 64              |
| Procesar, S.A. de C.V.                            | 8               | -            | -                          | -                | 8               |
| Asociación de Bancos de México, A.C.              | 14              | -            | -                          | (2)              | 12              |
| Others  | <u>(14)</u>     | <u>-</u>     | <u>1</u>                   | <u>10</u>        | <u>(3)</u>      |
|   | <u>1,409</u>    | <u>-</u>     | <u>117</u>                 | <u>8</u>         | <u>1,534</u>    |
|   | \$ 11,878       | \$ 77        | \$ 1,079                   | \$ (292)         | \$ 12,742       |

| Issuer  | Balance<br>2014 | 2015         |                            |                  | Balance<br>2015 |
|---|-----------------|--------------|----------------------------|------------------|-----------------|
|   |                 | Contribution | Contribution<br>to results | Other<br>changes |                 |
| <b>Venture capital investments:</b>               |                 |              |                            |                  |                 |
| Infraestructura y Transporte de México            | \$ 2,529        | \$ -         | \$ 277                     | \$ (2,188)       | \$ 618          |
| Havas Media                                       | 27              | -            | (3)                        | -                | 24              |
| Argos Comunicación                                | 73              | 15           | 2                          | -                | 90              |
| In Store México                                   | 53              | -            | 30                         | (14)             | 69              |
| Grupo IDESA                                       | 1               | -            | -                          | (1)              | -               |
| Salud Interactiva                                 | 186             | -            | 19                         | (13)             | 192             |
| Salud Holding                                     | 43              | (3)          | 4                          | (4)              | 40              |
| Giant Motors                                      | 131             | -            | 4                          | -                | 135             |
| Gas Natural                                       | 1,343           | -            | 207                        | (1)              | 1,549           |
| Enesa   | 380             | -            | 66                         | -                | 446             |
| Holding Aspel                                     | 564             | -            | 126                        | (65)             | 625             |
| Patia Biopharma                                   | 19              | -            | (6)                        | -                | 13              |
| Hitts   | 86              | -            | (1)                        | (85)             | -               |
| Grupo IDESA                                       | 1,636           | -            | 81                         | (110)            | 1,607           |
| Excellence Freights                               | 20              | -            | 6                          | (1)              | 25              |
| Fideicomiso GEO                                   | 439             | -            | -                          | -                | 439             |
| GMéxico Transp.                                   | -               | 2,187        | 304                        | -                | 2,491           |
| HF Walmart  | -               | 2,191        | 93                         | (2,284)          | -               |
| Patiacan  | -               | 3            | -                          | -                | 3               |
| Hits Solution                                     | -               | 517          | (22)                       | 1                | 496             |
| Parque Acuático                                   | -               | 93           | -                          | -                | 93              |
| Star Médica                                       | -               | 1,500        | -                          | -                | 1500            |
| Soficam   | 12              | -            | 1                          | -                | 13              |
| Sistema de Administración y Servicios             | 1               | -            | -                          | -                | 1               |
|   | <u>7,543</u>    | <u>6,503</u> | <u>1,188</u>               | <u>(4,765)</u>   | <u>10,469</u>   |
| <b>Other investments:</b>                         |                 |              |                            |                  |                 |
| Inbursa Siefore, S.A. de C.V.                     | 405             | -            | 2                          | -                | 407             |
| Inbursa Siefore Básica, S.A. de C.V.              | 132             | -            | 1                          | -                | 133             |
| Inbursa Siefore Básica 3, S.A. de C.V.            | 472             | -            | -                          | -                | 472             |
| Inbursa Siefore Básica 4, S.A. de C.V.            | 329             | -            | (2)                        | -                | 327             |
| Inbursa Siefore Básica de Pensiones, S.A. de C.V. | 60              | -            | 2                          | -                | 62              |
| Procesar, S.A. de C.V.                            | 8               | -            | -                          | -                | 8               |
| Asociación de Bancos de México, A.C.              | 12              | -            | -                          | 2                | 14              |
| Others  | 13              | -            | 4                          | (31)             | (14)            |
|   | <u>1,431</u>    | <u>-</u>     | <u>7</u>                   | <u>(29)</u>      | <u>1,409</u>    |
|   | \$ 8,974        | \$ 6,503     | \$ 1,195                   | \$ (4,794)       | \$ 11,878       |

| Issuer                             | Balance<br>2013 | 2014         |                            |                  | Balance<br>2014 |  |
|------------------------------------|-----------------|--------------|----------------------------|------------------|-----------------|--|
|                                    |                 | Contribution | Contribution<br>to results | Other<br>changes |                 |  |
| <b>Venture capital investments</b> |                 |              |                            |                  |                 |  |
| Infraestructura y Transporte       |                 |              |                            |                  |                 |  |
| México                             | \$ 2,448        | \$ -         | \$ 415                     | \$ (334)         | \$ 2,529        |  |
| Havas Media                        | 25              | -            | 2                          | -                | 27              |  |
| Argos Comunicación                 | 72              | -            | 1                          | -                | 73              |  |
| In Store México                    | 40              | -            | 13                         | -                | 53              |  |
| Grupo IDESA                        | 899             | -            | 24                         | (922)            | 1               |  |
| Salud Interactiva                  | 188             | (19)         | 17                         | -                | 186             |  |
| Salud Holding                      | 41              | -            | 2                          | -                | 43              |  |
| Giant Motors                       | 129             | -            | 2                          | -                | 131             |  |
| Gas Natural                        | 1,177           | -            | 166                        | -                | 1,343           |  |
| Enesa                              | 327             | -            | 53                         | -                | 380             |  |
| Holding Aspel Salica               | 445             | -            | 119                        | -                | 564             |  |
| Patia Biopharma                    | 13              | 11           | (5)                        | -                | 19              |  |
| Hitts                              | 79              | -            | 7                          | -                | 86              |  |
| Grupo IDESA (1)                    | 1               | 1,573        | 74                         | (12)             | 1,636           |  |
| Excellence Freight de              |                 |              |                            |                  |                 |  |
| México                             | -               | 20           | -                          | -                | 20              |  |
| Etileno XXI                        | 163             | (163)        | -                          | -                | -               |  |
| Fideicomiso GEO                    | 405             | -            | -                          | 35               | 440             |  |
| Others                             | 11              | -            | -                          | -                | 11              |  |
|                                    | 6,463           | 1,422        | 890                        | (1,233)          | 7,542           |  |

| Issuer                                    | Balance<br>2013 | 2014            |                            |                   | Balance<br>2014 |
|---|-----------------|-----------------|----------------------------|-------------------|-----------------|
|   |                 | Contribution    | Contribution<br>to results | Other<br>changes  |                 |
| <b>Other investments:</b>                 |                 |                 |                            |                   |                 |
| Inbursa Siefore, S.A. de C.V.             | 390             | -               | 15                         | -                 | 405             |
| Inbursa Siefore Básica, S.A.<br>de C.V.   | 127             | -               | 5                          | -                 | 132             |
| Inbursa Siefore Básica 3, S.A.<br>de C.V. | 451             | -               | 21                         | -                 | 472             |
| Inbursa Siefore Básica 4, S.A.<br>de C.V. | 313             | -               | 16                         | -                 | 329             |
| Inbursa Siefore Básica 5, S.A.<br>de C.V. | 58              | -               | 2                          | -                 | 60              |
| Procesar, S.A. de C.V.                    | 8               | -               | -                          | -                 | 8               |
| Asociación de Bancos de<br>México, A.C.   | 11              | (1)             | -                          | -                 | 10              |
| Others                                    | <u>15</u>       | <u>-</u>        | <u>-</u>                   | <u>-</u>          | <u>15</u>       |
|   | <u>1,373</u>    | <u>(1)</u>      | <u>59</u>                  | <u>-</u>          | <u>1,431</u>    |
|   | <u>\$ 7,836</u> | <u>\$ 1,421</u> | <u>\$ 949</u>              | <u>\$ (1,233)</u> | <u>\$ 8,973</u> |

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 in the event of differences, once it is disposed of.

As of December 31, 2016 and 2015, equity in results of associates amounted to \$1,079 and \$1,195, respectively.

## 17. Other assets, deferred charges and intangibles, net

As of December 31, 2016, 2015 and 2014, were as follows:

|   | 2016            | 2015            | 2014          |
|---|-----------------|-----------------|---------------|
| Software licenses (1)                     | \$ 950          | \$ 1,000        | \$ 254        |
| Goodwill (2)                              | 1,512           | 1,512           | 158           |
| Premium on credit operations, net         | 2               | 12              | 34            |
| Unamortized discount on securities issued | 145             | 165             | 184           |
| Anticipated payments                      | 499             | 342             | 281           |
| Others                                    | <u>369</u>      | <u>386</u>      | <u>46</u>     |
|   | 3,477           | 3,417           | 957           |
| Amortization of software licenses         | <u>(511)</u>    | <u>(483)</u>    | <u>(269)</u>  |
|   | <u>\$ 2,966</u> | <u>\$ 2,934</u> | <u>\$ 688</u> |

- 1) The amortization recorded in the consolidated statement of income under the caption “Administrative and promotional expenses” for software licenses, was \$28 and \$214 as of December 31, 2016 and 2015, respectively.
- 2) Includes the goodwill generated on the acquisition of Banco Estándar Inversiones, S.A. and HF Wal-Mart, S.A. de C.V. for \$413 and \$940, respectively. As of December 31, 2016 and 2015, both goodwill amounts do not show any indicators of impairment.

## 18. Deposits

This caption is used to record the instruments used by the Bank to accept public resources and is represented by:

- a. **Demand deposits** - As of December 31, 2016, 2015 and 2014, demand deposits were as follows:

| Checking accounts            | Mexican pesos    |                  |                  | Foreign currency |                 |                 | Total            |                  |                  |
|------------------------------|------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|------------------|------------------|
|                              | 2016             | 2015             | 2014             | 2016             | 2015            | 2014            | 2016             | 2015             | 2014             |
| Interest-bearing accounts    | \$ 77,417        | \$ 72,377        | \$ 67,070        | \$ 3,206         | \$ 3,425        | \$ 1,367        | \$ 80,623        | \$ 75,802        | \$ 68,437        |
| Noninterest-bearing accounts | <u>1,317</u>     | <u>1,081</u>     | <u>889</u>       | <u>56</u>        | <u>12</u>       | <u>2</u>        | <u>1,373</u>     | <u>1,093</u>     | <u>891</u>       |
|                              | <u>\$ 78,734</u> | <u>\$ 73,458</u> | <u>\$ 67,959</u> | <u>\$ 3,262</u>  | <u>\$ 3,437</u> | <u>\$ 1,369</u> | <u>\$ 81,996</u> | <u>\$ 76,895</u> | <u>\$ 69,328</u> |

For the years ended December 31, 2016, 2015 and 2014, the interest expense from demand deposits on checking accounts was \$2,757, \$1,881 and \$1,852, respectively (Note 28b).

- b. **Time deposits** - Time deposits include fixed-term deposits, deposits from companies and foreign Banks and PRLV's. For those deposits in Mexican pesos, the interest rate relates to the interest rate of the CETES and the Mexican equilibrium interest rate (*tasa de interés interbancaria de equilibrio* or “TIIE”). For those deposits in foreign currency, the interest rate relates to Libor.

As of December 31, 2016, 2015 and 2014, time deposits were as follows:

|                             | 2016          | 2015     | 2014         |
|-----------------------------|---------------|----------|--------------|
| Fixed-term deposits:        |               |          |              |
| US dollars <sup>(1)</sup>   | \$ 322        | \$ 732   | \$ 538       |
| UDI's <sup>(2)</sup>        | 422           | 42       | 400          |
| UDI's <sup>(1)</sup>        | 552           | 533      | 522          |
| Mexican peso <sup>(1)</sup> | 1,114         | 1,825    | 301          |
| Mexican peso <sup>(2)</sup> | <u>25,057</u> | <u>-</u> | <u>2,002</u> |
|                             | 27,467        | 3,132    | 3,763        |



|   | 2016             | 2015             | 2014             |
|---|------------------|------------------|------------------|
| PRLV  |                  |                  |                  |
| Placed on the market <sup>(2)</sup>                         | -                | 6                | 507              |
| Placed on the counter <sup>(1)</sup>                        | <u>9,788</u>     | <u>4,830</u>     | <u>2,786</u>     |
|   | 9,788            | 4,836            | 3,293            |
| Withdrawals deposits on pre-established days <sup>(1)</sup> | <u>10,472</u>    | <u>9,260</u>     | <u>8,179</u>     |
|   | <u>\$ 47,727</u> | <u>\$ 17,228</u> | <u>\$ 15,235</u> |

<sup>(1)</sup> Placed within general public.

<sup>(2)</sup> Placed within money market.

As of December 31, 2016, 2015 and 2014, time deposits maturing over periods less than one year, were \$21,163, \$16,653 and \$14,313, respectively.

For the year ended December 31, 2016, 2015 and 2014, the interest expense from fixed-term deposits were \$1,156, \$408 and \$648 respectively (Note 28b).

In accordance with regulations, the Commission must be given notice when financial institutions have deposits with one person or group of people legally considered as one person, that represent more than 100% of the basic capital. As of December 31, 2016, 2015 and 2014, the Institution does not exceed this limit.

- c. **Negotiable instruments issued** - As of December 31, 2016, 2015 and 2014, negotiable instruments issued as unsecured bonds, were as follows:

| Issuance(1)<br>First Program | Amount of<br>Certificates | 2016             |                  | 2015             |                  | 2014             |                  |
|------------------------------|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                              |                           | Balance          | Interest<br>rate | Balance          | Interest<br>Rate | Balance          | Interest<br>rate |
| Binbur 10                    | 50,000,000                | \$ -             | -                | \$ -             | -                | \$ 5,002         | 3.55%            |
| Binbur 12-2                  | 44,500,000                | \$ -             | -                | \$ -             | -                | \$ 4,612         | 3.54%            |
| Binbur 12-3                  | 35,000,000                | \$ -             | -                | \$ -             | -                | \$ 5,002         | 3.56%            |
| Binbur 12-4                  | 16,240,000                | \$ -             | -                | \$ 1,625         | 3.83%            | \$ 1,625         | 3.61%            |
| Binbur 13                    | 60,000,000                | -                | -                | 6,000            | 3.80%            | 6,016            | 3.54%            |
| Binbur 14                    | 65,000,000                | 6,510            | 6.35%            | 6,505            | 3.78%            | 6,503            | 3.56%            |
| Binbur 14-2                  | 20,000,000                | 2,027            | 5.07%            | 2,025            | 5.07%            | 2,024            | 5.07%            |
| Binbur 14-3                  | 30,000,000                | 3,008            | 5.79%            | 3,004            | 3.55%            | 3,004            | 3.49%            |
| Binbur 14-4                  | 5,000,000                 | <u>501</u>       | 5.79%            | <u>501</u>       | 3.55%            | <u>501</u>       | 3.49%            |
|                              |                           | <u>\$ 12,046</u> |                  | <u>\$ 19,660</u> |                  | <u>\$ 34,289</u> |                  |

| Issuance(2)<br>Second Program | Amount of<br>certificates | 2016             |                  | 2015             |                  | 2014             |                  |
|-------------------------------|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                               |                           | Balance          | Interest<br>rate | Balance          | Interest<br>Rate | Balance          | Interest<br>rate |
| Binbur 13-2                   | 60,000,000                | \$ -             | -                | \$ 6,012         | 3.60%            | \$ 6,012         | 3.55%            |
| Binbur 13-3                   | 60,000,000                | 6,002            | 6.36%            | 6,000            | 3.80%            | 6,016            | 3.54%            |
| Binbur 13-4                   | 115,000,000               | 11,504           | 6.38%            | 11,500           | 3.82%            | 11,531           | 3.56%            |
| Binbur 14-5                   | 50,000,000                | <u>5,008</u>     | 6.29%            | <u>5,004</u>     | 3.72%            | <u>5,002</u>     | 3.50%            |
|                               |                           | <u>\$ 22,514</u> |                  | <u>\$ 28,516</u> |                  | <u>\$ 28,561</u> |                  |

| Issuance(3)<br>Third Program | Amount of<br>certificates | 2016             |                  | 2015             |                  | 2014             |                  |
|------------------------------|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                              |                           | Balance          | Interest<br>rate | Balance          | Interest<br>Rate | Balance          | Interest<br>rate |
| Binbur 14-6                  | 40,000,000                | \$ 4,011         | 5.78%            | \$ 4,006         | 3.54%            | \$ 4,005         | 3.48%            |
| Binbur 14-7                  | 100,000,000               | 11,824           | 7.00%            | 10,155           | 7.00%            | 10,150           | 7.00%            |
| Binbur 15                    | 52,000,000                | 5,208            | 6.29%            | 5,204            | 3.72%            | -                | -                |
| Binbur 16                    | 30,000,000                | 3,008            | 5.80%            | -                | -                | -                | -                |
| Binbur 16-2                  | 17,424,750                | 1,749            | 5.95%            | -                | -                | -                | -                |
| Binbur 16-3                  | 24,471,150                | 2,448            | 6.31%            | -                | -                | -                | -                |
| Binbur 16-4                  | 5,528,850                 | 553              | 6.34%            | -                | -                | -                | -                |
| Binbur 16-5                  | 30,021,860                | 3,008            | 6.30%            | -                | -                | -                | -                |
| Binbur 16-6                  | 10,196,111                | <u>1,021</u>     | 6.35%            | <u>-</u>         | -                | <u>-</u>         | -                |
|                              |                           | <u>\$ 32,830</u> |                  | <u>\$ 19,365</u> |                  | <u>\$ 14,155</u> |                  |

|         |           |                  |         |                  |       |                  |       |
|---------|-----------|------------------|---------|------------------|-------|------------------|-------|
| BINBL53 | 1,000,000 | <u>\$ 20,676</u> | 4.1250% | <u>\$ 17,296</u> | 5.17% | <u>\$ 14,782</u> | 4.13% |
|---------|-----------|------------------|---------|------------------|-------|------------------|-------|

| Issuance              | Amount of<br>certificates | 2016             |               | 2015             |               | 2014        |               |
|-----------------------|---------------------------|------------------|---------------|------------------|---------------|-------------|---------------|
|                       |                           | Balance          | Interest rate | Balance          | Interest rate | Balance     | Interest rate |
| <b>CF Credit</b>      |                           |                  |               |                  |               |             |               |
| <b>First program</b>  |                           |                  |               |                  |               |             |               |
| Cf credi 00115        | 50,000,000                | \$ -             | -             | \$ 5,004         | 3.61%         | \$ -        | -             |
| Cf credi 00615        | 50,000,000                | -                | -             | 4,995            | 3.31%         | -           | -             |
| Cf credi 00516        | 37,000,000                | 3,615            | 4.62%         | -                | -             | -           | -             |
| <b>Second program</b> |                           |                  |               |                  |               |             |               |
| Cf credi 15 1         | 50,000,000                | 5,011            | 5.61%         | 5,007            | 3.68%         | -           | -             |
| Cf credi 6-16         | 35,000,000                | <u>3,500</u>     | 5.67%         | <u>-</u>         | -             | <u>-</u>    | -             |
|                       |                           | <u>\$ 12,126</u> |               | <u>\$ 15,006</u> |               | <u>\$ -</u> |               |

| Issuance                   | Amount of<br>certificates | 2016              |               | 2015              |               | 2014        |               |
|----------------------------|---------------------------|-------------------|---------------|-------------------|---------------|-------------|---------------|
|                            |                           | Balance           | Interest rate | Balance           | Interest rate | Balance     | Interest rate |
| <b>Sociedad Financiera</b> |                           |                   |               |                   |               |             |               |
| First program              |                           |                   |               |                   |               |             |               |
| Sfomibu 00215              | 50,000,000                | \$ -              | -             | \$ 4,981          | 3.36%         | \$ -        | -             |
| Sfomibu 00315              | 50,000,000                | -                 | -             | 4,974             | 3.39%         | -           | -             |
| Sfomibu 00716              | 40,000,000                | 4,013             | 5.26%         | -                 | -             | -           | -             |
| Sfomibu 00816              | 35,000,000                | 3,504             | 5.22%         | -                 | -             | -           | -             |
| Sfomibu 00916              | 20,000,000                | 2,003             | 5.22%         | -                 | -             | -           | -             |
| Sfomibu 01016              | 15,000,000                | 1,502             | 5.22%         | -                 | -             | -           | -             |
| Sfomibu 01116              | 50,000,000                | 5,012             | 5.26%         | -                 | -             | -           | -             |
| Sfomibu 01216              | 15,000,000                | 1,502             | 5.78%         | -                 | -             | -           | -             |
|                            |                           | <u>\$ 17,536</u>  |               | <u>\$ 9,955</u>   |               | <u>\$ -</u> |               |
| Total unsecured bonds      |                           | <u>\$ 117,728</u> |               | <u>\$ 109,798</u> |               | <u>\$ -</u> |               |

- (1) On September 23, 2014, the Commission released an official 153/107353/2014, authorizing the issuance of securities under the “Program for unsecured bank bonds, deposits certificates, promissory notes with returns that can be realized at maturity and bank bonds” program in the National Securities Registry. The authorized amount is \$100,000 or its equivalent in UDIs, without all the current issues amount exceed authorized. As of December 31, 2016, 2015 and 2014, the issues represent 33% and 19%, respectively, of the total amount authorized.
- (2) On February 1, 2013, the Commission released an official 153/6117/2013, authorizing the issuance of securities under the “Program for unsecured bank bonds, deposits certificates, promissory notes with returns that can be realized at maturity and bank bonds” program in the National Securities Registry. The authorized amount is \$30,000 or its equivalent in UDIs, without all the current issues amount exceed authorized. As of December 31, 2016, 2015 and 2014 the total issued under this program represented 75% and 95% respectively, of the total authorized amount.
- (3) On June 30, 2010, the Commission released an official communication (reference no.153/3618/2010), authorizing the issuance of securities under the “Program for unsecured bank bonds, deposits certificates, promissory notes with returns that can be realized at maturity and bank bonds” program in the National Securities Registry. The authorized amount is not to exceed \$50,000 or its equivalent in UDIs. As of December 31, 2016, 2015 and 2014, these issuances represent 24% and 39%, respectively, of the total authorized amount.

Each issuance of securities that is carried out through the program will have its own characteristics: the issuance price, the total balance of each issuance, its nominal value, the issuance and settlement date, the period, the maturity date, the interest rate and the periodicity of interest payments. All of these, will be determined by the issuer and its intermediary agent, and will be documented at the time of each issuance in the respective prospectus.

For the years ended December 31, 2016, 2015 and 2014, the interest expense from unsecured bank bonds were \$5,404, \$3,994 and \$2,781 (Note 28b), respectively, and issuance expenses of \$73, \$71 and \$71, respectively

- d. ***Global account of deposits without movements*** – As of December 31, 2016, the global account of deposits without movements, were as follows:

|  | 2016         |                         |              |
|--|--------------|-------------------------|--------------|
|  | Mexican peso | Valued foreign currency | Total        |
| Global account of deposits without movements | \$ <u>63</u> | \$ <u>2</u>             | \$ <u>65</u> |

## 19. Bank and other loans

This includes loans received from other financial and governmental institutions, at market interest rates.

As of December 31, 2016, 2015 and 2014, bank and other loans were as follows:

|  | 2016         |           |              | 2015         |          |              | 2014         |          |              |
|--|--------------|-----------|--------------|--------------|----------|--------------|--------------|----------|--------------|
|  | Principal    | Interest  | Total        | Principal    | Interest | Total        | Principal    | Interest | Total        |
| Demand loans                           |              |           |              |              |          |              |              |          |              |
| Loans in Mexican pesos                 |              |           |              |              |          |              |              |          |              |
| Received “call money” transactions (1) | \$ -         | \$ -      | \$ -         | \$ 1,070     | \$ -     | \$ 1,070     | \$ 1,380     | \$ -     | \$ 1,380     |
| Short-term portion                     |              |           |              |              |          |              |              |          |              |
| Loans in Mexican pesos                 |              |           |              |              |          |              |              |          |              |
| Other loans                            | 1,500        | 4         | 1,504        | 1,382        | -        | 1,382        | -            | -        | -            |
| NAFIN                                  | 380          | 2         | 382          | 598          | 1        | 599          | 1,048        | 2        | 1,050        |
| Banxico’s auctions                     | 1,350        | 7         | 1,357        | -            | -        | -            | -            | -        | -            |
| Loans in foreign currency              |              |           |              |              |          |              |              |          |              |
| NAFIN                                  | <u>72</u>    |           | <u>72</u>    | <u>14</u>    | <u>-</u> | <u>14</u>    | <u>2</u>     | <u>-</u> | <u>2</u>     |
|  | <u>3,302</u> | <u>13</u> | <u>3,315</u> | <u>1,994</u> | <u>1</u> | <u>1,995</u> | <u>1,050</u> | <u>2</u> | <u>1,052</u> |
| Long-term portion                      |              |           |              |              |          |              |              |          |              |
| Loans in Mexican pesos                 |              |           |              |              |          |              |              |          |              |

|   | 2016             |              |                  | 2015            |             |                 | 2014            |             |                 |
|---|------------------|--------------|------------------|-----------------|-------------|-----------------|-----------------|-------------|-----------------|
|   | Principal        | Interest     | Total            | Principal       | Interest    | Total           | Principal       | Interest    | Total           |
| Other loans                                   | -                | -            | -                | 1,651           | -           | 1,651           | -               | -           | -               |
| NAFIN   | 14,444           | 25           | 14,469           | 4,070           | 2           | 4,072           | 2,900           | 1           | 2,901           |
| Sociedad Hipotecaria                          | 1,500            | 4            | 1,504            | -               | -           | -               | -               | -           | -               |
| BANOBRAS                                      | 7,667            | 2            | 7,669            | -               | -           | -               | -               | -           | -               |
| Discounted portfolio (FIRA)                   | 71               | -            | 71               | 82              | -           | 82              | 22              | -           | 22              |
| Loans in foreign currency                     |                  |              |                  |                 |             |                 |                 |             |                 |
| Loans for multiple purpose financing entities | <u>2,681</u>     | <u>4</u>     | <u>2,685</u>     | <u>-</u>        | <u>-</u>    | <u>-</u>        | <u>-</u>        | <u>-</u>    | <u>-</u>        |
|   | <u>26,363</u>    | <u>35</u>    | <u>26,398</u>    | <u>8,867</u>    | <u>2</u>    | <u>5,805</u>    | <u>-</u>        | <u>-</u>    | <u>-</u>        |
|   | <u>\$ 29,665</u> | <u>\$ 48</u> | <u>\$ 29,713</u> | <u>\$ 8,867</u> | <u>\$ 3</u> | <u>\$ 8,870</u> | <u>\$ 5,352</u> | <u>\$ 3</u> | <u>\$ 5,355</u> |

As of December 31, 2015, received “call money” transactions were as follows:

|                    | Principal | Interest rate | Term (days) |
|--------------------|-----------|---------------|-------------|
| Commercial Banking | \$ 1,070  | 2.90%         | 4           |

As of December 31, 2014, received “call money” transactions were as follows:

|                     | Amount          | Interest rate   | Term (days) |
|---------------------|-----------------|-----------------|-------------|
| Commercial Banking  | \$ 1,380        | 2.75% and 2.93% | 2           |
| Development Banking | <u>-</u>        | <u>-</u>        | <u>-</u>    |
|                     | <u>\$ 1,380</u> |                 |             |

As of December 31, 2016, 2015 and 2014, short term portion loans in Mexican pesos accrue average interest rates of 3.66%, 3.90% and 3.90%, respectively. For the years ended December 31, 2016, 2015 and 2014, the long term portion loans in Mexican pesos accrued average interest rates were 6.65%, 4.59% and 5.51%, respectively.

For the years ended December 2016, 2015 and 2014, the interest expense from bank loans were \$424, \$230 and \$181, respectively (Note 28b).

As of December 31, 2016, 2015 and 2014, no guarantees were granted in relation to loans payable.

## 20. Income tax

The Institution is subject to ISR. According with the ISR law, the rate is 30% in 2016, 2015 and 2014 and it will continue at 30% in 2017 and thereafter.

For the years ended December 31, 2016, 2015 and 2014, the tax on income is comprised as follows:

### - Statements of income

A reconciliation of taxable and accounting income for the years ended December 31, 2016, 2015 and 2014 is presented below:

|   | 2016            | 2015            | 2014            |
|---|-----------------|-----------------|-----------------|
| Net profit (1)  | \$ 9,848        | \$ 13,295       | \$ 17,780       |
| Plus: Taxable income  | 4,291           | 26,941          | 2,990           |
| Minus: Taxable deductions                                       | 11,730          | 31,506          | 6,447           |
| Minus: Accounting income  | 3,788           | 11,229          | 17,598          |
| Plus: Accounting deductions                                     | <u>10,015</u>   | <u>11,204</u>   | <u>9,611</u>    |
| Taxable profit  | 8,636           | 8,705           | 6,336           |
| Plus: Results in foreign<br>Subsidiary                          | 70              | -               | -               |
| Plus: Subsidiary without<br>taxable effect                      | 21              | -               | -               |
| Minus: Amortization of taxable<br>losses from previous<br>years | <u>(16)</u>     | <u>(2)</u>      | <u>15</u>       |
| Taxable basis   | 8,711           | 8,703           | 6,321           |
| Income tax rate   | <u>30%</u>      | <u>30%</u>      | <u>30%</u>      |
| Income tax  | 2,613           | 2,611           | 1,896           |
| Income tax from<br>previous years                               | <u>(336)</u>    | <u>(19)</u>     | <u>-</u>        |
|   | <u>\$ 2,277</u> | <u>\$ 2,592</u> | <u>\$ 1,896</u> |

- (1) Total net profit from each entity (the Institution and its subsidiaries), without elimination of intercompany transactions.

At the date of the issuance of these consolidated financial statements, the final annual statement of 2016, has not been submitted to the tax authorities, therefore the tax to be presented may be amended; however, management estimates these will not be relevant.

### *Reconciliation of effective ISR*

For the years ended December 31, 2016, 2015 and 2014, the effective ISR rates were 14% and 11%, respectively. A reconciliation of legal and effective tax rate is detailed below:

|  | 2016         | 2015           | 2014           |
|--|--------------|----------------|----------------|
| Effective rate   |              |                |                |
| Profit before tax as income<br>statement                   | \$ 9,848     | \$ 13,294      | \$ 17,780      |
| Results on non-consolidated<br>subsidiaries and associates | <u>(859)</u> | <u>(2,601)</u> | <u>(1,814)</u> |
| Net profit before tax                                      | 8,989        | 10,693         | 15,966         |

|  | 2016     | 2015     | 2014     |
|--|----------|----------|----------|
| Tax effect on no affected items:           |          |          |          |
| Annual adjustment for inflation            | (2,577)  | (1,333)  | (2,154)  |
| Non-deductible expenses                    | 64       | 289      | 45       |
| Difference from stocks taxable cost        | (30)     | (564)    | (607)    |
| Nontaxable gain from release of reserves   | 176      | (5,280)  | (11,123) |
| Other impairments                          | (1,461)  | -        | (193)    |
| Other losses                               | 195      | 151      | -        |
| Losses in subsidiaries                     | 45       | -        | (200)    |
| Depreciation and amortization              | (118)    | (6)      | (24)     |
| Taxable profit                             | 5,283    | 3,950    | -        |
|  |          |          | 202      |
| Income tax rate                            | 30%      | 30%      | 1,912    |
| Income tax                                 | 1,585    | 1,185    | 30%      |
|  |          |          | 574      |
| Exceeded ISR provision from previous years | (375)    | (19)     | (10)     |
| Total income tax from income statement     | \$ 1,210 | \$ 1,166 | \$ 564   |
| Effective ISR rate                         | 14%      | 11%      | 4%       |

ISR is calculated considering as taxable or deductible certain inflation effects, such as depreciation which was calculated on Mexican pesos. The inflation effects of certain monetary assets and liabilities are accumulated and deducted through the annual inflation for adjustment.

## 21. Cash collateral received

Guaranteed cash deposits for derivative contracts from derivative contracts Over the Counter, especially with swaps, are required to comply with obligations from counterparties. As of December 31, 2016, 2015 and 2014, the credit balances were \$2,264, \$0 and \$314, respectively.

## 22. Sundry creditors and other payables

As of December 31, 2016, 2015 and 2014, were as follows:

|                                  | 2016            | 2015            | 2014            |
|----------------------------------|-----------------|-----------------|-----------------|
| Sundry creditors                 | \$ 2,938        | \$ 2,783        | \$ 1,149        |
| Orders on behalf of clients      | 15              | 26              | 121             |
| Guaranteed deposits              | -               | 73              | 83              |
| Money orders to pay              | 66              | 35              | 27              |
| Cash checks                      | 230             | 195             | 79              |
| Provisions for other obligations | 79              | 113             | 10              |
| Certified checks                 | 48              | 51              | 40              |
|                                  | <u>\$ 3,376</u> | <u>\$ 3,276</u> | <u>\$ 1,509</u> |

## 23. Deferred taxes, net

As of December 31, 2016, 2015 and 2014, deferred taxes were as follows:

|  | 2016            | 2015            | 2014            |
|--|-----------------|-----------------|-----------------|
| Deferred tax liability:                                    |                 |                 |                 |
| Valuation of shares  | \$ 6            | \$ 45           | \$ -            |
| Valuation of financial instruments                         | 938             | 831             | 1,614           |
| Premium on credit operations                               | -               | 11              | 11              |
| Derivative financial instruments                           | 1,433           | 766             | 771             |
| Investments in promoted companies                          | 796             | 526             | 396             |
| Amortization of discounts on credit acquisitions           | -               | 90              | 83              |
| Amortization of premiums paid on financial operations      | -               | 76              | 75              |
| Financial leasing  | 132             | -               | (7)             |
| Others   | <u>1,506</u>    | <u>1,163</u>    | <u>884</u>      |
|  | <u>\$ 4,811</u> | <u>\$ 3,508</u> | <u>\$ 3,827</u> |
| Deferred tax asset:  |                 |                 |                 |
| Tax on assets paid   | \$ 48           | \$ 46           | \$ 45           |
| Fiscal losses to be amortized                              | 12              | 11              | 5               |
| Commercial loans amortization                              | 7               | 7               | 7               |
| Valuation of financial instruments                         | 1,078           | 938             | 790             |
| Derivative financial instruments                           | 12              | 33              | 7               |
| Deductible fixed assets                                    | -               | 124             | -               |
| Anticipated collections                                    | 654             | 11              | 6               |
| Deductible impairments                                     | 1,018           | 183             | 22              |
| Allowance for loan losses                                  | 1,732           | 2,141           | 308             |
| Valuation of asset subject to hedges                       | 6               | 188             | 26              |
| Impairment of foreclosed assets and effects of restatement | 168             | -               | -               |
| Advanced payments  | 46              | 47              | -               |
| Effect of restatement of assets                            | 72              | -               | -               |
| Others   | <u>169</u>      | <u>169</u>      | <u>232</u>      |
|  | <u>5,022</u>    | <u>3,898</u>    | <u>1,448</u>    |
| Deferred tax (asset) liability, net                        | <u>\$ (211)</u> | <u>\$ (390)</u> | <u>\$ 2,379</u> |

The tax rate of 30% was applied to temporary differences as of December 31, 2016, 2015 and 2014.

## 24. Commitments and contingencies

- a. **Leasing** - The Institution has several leasing contracts from the bank branches facilities, parking lots and computer systems. Some of these contracts were celebrated by the affiliated companies and are not considered to be not material in relation to the consolidated financial statements taken as a whole. For the years ended December 31, 2016, 2015 and 2014, the leasing expense were \$48, \$46 and \$46, respectively.

Considering the leasing contracts as of December 31, 2016, the Institution expects to pay \$351 for leasing obligations over the next five years.



b. **Credit commitments**

- **Letters of credit**

The Institution grants letters of credit to its clients, which can generate a collection or delivery obligation at any time. Some of these operations are entered into with related parties. As of December 31, 2016, 2015 and 2014, letters of credit granted by the Institution amounted to \$20,706, \$8,780 and \$5,385, respectively.

- c. **Credit lines** - The Institution has granted lines of credits that have not yet been exercised. As of December 31, 2016, 2015 and 2014, the total amounts of credits granted by the Institution were \$141,684, \$372,924 and \$282,824, respectively. Of such amounts, \$81,873, \$63,006 and \$100,383, remained undrawn as of December 31, 2016, 2015 and 2014, respectively.
- d. **Review of fiscal reports** - As of December 31, 2016, in connection with a review by financial industry section of the Tax Administration Service (SAT) of the fiscal years 2007 and 2009, the Institution presented on time all documentation required to the Administration of Major Taxpayers of the SAT. As of December 31, 2016, there is no evidence of disputed taxes. The Institution, based on the views of its legal counsel, believes that the final result of tax reviews will be favorable.

At the date of issuance of the attached financial statements, the SAT is reviewing tax filings for the fiscal years ended on December 31, 2014 and 2015.

**25. Stockholders' equity**

- a. **Capital stock** - As of December 31, 2016, 2015 and 2014, authorized capital stock consists of 900,000,000 Series "O" shares with a nominal value of \$10 each.

As of December 31, 2016, 2015 and 2014, the historical value of stockholders' paid capital stock was \$8,344. During such years, the accounting value is \$17,579, due to adjustments to recognize inflation that were applied until December 2007.

In accordance with the LIC, the minimum stockholders' equity paid to credit institutions must be 90 million UDIs. As of December 31, 2016, 2015 and 2014, the Institution was in compliance with this regulatory requirement.

| Fixed capital                 | Number of shares   | Amount          |
|-------------------------------|--------------------|-----------------|
| Series "O" shares subscribed  | 834,423,537        | \$ 8,344        |
| Series "O" shares in treasury | <u>65,576,463</u>  | <u>656</u>      |
| Total autorizado              | <u>900,000,000</u> | <u>\$ 9,000</u> |

- b. **Stockholders' equity variations** - At the stockholders' meeting on January 25, 2016, dividends were declared of \$0.95874572627258 (Mexican pesos) per share on a total of 834,423,537 shares. The total amount paid was \$800, and it was settled on February 5, 2016.

At the stockholders' meeting on April 28, 2016, dividends were declared of \$0.02398004305419 (Mexican pesos) per share on a total of 834,423,537 shares. The total amount paid was \$192.

At the stockholders' meeting on April 29, 2015, dividends were declared of \$2.121407081066070 (Mexican pesos) per share on a total of 834,423,537 shares. The total amount paid was \$1,770.

- c. **Restrictions to stockholders' equity**

• **Beneficial ownership**

At no time may foreign entities that hold shares may perform official functions in the Institution. This restriction is also applicable to Mexican financial entities, even those which belong to the Financial Group, unless acting as institutional investors per Article 19 of the LRAF.

Any natural or legal person can acquire by one or several operations, Series “O” shares ‘control, from a multiple purpose financial entity, in all cases with previous authorization from SHCP, and favorable opinion from the Commission.

- **Capital reductions**

In accordance with the ISR Law, the Institution must regulate in a separate account known as Capital Contribution Account (CUCA), all capital contributions and net premiums due to shares subscriptions and al capital reductions as well. This account must be updated according to Mexican annual inflation from the date in which the capital contribution was made until there is a capital reduction.

In accordance with the ISR Law, the amount of capital reduction is not subject to taxes, only if it does not exceed the CUCA balance; otherwise the difference must be considered as distributed income which is subject to tax payable by the Institution.

- d. **Availability of income** - According to the LIC, the Institution must set aside at least 10% of the net income of the year in order to increase legal reserve until the amount reaches a balance equal to the capital paid. As of December 31, 2016, 2015 and 2014, the legal reserve were \$10,902 and \$9,905, respectively.

ISR Law establishes that dividends derived from net income that has been subject to ISR will not be subject to additional ISR. In order to qualify for this exclusion, tax income must be controlled with the Tax Net Income Account (CUFIN). Distributions in excess of the balance of CUFIN will be subject to ISR.

As of December 31, 2016, 2015 and 2014, tax equity balances were as follows:

|                | 2016             | 2015             | 2014             |
|----------------|------------------|------------------|------------------|
| CUCA           | \$ <u>51,402</u> | \$ <u>43,972</u> | \$ <u>36,640</u> |
| CUFIN LAW 2012 | \$ <u>7,457</u>  | \$ <u>4,223</u>  | \$ <u>5,830</u>  |
| CUFIN LAW 2014 | \$ <u>11,075</u> | \$ <u>6,343</u>  | \$ <u>5,025</u>  |

- e. As per the LIC, Banxico requires credit institutions to have a minimum capitalization percentage of risk based assets, which are calculated by applying a certain percentage according to the type of risk.

The capitalization percentage required is 8% plus a capital conservation supplement of 2.5%. However, as the Bank was designated a Full Service Bank of Local Systemic Importance, with a degree of importance “I”, at the close of December 2016 the Bank is required to establish the 25% additional percentage required for institutions designated as being of Systemic Importance (0.60%), i.e. an additional 0.15, leaving a minimum of 10.65% according to the degree of importance designated for the Bank. As of December 31, 2016 the capitalization ratio of the Institution as approved by Banxico is 18.48% and is presented as follows:

|                               |                   |
|-------------------------------|-------------------|
| Net capital                   | \$ 62,782         |
| Total of risk based assets    | <u>339,810</u>    |
| Capitalization index          | 18.48%            |
| <b>Risk based assets:</b>     |                   |
| Market risk based assets      | 86,160            |
| Credit risk based assets      | 233,433           |
| Operational risk based assets | <u>20,217</u>     |
|                               | <u>\$ 339,810</u> |

- **Net capital**

Net capital is used to determine the capitalization index as of December 31, 2016, which is detailed below:

|  |    |                      |
|--|----|----------------------|
| Equity   | \$ | 86,103               |
| Less:  |    |                      |
| Investments in shares of financial entities and their holdings |    | 21,806               |
| Investments in shares of companies                             |    | 8                    |
| Intangibles  |    | <u>1,507</u>         |
| Basic capital  |    | 62,782               |
| Plus:  |    |                      |
| Allowance for credit losses                                    |    | <u>-</u>             |
| Net capital  | \$ | <u><u>62,782</u></u> |

- **Assets at risk**

Assets at market and credit risk used to determine capital requirements as of December 31, 2016, were as follows:

|   | Amount of equivalent positions | Capital requirement |
|---|--------------------------------|---------------------|
| Market risk:  |                                |                     |
| Operations in Mexican pesos in nominal rate                 | \$ 24,085                      | \$ 1,927            |
| Operations with surcharge in Mexican pesos                  | 637                            | 51                  |
| Operations in Mexican pesos with real rate                  | 1,204                          | 96                  |
| Operations in foreign currency in nominal rate              | 19,216                         | 1,537               |
| Operations in UDI's or with performance related to INPC     | 13                             | 1                   |
| Operations in foreign currency                              | 2,998                          | 240                 |
| Operations in gold  | 1                              | -                   |
| Operations in share and over share                          | 37,957                         | 3,037               |
| Capital requirement for Gamma impact                        | -                              | -                   |
| Capital requirement for Vega impact                         | <u>49</u>                      | <u>4</u>            |
| Total   | <u>\$ 86,160</u>               | <u>\$ 6,893</u>     |
| Credit risk:  |                                |                     |
| Counterparty unrelated transactions with debt securities    | \$ 2                           | \$ -                |
| Counterparty unrelated transactions with derivatives        | 1,562                          | 124                 |
| Counterparty related transactions with derivatives          | 1,390                          | 111                 |
| From issuers of debt instruments in position                | 7,296                          | 584                 |
| From clients of loan portfolio                              | 187,812                        | 15,025              |
| For guarantees and credit lines granted and securitizations | 7,046                          | 564                 |
| Issuers of real and personal guarantees received            | 84                             | 7                   |
| Permanent investments and other assets                      | 6,462                          | 517                 |
| From operations with related parties                        | 15,365                         | 1,229               |
| Credit valuation adjustment on derivative transactions      | <u>6,414</u>                   | <u>513</u>          |
| Total   | <u>\$ 233,433</u>              | <u>\$ 18,674</u>    |
| Capital requirements for operational risk                   | <u>\$ 20,218</u>               | <u>\$ 1,617</u>     |

Banco Inbursa uses the standard method to calculate capital requirements for credit risk, and to determine the degrees of risk of borrowers, issuers and counterparties, it uses the rating issued by the ratings agencies approved in Exhibit 1-B of the Provisions. The public issues of Banco Inbursa are subject to a process of evaluation, review and classification by ratings agencies recognized in Exhibit 1-B of the Provisions. The Institution determines the positive net positions of a counterparty for derivatives transactions resulting from offsetting positions payable to and receivable from the same counterparty without differentiating the underlying asset, currency and term, considering the clause which allows all the transactions under the framework agreement to be discharged and the settlement to be considered enforceable in all pertinent jurisdictions.

Requirement to mitigate credit risk the Institution uses only eligible financial collateral, these being mainly cash deposits and government securities, as of December 31, 2016, were \$1.7 and \$0.3 million, respectively

Credit risk weighted assets were as follows:

|   | Total      | Requirement |
|---|------------|-------------|
| Group I (weighted at 0%) <sup>(1)</sup> | \$ 41,146  | \$ -        |
| Group I (weighted at 20%)               | \$ 149     | \$ 12       |
| Group III (weighted at 20%)             | 7,112      | 569         |
| Group IV (weighted at 20%)              | 3,401      | 272         |
| Group V (weighted at 20%)               | 2,473      | 198         |
| Group VI (weighted at 50%)              | 1,131      | 90          |
| Group VI (weighted at 75%)              | 35         | 3           |
| Group VI (weighted at 100%)             | 7,001      | 560         |
| Group VII-A (weighted at 20%)           | 211        | 17          |
| Group VII -A (weighted at 50%)          | 1,583      | 127         |
| Group VII-A (weighted at 100%)          | 131,165    | 10,493      |
| Group VII -A (weighted at 115%)         | 733        | 58          |
| Group VII -A (weighted at 150%)         | 2,645      | 212         |
| Group VII-B (weighted at 20%)           | 794        | 64          |
| Group VII-B (weighted at 100%)          | 51,228     | 4,098       |
| Group VII-B (weighted at 115%)          | 1,258      | 101         |
| Group VIII-B (weighted at 115%)         | 705        | 56          |
| Permanent investments and other assets  | 6,463      | 517         |
|   | \$ 218,087 | \$ 17,447   |

(1) Operations within this group have a credit risk rated as 0% (zero).

In the capital sufficiency assessment exercises applied in 2016, the results were favorable in the scenarios of the supervisor and the proprietary scenarios, generating results above the minimum required under the regulations in effect, for which reason it was not necessary to establish a preventive action plan to meet the minimum capital requirement.

#### - Risk management

The Institution has its own specialized Risk Department, which is in charge of daily monitoring and verifying that operations accomplish the methodologies and policies established. It is also that equity is within the minimum requirements established by regulations.

In the case that there is a deviation from the regulation's parameters, the Risk Department is in charge of reporting this situation directly to the Risk Committee and the latter to the Management Board (risk management policies and procedures are described in Note 33).

- **Ratings**

As of December 31, 2016, the rating agencies Standard & Poor's and HR Ratings classified the Institution as mxAAA and AAA/HR+1, respectively. As of December 31, 2015 the ratings were BBB/A-2 and AAA/HB+1, respectively.

**26. Earnings per share and other comprehensive income**

- a. **Earnings per share** – The earnings per share for years ended December 31, 2016, 2015 and 2014, were as follows:

|  | 2016               | 2015               | 2014               |
|--|--------------------|--------------------|--------------------|
| Net controlling interest income                      | \$ 7,743           | \$ 9,890           | \$ 14,554          |
| Weighted average number of common shares outstanding | <u>834,423,537</u> | <u>834,423,537</u> | <u>834,423,537</u> |
| Earnings per share (Mexican pesos)                   | <u>\$ 9.2789</u>   | <u>\$ 11.8532</u>  | <u>\$ 17.4419</u>  |

- b. **Other comprehensive income** – For the years ended December 31, 2016, 2015 and 2014, other comprehensive income were as follows:

|   | 2016            | 2015            | 2014             |
|---|-----------------|-----------------|------------------|
| Net income  | \$ 7,745        | \$ 10,110       | \$ 14,756        |
| Result from valuation of investment in marketable securities available for sale | -               | (11)            | (9)              |
| Result from valuation of cash flow hedges                                       | (91)            | (341)           | (30)             |
| Ineffectiveness of cash flow hedges   | (27)            | (5)             | -                |
| Recycling swap cash flow hedge  | <u>32</u>       | <u>32</u>       | <u>(247)</u>     |
|   | <u>\$ 7,659</u> | <u>\$ 9,785</u> | <u>\$ 14,470</u> |

**27. Information by segments**

For the years ended December 31, 2016, 2015 and 2014, the Institution's operations by business segment were as presented in the tables below. Balances presented below are classified differently from the presentation adopted for the consolidated financial statements as they were grouped according to operation and accounting records.

The main data by segment of the institution were as follows:

|   | 2016          | 2015          | 2014          |
|---|---------------|---------------|---------------|
| a) Lending operations   |               |               |               |
| Income-   |               |               |               |
| Interests from loans (Note 28a)   | \$ 23,007     | \$ 17,249     | \$ 13,064     |
| Commissions from opening of credit lines (Note 28a)                             | 544           | 238           | 141           |
| Exchange rate and UDIs (Note 28a)   | 185           | 71            | 139           |
| Commissions (Note 29)   | 3,955         | 2,715         | 1,497         |
| Other operating income (Surplus reserve, discount and overprice loan portfolio) | 1,914         | 6,655         | 13,715        |
| Valuation derivatives (primary hedge position)                                  | <u>-</u>      | <u>-</u>      | <u>502</u>    |
|   | <u>29,605</u> | <u>26,928</u> | <u>29,058</u> |

|  | 2016            | 2015             | 2014             |
|--|-----------------|------------------|------------------|
| Expenses-                                      |                 |                  |                  |
| Exchange rate and UDIs (Note 28b)              | 61              | 30               | 14               |
| Allowance for credit losses (Note 12)          | 6,613           | 3,477            | 2,438            |
| Interests from deposits (Note 28b)             | 10,255          | 6,803            | 5,820            |
| Commissions                                    | 1,791           | 698              | 49               |
| Other operating expenses                       | 807             | 351              | 84               |
| Swaps valuation hedge                          | 8               | 118              | 347              |
| Valuation derivatives (primary hedge position) | 281             | 137              | -                |
|  | <u>19,816</u>   | <u>11,614</u>    | <u>8,752</u>     |
| Results from lending operations                | <u>\$ 9,789</u> | <u>\$ 15,314</u> | <u>\$ 20,306</u> |

Net assets related to loan transactions at December 31, 2016, 2015 and 2014 were \$261,676, \$220,691 and \$184,380, respectively.

|   | 2016            | 2015              | 2014            |
|---|-----------------|-------------------|-----------------|
| b) Money market and capital market operations           |                 |                   |                 |
| Income-   |                 |                   |                 |
| Interest from investments (Note 28a)                    | \$ 2,983        | \$ 1,342          | \$ 1,691        |
| Premiums from sale and repurchase agreements (Note 28a) | 745             | 1,190             | 1,902           |
| Dividends   | 54              | 37                | 21              |
| Commissions (Note 29)                                   | 486             | 363               | 334             |
| Results from securities operations (Note 30)            | <u>376</u>      | <u>281</u>        | <u>875</u>      |
|   | <u>4,644</u>    | <u>3,213</u>      | <u>4,823</u>    |
| Expenses-   |                 |                   |                 |
| Premiums from sale and repurchase agreements (Note 28b) | 464             | 978               | 1,591           |
| Commissions   | 54              | 56                | 44              |
| Realized gain on securities (Note 30)                   | <u>39</u>       | <u>3,243</u>      | <u>1,827</u>    |
|   | <u>557</u>      | <u>4,277</u>      | <u>3,462</u>    |
| Results from money market and capital market operations | <u>\$ 4,087</u> | <u>\$ (1,064)</u> | <u>\$ 1,361</u> |

Assets related to money market and capital market operations as of December 31, 2016, 2015 and 2014, were \$75,613, \$43,300 and \$50,787, respectively.

|   | 2016           | 2015          | 2014              |
|---|----------------|---------------|-------------------|
| c. Derivatives and foreign currency operations (Note 30)  |                |               |                   |
| Results from foreign exchange transactions                | \$ 5,575       | \$ 2,051      | \$ 2,853          |
| Results from foreign currency exchange                    | 466            | 433           | 691               |
| Results from financing derivative operations              | (4,317)        | (2,526)       | (2,783)           |
| Results from valuation of financing derivative operations | <u>(1,652)</u> | <u>422</u>    | <u>(4,252)</u>    |
|   | <u>\$ 72</u>   | <u>\$ 380</u> | <u>\$ (3,491)</u> |

Net assets related to derivatives and foreign currency transactions as of December 31, 2016, 2015 and 2014, were \$5,098, \$1,321 and \$(1,131), respectively.

|   | 2016            | 2015             | 2014             |
|---|-----------------|------------------|------------------|
| Reconciliation:   |                 |                  |                  |
| Loan portfolio transactions                                     | \$ 9,789        | \$ 15,314        | \$ 20,306        |
| Money market and capital market transactions                    | 4,087           | (1,064)          | 1,361            |
| Derivatives and foreign currency transactions                   | 72              | 380              | (3,491)          |
| Commissions from management of retirement accounts              | <u>1,009</u>    | <u>1,128</u>     | <u>1,159</u>     |
| Operating result before administrative and promotional expenses | 14,957          | 15,757           | 19,335           |
| Administrative and promotional expenses                         | <u>(7,081)</u>  | <u>(5,676)</u>   | <u>4,964</u>     |
| Operating income  | <u>\$ 7,876</u> | <u>\$ 10,081</u> | <u>\$ 14,371</u> |

## 28. Financial margin

For the years ended December 31, 2016, 2015 and 2014, the main items comprising the financial margin were as follows:

### a. Interest income

|   | 2016                   |                  |           | 2015                   |                  |           | 2014                   |                  |           |
|---|------------------------|------------------|-----------|------------------------|------------------|-----------|------------------------|------------------|-----------|
|   | Mexican pesos and UDIs | Foreign currency | Total     | Mexican pesos and UDIs | Foreign currency | Total     | Mexican pesos and UDIs | Foreign currency | Total     |
| Loan portfolio (1) (Note 27a)                           | \$ 18,674              | \$ 4,333         | \$ 23,007 | \$ 14,062              | \$ 3,187         | \$ 17,249 | \$ 10,722              | \$ 2,342         | \$ 13,064 |
| Commissions from opening of credit lines (Note 27a)     | 541                    | 3                | 544       | 236                    | 2                | 238       |                        |                  |           |
| Premiums from sale and repurchase agreements (Note 27b) | 745                    | -                | 745       | 1,190                  | -                | 1,190     | 141                    | -                | 141       |
| Investments in securities (Note 27b)                    | 1,796                  | 772              | 2,568     | 590                    | 478              | 1,068     | 1,902                  | -                | 1,902     |

|  | 2016                   |                  |                  | 2015                   |                  |                  | 2014                   |                  |                  |
|--|------------------------|------------------|------------------|------------------------|------------------|------------------|------------------------|------------------|------------------|
|  | Mexican pesos and UDIs | Foreign currency | Total            | Mexican pesos and UDIs | Foreign currency | Total            | Mexican pesos and UDIs | Foreign currency | Total            |
| Deposits on Banxico (Note 27b)                       | 374                    | -                | 374              | 269                    | -                | 269              | 766                    | 563              | 1,329            |
| Financing on national and foreign banks (Note 27b)   | 17                     | 24               | 41               | -                      | 5                | 5                | 328                    | -                | 328              |
| Valuation of foreign currency and UDI'S (Note 27a)   | 185                    | -                | 185              | 71                     | -                | 71               | 26                     | 4                | 30               |
| Dividends from equity instruments                    | 54                     | -                | 54               | 37                     | -                | 37               | 139                    | -                | 139              |
| Others   | -                      | -                | -                | -                      | -                | -                | -                      | 3                | 3                |
| Amortization from loan portfolio valuation (Note 10) | (289)                  | -                | (289)            | (256)                  | -                | (256)            | 155                    | -                | 155              |
|  | <u>\$ 22,097</u>       | <u>\$ 5,132</u>  | <u>\$ 27,229</u> | <u>\$ 16,199</u>       | <u>\$ 3,672</u>  | <u>\$ 19,871</u> | <u>\$ 14,200</u>       | <u>\$ 2,912</u>  | <u>\$ 17,112</u> |

(1) Interest from foreign exchange rate were as follows:

|                                  | 2016             |                  | 2015             |  | 2014 |  |
|----------------------------------|------------------|------------------|------------------|--|------|--|
| Simple                           | \$ 9,574         | \$ 7,556         | \$ 6,064         |  |      |  |
| Unsecured loans                  | 535              | 527              | 349              |  |      |  |
| Restructured                     | 1,465            | 1,486            | 1,408            |  |      |  |
| Subject to Value Added Tax (IVA) | 429              | 30               | 38               |  |      |  |
| Other discounted loans           | 10               | 22               | 19               |  |      |  |
| Mortgage loans                   | 506              | 307              | 131              |  |      |  |
| Discounted loans                 | 40               | 27               | 25               |  |      |  |
| Pledged loans                    | 10               | 49               | 94               |  |      |  |
| Consumer loans                   | 8,735            | 5,927            | 2,765            |  |      |  |
| Leasing                          | 10               | 10               | 9                |  |      |  |
| Financing institutions           | 238              | 199              | 792              |  |      |  |
| Governmental institutions        | 1,455            | 1,109            | 1,370            |  |      |  |
|                                  | <u>\$ 23,007</u> | <u>\$ 17,249</u> | <u>\$ 13,064</u> |  |      |  |

The commercial loan interest corresponding to the years ended December 31, 2016, 2015 and 2014 were \$12,932, \$9,706 and \$8,006, respectively.

b. **Interest expense**

|   | 2016                   |                  |                  | 2015                   |                  |                 | 2014                   |                  |                 |
|---|------------------------|------------------|------------------|------------------------|------------------|-----------------|------------------------|------------------|-----------------|
|   | Mexican pesos and UDIs | Foreign currency | Total            | Mexican pesos and UDIs | Foreign currency | Total           | Mexican pesos and UDIs | Foreign currency | Total           |
| Premiums from sale and repurchase agreements (Note 8b)                    | \$ 464                 | \$               | \$ 464           | \$ 978                 | \$ -             | \$ 978          | \$ 1,591               | \$ -             | \$ 1,591        |
| Time deposits (Note 18b)  | 1,156                  | -                | 1,156            | 408                    | -                | 408             | 449                    | 1                | 450             |
| Promissory notes with returns that can be realized at maturity (Note 18b) | 486                    | -                | 486              | 267                    | -                | 267             | 198                    | -                | 198             |
| From banking loans and from other organisms (Note 19)                     | 411                    | 13               | 424              | 230                    | -                | 230             | 168                    | 13               | 181             |
| For demand deposits (Note 18a)  | 2,757                  | -                | 2,757            | 1,881                  | -                | 1,881           | 1,849                  | 3                | 1,852           |
| For instruments issued (Note 18c)   | 4,543                  | 861              | 5,404            | 3,291                  | 703              | 3,994           | 2,781                  | 346              | 3,127           |
| Discounts debt issuance   | 8                      | 20               | 28               | 3                      | 20               | 23              | -                      | 12               | 12              |
| Valuation of foreign currency and UDIs (Note 27a)                         | 61                     | -                | 61               | 30                     | -                | 30              | 14                     | -                | 14              |
|   | <u>\$ 9,886</u>        | <u>\$ 894</u>    | <u>\$ 10,780</u> | <u>\$ 7,088</u>        | <u>\$ 723</u>    | <u>\$ 7,811</u> | <u>\$ 7,050</u>        | <u>\$ 375</u>    | <u>\$ 7,425</u> |



**29. Commission and fee income**

For the years ended December 31, 2016, 2015 and 2014, were as follows:

|                               | 2016            | 2015            | 2014            |
|-------------------------------|-----------------|-----------------|-----------------|
| Retirement account management | \$ 1,009        | \$ 1,129        | \$ 1,160        |
| Loan portfolio                | 3,955           | 2,715           | 1,497           |
| Money market                  | 432             | 359             | 329             |
| Capital market                | <u>54</u>       | <u>4</u>        | <u>5</u>        |
|                               | <u>\$ 5,450</u> | <u>\$ 4,207</u> | <u>\$ 2,991</u> |

**30. Net gain (loss) on financial assets and liabilities**

For the years ended December 31, 2016, 2015 and 2014, net gain on financial assets and liabilities were as follows:

|  | 2016           | 2015              | 2014              |
|--|----------------|-------------------|-------------------|
| Other products and benefits from sale and purchase contracts of securities |                |                   |                   |
| Foreign exchange transactions  | \$ 5,575       | \$ 2,051          | \$ 2,853          |
| Transactions in securities   | 376            | 281               | 875               |
| Transactions in financial derivatives                                      | <u>(4,317)</u> | <u>(2,526)</u>    | <u>(2,783)</u>    |
|  | <u>1,634</u>   | <u>(194)</u>      | <u>945</u>        |
| Results from valuation at market   |                |                   |                   |
| Foreign exchange transactions  | 466            | 433               | 691               |
| Transactions in securities   | (39)           | (3,243)           | (1,827)           |
| Transactions in financial derivatives                                      | <u>(1,652)</u> | <u>422</u>        | <u>(4,252)</u>    |
|  | <u>1,225</u>   | <u>(2,388)</u>    | <u>(5,388)</u>    |
|  | <u>\$ 409</u>  | <u>\$ (2,582)</u> | <u>\$ (4,443)</u> |

**31. Other operating income**

For the years ended December 31, 2016, 2015 and 2014, were as follows.

|  | 2016            | 2015            | 2014             |
|--|-----------------|-----------------|------------------|
| Cancellation of surplus reserve (1)              | \$ 798          | \$ 6,178        | \$ 13,109        |
| Recoveries                                       | 345             | 177             | 119              |
| Profit or loss on sale of property and furniture | 33              | 1               | 267              |
| Bankruptcy                                       | (373)           | (319)           | (32)             |
| Others   | <u>304</u>      | <u>265</u>      | <u>168</u>       |
|  | <u>\$ 1,107</u> | <u>\$ 6,302</u> | <u>\$ 13,631</u> |

- (1) As of December 31, 2016, 2015 and 2014, the amount for release of surplus portfolio was \$798 and \$5,722, respectively, and \$456 for both years correspond to the release of portfolio.

### 32. Memorandum accounts

As of December 31, 2016, 2015 and 2014, the main off-balance sheet accounts are shown below. These accounts represent rights and obligations of the Institution arising from transaction with third parties, and the recording unit values, mandates and custodies arising from own operations.

- a. **Assets in trust or under mandate** – As of December 31, 2016, 2015 and 2014, balances of operations in which the Institution acts as the fiduciary were as follows:

|                               | 2016              | 2015              | 2014              |
|-------------------------------|-------------------|-------------------|-------------------|
| Trust funds                   |                   |                   |                   |
| Management                    | \$ 320,707        | \$ 309,867        | \$ 318,382        |
| Investment                    | 63,654            | 63,182            | 63,511            |
| Guarantee                     | 42                | 42                | 42                |
| Transfer of title of property | 95                | 95                | 95                |
|                               | <u>384,498</u>    | <u>373,186</u>    | <u>382,030</u>    |
| Mandates                      | <u>1,288</u>      | <u>967</u>        | <u>836</u>        |
|                               | <u>\$ 385,786</u> | <u>\$ 374,153</u> | <u>\$ 382,866</u> |

For the years ended December 31, 2016, 2015 and 2014, income from activities performed in its capacity as trustee were \$34, \$38 and \$33, respectively.

- b. **Assets in custody or management** - As of December 31, 2016, 2015 and 2014, were as follows:

|                                      | 2016              | 2015              | 2014              |
|--------------------------------------|-------------------|-------------------|-------------------|
| Assets held in custody               |                   |                   |                   |
| ADR's <sup>(1)</sup>                 | \$ 111,596        | \$ 107,483        | \$ 315,243        |
| Third party guarantees               | 27,043            | 34,689            | 54,618            |
| Others (subsidiaries)                | 10,233            | 9,304             | 8,031             |
| Investment companies                 | <u>3,508</u>      | <u>3,853</u>      | <u>4,036</u>      |
|                                      | 152,380           | 155,329           | 381,928           |
| Assets held in guarantee             |                   |                   |                   |
| In custody                           | 5,954             | 4,859             | 1,648             |
| To be collected                      | 228,621           | 218,329           | 200,982           |
| Collateralized restricted securities | -                 | -                 | 1,768             |
| Tolerance margin for derivatives     | <u>804</u>        | <u>1,320</u>      | <u>1,128</u>      |
|                                      | 235,379           | 224,508           | 205,526           |
| Notes subject to collection          | 21,150            | 18,399            | 15,990            |
| Others                               | <u>1,887</u>      | <u>1,578</u>      | <u>1,349</u>      |
| Total                                | <u>\$ 410,796</u> | <u>\$ 399,814</u> | <u>\$ 604,793</u> |

- (1) As of December 31, 2016, 2015 and 2014, the Institution has custody of ADR's, whose integration and fair value of the issuances is as follows:

| Issuer       | Serie | 2016                 |                   | 2015                 |                   | 2014                  |                   |
|--------------|-------|----------------------|-------------------|----------------------|-------------------|-----------------------|-------------------|
|              |       | Securities           | Fair value        | Securities           | Fair value        | Securities            | Fair value        |
| VOLAR        | A     | 663,277,800          | \$ 20,568         | 698,786,570          | \$ 20,649         | 681,775,930           | \$ 9,027          |
| AMX          | L     | 6,804,854,675        | 88,668            | 6,635,878,222        | 80,427            | 8,784,831,350         | 144,071           |
| TLEVISA      | CPO   | -                    | -                 | -                    | -                 | 1,574,677,813         | 158,397           |
| AMX          | A     | 166,190,826          | 2,164             | 191,447,586          | 2,321             | 204,173,966           | 3,338             |
| GCARSO       | A1    | 480,832              | 40                | 920,602              | 65                | 2,676,522             | -                 |
| GFINBUR      | O     | 4,715,410            | 148               | 5,449,410            | 170               | 4,170,905             | 194               |
| GOMO         | *     | 10,068,500           | -                 | 10,068,500           | -                 | 10,068,500            | 159               |
| RASSINI      | CPO   | 5,773                | -                 | 5,773                | 1                 | 27,397                | 2                 |
| SITES        | A     | -                    | -                 | 9,572,379            | 123               | -                     | -                 |
| SITES        | L     | -                    | -                 | 331,872,199          | 3,720             | 331,822               | 5                 |
| MFRISCOA-1   | CPO   | 526,400              | 8                 | 834,376              | 7                 | 2,328,728             | 50                |
| <b>Total</b> |       | <u>7,650,120,216</u> | <u>\$ 111,596</u> | <u>7,884,835,617</u> | <u>\$ 107,483</u> | <u>11,265,062,933</u> | <u>\$ 315,243</u> |

c. **Other record accounts** – As of December 31, 2016, 2015 and 2014, the balance were as follows:

|  | 2016                | 2015              | 2014                |
|--|---------------------|-------------------|---------------------|
| Rentals not overdue derived from contracts | \$ 569              | \$ 519            | \$ 349              |
| Residual                                   | 315                 | 275               | 127                 |
| Renewed and restructured credits           | 27,344              | 30,555            | 30,374              |
| Control maturity loan portfolio            | 202,962             | 191,706           | 189,556             |
| Classification by risk level               | 137,710             | 209,136           | 203,121             |
| Purchase option for lease                  | 2                   | 1                 | 1                   |
| Credit card points                         | 780                 | 612               | -                   |
| Wal-Mart portfolio transfer                | 1,387               | 1,387             | -                   |
| Miscellaneous TDC Wal-Mart                 | 21                  | 19                | -                   |
| Control of derivative instruments          | 479,478             | 368,902           | 363,358             |
| Others                                     | 390,772             | 165,522           | 242,566             |
| <b>Total</b>                               | <u>\$ 1,241,340</u> | <u>\$ 968,634</u> | <u>\$ 1,092,452</u> |

### 33. Operations with related parties

According with accounting Criteria C-3 “Related parties” issued by the Commission, operations with related parties subject to disclosure are those that represent more than 1% of net capital prior month of the date of preparation of financial reporting. As of December 31, 2016, 2015 and 2014, the balance were \$633, \$728 and \$588, respectively.

Operations with related parties are done using market terms, according to existing conditions at the date of the operation.

- a. **Contracts** -The most important contracts entered into with related parties are described below:
- The Institution develops sale and repurchase agreements on Inversora Bursatil's (affiliated money market in both buyer and seller roles).
  - The Institution has trust contracts entered into with related parties
  - The Institution has loans granted to related parties, most of them to related companies from the Financial Group.
  - The Institution has demand deposits and time deposits with related parties; however, the balances for these deposits do not exceed the limit established by the Commission.
  - The Institution has personnel administrative services and fixed assets leasing for its bank branches.
  - Permanent investments in stock as of December 31, 2016, 2015 and 2014, are described in detail in Note 16.
- b. **Operations** - As of December 31, 2016, 2015 and 2014, principal operations celebrated with related parties were as follows:

| Relation                     | Operation  | 2016            | 2015            | 2014            |
|------------------------------|--|-----------------|-----------------|-----------------|
| <b>Incomes:</b>              |  |                 |                 |                 |
| Affiliated                   | Interest income  | \$ 1,781        | \$ 1,315        | \$ 1,334        |
| Affiliated                   | Premiums collected from sale and repurchase operations | 53              | 40              | 63              |
| Affiliated                   | Commissions and fees collected                         | 153             | 135             | 87              |
| Affiliated                   | Utilities from derivatives                             | 485             | 1,223           | 1,017           |
| Affiliated                   | Commission from shares distribution                    | 7               | 7               | 17              |
| Afiliadas                    | Fiduciary transactions                                 | <u>35</u>       | <u>25</u>       | <u>25</u>       |
|                              |  | <u>\$ 2,514</u> | <u>\$ 2,745</u> | <u>\$ 2,543</u> |
| <b>Expenses:</b>             |  |                 |                 |                 |
| Affiliated                   | Interest expense                                       | \$ 62           | \$ 47           | \$ 53           |
| Affiliated                   | Premiums paid from sale and repurchase agreements      | 555             | 606             | 549             |
| Affiliated                   | Losses from derivatives                                | 343             | 2,494           | 1,375           |
| Affiliated                   | Personnel service administration                       | 1,269           | 1,954           | 1,734           |
| Affiliated                   | Leasing  | 31              | 70              | 46              |
| Afiliadas                    | Commissions from public share offering                 | <u>59</u>       | <u>40</u>       | <u>81</u>       |
|                              |  | <u>\$ 2,319</u> | <u>\$ 5,211</u> | <u>\$ 3,838</u> |
| <b>Variations in equity:</b> |  |                 |                 |                 |
| Shareholders                 | Dividends paid (Note 25b)                              | <u>\$ 992</u>   | <u>\$ 1,770</u> | <u>\$ 460</u>   |
|                              | Dividends received Afore Inbursa, S.A. de C.V.         | <u>\$ 401</u>   | <u>\$ 312</u>   | <u>\$ 275</u>   |

- c. **Benefits for key officials and relevant management** - The Institution has no employees, instead its personnel service administration is carried out by Seguros Inbursa, S.A., Grupo Financiero Inbursa. The total amount paid to directors were \$2 for 2016 and 2015 and \$1 for 2014. There are not benefits based on payment with stocks.
- d. **Balances** - Main accounts receivable and payable with related parties as of December 31, 2016, 2015 and 2014, were as follows:

| Relation                  | Operation                                       | 2016             | 2015             | 2014             |
|---------------------------|---|------------------|------------------|------------------|
| Affiliated and associated | Derivative financial instruments <sup>(1)</sup> | \$ 15,198        | \$ 2,367         | \$ 2,145         |
| Affiliated                | Loan portfolio                                  | 13,502           | 14,683           | 8,828            |
|                           | Debtors in repurchase agreements                | -                | 1,952            | 2,399            |
| Affiliated                | Deposits  | 1,804            | 3,319            | 2,094            |
| Affiliated                | Time deposits                                   | 70               | 82               | 441              |
| Afiliadas                 | Credit commitments (credit letters)             | 2,013            | 983              | 985              |
|                           |   | <u>\$ 32,587</u> | <u>\$ 23,386</u> | <u>\$ 16,892</u> |

- (1) As of December 31, 2016, 2015 and 2014, the Institution has forward and swaps contracts with related parties. Regarding forward contracts with related parties as of December 31, 2016, 2015 and 2014, the Institution has 10, 31 and 15, respectively, with a notional value of \$26,018, \$43,842 and \$45,494, respectively; regarding swap contracts with related parties as of December 31, 2016, 2015 and 2014, the Institution has 130, 105 and 138, respectively with a nominal value of \$46,337, \$51,465 and \$49,627, respectively.

- e. **Transactions with related entities that do not consolidate with the Institution** - Disclosure are those that represent more than 1% of the net capital of the month preceding the date of preparation.

On December 1, 2015, the reform of the Federal Labor Law entered into force, which may have an implication for the Institution when receiving professional and personnel services from related parties. As of December 31, 2015, the Institution has evaluated the possible impact on financial information of this reform, concluding that there are no significant effects which should be recognized. The Institution will continue to analyze the effects of this reform, particularly about the right, determinations and recognition of employees' benefits.

### 34. Risk management (unaudited information)

To prevent the risks to which the institution is exposed as a result of its transactions, management has prepared policies and procedures manuals that adhere to the guidelines established by the Commission and Banxico.

The provisions issued by the Commission establish the obligation whereby credit institutions must disclose, through notes to their financial statements, information on the policies, procedures, methodologies and other measures adopted for risk management purposes, together with data regarding the potential losses they face by risk type in the different markets in which they participate.

On December 2, 2005, the Commission issued the general provisions applicable to credit institutions (Sole Circular), which requires that the Internal Audit area perform a comprehensive risk management audit at least once a year or at the yearend close. The Internal Audit area performed this activity according to current standards and subsequently presented its results to the Board of Directors' meeting on January 26, 2016.

- a. **Environment** - Through comprehensive risk management, the Institution promotes the corporate governance structure used to support the Comprehensive Risk Management Unit (UAIR) and the Risks Committee. Similarly, through these entities, the Institution identifies, measures, controls and monitors its quantifiable and unquantifiable operating risks.

The Risk Committee analyzes the information systematically provided by operating areas.

It also has a contingency plan focused on mitigating the weaknesses detected at the operating, legal and recording levels as a result of performing transactions that exceed the maximum risk tolerances approved by the Risks Committee.

- b. **Market risk** - To measure and evaluate the risk assumed through its financial transactions, the Institution utilizes computerized tools to calculate the Value at Risk (VaR), while also analyzing the results of sensitivity and stress tests performed under extreme conditions.

To demonstrate statistically that the market risk measurement model generates reliable results, the Institution tests the reliance level of the hypothesis used to make this measurement. The hypothesis test involves applying a Ji-Squared test (Kupiec Test) to the proportion represented by the number of times that the loss actually observed exceeds the estimated risk level.

The Institution currently calculates the market risk of its money market, international bond, variable income and derivatives portfolios.

The value at Risk at the end of 2016, was as follow:

| Instrument                             | Market value     | Value at risk <sup>(1)</sup> | % VaR vs Basic capital |
|--|------------------|------------------------------|------------------------|
| Exchange market                        | \$ 14,781        | \$ 136                       | 0.22%                  |
| Nominal rate                           | 42,334           | 51                           | 0.08%                  |
| Real rate                              | 5,116            | 10                           | 0.02%                  |
| Derivatives (1)                        | (6,747)          | 838                          | 1.36%                  |
| Variable income                        | <u>7,392</u>     | <u>175</u>                   | <u>0.28%</u>           |
| Total                                  | <u>\$ 62,876</u> | <u>\$ 1210</u>               | <u>1.96%</u>           |
| Basic capital as of September, 30 2016 | <u>\$ 61,844</u> | <u>\$ -</u>                  |                        |

Value at Risk with a 95% reliance level and a one-day horizon.

- (1) Using a sensitivity scenario of 100 basis points (bps) and 500 bps, the shortfalls that would be recognized if the derivative instrument positions in effect at December 31, 2016, would be of \$(643) and \$(3,269), respectively.

The VaR or Value at Risk estimates the maximum loss that could be recorded by the exchange market, fixed rate, derivatives and variable income portfolios.

A monthly summary of market risk exposures is presented below:

| Date             | VaR           |
|------------------|---------------|
| 30/01/2016       | \$ 1,617      |
| 27/02/2016       | 947           |
| 30/03/2016       | 797           |
| 30/04/2016       | 790           |
| 29/05/2016       | 953           |
| 30/06/2016       | 832           |
| 31/07/2016       | 347           |
| 31/08/2016       | 521           |
| 30/09/2016       | 437           |
| 30/10/2016       | 471           |
| 30/11/2016       | 632           |
| 31/12/2016       | <u>696</u>    |
| Weighted average | <u>\$ 697</u> |

To measure its market risk, the Institution used the VaR Montecarlo model to one-day with a 95% reliance level based on the risk factor values of the last 252 days.

The Institution's most significant risk position is its derivatives position, which is composed by futures and forward currency, options and swaps in Mexican pesos and US dollars. The presented information includes the market value of these positions, the generated surplus value/shortfall and the daily Value at Risk with a 95% reliance level.

The model assumes the normality of the distribution of risk factor variations; back testing is utilized to validate this assumption.

Market risk management is supplemented with stress tests based on two sensitivity scenarios of 100bps and 500bps, respectively, together with the replication of historical catastrophic conditions with up to four standard deviations and a 60-day horizon, which simulate the manner in which adverse movements will have an accumulated effect on the portfolio at the calculation date. The new stressed risk factor conditions are used to value portfolios and determine their Value at Risk and new mark-to-market.

Under the new conditions stressed of the risk factors the portfolio valuation is made, as well as its risk value and its new brand to market. In addition, the institution has mechanisms of investment that includes prepayment dynamics of the different types of credits.

- c. **Liquidity risk** – To monitors the liquidity, the Risk Management area calculates the liquidity gaps, so it considers the Institution's financial assets and liabilities, as well as the credits it grants.

The Institution also measures the adverse margin by considering the difference between the purchase and sales prices of financial assets and liabilities.

Furthermore, the market risk in foreign currency is monitored according to the regime established for investments and the admission of liabilities denominated in foreign currency by Banxico.

|           | 2016                    |                    | 2015                    |                    |
|-----------|-------------------------|--------------------|-------------------------|--------------------|
|           | Balance as<br>per index | Liquidity<br>index | Balance as<br>per index | Liquidity<br>index |
| January   | \$ 537                  | 1.35%              | \$ 285                  | 0.71%              |
| February  | 632                     | 0.97%              | 457                     | 1.07%              |
| March     | 1,122                   | 2.48%              | 231                     | 0.80%              |
| April     | 3,039                   | 6.00%              | 272                     | 0.78%              |
| May       | 2,147                   | 2.89%              | 823                     | 1.66%              |
| June      | 636                     | 1.78%              | 302                     | 0.81%              |
| July      | 776                     | 2.10%              | 282                     | 0.85%              |
| August    | 863                     | 1.03%              | 390                     | 0.72%              |
| September | 850                     | 1.46%              | 693                     | 2.07%              |
| October   | 780                     | 2.20%              | 253                     | 0.63%              |
| November  | 633                     | 0.89%              | 532                     | 1.03%              |
| December  | <u>1,035</u>            | <u>2.09%</u>       | <u>1,034</u>            | <u>2.91%</u>       |
| Average   | <u>\$ 1,087</u>         | <u>2.02%</u>       | <u>\$ 462</u>           | <u>1.15%</u>       |

For the determination of the liquidity ratio, the Institution considers liquid assets denominated in foreign currency according to the provisions of Circular 3/2012 issued by the Bank of Mexico so as to hedge foreign currency liabilities within transaction maturity periods.

## Transactions with financial derivative instruments

With regard to the liquidity risk of derivative financial instruments, the following is an analysis of the asset and liability maturities of the liquidity gaps, which shows the remaining contractual maturities.

The risk system uses the traditional asset and liabilities management model, which consists of classifying the active and passive components of each instrument recorded in the portfolio based on the different maturity windows; e.g., the US dollar analysis of a long-term currency forwards position will contain the active receivable component denominated in dollars at the Spot exchange rate plus the interest accrued by the cost of converting this amount to the passive dollar rate. Similarly, the Mexican peso analysis considers the interest accrued by the portion of the conversion cost incurred based on the active position denominated in pesos, i.e., liquidity risk analyses can be performed for different time frames and horizons classified by market type and currency.

The calculation of repricing GAPS allows the Institution to determine the rate risk assumed based on liability period differences and investment portfolio duration (assets), while also enabling it to evaluate the liquidity risk of the day by matching the current net cash flow values recorded in the balance sheet, as detailed below:

|                             | (In millions of Mexican Pesos)  | Unweighted<br>amount (Average) | Weighted amount<br>(average) |
|-----------------------------|---|--------------------------------|------------------------------|
| Computable<br>liquid assets |   |                                |                              |
| 1                           | Total computable liquid assets  | Not apply                      | 39,269                       |
| Cash outlays                |   |                                |                              |
| 2                           | No Guaranteed Retail Financing  | 79,880                         | 5,187                        |
| 3                           | Stable financing  | 46,213                         | 1,820                        |
| 4                           | Less stable financing   | 33,667                         | 3,367                        |
| 5                           | Unsecured wholesale financing   | 36,581                         | 9,132                        |
| 6                           | Operational deposits  | -                              | -                            |
| 7                           | Nonoperational deposits   | 36,581                         | 9,132                        |
| 8                           | Unsecured debt  |                                |                              |
| 9                           | Secured wholesale financing   | Not apply                      | 128                          |
| 10                          | Additional requirements   | 100,394                        | 7,805                        |
| 11                          | Outlays related to financial derivatives and<br>other and other collateral requirements | 21,574                         | 2,282                        |
| 12                          | Outlays related to losses of debt securities  | -                              | -                            |
| 13                          | Lines of credit and liquidity   | 78,820                         | 5,523                        |
| 14                          | Other contractual financing obligations   | 159,215                        | 17,206                       |
| 15                          | Other contingent financing obligations  | 19,919                         | -                            |
| 16                          | Total cash outlays  | Not apply                      | 39,458                       |
| Cash receipts               |   |                                |                              |
| 17                          | Cash receipts from secured transactions   | 15,117                         | 2                            |
| 18                          | Cash receipts from unsecured transactions   | 258,763                        | 10,705                       |
| 19                          | Other cash receipts   | 6,764                          | 6,764                        |
| 20                          | Total cash receipts   | 280,645                        | 17,471                       |
| 21                          | Total computable liquid assets  | Not apply                      | 39,269                       |
| 22                          | Net total cash outlays  | Not apply                      | 21,987                       |
| 23                          | Coeficiente de cobertura de liquidez  | Not apply                      | 193.54%                      |



The liquidity model considers the liquidity quality of portfolio assets, as well as the collateral exposure of assets and liabilities and their condition during the period.

| Category    | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 181 to 270 days | 271 to 360 days | Greater than 360 days |
|-------------|--------------|---------------|---------------|----------------|-----------------|-----------------|-----------------------|
| Assets      | \$ 84,920.39 | \$ 14,439.85  | \$148,641.60  | \$ 15,974.77   | \$ 14,160.10    | \$ 16,345.54    | \$355,195.23          |
| Liabilities | 112,903.13   | 39,709.19     | 134,927.45    | 8,500.72       | 41,042.13       | 12,143.71       | 224,532.33            |
| Gap         | (27,982.74)  | (25,269.33)   | 13,714.15     | 7,474.05       | (26,882.03)     | 4,201.83        | 130,662.89            |
| Cum.Gap     | (27,982.74)  | (53,252.08)   | (39,537.93)   | (32,063.87)    | (58,945.90)     | (54,744.08)     | 75,918.82             |

- d. **Credit risk:** The Institution analyzes credit risk models based on the estimation of the probability of default of each borrower. In addition, in order to manage the risk, the Institution considers a number of quantifiable economic factors and variables, as well as qualitative factors that can not be quantified, and the overall effect of these factors on total portfolio exposure.

In the case of borrowers, the expected loss is calculated using the regulatory model, whose components include the probability of default, severity of loss and exposure to default. The unexpected loss (PNE) is calculated using the Monte Carlo methodology by means of simulations and stress is tested by considering different percentiles of the simulated distribution of losses.

The value at risk and its classification as of December 31, 2016 are as follows:

|                 | Total      | Mortgage | Consumer | Commercial |
|-----------------|------------|----------|----------|------------|
| Balance         | \$ 243,503 | \$ 6,900 | \$ 3,783 | \$ 232,820 |
| Expected loss   | 6,009      | 252      | 759      | 4,998      |
| VaR (95%)       | -          | 264      | 767      | 9,577      |
| Unexpected loss | 4,599      | 12       | 9        | 4,579      |

| Currency     | Performing loan portfolio | Non-performing loan portfolio | Expected loss (PE) | Number of times for allowance in non-performing loans | % Expected loss / Performing loan |
|--------------|---------------------------|-------------------------------|--------------------|---|-----------------------------------|
| Mexican peso | \$ 125,364                | \$ 3,220                      | \$ ,912            | 1.21  | 3.12%                             |
| UDI'S        | 1                         | 1                             | 1                  | 1   | 100%                              |
| US dollars   | 113,715                   | 1,202                         | 2,096              | 1.74  | 1.84%                             |

The average value of the risk credit exposure is as follow:

| Expected impairment as of | Total           |
|---------------------------|-----------------|
| 31/01/2016                | \$ 7,259        |
| 28/02/2016                | 6,967           |
| 31/03/2016                | 6,876           |
| 30/04/2016                | 6,529           |
| 31/05/2016                | 6,199           |
| 30/06/2016                | 6,097           |
| 31/07/2016                | 6,023           |
| 31/08/2016                | 5,981           |
| 30/09/2016                | 6,111           |
| 31/10/2016                | 5,998           |
| 30/11/2016                | 6,179           |
| 31/12/2016                | 6,009           |
| Average                   | <u>\$ 6,352</u> |

Details of the performing portfolio are presented below:

| Concept                                | Total             |
|--|-------------------|
| Non-revolving consumer                 | \$ 2,791          |
| Corporate                              | 90,678            |
| Financial entities                     | 26,047            |
| States and municipalities - guaranteed | 12,412            |
| Mortgage                               | 5,648             |
| MyPyMes                                | <u>99,984</u>     |
|  | <u>\$ 237,561</u> |

The Unexpected Loss (PNE) as of December 31, 2016, is below.

|            | Balance    | Reserve:<br>Expected loss | VaR (95%) | PNE      |
|------------|------------|---------------------------|-----------|----------|
| Mortgage   | \$ 6,900   | \$ 252                    | \$ 264    | \$ 12    |
| Consumer   | \$ 3,783   | \$ 759                    | \$ 767    | \$ 9     |
| Commercial | \$ 232,820 | \$ 4,998                  | \$ 9,577  | \$ 4,579 |

Credit Risk Potential to Maturity, as of December 31, 2016, 2015 and 2014 are as follow:

| Credit Risk<br>Financial Instruments | 2016<br>Credit Risk Potential<br>to Maturity | 2015<br>Credit Risk Potential<br>to Maturity |
|--------------------------------------|--|--|
| Swaps                                | \$ 185                                       | \$ 119                                       |
| Foreign exchange and forwards        | 1,151  | 1,812  |
| Nominal rate                         | 14   | 47   |
| Real rate                            | 13   | 1,3  |
|                                      | <u>-</u>                                     | <u>-</u>                                     |
|                                      | <u>\$ 1,364</u>                              | <u>\$ 1,979</u>                              |

Furthermore, the Credit Analysis Area performs quarterly portfolio quality follow-up by rating borrowers; it also prepares a daily sectorial analysis of Mexico's main economic sectors. Aside from this quarterly credit follow-up, credit risk concentrations are determined by borrower, group and economic activity.

When executing transactions involving futures and forwards contracts, the Institution acts in its own name with financial intermediaries and participants authorized by Banxico, as well as with other participants, which must guarantee the obligations detailed in the contracts executed with the involved parties.

#### - **Credit management**

The credit management evaluation and analysis activities performed by the Institution for credit granting, portfolio control and recovery purposes are described below:

#### - **Credit analysis**

Credit control and analysis begin when information is received and continue until the credit is fully paid; during this period, this information passes through the filters applied by the Institution's different areas.

In the case commercial credits, a detailed analysis is performed of the company's financial situation and qualitative aspects; the Institution also reviews the borrower's background and consults a credit bureau.

As regards consumer and housing credits and certain products granted to small and medium enterprises (SMEs), the Institution performs parametric analyses and verifies the credit background of each borrower by consulting a credit bureau.

Credit follow-up and evaluation is performed monthly by issuing regulatory reports to ensure fulfillment of the requirements established by the Institution's regulatory authorities. Likewise, it prepares monthly internal reports and updates.

The Institution has developed specific credit granting policies according to the requested product or credit type. As regards commercial credits: i) the empowered entities (Credit Committee) determine basic credit conditions involving amounts, guarantees, periods, rates and commissions, among others; ii) the credit operation area ensures the proper documentation of approved credits; iii) credits cannot be utilized without the approval of the credit operation.

With regard to the evaluations performed before granting consumer credits, the Credit Committee authorizes the retail credit analysis area to approve or reject credits requested for up to the amount of ten million Mexican pesos, albeit with specific limits regarding amounts, periods, rates, and guarantees, among others. In this regard, the retail credit analysis area is responsible for the authorization, instrumentation, custody and provision of documentation follow-up for this type of credit.

The Institution has established different credit recovery procedures, which includes credit restructuring negotiations and legal collection procedures.

- **Risk concentration determination**

The policies and procedures used by the Institution to determine the credit portfolio risk concentrations are summarized below:

- The Institution requires that borrowers with authorized credit lines equal to or exceeding the amount of thirty million investment units (UDIs) provide the information detailed in instruction guidelines to determine joint risks. This data is included in a customer association process to determine and update credit portfolio risks.
- Before credit lines are authorized, the Credit Analysis area verifies that not exceed the maximum quarterly financing levels established by the Institution or those determined by the regulatory authorities.
- If a credit transactions exceed the limits established by the Institution for reasons other than credit granting, the involved areas are notified of the implementation of the required corrective measures.
- The Credit Analysis area is responsible to notifying the Commission whenever joint risk limits are exceeded.

- **Distressed portfolio identification**

The Institution monthly analyzes the economic environment in which its borrowers operate so as to timely identify any indications of a distressed portfolio.

The Institution has the policy of identifying and classifying commercial credits in which, based on current information and facts and the credit review process, the principal and interest established according to the originally agreed terms and conditions are unlikely to be fully recovered. Both performing and non-performing portfolios may be identified as distressed portfolios.

- e. ***Risk policies applied to derivative products*** - When performing transactions with derivative financial instruments, the Institution's objectives include the following: i) ensuring active short and medium-term participation in these markets; ii) providing derivative market products to fulfill its customers' requirements; iii) identifying and taking advantage of derivative product market conjunctures; and iv) hedging against the risks derived from any unusual underlying variations (currencies, rates, shares, etc.) to which it is exposed.

In general terms, the risk assumed by the Institution when performing currency derivative transactions involves the Mexican peso rate because US dollar futures are placed as a credit portfolio or other assets. These transactions involve a counterparty risk.

The Institution's policies establish that risk positions in securities and derivative financial instruments cannot be taken by a broker. The decision to assume risks is exclusively made by senior management through its collegiate entities. The Risks Committee determined that the Institution's positions must be adjusted in the following manner:

|                        | Maturity<br>less than a year <sup>(*)</sup> | Maturity<br>more than a year <sup>(*)</sup> |
|------------------------|---|---|
| Nominal rate           | 2.5   | 2   |
| Real rate              | 2.5   | 2   |
| International Bonds    | 2.5   | 2   |
| Derivatives            | 4   | 2.5   |
| Capital <sup>(1)</sup> | -   | -   |

<sup>(\*)</sup> Multiplied by the basic capital of the prior quarter calculated by Banxico.

<sup>(1)</sup> Until to the limits described in sections I and II of article 75 of the LIC.

- **Documentation of hedge files**

In the case of derivative financial instruments held for hedging purposes, the Institution's management documents hedge file so as to demonstrate their efficiency according to the considerations detailed in the accounting criteria issued by the Commission. Hedges file are designated when a transaction involving a derivative financial instrument is contracted or at a later date, provided the instrument can be classified as such and the formal documentation conditions established by accounting standards are fulfilled.

The documentation prepared by the Institution regarding hedge ratios includes the following aspects:

- 1) The risk management strategy and objective, as well as the rationale used to perform the transaction.
- 2) The specific risk or risks to be hedged.
- 3) The identification of the primary position covered by the hedge and the derivative financial instrument utilized for this purpose.
- 4) The manner in which hedge effectiveness is initially evaluated (prospectively) and subsequently measured (retrospectively) by applying exposure to the fair value changes of the primary position attributed to hedged risks.
- 5) The treatment of the total gain or loss generated by the hedge instrument when determining its effectiveness.

The effectiveness of financial derivative instruments used for hedging purposes is evaluated monthly. If management determines that a derivative financial instrument is not highly effective as a hedge, the Institution prospectively ceases to apply the hedge accounting scheme to it.

- **Obligations with counterparties**

Derivative financial transactions performed outside recognized markets are documented through an outline agreement that establishes the following obligations for the Institution and its counterparties:

- Deliver the accounting and legal information agreed by the parties in the transaction supplement or confirmation.
- Deliver any document agreed in the transaction supplement or confirmation to the other party.
- Comply with applicable laws, regulations and provisions.
- Ensure the validity of any internal, governmental or any other kind of authorization needed to comply with the obligations assumed under the terms of the executed contract; and
- Immediately notify the other party in writing when obtaining knowledge of any situation implying the early termination of the outline agreement.

- **Regulatory standards**

According to the regulatory standards issued by Banxico with regard to derivative financial instruments, the Institution must comply with Circular 4/2012. Aside from establishing rules for the operation of derivative financial instruments, these standards require that the Audit Committee of each credit institution issue an annual communicate to confirm its compliance with the provisions issued by Banxico for this purpose.

The Institution is also subject to the provisions issued by the Commission in relation to transactions performed with derivative financial instruments, which include aspects regarding the treatment, documentation and recording of these transactions and their respective risks, as well as other aspects involving the recommendations given to customers when executing this type of contract.

Transactions involving derivative financial instruments, whether intended for trading or hedge purposes, are recognized according to their use intention and valued at fair value.

f. **Technological risk** - The corporate strategy employed to manage the technological risk is based on a general contingency and business continuity plan that considers the recovery of critical mission operations in the Institution's systems, together with the use of firewalls, the management of confidential online information and systems access security.

g. **Legal risk** - The specific legal risk policy utilized by the Institution defines the following:

1. The UAIR is responsible for quantifying the estimated legal risk.
2. The UAIR monthly informs the Risks Committee of the legal risk for follow-up purposes.
3. In conjunction with the documentation traffic area, the financial advisor is responsible for the complete and correct maintenance of customer files as regards legal documents, agreements or contracts.
4. The legal area must monitor the adequate execution of agreements or contracts, including the formalization of guarantees to avoid transaction performance defects.
5. The statutory auditor must carry out at least once a year a legal audit to the Institution.

The model proposed for quantifying the legal risk considers the frequency of unfavorable events and loss severity so as to estimate the potential risk.

**Unfavorable verdict probability calculation** = (Unfavorable frequency) x (Severity)

Unfavorable frequency = (Total unfavorable judgments) / (Total judgments to litigate)

Severity = ( $\sum$  unfavorable quantity demanded) / (Total unfavorable judgments)

**Expected loss** = ( $\sum$  unfavorable quantity demanded) x (Unfavorable frequency)

As of December 31, 2016, the loss expected from unfavorable verdicts is less than \$1.

- h. **Operating risk** - As regards non-discretionary risks, the risk tolerance level will be 20% of the average of the last 36 months of the net income month.

For the calculation of the capital requirement for operational risk, the method used by the Institution is the basic.

As internal operating risk models are not currently available, the occurrence of operating risks is estimated by means of the simple arithmetic average of the fine and bankruptcy accounts of the last 36 months.

As of December 31, 2016, the monthly average of the fine and bankruptcy, considering the last 36 months was \$ 3.8.

### 35. Leverage ratio

In accordance with the compliance with the Basel supervision agreements as of June 2016, the leverage ratio is calculated according to the methodology established by the Commission, in order to see if the capital of the Institution adequately supports the assets of the Institution itself.

The following is the leverage ratio at the close of 2016:

| Reference                                    | Description  | Amount     |
|--|--|------------|
| On balance sheets exposure                   |  |            |
| 1  | In-balance sheet items (excluding derivative financial instruments and securities lending and securities lending - including collaterals received as collateral and recorded on the balance sheet) | \$ 352,988 |
| 2  | (Amounts of assets deducted to determine Tier 1 capital of Basel III)  | (23,321)   |
| 3  | In-balance sheet exposures (net) (excluding derivative financial instruments and FTS, sum of lines 1 and 2)  | 329,667    |
| Exposure to financial derivative instruments |  |            |
| 4  | Current replacement cost associated with all transactions with financial derivative instruments (net of the allowable cash variation margin)   | 3,646      |
| 5  | Amounts of additional factors for potential future exposure associated with all derivative financial derivative transactions   | 4,110      |

| Reference                                   | Description  | Amount   |
|---|--|----------|
| 6   | Increase by collateral provided in transactions with derivative financial instruments when said collateral is derecognised from the balance sheet according to the operating accounting framework                    | -        |
| 7   | (Deductions from accounts receivable by margin of variation in cash provided in transactions with derivative financial instruments)  | (3,313)  |
| 8   | (Exposure to derivative financial instruments on behalf of clients, in which the liquidating partner does not grant its guarantee in case of non-compliance with the obligations of the Central Counterparty)        | -        |
| 9   | Effective adjusted notional amount of the underwriting credit derivatives  | -        |
| 10  | (Compensations made to the adjusted effective notional of the credit derivative financial instruments subscribed and deductions of the additional factors by the credit derivative financial instruments subscribed) | -        |
| 11  | Total exposures to derivative financial instruments (sum of lines 4 to 10)   | 4,443    |
| Exposure to securities financing operations |  |          |
| 12  | Gross SFT assets (without offsetting recognition), after adjustments for sales accounting transactions   | 13,394   |
| 13  | (Accounts Payable and Receivable for offset SFTs)  | -        |
| 14  | Exposure Risk of Counterparty by SFT   | -        |
| 15  | Exhibitions by SFT acting on behalf of third parties   | -        |
| 16  | Total exposures for securities financing operations (sum of lines 12 to 15)  | 13,394   |
| Other off-balance sheet exposures           |  |          |
| 17  | Off-balance sheet exposure (gross notional amount)   | 76,394   |
| 18  | (Conversion adjustments to credit equivalents)   | (12,614) |
| 19  | Out-of-balance items (sum of lines 17 and 18)  | 63,780   |
| Capital and total exposures                 |  |          |
| 20  | Level 1 capital  | 62,783   |
| 21  | Total exposures (sum of lines 3, 11, 16 and 19)  | 411,285  |
| Leverage ratio                              |  |          |
| 22  | Basel III leverage ratio   | 15.26%   |

*Explanatory notes for the leverage ratio*

| Reference | Explanation  |
|-----------|--|
| 1         | Total assets of the Institution without consolidating subsidiaries or special purpose entities (less the assets presented in said balance sheet by: 1) operations with derivative financial instruments, 2) repurchase transactions and 3) securities lending. |
| 2         | Amount of deductions of the basic capital established in items b) to r) of fraction I, of Article 2 Bis 6 of the General Provisions applicable to credit institutions (The CUB). The amount must be registered with a negative sign.                           |

| Reference | Explanation  |
|-----------|--|
| 3         | <p>Sum of lines 1 and 2</p> <p>Current replacement cost (CR) of transactions with derivative financial instruments, as set out in Schedule 1-L of the Provisions, less partial cash settlements (margin of variation in cash) received, provided that Following conditions:</p> <p>A) In the case of counterparties other than the clearing houses mentioned in the second paragraph of Article 2 Bis 12 a, the cash received must be available to the Institution.</p> <p>B) The market valuation of the transaction is performed daily and the cash received is exchanged with the same frequency.</p> <p>C) The cash received as well as the operation with the derivative instrument are denominated in the same currency.</p>   |
| 4         | <p>D) The exchange variation amount in cash is at least the amount necessary to cover the market value considering the threshold and the minimum amount transferred agreed in the corresponding framework contract.</p> <p>E) The framework contract with the counterparty must consider both the transaction and the margin of variation, and must stipulate explicitly that the liquidation, in case of default, bankruptcy, restructuring or insolvency, of any of the parties, will be made after clearing the operations And will consider the cash variation margins received. In any case, the maximum amount of cash variation margins that may be considered will be the one corresponding to the positive value of the current replacement cost of each counterparty.</p> <p>Additional factor according to Annex 1-L of the CUB, of operations with derivative financial instruments. In addition, in the case of credit derivative financial instruments in which credit protection is provided, the conversion value to credit risk must be included in accordance with Article 2 Bis 22 of the CUB Provisions.</p> |
| 5         | <p>Under no circumstances may the financial collateral received by the Institution be used to reduce the amount of the additional Factor reported in this line.</p>  |
| 6         | <p>Does not apply. The accounting framework does not allow for the write-off of assets delivered as collateral.</p>  |
| 7         | <p>Amount of cash variation margins delivered in transactions with financial derivative instruments that comply with the conditions indicated in line 4 to subtract the cash variation margins received. The amount must be registered with a negative sign.</p>   |
| 8         | <p>Does not apply.</p>   |
| 9         | <p>Does not apply. The exposure considered for purposes of the solvency framework in operations with credit derivative financial instruments in which credit protection is provided corresponds to 100 percent of the amount effectively guaranteed in the transactions in question. This exhibition is considered in line 5.</p>  |
| 10        | <p>Does not apply. The exposure considered for purposes of the solvency framework in operations with credit derivative financial instruments in which credit protection is provided corresponds to 100 percent of the amount effectively guaranteed in the transactions in question. This exhibition is considered in line 5.</p>  |
| 11        | <p>Sum of lines 4 to 10</p>  |
| 12        | <p>Amount of assets recorded on the balance sheet (accounts receivable recorded in books) of repurchase agreements and securities loan transactions. The amount must not consider any offsetting in accordance with accounting criteria.</p> <p>Positive amount resulting from deducting the accounts payable from the accounts receivable generated in repurchase agreements and security loan transactions, on its own account, with the same counterparty, subject to the following conditions:</p> <p>a) The respective transactions must have the same settlement date.</p> <p>b) There must be the right to settle the transactions at any time.</p>   |
| 13        | <p>c) The transactions must be settled in the same system and there must be a settlement mechanism or arrangements (lines or guarantees) which enable the settlement to be made at the end of the day on which the decision is taken to settle.</p> <p>d) Any problem related with the settlement of the flows of the collateral in the form of securities, must not hinder the settlement of the accounts payable and receivable in cash.</p> <p>The amount should be recorded with a negative sign.</p>  |



| Reference | Explanation  |
|-----------|--|
| 14        | Credit risk conversion value of the repurchase agreements and securities loan transactions on its own account, in accordance with article 2 Bis 22 of the Provisions applicable to credit institutions, when there is no framework offsetting contract; and in accordance with article 2 Bis 37 when such contract exists. The above does not consider adjustments for admissible security interests which are applied to the collateral within the context of capitalization.   |
| 15        | For repurchase agreements and securities loan transactions on account of third parties, in which the Institution provides collateral to its customers in the event of counterparty default, the amount which should be recorded is the positive difference between the value of the security or cash that the customer has paid and the value of the collateral which the recipient has provided.<br>Furthermore, if the Institution can use the collateral delivered by its customers, on its own account, the amount equivalent to the value of the securities and/or cash delivered by the customer to the Institution. |
| 16        | Sum of lines 12 through 15   |
| 17        | Amounts of credit commitments recognized in memorandum accounts in accordance with accounting criteria.  |
| 18        | Amounts of reductions in the value of credit commitments recognized in memorandum accounts for application of the credit risk conversion factors established in Title First Bis of the Provisions of the CUB, on the basis that the minimum credit risk conversion factor is 10% (in those cases where the conversion factor is 0%) and in the case of transactions referred to in subsection IV of article 2 Bis 22 of such Provisions, a credit risk conversion factor of 100%.<br>The amount should be recorded with a negative sign.   |
| 19        | Sum of lines 17 and 18   |
| 20        | Basic capital calculated in accordance with article 2 Bis 6 of the Provisions of the CUB.  |
| 21        | Sum of lines 3, 11, 16 and 19.   |
| 22        | Leverage Ratio. Coefficient of line 20 divided by line 21.   |

## Adjusted Assets

### *Explanatory Notes for the Adjusted Assets*

| Reference | Description  | Amount     |
|-----------|--|------------|
| 1         | Total assets   | \$ 363,861 |
| 2         | Adjustment for investments in the equity of banks, financial institutions, insurance companies or commercial entities which consolidate for accounting purposes, but remain outside the scope of regulatory consolidation. | (21,806)   |
| 3         | Adjustment related to fiduciary assets recognized on the balance sheet in accordance with the accounting framework, but excluded from the measurement of the exposure of the leverage coefficient.                         | -          |
| 4         | Adjustment for financial derivatives.  | (6,430)    |
| 5         | Adjustment for repurchase agreements and securities loans transactions.  | 13,394     |
| 6         | Adjustment for items recognized in memorandum accounts.  | 63,780     |
| 7         | Other adjustments.   | (1,514)    |
| 8         | Exposure to the leverage coefficient   | 411,285    |

| Reference | Description   |
|-----------|---|
| 1         | Total assets of the Institution without consolidating subsidiaries or special purpose entities.   |
| 2         | Amount of deductions of basic capital contained in subsections b), d), e), f), g), h), i), j) and l) of section I, article 2 Bis 6 of the General provisions applicable to credit institutions. The amount should be recorded with a negative sign.   |
| 3         | Not applicable. The scope of application is for the Institution, without consolidating subsidiaries or special purpose entities.  |
| 4         | Amount equivalent to the difference between the figures contained in row 11 of Table I.1 and the figures presented in transactions with financial derivatives contained on the balance sheet of the Institution.<br>The amount should be recorded with the sign resulting from the difference indicated; i.e., it may be positive or negative.                |
| 5         | Amount equivalent to the difference between the figures contained in row 16 of Table I.1 and the figure presented for repurchase agreements and loan securities transactions contained on the balance sheet of the Institution.<br>The amount should be recorded with the sign resulting from the difference indicated; i.e., it may be positive or negative. |
| 6         | Amount recorded in row 19 of Table I.1.   |
| 7         | The amount should be recorded with a positive sign.   |
| 8         | Amount of the deductions of basic capital contained in subsections c), k), m), n), p), q) and r) of section I of article 2 Bis 6 of the General provisions applicable to credit institutions.   |
|           | The amount should be recorded with a negative sign.   |
|           | Sum of lines 1 to 7, which should match line 21 of Table I.1.   |

### 36. New accounting pronouncements

#### *Modifications to accounting criteria issued by the Commission*

On January 6, 2017, the Banking Commission published, through the Official Gazette of the Federation, the adjustment in the methodology for the estimation of preventive reserves and credit portfolio rating in order to have adequate risk coverage in credit portfolios of non-revolving consumer and mortgage housing of credit institutions, which will calculate with more precision the reserves that must constitute. For the above, new risk dimensions are introduced at the client level and the parameters of risk of probability of default, severity of loss and exposure to default are updated, which are taken into account for the rating of the loan portfolio and the calculation of reserves Preventive measures.

In addition, a specific methodology for rating and estimating microcredit preventive reserves (non-revolving consumer portfolio) was issued by credit institutions, taking into account the probability of default, the severity of the loss and the exposure To non-compliance and whether the credits are individual or are granted in a group way.

#### *NIF issued by the CINIF applicable to the Institution*

As of December 31, 2016, the CINIF has issued the following NIFs and Improvements to NIFs which may affect the 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* - 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 B-17, *Determination of fair value*

NIF C-2, *Investments in financial instruments*192

NIF C-3, *Accounts receivable*192

NIF C-9, *Provisions, contingencies and commitments*192

NIF C-16, *Impairment of financial instruments receivable*192

NIF C-19, *Financial instruments payable*192

NIF C-20, *Financial instruments receivable*192

NIF D-1, *Revenues from contracts with customers*

NIF D-2, *Costs from contracts with customers*

NIF B-17, *Determination of fair value* – Defines fair value as the exit price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date (in other words, a current value based on an exit price). To determine the fair value the following must be considered: a) The specific asset or liability being valued; b) for a nonmonetary asset, the highest and best use of the asset, and, if the asset is used in combination with other assets or on an independent basis; c) the market in which an orderly transaction would take place for the asset or the liability; and d) the appropriate valuation technique or techniques to determine the fair value, which should maximize the use of relevant observable entry data and minimize non-observable entry data.

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* – a) the hedging relationships must be aligned with the risk management strategy so that they qualify as hedging relationships. Otherwise, they would not qualify as such and shall not be recognized as hedging relationships; b) specific measures are eliminated (between 80% and 125% in relation to the effectiveness of the hedged item) to determine whether a hedge is effective and any effectiveness is recognized immediately in results; c) the restriction on being able to establish a hedging relationship for the assets and liabilities valued at fair value was eliminated; d) the hedging relationship is only discontinued if the hedge instrument or the hedged item cease to exist or if the risk management strategy changes, which would be unusual and infrequent; e) the hedging percentage must be rebalanced if there is ineffectiveness, either by increasing or decreasing the hedged item or the hedging instrument; f) any embedded financial derivatives that exist cannot be separated when the host instrument is a financial asset; and g) a net position for revenues and expenses may be designated as a hedged item, as long as such designation reflects the risk management strategy of the entity.

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) It's allowed the anticipated application of these NIF starting January 1, 2016, as long as it is done together.

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.

\* \* \* \* \*

## 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 National Banking and Securities Commission (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 of Financial Information Standards (*Consejo Mexicano 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 as of December 31, 2016. 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 allowance 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.

Non-performing loans are classified as non-performing under the following circumstances: (1) all loans are classified as non-performing when there is evidence that the customer has declared bankruptcy; (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 non-performing and 90 calendar days after interest becomes non-performing; (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 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.

Loan loss reserves under U.S. GAAP are determined using incurred loss models.

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, as of January 1, 2009, 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 derecognition 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**

Upon Mexican Banking GAAP, the purchase consideration in a business combination is allocated to the fair values of separately identifiable assets acquired and liabilities assumed. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired. Negative goodwill, which is the excess of the fair value of net assets acquired over purchase consideration paid, is allocated to the value of net assets until such amount is reduced to zero, if there is an excess after these adjustments, a bargain purchase gain is recognized in earnings.

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. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired. The excess of fair value of net assets acquired over purchase consideration paid is recognized as a bargain purchase gain in earnings.

### **Employee retirement obligations**

Effective January 1, 2005 Mexican Banking GAAP requires the recognition of a severance indemnity liability calculated based on actuarial computations. Mexican Banking GAAP allows companies to recognize an asset equal to the amount liability recognized for these benefits, which is amortized over the expected service life of the employees.

Companies reporting under U.S. GAAP have always been required to recognize a pension liability for severance indemnity liabilities. Accordingly, under U.S. GAAP, companies do not recognize a transitional asset that is permitted under Mexican Banking GAAP.

In addition, under U.S. GAAP, requires recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, recognizing changes in that funded status in the year in which the changes occur through other comprehensive income. Accordingly, certain unrecognized actuarial gains or losses, which are recognized as a reduction of the pension liability under Mexican Banking GAAP, are included as part of the employee benefit liability under U.S. GAAP.

### **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.

Through 2013, Mexican companies were subject to a dual tax system which included the regular income tax, or ISR, and the Business Flat Tax, or IETU. For Mexican Banking GAAP purposes, companies must determine whether they are principally subject to regular income tax or IETU in the future and recognize deferred taxes accordingly. If a company determines that it will be both subject to IETU and ISR in the future, the company is required to schedule out the reversal of temporary differences under each tax regime and record the amount that represents the larger liability or the smaller benefit. As a result of the repeal of the IETU tax enacted during 2013, companies are required to eliminate all existing IETU deferred taxes and record deferred taxes arising from ISR with the net effect recognized to earnings.

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 recurring losses, little weight, if any, may be placed on future taxable income as objective 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.

Under U.S. GAAP, through 2012, companies must determine whether they will be principally subject to regular income tax or IETU and recognize deferred taxes accordingly. However, companies that are unable to conclude whether they will be principally subject to IETU and ISR in the future, may be required to apply a hybrid approach in which deferred taxes arising from both regular income tax and IETU are recognized. Similar to Mexican Banking GAAP, companies replaced all existing IETU deferred taxes with ISR deferred taxes during 2013 in connection with the repeal of the IETU tax.

## **Consolidation**

Under Mexican Banking GAAP, an investor is required to consolidate subsidiaries over which it 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, when a company has a controlling financial interest in an entity (either through a majority voting interest or through the existence of other control factors), such entity’s financial statements should be consolidated, irrespective of whether the activities of the subsidiary are non-homogeneous with those of the parent.

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 Mexican 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, financial statements are generally maintained at historical cost except in certain cases when 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%. According to U.S. GAAP the last hyperinflationary period for the Mexican peso was in 1998.

## 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 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 discretionary 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.

Past-due loans are classified as non-performing under the following circumstances: (1) all loans are classified as non-performing when there is evidence that the customer has declared bankruptcy; (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 IFRS, estimated loan 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 collectively based on historical experience.

Loan loss reserves under IFRS are determined using incurred loss models.

Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. On the other hand, for IFRS, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

Effective as of January 1, 2018, under IFRS, an expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since their initial recognition. Accordingly, a credit event no longer needs to have occurred before credit losses are recognized.

### **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**

Upon Mexican Banking GAAP, the purchase consideration in a business combination is allocated to the fair values of separately identifiable assets acquired and liabilities assumed. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired. Negative goodwill, which is the excess of the fair value of net assets acquired over purchase consideration paid, is allocated to the value of net assets until such amount is reduced to zero.

Under IFRS, 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. The excess of fair value of net assets acquired over purchase consideration paid is recognized as a bargain purchase gain in earnings.

## **Employee retirement obligations**

Mexican Banking GAAP requires the recognition of actuarial gains and losses in other comprehensive income (“OCI”) and recycled to profit or loss over the average remaining employee service period. Under IFRS, actuarial gains and losses are recognized directly to OCI and are not subsequently recycled to net profit or loss.

Mexican Banking GAAP requires that the discount rate used in the determination of the present value of the long-term labor liability should reflect a risk-free market rate. Consequently, either the government bond market rate or the market rate for high-quality corporate bonds in absolute terms in a deep market should be used, provided that the latter complies with certain requirements established in NIF D-3, *Employee Benefits*. Under IFRS, the market for corporate debt instruments in Mexico is not deemed to meet the criteria for using high quality corporate bond rates as a benchmark for the discount rate on long-term employee benefits liabilities. Accordingly, government bond rates are used as the benchmark discount rate for purposes of IFRS.

## **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.

## **Deferred Income Tax**

Mexican Banking GAAP is similar to IFRS 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 IFRS, deferred tax assets are recognized to the extent that it is “probable” that the related benefits will be realized by the entity. 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 recurring losses, little weight, if any, may be placed on future taxable income as objective evidence to support the recoverability of a deferred income tax asset.

**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 Mexican 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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