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

(Subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V.)

Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015, and Independent Auditors’ Report Dated February 24, 2017

BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries
(Subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V.)

Independent Auditors' Report and Consolidated Financial Statements 2016 and 2015

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Independent Auditors' Report to the Board of Directors and Stockholders of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer

Opinion

We have audited the accompanying consolidated financial statements of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries (subsidiary of Grupo Financiero BBVA Bancomer S.A. de C.V.) (the "Institution"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of income, changes in stockholder's equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries for the years ended December 31, 2016 and 2015 have been prepared, in all material respects, in accordance with the accounting criteria prescribed by the Mexican National Banking and Securities Commission (the "Commission") through the "General Regulations Applicable to Credit Institutions" ("the Accounting Criteria").

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor´s Responsibilities for the Audit of Consolidated Financial Statements" section of our report. We are independent of the Institution in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of users.

Key Audit Matters

Key audit matters are those which, in our professional judgment, have the greatest significance for our audit of the consolidated financial statements of the current period. They have been addressed in the context of our audit of the consolidated financial statements taken as a whole and in forming an opinion thereon. Accordingly, we do not express a separate opinion on these matters.

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We have determined that the issues described below are the key audit matters that should be included in our report.

- **Valuation of Derivative Financial Instruments and Hedging Transactions (See Notes 3 and 8 to the consolidated financial statements on pages 31 to 33, and 59 to 68)**

  The valuation of derivative financial instruments that are not listed on organized markets was considered to be a key audit matter because of Management's utilization of valuation techniques, which implies the use of methodologies, different inputs and certain judgments.

  In the Institution's accounting policies detailed in Note 3, Management describes the main sources of information for the estimates used to value derivative financial instruments and, more specifically, when fair value is determined by using a valuation technique due to the complexity of the instrument or the unavailability of market data.

  Our audit was focused on valuation tests, including those for the inclusion of collateral.

  The audit procedures we applied to address this key audit matter included the following:

  1. We tested the design and operating effectiveness of the key controls applied to identify, measure and supervise the valuation risk of the Institution's derivative financial instruments, including the controls used for data sources and the verification of prices and other inputs used in valuation models at December 31, 2016.
  2. We have tested the design and operating effectiveness of the controls utilized to approve models or changes to existing models.
  3. We analyzed the variables utilized in these models. This work included reviewing independent variables or the valuation of a sample of financial instruments at December 31, 2016.
  4. At December 31, 2016, we requested the assistance of internal specialists from our firm's valuation area to review valuations produced by models.
  5. At December 31, 2016, we validated the correct presentation and disclosure in the consolidated financial statements according to the Accounting Criteria.

  The results of our audit procedures were reasonable.

- **Allowances for Loan Losses (Internal Models) (See Notes 3 and 11 to the consolidated financial statements on pages 33 to 44, and 75 to 77)**

  The evaluation of the calculation performed for the allowance for loan losses requires the application of internal models for the Enterprises, Large Enterprises and Revolving Consumer portfolios, which are developed and approved by Management. Their application is subject to the Commission's validation, approval and authorization. This issue has been classified as a key audit matter due to the importance of the completeness and accuracy of the information used to determine and update risk parameters when performing the calculation, together with the correct application of approved internal methodologies.

The audit procedures we utilized for this key audit matter included the following:

1. We have tested the design and operating effectiveness of relevant controls, focusing on those utilized to review the credit approval processes and identify impaired loans, including the controls applied to determine the consistent application of internal models to estimate the credit risks arising for the portfolios discussed in the preceding paragraph.
2. We applied sample testing to verify the fair application of the methodologies approved for application by the Commission and validated the inputs used to calculate the estimate, which we matched with the respective sources. We applied sample testing to calculate and evaluate the reasonableness of the factors determined by Management, which we recalculated.
3. We requested the assistance of our firm's specialists to conclude on the proper application of the internal methodology, as well as the reasonableness of the criteria and considerations utilized by Management as part of its methodology. Likewise, we validated estimates based on their independent recalculation and compared our results with those obtained by Management to assess any indication of error or management bias.
4. We validated the correct presentation and disclosure in the consolidated financial statements according to the Accounting Criteria.

The results of our audit procedures were reasonable.

Other Information Included in the Document Containing the Audited Consolidated Financial Statements

Management is responsible for the other information. Such information will comprise the information that will be incorporated in the Annual Report that the Institution is obliged to prepare pursuant to Article 33, Section I, clause b) of Title Four, First Chapter of the General Provisions Applicable to Issuers and Other Stock Market Participants in Mexico, together with the accompanying Instructions (the "Provisions"). We expect the Annual Report to be available for our reading after the date of this audit report.

Our opinion on the consolidated financial statements does not extend to the other information and we do not offer any form of assurance in this regard.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Annual Report, when it is available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or appears to contain a material error. When we read the Annual Report, we will issue declarations surrounding the reading of the Annual Report, as required by Article 33, Section I, paragraph b), number 1.2 of the Provisions.

Responsibilities of Management and Those Charged with Corporate Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements in accordance with the Accounting Criteria, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Institution´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with corporate governance are responsible for overseeing the Institution's financial reporting process.

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and asses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management´s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors´ report. However, future events or conditions may cause the Institution to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provided the Institution's corporate governance officers with a declaration to the effect that we have fulfilled applicable ethical requirements regarding our independence and have reported all the relations and other issues that could be reasonably expected to bear on our independence and, when applicable, the respective safeguards.

The issues we have reported to the Institution's governance officers include the matters that we consider to have the greatest significance for the audit of the consolidated financial statements of the current period and which, accordingly, are classified as key audit matters. We have described these matters in this audit report, unless legal or regulatory provisions prevent them from being disclosed or, under extremely infrequent circumstances, we conclude that a given matter should be excluded from our report because we can fairly expect that the resulting adverse consequences will exceed any possible benefits as regards the public interest.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Ernesto Pineda Fresán

February 24, 2017

BBVA Bancomer, S.A.,
Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Subsidiaries
(Subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V.)
Av. Paseo de la Reforma 510, Col. Juárez, Ciudad de México, México, C.P. 06600

Consolidated Balance Sheets

At December 31, 2016 and 2015
(In millions of Mexican pesos)

Assets

	2016	2015
Funds available	$ 186,749	$ 150,102
Margin accounts	8,998	2,774
Investment in securities:		
Trading	235,030	249,462
Available-for-sale	150,664	147,946
Held to maturity	15,656	16,877
	401,350	414,285
Receivables from repurchase agreements	289	11,231
Derivatives:		
Trading	148,957	95,854
Hedging	18,934	13,279
	167,891	109,133
Valuation adjustments arising from hedges of financial assets	262	2,137
Performing loans:		
Commercial loans-		
Business or commercial activity	409,974	343,955
Financial entities	19,606	15,869
Government entities	142,641	137,515
	572,221	497,339
Consumer loans	245,965	217,982
Mortgage loans:		
Residential and non-residential	166,694	150,959
Low income	14,821	16,883
	181,515	167,842
Total performing loans	999,701	883,163
Non-performing loans:		
Commercial loans-		
Business or commercial activity	6,000	5,159
Financial entities	322	499
Government entities	1	1
	6,323	5,659
Consumer loans	8,755	7,433
Mortgage loans:		
Residential and non-residential	6,828	7,208
Low income	853	1,105
	7,681	8,313
Total non-performing loans	22,759	21,405
Total loans	1,022,460	904,568
Allowance for loan losses	(30,005)	(27,386)
Total loans, net	992,455	877,182
Benefits receivable from securitization transactions	197	1,136
Receivables, sundry debtors and prepayments, net	80,807	61,072
Foreclosed assets, net	3,866	5,662
Property, furniture and equipment, net	42,563	39,641
Equity investments	1,207	1,518
Deferred taxes, net	14,998	12,309
Other assets:		
Deferred charges, prepaid expenses and intangibles	6,293	6,941
Other short and long term assets	756	1,010
	7,049	7,951
Total assets	$ 1,908,681	$ 1,696,133

Liabilities

	2016	2015
Deposits:		
Demand deposits	$ 754,858	$ 678,708
Time deposits-		
From general public	173,800	150,934
Money market	23,806	28,892
	197,606	179,826
Bank bonds	79,990	91,220
Inactive global deposits account	3,170	2,501
	1,035,624	952,255
Interbank loans and loans from other entities:		
Payable on demand	413	1,571
Short-term	8,619	12,903
Long-term	10,172	6,364
	19,204	20,838
Payables from repurchase agreements	264,485	244,431
Security loans	1	1
Collateral sold or delivered in guarantee:		
Security loans	34,416	36,898
Derivatives:		
Trading	148,027	100,229
Hedging	11,009	7,868
	159,036	108,097
Valuation adjustments arising from hedges of financial liabilities	5,095	4,536
Other payables:		
Income taxes payable	1,005	1,999
Employee profit sharing (PTU) payable	2	3
Payables from transaction settlement	59,192	39,742
Payables for collateral received in cash	36,271	26,599
Accrued liabilities and other	34,452	30,092
	130,922	98,435
Subordinated debt	93,185	77,958
Deferred credits and advance collections	7,731	7,507
Total liabilities	1,749,699	1,550,956

Stockholders' equity

	2016	2015
Subscribed capital:		
Paid-in capital	24,138	24,138
Share premium	15,726	15,726
	39,864	39,864
Earned capital:		
Capital reserves	6,881	6,881
Results from prior years	82,742	69,584
Unrealized gains on available-for-sale securities	(3,967)	(692)
Result from valuation of cash flow hedges	141	550
Result from conversion of foreign subsidiaries	440	340
Re-measurement of defined benefits to employees	(467)	-
Net income	33,311	28,613
	119,081	105,276
Majority stockholders' equity	158,945	145,140
Non-controlling interest in consolidated subsidiaries	37	37
Total stockholders' equity	158,982	145,177
Total liabilities and stockholders' equity	$ 1,908,681	$ 1,696,133

Memorandum accounts (See note 3)	2016	2015
Contingent assets and liabilities	$ 394	$ 403
Credit commitments	553,195	458,700
Assets in trust or under mandate:		
Trusts	438,732	372,612
Mandates	24,206	24,225
	$ 462,938	$ 396,837
Assets in custody or under administration	$ 181,474	$ 193,529
Collateral received by the entity	44,789	115,402
Collateral received and sold or pledged as guarantee by the entity	44,752	104,440
Investment banking transactions on behalf of third parties, net	889,097	62,129
Uncollected earned interest derived from non-performing loans	7,762	11,335
Other record accounts	3,188,624	2,682,535
	$ 4,356,498	$ 3,169,370
Historical paid-in capital	$ 4,243	$ 4,243

"These consolidated balance sheets were prepared according to the Accounting Criteria applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission, in conformity with Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the financial position of the Institution as of the dates stated above, which were carried out and measured according to sound banking practices and applicable legal and administrative dispositions."

"These consolidated balance sheets were approved by the Board of Directors under the responsibility of the signatories."

Eduardo Osuna Osuna
Chief Executive Officer

Luis Ignacio de la Luz Dávalos
Chief Financial Officer

Natalia Ortega Gómez
General Director, Internal Audit

José Homero Cal y Mayor García
Director, Corporate Accounting

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The accompanying notes are an integral part of these consolidated financial statements.

BBVA Bancomer, S.A.,
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Av. Paseo de la Reforma 510, Col. Juárez, Ciudad de México, México. C.P. 06600

Consolidated Statements of Income

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos)

	2016	2015
Interest income	$ 137,879	$ 119,831
Interest expense	(34,775)	(28,022)
Net interest income	103,104	91,809
Allowance for loan losses	(32,383)	(28,482)
Net interest income after allowance for loan losses	70,721	63,327
Commission and fee income	36,238	33,243
Commission and fee expense	(12,038)	(11,392)
Net gain on financial assets and liabilities	3,562	3,262
Other operating income	1,551	854
Administrative and promotional expenses	(57,743)	(51,959)
Net operating income	42,291	37,335
Share in net income of unconsolidated subsidiaries and associates	16	100
Income before income taxes	42,307	37,435
Current income tax	(10,974)	(13,516)
Deferred income tax	1,106	4,695
Income before discontinued operations	32,439	28,614
Discontinued operations	872	-
Income before non-controlling interest	33,311	28,614

	2016	2015
Non-controlling interest	-	(1)
Net income	$ 33,311	$ 28,613

“These consolidated statements of income were prepared according to the Accounting Criteria applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission, in conformity with Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the operations of the Institution for the years stated above, which were carried out and measured according to sound banking practices and applicable legal and administrative dispositions.”

“These consolidated statements of income were approved by the Board of Directors under the responsibility of the signatories.”

Eduardo Osuna Osuna
Chief Executive Officer

Luis Ignacio de la Luz Dávalos
Chief Financial Officer

Natalia Ortega Gómez
General Director, Internal Audit

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Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos)

	Subscribed Capital		Earned Capital								
	Paid-in Capital	**Share Premium**	**Capital Reserves**	**Results from Prior Years**	**Unrealized Gains on Available for Sale Securities**	**Result from Valuation of Cash Flow Hedges**	**Result from Conversion of Foreign Subsidiaries**	**Re-measurement of defined benefits to employees**	**Net Income**	**Non-controlling Interest**	**Total Stockholders' Equity**
Balances at December 31, 2014	$ 24,138	$ 15,726	$ 6,881	$ 60,639	$ 898	$ 707	$ 203	$ -	$ 24,745	$ 36	$ 133,973
Changes due to stockholders' decisions-											
Transfer of net income to results from prior years	-	-	-	24,745	-	-	-	-	(24,745)	-	-
Cash dividends paid	-	-	-	(15,800)	-	-	-	-	-	-	(15,800)
Total	-	-	-	8,945	-	-	-	-	(24,745)	-	(15,800)
Comprehensive income-											
Net income	-	-	-	-	-	-	-	-	28,613	1	28,614
Result from valuation of securities available-for-sale	-	-	-	-	(1,590)	-	-	-	-	-	(1,590)
Result from valuation of cash flow hedges	-	-	-	-	-	(157)	-	-	-	-	(157)
Result from conversions of foreign subsidiaries	-	-	-	-	-	-	137	-	-	-	137
Total	-	-	-	-	(1,590)	(157)	137	-	28,613	1	27,004
Balances at December 31, 2015	24,138	15,726	6,881	69,584	(692)	550	340	-	28,613	37	145,177
Changes due to stockholders' decisions-											
Transfer of net income to results from prior years	-	-	-	28,613	-	-	-	-	(28,613)	-	-
Cash dividends paid	-	-	-	(15,450)	-	-	-	-	-	-	(15,450)
Total	-	-	-	13,163	-	-	-	-	(28,613)	-	(15,450)
Comprehensive income-											
Net income	-	-	-	-	-	-	-	-	33,311	-	33,311
Result from valuation of securities available-for-sale	-	-	-	-	(3,275)	-	-	-	-	-	(3,275)
Result from valuation of cash flow hedges	-	-	-	-	-	(409)	-	-	-	-	(409)
Result from conversion of foreign subsidiaries	-	-	-	(5)	-	-	-	-	-	-	(5)
Accrued conversion effect	-	-	-	-	-	-	100	-	-	-	100
Re-measurement of defined benefits to employees	-	-	-	-	-	-	-	(467)	-	-	(467)
Total	-	-	-	(5)	(3,275)	(409)	100	(467)	33,311	-	29,255
Balances at December 31, 2016	$ 24,138	$ 15,726	$ 6,881	$ 82,742	$ (3,967)	$ 141	$ 440	$ (467)	$ 33,311	$ 37	$ 158,982

"These consolidated statements of changes in stockholders' equity were prepared according to the Accounting Criteria applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission, in conformity with Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the changes in stockholders' equity of the Institution for the years stated above, which were carried out and measured according to sound banking practices and applicable legal and administrative dispositions."

"These consolidated statements of changes in stockholders' equity were approved by the Board of Directors under the responsibility of the signatories."

Eduardo Osuna Osuna	Luis Ignacio de la Luz Dávalos	Natalia Ortega Gómez	José Homero Cal y Mayor García
Chief Executive Officer	Chief Financial Officer	General Director, Internal Audit	Director, Corporate Accounting

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The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015
(In millions of Mexican pesos)

	2016	2015
Net income	$ 33,311	$ 28,613
Adjustments derived from items not involving cash flows:		
Profit or loss derived from the valuation of investment and financing activities	100	108
Depreciation of property, furniture and equipment	3,192	2,421
Amortization of intangible assets	1,879	1,453
Provisions	1,008	(2,246)
Current and deferred income taxes	9,868	8,821
Share in net income of unconsolidated subsidiaries and associates	(16)	(100)
Non-controlling interest	-	1
	49,342	39,071
Operating activities:		
Change in margin accounts	(5,925)	1,186
Change in investments in securities	15,860	618
Change in receivables from repurchase agreements	10,942	(11,087)
Change in derivatives (assets)	(53,103)	(10,784)
Change in loan portfolio (net)	(90,099)	(78,046)
Change in benefits receivable from securitization transactions	939	29
Change in foreclosed assets (net)	1,796	1,160
Change in other operating assets (net)	(18,137)	194
Change in deposits	55,395	138,955
Change in interbank loans and other loans from other entities	(1,916)	(29,164)
Change in payables from repurchase agreements	20,054	(14,311)
Change in collaterals sold or delivered in guarantee	(2,482)	(1,297)
Change in derivatives (liabilities)	47,798	6,283
Change in subordinated debt	(7)	(1,146)
Change in other operating liabilities	28,262	23,715
Change in hedging instruments (of hedged items related to operation activities)	(1,725)	(2,681)
Income taxes paid	(11,968)	(11,518)
Net cash used in operating activities	(4,316)	12,106
Investing activities:		
Proceeds from disposals of property, furniture and equipment	172	67
Payments for the acquisition of property, furniture and equipment	(6,286)	(13,183)
Proceeds from disposals of equity investments	259	-
Payments for the acquisition of equity investments	-	(121)
Collection of cash dividends	68	110
Proceeds from disposal of long-lived assets available-for-sale	-	376
Payments for the acquisition of intangible assets	(2,050)	(1,300)
Net cash used in investing activities	(7,837)	(14,051)

	2016	2015
Financing activities:		
Cash dividends paid	$ (17,411)	(15,800)
Net cash used in financing activities	(17,411)	(15,800)
Net increase in cash and cash equivalents	19,778	21,326
Cash flow adjustments from exchange rate fluctuations	16,869	4,586
Cash and cash equivalents at the beginning of the period	150,102	124,190
Cash and cash equivalents at the end of the period	$ 186,749	$ 150,102

"These consolidated statements of cash flows were prepared according to the Accounting Criteria applicable to Credit Institutions issued by the Mexican National Banking and Securities Commission, in conformity with Articles 99, 101 and 102 of the Mexican Credit Institutions Law, of general and compulsory observance, consistently applied, reflecting the cash flows of the Institution for the years stated above, which were carried out and measured according to sound banking practices and applicable legal and administrative dispositions."

"These consolidated statements of cash flows were approved by the Board of Directors under the responsibility of the signatories."

Eduardo Osuna Osuna
Chief Executive Officer

Luis Ignacio de la Luz Dávalos
Chief Financial Officer

Natalia Ortega Gómez
Director General de Auditoría Interna

José Homero Cal y Mayor García
Director, Corporate Accounting

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The accompanying notes are an integral part of these consolidated financial statements.

1. Incorporation and corporate purpose

BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and subsidiaries (the "Institution") is a direct subsidiary of Grupo Financiero BBVA Bancomer, S.A. de C.V. (the "Financial Group") and indirect subsidiary of Banco Bilbao Argentaria, S.A. ("BBVA") and is regulated by, among others, the Mexican Credit Institutions Law and general purpose regulations issued by Mexican National Banking and Securities Commission (the "Commission") and by Banco de México (the "Central Bank of Mexico" or "Banxico"). The Institution and its subsidiaries engage in full service banking activities, carried out in accordance with such laws, which activities mainly include receiving funds, accepting loans, granting credits, trading securities and derivatives and executing trust fund agreements.

The Commission, as regulator of financial institutions, is empowered to review the financial information of the Institution and can request changes thereto.

The main regulatory provisions require credit institutions to maintain a minimum capital ratio in relation to the credit and market risks of their operations, comply with certain limits with respect to deposit acceptance, debentures and other kinds of funding, which may be denominated in foreign currency, and establish minimum limits for paid-in capital and capital reserves, which the Institution complies with satisfactorily.

The Institution has no employees, except for the Chief Executive Officer. Personnel is provided by BBVA Bancomer Operadora, S.A. de C.V. and BBVA Bancomer Servicios Administrativos, S.A. de C.V., (related parties) which provide management advisory and personnel services, under the contract signed by the parties.

During 2016, the principal macroeconomic indicators underwent certain changes, among them, accumulated inflation in 2016 was 3.38% compared to 2.10% in 2015, and Gross National Product (GNP), which was expected to increase by between 2.5% and 1.9%, increased by 0.6% in 2016. Also, given the state of international oil prices, towards the end of 2016, the peso suffered a significant depreciation of 16.35% against the US dollar, going from $17.25 Mexican pesos per US dollar at the close of 2015 to $20.62 Mexican pesos per US dollar as of December 31, 2016.

Significant events 2016 –

During a meeting of the Board of Directors on December 14, 2016, agreement was reached to appoint KPMG Cárdenas Dosal, S.C. as the external auditor of the Institution to perform the audit of the consolidated financial statements from 2017. This decision was taken in line with corporate governance guidelines recommending periodic rotation of the external auditor, on the proposal of the Audit Committee.

Explanation added for translation into English

The accompanying consolidated financial statements have been translated from the original statements prepared in Spanish into English for use outside of Mexico. The accounting policies used to prepare the accompanying financial statements and used by the Institution are in accordance with the financial accounting and reporting requirements prescribed by the Commission but not in accordance with Mexican Financial Reporting Standards ("MFRS" or "NIF"), and may differ in certain significant respects from the financial reporting standards accepted in the country of use.

2. Basis of preparation of the financial statements

Monetary unit of the financial statements - The consolidated financial statements and notes as of December 31, 2016 and 2015 and for the years then ended include balances and transactions in pesos of different purchasing power.

Comprehensive income - This is composed of the net result of the year, plus other items representing a gain or loss from the same period, which, in accordance with the accounting practices followed by the Institution, are presented directly in stockholders' equity, such as the result from valuation of securities available-for-sale, the result from the valuation of cash flow hedges, and the result from conversion of foreign subsidiaries and the valuation effect of equity in subsidiaries.

Consolidation of financial statements - The accompanying consolidated financial statements include the financial statements of the Institution and those of its subsidiaries over which control is exercised, and its securitized transactions trusts. Equity investments are measured according to the equity method in conformity with the accounting criteria prescribed by the Commission. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2016 and 2015, the consolidated subsidiaries of the Institution are as follows:

Company	Participation	Location	Activity
Betese, S.A. de C.V. (before BBVA Bancomer USA, Inc.)	99.90%	México (before United States of America)	Holding company of companies engaged in the sale of notes denominated in U.S. dollars and other foreign currencies, as well as banking operations.
Opción Volcán, S.A. de C.V.	99.99%	México	Real estate leasing.
Desitel, Tecnología y Sistemas, S.A. de C.V.	99.99%	México	Provider of computer data transfer services.
Fideicomiso No. 29764-8, Socio Liquidador de Operaciones Financieras Derivadas Integral	100.00%	México	Offset and settle futures contracts on behalf of third parties and own position.
Adquira México, S.A. de C.V.	50.00%	México	Develop, administer, market and operate a shopping club, as well as markets by electronic means.
Financiera Ayudamos, S.A. de C.V., SOFOM, ER	99.99%	México	Granting of loans in accordance with the terms of article 87-B of the General Law on Credit Organizations and Auxiliary Activities.
Unidad de Avalúos México, S.A. de C.V. (Until 31 December 2015, since during the financial year 2016 it was sold).	99.99%	México	Appraisal services.
Fideicomiso Irrevocable para la emisión de Certificados Bursátiles Número 881	100.00%	México	Issuance of certificates through the Mexican Stock Market backed by mortgage loans.

Company	Participation	Location	Activity
Fideicomiso Irrevocable para la emisión de Certificados Bursátiles Número 989	100.00%	México	Issuance of certificates through the Mexican Stock Market backed by mortgage loans.
Fideicomiso Empresarial Irrevocable de Administración y pago No. F/1859	100.00%	México	Financing for the acquisition of modular drilling equipment, to subsequently grant it under finance lease with a purchase option to PEMEX Exploration and Production.
Fideicomiso Empresarial Irrevocable de Administración y Pago No. F/1860	100.00%	México	Financing for the acquisition of modular drilling equipment to subsequently grant it under finance lease with a purchase option to PEMEX Exploration and Production.

Conversion of financial statements of subsidiaries in foreign currency- To consolidate the financial statements of the foreign subsidiary, such financial statements denominated in the recording currency are adjusted to comply with the accounting criteria prescribed by the Commission. The financial statements are then converted to Mexican pesos, based on the following methodology:

- Foreign operations whose recording and functional currency are the same convert their financial statements using the following exchange rates:1) the closing rate for the assets and liabilities and 2) the historical rate for stockholders' equity and 3) the rate on the date of accrual for revenues, costs and expenses. The effects of conversion are recorded in stockholders' equity.

The recording and functional currency of the foreign transaction and the exchange rates used in the different conversion processes are as follows:

Entity	Recording and functional currency	Exchange rate to convert assets and liabilities from functional and recording currency to Mexican pesos	Exchange rate to convert net results from functional and recording currency to Mexican pesos
Betese, S.A. (before BBVA Bancomer USA, Inc.)	U.S. Dollars	$17.2487 Mexican pesos	$15.8662 Mexican pesos

The Institution's functional currency is the Mexican peso. Given that the Institution holds an investment in a subsidiary abroad whose functional currency is not the Mexican peso, it is exposed to foreign currency conversion risk. Furthermore, monetary assets and liabilities have been contracted in different currencies, principally the US dollar and the euro, and there is an exposure to exchange rates attributable to commercial operations and the supply of goods and services over the normal course of business.

Principal differences between the consolidated financial statements and the financial statements presented to BBVA (unaudited) – In conformity with article 182 of the Provisions, the main differences between the Provisions and International Financial Reporting Standards (IFRS), which are used to prepare the consolidated financial statements of BBVA (holding company), are as follows:

a) Effects of inflation: Under IFRS, the effects of inflation are recognized when the economic environment of a country is considered to be highly inflationary. Given the inflation rates in Mexico over recent years, the effects derived from the recognition of inflation under the criteria of the Commission up through 2007 are eliminated under IFRS.

b) Loan loss reserves: Under IFRS, the loan portfolio should be analyzed to determine the credit risk to which the Institution is exposed by estimating the need for reserves to cover impairments in value. Therefore, internal corporate criteria must be used to classify risks in the commercial portfolio; these criteria differ from those established by the Commission for the determination of loan loss reserves.

c) Variations in assumptions for labor obligations: Under IFRS, the variations in assumptions due to increases or reductions in the current value of the obligations or due to variations in the fair value of assets, are applied against stockholders' equity, whereas the accounting criteria of the Commission establishes that such variances should be recognized directly to results.

For further information on the monetary effects of these differences, please consult www.bancomer.com/informacioninversionistas.

3. Significant accounting policies

The accounting policies of the Institution, which are in conformity with the accounting criteria of the General Regulations Applicable to Credit Institutions (the "Regulations") prescribed by the Commission (the "Accounting Criteria"), and are considered as a general purpose framework for financial information, require that management makes certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures to be included therein. While the estimates and assumptions used may differ from their final results, management believes they were appropriate under the circumstances.

In conformity with Accounting Criterion A-1, Basic scheme of the collective accounting criteria applicable to credit institutions, issued by the Commission, the Institution's accounting shall be based on MFRS as defined by the Mexican Financial Reporting Standards Board ("CINIF"), except when in the Commission's judgment, a specific regulation or Accounting Criterion must be applied in order to appropriately reflect the specialized operations carried out by the Company.

The regulations of the Commission referred to in the preceding paragraph set forth standards for the recognition, valuation, presentation and, if applicable, disclosure, related to specific headings of the consolidated financial statements, as well as the standards applicable to their preparation.

In this regard, the Commission clarifies that the application of accounting criteria, or the concept of supplemental application, will not apply in the case of transactions which, by express provision of law, are not permitted or are prohibited or, moreover, are not expressly authorized.

The following is a description of the principal accounting policies followed by the Institution:

Changes in accounting policies –

Changes in the Commission's Accounting Criteria-

Amendments to the accounting criteria issued by the Commission

On November 9, 2015, various amendments to the accounting criteria for credit institutions were published in the Federal Official Gazette. The purpose of these amendments is to make the necessary adjustments to the accounting criteria for credit institutions for the operations they perform, in order to have reliable financial information. These amendments went into effect on January 1, 2016.

The most significant changes are described below:

a. Accounting Criterion C-5, *Consolidation of special purpose entities*, is eliminated.

b. The following standards are incorporated into the Commission's accounting criteria: NIF C-18, *Obligations Associated with the Retirement of Property, Plant and Equipment*, and NIF C-21, *Joint Arrangements,* due to the enactment of such standards by the CINIF.

c. For purposes of consolidated financial statements, the consolidation guidance of NIF B-8, *Combined or consolidated financial statements* is not required to be applied with regard to special purpose entities ("SPE") created prior to January 1, 2009 over which control was exercised.

d. Overdrafts in customer checking accounts which do not have a line of credit for such purposes, will be classified as past-due borrowings and an allowance for the total amount of the overdraft must be established simultaneously with such classification, at the time the event takes place.

e. The net asset for defined benefits to employees must be presented on the balance sheet under the heading of "Other assets".

f. The applicable Banxico regulation must be applied to classify the purchase of foreign currencies that are not considered derivatives, as "Funds available".

g. A net credit balance of offsetting foreign currencies to be received and foreign currencies to be delivered must be presented under the heading of "Other accounts payable".

h. If an item of restricted funds available has a negative balance, such item must be presented under the heading of "Other accounts payable". Previously the negative balance of restricted funds available was not considered for such presentation.

i. The definition of "Transaction costs" in Accounting Criterion B-2, *Investments in Securities* and in Accounting Criterion B-5, *Derivatives and Hedge Transactions,* is modified.

j. The definitions of "Borrower", "Appraisal Percentage Guarantees", "Payment capacity", "Extended Portfolio", "Assignment of Credit Rights", "Consolidation of Loans", "Debtor of Credit Rights", "Vendor of Discounted Receivables", "Financial Factoring", "Purchaser of Discounted Receivables", "Line of Credit", "Discount Transaction", "Special Repayment Regime", "Ordinary Repayment Regime" and "Housing Subaccount", are incorporated into Accounting Criterion B-6, *Loan Portfolio.*

k. The definition of "Renewal" is modified in Accounting Criterion B-6, *Loan Portfolio,* to now consider it as a transaction in which the loan balance is settled partially or totally, through an increase in the total amount of the loan, or using the proceeds derived from another loan contracted with the same entity, involving either the same debtor, a joint obligor of such debtor, or another party who, due to equity relationships, represents common risks.

l. "Mortgage Loans" are defined as those loans intended for remodeling or improvement of the home which are backed by the savings in the borrower's housing subaccount, or have a security interest granted by a development bank or a public trust established by the Federal Government for economic development.

m. Loans for financial factoring, discount and credit right assignment transactions are incorporated in the definition of "Commercial Loans".

n. A loan is not considered as renewed for any borrowings made during the effective term of a pre-established line of credit, provided that the borrower has settled the total amount of the payments that are due and payable under the original conditions.

o. When borrowings made under a line of credit are restructured or renewed independently from the line of credit which supports them, they must be assessed in accordance with the characteristics and conditions applicable to the restructured or renewed borrowing or borrowings.
When as a result of such evaluation it is concluded that one or more borrowings granted under a line of credit should be transferred to non-performing portfolio due to the effect of their restructuring or renewal and such borrowings, individually or collectively, represent at least 40% of the total outstanding balance of the line of credit at the date of the restructuring or renewal, such balance, as well as subsequent borrowings, must be transferred to non-performing portfolio as long as there is no evidence of sustained payment of the borrowings that originated the transfer to non-performing portfolio, and the total borrowings granted under the line of credit fulfilled the due and payable obligations at the date of transfer to performing portfolio.

The aforementioned percentage is applicable as of January 1, 2016, and will be reduced to 30% for the year 2017, and 25% for the year 2018 and thereafter.

In the case of loans acquired from INFONAVIT or the FOVISSSTE, where there is an obligation to maintain the original terms that the aforementioned agencies contracted with the borrowers, sustained payment of the loan is deemed to exist when the borrower has timely settled the total due and payable amount of principal and interest of at least one repayment for loans under the Ordinary Repayment Regime (ROA) and three repayments for loans under the Special Repayment Scheme (REA).

p. For restructurings of loans with periodic payments of principal and interest whose repayments are less than or equal to 60 days in which the periodicity of payment is modified to shorter periods, the number of repayments equivalent to three consecutive repayments under the original loan payment scheme must be considered.

q. Assumptions are established to consider that sustained payment exists for those loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, as follows:

    i. The borrower must have paid at least 20% of the original loan amount at the time of the restructuring or renewal, or,

    ii. The amount of the accrued interest must have been paid in accordance with the payment scheme for the respective restructuring or renewal at a term of 90 days.

r. With regard to consolidated loans, if two or more loans originated the transfer to non-performing portfolio of the total balance of the consolidated loan, to determine the repayments required to demonstrate sustained payment, the original loan payment scheme whose repayments are equal to the longest repayment period must be considered. Previously the practice was to give the treatment for the worst of the loans to the total balance of the restructuring or renewal.

s. Evidence must be made available to the Commission when demonstrating sustained payment to substantiate that the borrower has the appropriate payment capacity at the time the restructuring or renewal is performed, so as to meet the new loan conditions.

t. Advance payment of installments on restructured or renewed loans, different from those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, does not constitute sustained payment. This is the case with repayments of restructured or renewed loans which are paid before the calendar day’s equivalent to loans with repayments that cover periods greater than 60 calendar days have elapsed.

u. The extension of the loan term is incorporated as a restructuring event.

v. The respective standards for the recognition and valuation of financial factoring, discounting and credit right assignment transactions are included.

w. Commissions and fees different from those collected for granting the loan will be recognized in results of the year on the date that they are accrued, and if part or all of the consideration received for the collection of the respective commission or fee is received before the accrual of the respective income, such advance must be recognized as a liability.

x. The item stating that overdrafts in customer checking accounts should be reported as non-performing portfolio is eliminated.

y. Repayments which have not been fully settled under the originally agreed terms and are 90 days or more in arrears for acquired loans from the INFONAVIT or the FOVISSSTE under the REA or ROA payment regimes, as well as loans made to individuals for the remodeling or improvement of the home for non-speculative purposes which are backed by the savings from the borrower's housing subaccount, will be considered as non-performing portfolio.

z. The transfer to non-performing portfolio of the loans referred to in the preceding point will be subject to the exceptional deadline of 180 or more days in arrears as of the date on which:

i. The loan resources are used for the purpose for which they were granted,
ii. The borrower begins a new employment relationship with a new employer, or
iii. The partial repayment was received. The exception under these circumstances will be applicable provided that it refers to loans under the ROA scheme, and each of the payments made during such period represents at least 5% of the repayment agreement.

aa. Loans with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, shall be classified as non-performing portfolio as long as there is no evidence of sustained payment.

bb. Loans granted under a new line of credit, revolving or otherwise, which are restructured or renewed at any time, may remain in performing portfolio provided that there are grounds to justify the payment capacity of the debtor. Furthermore, the borrower must have:

i. Settled the total amount of due and payable interest;
ii. Settled all of the payments for which he is liable under the terms of the contract at the date of the restructuring or renewal.

cc. When borrowings made under a line of credit are restructured or renewed independently from the line of credit that supports them, they must be assessed in accordance with the characteristics and conditions applicable to the restructured or renewed borrowing or borrowings.

When as a result of such assessment it is concluded that one or more borrowings granted under a line of credit should be transferred to non-performing portfolio due to the effect of a restructuring or renewal, and such borrowings, individually or collectively, represent at least 25% of the total outstanding balance of the line of credit at the date of the restructuring or renewal, such balance, together with its subsequent borrowings, must be transferred to non-performing portfolio as long as there is no evidence of sustained payment on the borrowings which originated the transfer to non-performing portfolio, and the total of the borrowings granted under the line of credit have fulfilled the due and payable obligations at the date of the transfer to performing portfolio.

dd. The requirement that the borrower must have paid the total amount of accrued interest at the date of renewal or restructuring to consider that a loan remains within performing portfolio will be considered as fulfilled when after the interest accrued at the final cutoff date has been paid, the term elapsed between such date and the restructuring or renewal does not exceed the lesser of half of the elapsed payment period or 90 days.

ee. Performing loans with periodic partial payments of principal and interest that are restructured or renewed more than once may remain in performing portfolio if there are elements to justify the payment capacity of the debtor. It is specified that in the case of commercial loans, such elements must be duly documented and placed in the loan file.

ff. If different loans granted by the same entity to the same borrower are consolidated in a restructuring or renewal, each of the consolidated loans must be analyzed as if they were restructured or renewed separately and, if as a result of such analysis it is concluded that one or more of such loans would have been transferred to non-performing portfolio due to the effect of such restructuring or renewal, then the total balance of the consolidated loan must be transferred to non-performing portfolio.

gg. With regard to presentation standards in the balance sheet and the statement of income, it is established that:

i. Housing loans acquired from INFONAVIT or FOVISSSTE must be segregated within the performing portfolio, into ordinary portfolio and extended portfolio.
ii. The amount of loans for financial factoring, discount and credit rights assignment transactions shall be presented net of the respective appraisal percentage guarantee.
iii. Any commissions received before the accrual of the respective revenue shall be presented under the heading “Deferred credits and advance collections”.
iv. The financial revenue accrued in financial factoring, discount and credit rights assignment transactions shall be considered as interest income.

hh. With regard to disclosure standards, new requirements are incorporated, such as:

i. Breakdown of the restricted performing portfolio and unrestricted and non-performing portfolio for the residential and non-residential portfolio, low income portfolio, remodeling or improvement secured by the housing subaccount and loans acquired from INFONAVIT or FOVISSSTE, segregated into ordinary portfolio and extended portfolio.
ii. Total amount and number of loans acquired from INFONAVIT or FOVISSSTE transferred to non-performing portfolio, as well as the total amount of loans that were not transferred to non-performing portfolio, segregated into loans that the entity acquired from INFONAVIT or FOVISSSTE, under the respective REA or ROA payment regimes, and loans granted to individuals for remodeling or home improvement for non-speculative purposes, which are backed by the savings of the borrower’s housing subaccount.
iii. Principal characteristics of the loans acquired from INFONAVIT or FOVISSSTE, describing at least those related to their classification as extended portfolio, ROA and REA, together with those related to the assignment of such loans.
iv. Description of the obligation and rights held by INFONAVIT and FOVISSSTE in relation to the portfolio acquired by the entity.
v. Identification by type of loan for the residential and non-residential portfolio, low income portfolio, remodeling or improvement guaranteed by the housing subaccount, and loans acquired from INFONAVIT or FOVISSSTE of the balance of the non-performing portfolio as of the date on which it was classified as such, in the following terms: from 1 to 180 calendar days, from 181 to 365 calendar days, from 366 calendar days to two years, and more than two years in non-performing portfolio.

vi. Total amount of housing loans backed by the housing subaccount, broken down into performing and non-performing portfolio and specifying the percentage which it represents of the total housing loans.

vii. Total accumulated amount of the restructuring or renewal by type of loan, differentiating between those originated in the exercise of consolidated loans transferred to non-performing portfolio as the result of a restructuring or renewal, from those restructured loans to which the criteria for the transfer to non-performing portfolio were not applied.

ii. Accounting Criterion B-7, *Foreclosed Assets,* establishes that in the event that the valuation of assets at fair value is made through an appraisal, the latter must comply with the requirements established by the CNBV for providers of bank appraisal services.

jj. Accounting Criterion C-2, *Stock Market Transactions,* clarifies that in the case of stock market instruments executed and recognized in the consolidated financial statement prior to January 1, 2009, it will not be necessary to reevaluate the transfer of recognized financial assets prior to such date.

In this regard, the principal effects that this exception might have on such financial statements should be disclosed in the notes to the financial statements, as well as the effects of valuation adjustments on the profits on the remainder of the assignee (recognized in results or in stockholders' equity) and of the asset or liability recognized for administration of transferred financial assets.

kk. The definitions of "Joint Arrangement", "Joint Control" are incorporated, and the definitions of "Associate", "Control" "Holding Company", "Significant Influence", "Related Parties" and "Subsidiary" are modified in Accounting Criterion C-3*, Related Parties*.

Individuals or business entities which, directly or indirectly, through one or more intermediaries exert significant influence on, are significantly influenced by, or are under significant influence of the entity, as well as joint arrangements in which the entity participates, are now considered to be related parties.

ll. The disclosure requirements contained in Accounting Criterion C-3*, Related Parties*, are extended to joint arrangements.

mm. As an amendment to Accounting Criterion C-4, *Information by Segments*, the purchase and sale of foreign currency is incorporated within the Treasury and investment banking operations segment.

nn. Different modifications are made to the presentation of the balance sheet to incorporate the opening of the performing and non-performing home loan portfolio in the following segments: residential and non-residential, low income, loans acquired from INFONAVIT or FOVISSSTE, and remodeling and improvement with collateral granted by the development bank or public trusts.

oo. The requirement is established to present on the balance sheet as a liability under the heading "Inactive global deposits account", the principal and interest on deposit instruments which do not have a date of maturity or, when they do, they are renewed automatically, as well as the transfers of expired or unclaimed investments referred to in article 61 of the Credit Institutions Law.

pp. The heading "Re-measurements of defined benefits to employees" is added as part of earned capital on the balance sheet, as a result of the enactment of NIF D-3, *Employee Benefits*.

qq. The heading "Collateral granted" is incorporated at the foot of the balance sheet within memorandum accounts.

rr. Insurance and bonding, technical assistance expenses, maintenance expenses, fees different from those paid to the IPAB and consumables and fixtures should be included in the statement of income.

ss. The statement of changes in stockholder's equity should include re-measurements of defined benefits to employees as part of changes inherent to the recognition of comprehensive income, as a result of the enactment of NIF D-3, *Employee Benefits.*

The adoption of the aforementioned accounting criteria did not have a material effect on the Institution's consolidated financial statements.

On July 23, 2015, the Federal Official Gazette published an amendment to the accounting criteria applicable to market participants to derivative contracts listed in stock markets. This amendment establishes that the derivatives markets and traders that participate in the markets for listed derivatives contracts should maintain their accounting in accordance with the applicable rules. For such purpose, clearinghouses and settlement partners which participate in the derivatives contracts market should observe the "Accounting Criteria for Clearinghouses," and "Accounting Criteria for Settlement Partners", respectively. These amendments went into effect on the day after their publication.

Changes in MFRS issued by the CINIF applicable to the Institution -

NIF D-3, *Employee Benefits*
Improvements to NIF 2016

NIF D-3, *Employee Benefits* - When there is a precedent of making payments for termination of the labor relationship, such payments must be accounted for as postemployment benefits. Furthermore, the prior service cost, plan amendments, personnel cuts, and the gains and losses from advanced settlements such as severance payments which qualify as termination benefits, are recognized in results immediately. In contrast, the actuarial gains and losses resulting from the re-measurements should be recognized in the OCI and recycled to the (comprehensive) statement of income over the average labor life. Such re-measurements derive from a comparison of the defined benefits obligations and the plan assets determined at the close of the year with the amounts projected at the beginning of the period for the current year. Another significant change consists of associating the discount rate of the benefits obligation with a rates based on high-quality corporate bonds in a deep market, or, in their absence, using government bond rates. These same rates will be used to calculate the projection of the plan assets (net rate).

The principal modifications derived from the application of this new NIF D-3 in the Financial Group's financial information are as follows:

- Discount rate for liabilities - Defined Benefits Obligation (OBD)

  The discount rate to calculate the OBD shall be determined based on the market rate of high-quality corporate bonds, provided that there is a deep market for such bonds. Otherwise, the market rate of the bonds issued by the federal government must be used.

- Recognition of actuarial gains and losses

  - The use of the corredor is eliminated for the deferral of actuarial gains and losses.
  - The accumulated balance of retained earnings and accumulated losses as of December 31, 2015 will be recognized as part of stockholders' equity and in liabilities as of January 1, 2016.
  - Any actuarial gains and losses generated as of January 1, 2016 will be treated as re-measurements of defined benefits to employees, and will be recognized in stockholders' equity and in liabilities.

- Amortization of actuarial gains and losses

  - The actuarial gains and losses recognized in stockholders' equity must be recycled to results in the Remaining Service Life of the Plan.

- Expected return on plan assets

  - The expected return on the plan assets will be estimated with the discount rate of the liabilities instead of the expected rate of return for the fund.

Due to the enactment of the NIF D-3, on December 31, 2015, the Commission issued various transitory articles to the "Resolution amending the General provisions applicable to credit institutions", published in the Federal Official Gazette on November 9, 2015.

These transitory articles establish that credit institutions may recognize the entire balance of plan amendments (past service) and the accumulated balance of the plan's unrecognized gains and losses for entities that used the corredor approach gradually at the latest on December 31 of each year.

If the option is taken to gradually apply the aforementioned balances, the recognition of such balances should begin in the year 2016, recognizing 20% in that year and another 20% in each of the subsequent years, until reaching 100% within a maximum term of five years.

The Institution did not opt for deferred payment within the period allowed by the Commission.

The re-measurements of gains and losses on the defined benefits plan which should be recognized at the end of each period, together with their respective recycling to results of the year, should be calculated on the total amount of the plan's gains or losses; i.e., on the aggregate of the plan's gains or losses, plus those not recognized on the balance sheet.

By the same token, if all or part of the residual effect is recognized before the established deadlines, the Commission must be informed within the 30 calendar days following the date on which the respective accounting entry is made. Entities may perform such recognition in advance, provided that at least 20% or the total residual amount is recognized in the respective year.

Credit institutions that apply any of the aforementioned options should disclose the adjustments derived from applying the option in question in the public financial reporting communications for the years 2016 and up to that in which the gradual recognition of the aforementioned effects is concluded.

Improvements to NIF 2016:

Improvements generating accounting changes -

NIF B-7, *Business Acquisitions* – Clarifies that the acquisition and/or merger of entities under common control, and the acquisition of noncontrolling equity or the sale without losing control of the subsidiary, are outside the scope of this NIF, regardless of how the amount of the consideration was determined.

NIF C-1, *Cash and Cash Equivalents* and NIF B-2, *Statement of cash flows* **–** Modified to consider foreign currency as cash and not as cash equivalents. Clarifies that both the initial and subsequent valuation of cash equivalents must be at fair value.

Bulletin C-2, *Financial Instruments and Document of Amendments to Bulletin C-2 –*

a) The definition of financial instruments available-for-sale is modified to clarify that they are those in which investment is made from time to time with the intention of trading them over the medium-term prior to maturity, so as to obtain profits based on changes in market value, and not only through their related returns.

b) Criteria for classifying a financial instrument as available-for-sale is clarified to prohibit such classification when i) the intention is to hold it for an indefinite period, ii) the entity is willing to sell the financial instrument, iii) it has a sale or redemption option on the instrument, and iv) the issuer of the instrument has the right to liquidate the financial instrument at an amount significantly lower than its amortized cost.

   The concept of acquisition costs is eliminated and the definition of transaction costs is incorporated.

c) The reversal of impairment losses from financial instruments held to maturity is allowed, in the net income or loss for the period.

NIF C-7, *Investments in Associates, Joint Ventures and Other Permanent Investments* – Establishes that contributions in kind should be recognized at the fair value that was negotiated between owners or shareholders, unless they are the result of debt capitalization, in which case they should be recognized for the capitalized amount.

Bulletin C-10, *Financial Derivatives and Hedge Transactions-*

a) The method to be used to measure the effectiveness should be defined, which should be evaluated at the beginning of the hedge, in the following periods and at the date of the financial statements.
b) Clarifies how to designate a primary position.

c) The accounting for the transaction costs of a financial derivative is modified to be recognized directly in the net income or loss of the period at acquisition, and not deferred and amortized during its effective term.
d) Clarifications are made on the recognition of embedded derivatives.

The following improvements were issued which do not generate accounting changes:

NIF C-19, *Financial Instruments Payable (FIP)* - Clarifications are made with regard to: i) the definition of transaction costs, ii) when amortization of the transaction costs should be recalculated, iii) the entity should demonstrate, as support for its accounting policy, that it complies with the conditions for designating a financial liability at fair value through net income or loss, and iv) disclosing the gain or loss when an FIP is derecognized and the fair values of significant long-term fixed-rate liabilities. Furthermore, an appendix is incorporated as support in the determination of the effective interest rate.

NIF C-20, *Financial Instruments Receivable* – Changes are incorporated to clarify and explain various concepts due to the issuance of the new NIF related to financial instruments and the final issuance of IFRS 9, *Financial Instruments*. The most important of these include: transaction costs and related amortization, effective interest rate, impairment, foreign-currency instruments, reclassification between fair value debt instruments and financial instruments receivable, the time value value of money and disclosure of qualitative and quantitative information.

The adoption of the aforementioned guidance did not have a material effect on the Institution's consolidated financial statements.

Changes in accounting estimates applicable in 2015

Methodology for the determination of the allowance for loan losses applicable to the consumer loan portfolio

On August 27, 2015, the Commission issued a Resolution which modifies the Provisions for Credit Institutions and results in various changes to the methodology for classifying consumer loan portfolio in order to adopt an expected loss model for such portfolio, as well as for certain guarantees.

For such consumer loans, the Commission believes it advisable to recognize the guarantee schemes known as pari passu, or first losses, for such portfolio classification in order to eliminate regulatory inconsistencies.

This change in estimate did not have a material effect on the Institution's consolidated financial statements as of December 31, 2015.

Methodology for the determination of the allowance for loan losses applicable to loans granted under the Commercial Bankruptcies Law

On August 27, 2015, the Commission issued a Resolution which modifies the Provisions for Credit Institutions, indicating the term during which credit institutions may continue to use the methodology for the allowance for expected losses due to credit risks related to loans granted to borrowers declared commercially bankrupt with a prior restructuring plan. This Resolution establishes that once an agreement is adopted between the borrower and the recognized lenders, or the bankruptcy of the borrower is determined in accordance with the Commercial Bankruptcies Law, such methodology can no longer be applied.

Authorization may be requested from the Commission to continue using the methodology to determine allowances for expected losses for loans granted to borrowers declared commercially bankrupt with a prior restructuring plan for a term not to exceed six months from the adoption of the agreement.

This change in estimate did not have a material effect on the Institution's consolidated financial statements as of December 31, 2015.

Special accounting criteria applicable in 2016

Support for loans to Petróleos Mexicanos ("PEMEX")

Through Document No. P021/2016 of May 2, 2016 and in relation to the systemic circumstances that arose as a result of the budgetary adjustments to which PEMEX has been subject, the Commission considers that this situation is temporary and therefore authorized the application of special accounting criteria to the following items:

- Consumer and housing loans.
- Commercial loans granted to individuals and entities with annual sales of less than $250 in 2015.
- Entities with domiciles in Campeche, Chiapas, Tabasco, Tamaulipas and Veracruz.
- Commercial loans with annual sales of less than $250 in 2015 and with revenues that are primarily derived from the domestic oil sector.

For accounting purposes, all the above cases must be classified as valid when the grace period is extended or granted.

Support for borrowers is comprised of the following:

- Establish support programs to defer payments, which must not exceed the original period by more than 12 months. Programs must be applied no later than December 31, 2016.
- Under the auspices of this Document, these transactions will not be considered as restructuring processes or renewals.
- Loans that are eligible to participate in this program must be classified as valid for accounting purposes at the date of execution, in conformity with paragraph 12 of Criterion B-6, "Loan Portfolio", of the Provisions issued by the Commission.

The special accounting criteria applicable to the Institution, by loan type, are as follows:

- Loans with a "*single principal payment at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity"*, which are restructured or renewed, will not be considered as part of the non-performing portfolio according to paragraph 79 of Criterion B-6, "Loan Portfolio".
- Loans with "*periodic principal and interest payments"* that are restructured or renewed shall be considered as performing when this act takes place, without applying the terms of paragraphs 82 and 84 of Criterion B-6, "Loan Portfolio".
- Loans granted under the auspices of a credit line, whether revolving or otherwise, which are restructured or renewed, shall not be considered as part of non-performing portfolio in conformity with paragraphs 80 and 81 of Criterion B-6, "Loan Portfolio".
- The loans referred to in the preceding items shall not be classified as restructured according to the terms of paragraph 40 of Criterion B-6, "Loan Portfolio".

Accordingly, at December 31, 2016, the performing portfolio would have decreased by the amount of $982, because the balances of the loans that received support would have been classified in the non-performing portfolio had they not been deferred. The effect on results derived from the creation of allowances for loan losses would have been approximately $430. The Delinquency Rate ("IMOR") would have generated an effect of 10 basis points, while the effect on the Capitalization Ratio ("ICAP") would have been insignificant.

The total balance, by loan type, of loans with balances at December 31, 2016, which will be deferred as of the date on which program application effects arise, is indicated below:

Item	**Number of Accounts**	**Balance**
Commercial portfolio	4	$ 32
Mortgage portfolio	1,635	935
Credit card	273	14
Non-revolving consumer	3,828	439
SME	171	148
Total	5,911	$ 1,568

Special accounting criteria applicable in 2015

Special accounting criteria applicable to the loans subject to the support resulting from the floods caused by the hurricane "Patricia"

Support offered in connection with natural disasters

In Official Notice No. P-071/2015 dated November 9, 2015, the Commission authorized credit institutions to apply special accounting criteria in order to support customers who reside in or whose income is sourced in places that have been declared "disaster zones" as a result of Hurricane "Patricia" and at the same time to ensure stability. It also indicates that the benefits must be documented within 120 days after the date of the incident.

The application of the support to the borrowers consists of the partial or total deferral of payment of principal and/or interest for up to three months, provided that the borrowers have been classified for accounting purposes as performing at the date of the incident, as established in Paragraph 8 of Accounting Criterion B-6 "Loan Portfolio" of the Regulations issued by the Commission.

The special accounting criteria applicable to the Institution, by type of loan, are as follows:

Loans with "a single payment of principal at maturity and periodic payments of interest, and loans with a single payment of principal and interest at maturity", which are restructured or renewed, will not be considered as non-performing portfolio in accordance with paragraph 56 of Criterion B-6 "Loan Portfolio".

Loans with "periodic payments of principal and interest", which are restructured or renewed, may be considered as performing at the time such event takes place, without having to apply the requirements of paragraphs 57 and 59 of Criterion B-6 "Loan Portfolio".

Loans classified as revolving from the start, which are restructured or renewed, will not be considered as non-performing portfolio under paragraph 61 of Criterion B-6 "Loan Portfolio".

The aforementioned loans will not be considered as restructured in accordance with paragraph 26 of Criterion B-6 "Loan Portfolio".

Without the relief offered by the special accounting criteria, the performing portfolio reported in the balance sheet would have been reduced by $16, while the allowance for loan losses would have increased by approximately $1, due to the fact that loans receiving support would have been classified in non-performing portfolio if the deferral had not been applied.

Below we detail, by type of loan, the amount subject to deferral and the total amount of the loans:

Type of portfolio	**No. of Cases**	**Amount deferred**	**Total amount of the loan**
Mortgage loans	17	$ 1	$ 27

Reclassifications - At December 31, 2015, the consolidated balance sheet was reclassified to reflect the presentation utilized for the following headings of the consolidated financial statements at December 31, 2016:

- From "Demand deposits", for the amount of $2,501, to the "Inactive global deposits account".
- From "Deposits", for the amount of $546, to the "Other payables" account, for receivable credit card balances.

The 2015 consolidated cash flow statement was modified to reflect these reclassifications.

Recognition of the effects of the inflation in the financial statements - Beginning January 1, 2008, the Institution discontinued recognition of the effects of inflation, in conformity with the guidance in NIF B-10. Through December 31, 2007, such recognition resulted mainly in inflationary gains or losses on non-monetary and monetary items, which are presented in the consolidated financial statements as an increase or decrease in stockholders' equity accounts, and also in nonmonetary items.

The accumulated inflation of the three years prior to 2016 and 2015, measured through the value of the Investment Units (UDI), is 10.39% and 12.34%, respectively, for which reason the economic environment in both years is classified as noninflationary. As discussed previously, the cumulative effects of inflation up to December 31, 2007 are maintained in the accounting records of the consolidated balance sheets as of December 31, 2016 and 2015.

The inflation percentages for the years ended December 31, 2016, 2015 and 2014 were 3.38%, 2.10% and 4.18%, respectively; therefore, the economic environment qualifies as non-inflationary in all of these years.

Offsetting of financial assets and financial liabilities- Financial assets and financial liabilities may be offset in such a way that the debit or credit balance, as the case may be, is presented on the consolidated balance sheet, if and only if, there is a contractual right to offset the amounts recognized and the intention to settle the net amount, or to realize the asset and cancel the liability simultaneously.

Funds available - Cash and cash equivalents are recorded at nominal value, except for silver and gold coins, which are stated at their fair value at each period-end. Cash held in foreign currency is valued at the exchange rate published at year end by the Central Bank of Mexico.

The foreign currencies acquired whose settlement is agreed at a date after the completion of the purchase and sale transaction will be recognized at such transaction date as restricted funds available (foreign currencies to be received), whereas the foreign currencies sold will be recorded as a disbursement of funds available (foreign currencies to be delivered). The counterparty must be a settlement account, either credit or debit, as the case may be. This heading also includes interbank loan transactions agreed at a term of less than or equal to three business days, as well as other funds available, such as correspondent funds and liquid notes and deposits with Central Bank of Mexico, the latter include the monetary regulation deposits that the Institution must maintain according to the provisions issued by the Bank of Mexico to regulate money market liquidity.

Margin accounts- The margin accounts granted in cash (and in other assets equivalent to cash) required from the entities as a result of performing transactions with financial derivatives in recognized markets or stock exchanges are recorded at their nominal value.

For those margin accounts assigned to the clearinghouse different from cash, as would be the case of debt instruments or share certificates, where the clearinghouse has the right to sell or pledge the financial assets which make up such margin accounts, the financial asset pledged is presented as restricted, and the valuation and disclosure standards are followed in conformity with the respective accounting treatment according to its nature.

Margin accounts are intended to procure compliance with the obligations derived from transactions with financial derivatives performed in recognized markets and stock exchanges and refer to the initial margin, contributions and subsequent retirements made during the effective term of the respective contracts.

Investment in securities –

– *Trading securities -*

Trading securities are those securities in which the Institution invests to take advantage of short-term market fluctuations. The transaction costs for the acquisition of the securities are recognized in results of the year on the acquisition date. These securities are stated at fair value (which includes the discount or markup, as the case may be) in conformity with the following guidelines:

Debt instruments –

Debt instruments are valued at fair value, which must include both the principal and accrued interest. Interest earned is determined based on the effective interest method.

Equity instruments-

Equity instruments are valued at their fair value. In the case of securities registered with the National Securities Registry (RNV) or authorized, registered or regulated in markets recognized by the Commission. Gains or losses resulting from valuation are recognized in the consolidated statement of income.

Value date transactions-

This heading records the "Value date transactions" which refer to purchase-sale transactions of securities assigned but not settled, which are valued and recorded as negotiable instruments, recording the reception and departure of the instrument subject matter of the transaction at the time it is performed against the respective debit or credit settlement account. If the amount of the negotiable instruments is insufficient to cover the amount of the securities to be delivered for these operations, the credit balance is presented under the heading "Securities assigned to be settled".

– *Securities available-for-sale:*

Securities available-for-sale consist of debt instruments and equity securities acquired with an intention other than obtaining gains from trading them on the market or holding them to maturity. The transaction costs for the acquisition of the securities are recognized as part of the investment. These securities are valued in the same manner as trading securities with unrealized valuation gains or losses recognized in stockholders' equity.

– *Securities held to maturity:*

Securities held to maturity are debt instruments with fixed or determinable payments or an established maturity acquired with both the intent and the capacity of holding them to maturity. These instruments are initially recorded at fair value, which presumably reflects the agreed price, plus the transaction costs for the acquisition of securities. They are subsequently accounted for using amortized cost, thus affecting the results of the year based on accrued interest and the discount or markup received or paid for their acquisition according to the effective interest method.

The Institution determines the increase or decrease from appraisal at fair value using restated prices provided by the price supplier, who uses different market factors in its determination.

Cash dividends of share certificates are recognized in the results for the year in the same period in which the right to receive the related payment is generated.

The exchange gain or loss on investments in securities in foreign currencies is recognized in results for the year.

The accounting criteria issued by the Commission permit the transfer of securities classified as "held to maturity" to the category of "securities available-for-sale", provided the Institution ceases to have the intention or capacity to hold them to maturity.

Also, such criteria allow for reclassifications to be made to the category of "Securities held to maturity", and from "Trading securities" to "Securities available-for-sale", under extraordinary circumstances, subject to the prior assessment and express authorization of the Commission.

Impairment - The Institution must assess whether there is objective evidence regarding the impairment of a security at the consolidated balance sheet date.

A security is only considered to be impaired and, accordingly, an impairment loss is only incurred when there is objective evidence of this impairment as a result of one or more events which occurred after its initial recognition, which affected estimated future cash flows and can be reliably determined. It is unusual that a single event is determined as the sole cause of impairment, and it is more common that impairment results from the combined effect of different events. The losses expected as the result of future events are not recognized, regardless of their probability.

The objective evidence that a credit instrument is impaired includes observable information, among others, about the following events:

a) Significant financial difficulties of the issuer of the security;
b) It is probable that the issuer of the security will be declared bankrupt or undergo another type of financial reorganization;
c) Default on contractual clauses, such as nonpayment of interest or principal;
d) The disappearance of an active market for the credit instrument in question due to financial difficulties or
e) Measurable reduction in the estimated future cash flows of the group of securities as of the initial recognition of such assets, although the reduction cannot be identified with the individual securities of the group, including:

    i. adverse changes in the payment status of the issuers in the group, or
    ii. local or national economic conditions which are correlated with defaults in the securities of the group.

As of December 31, 2016 and 2015, management has not identified objective evidence of impairment of any securities.

Repurchase transactions - Repurchase agreements are recorded as follows:

At the contracting date of the repurchase transaction, when the Institution is the selling party, the entry of cash or a debit settlement account, and an account payable at fair value, initially at the agreed-upon price, are recorded and represent the obligation to restitute cash to the repurchasing party. Subsequently, during the term of the repurchase transaction, the account payable is valued at amortized cost by recognizing the interest on the repurchase agreement using the effective interest method in results of the year.

In relation to the collateral granted, the Institution will reclassify the financial assets in its balance sheet as restricted, which will be valued based on the criteria described above in this note until the maturity of the repurchase transaction.

When the Institution acts as purchasing party, the withdrawal of funds available is recognized on the contracting date of the repurchase transaction or a credit settlement account, with an account receivable recorded at fair value, initially at the price agreed, which represents the right to recover the cash paid. The account receivable will be valued subsequently during the term of the repurchase agreement at amortized cost through the recognition of interest on the repurchase agreement based on the effective interest method in the results of the year.

The Institution recognizes the collateral received in memorandum accounts, following the guidelines for valuation established in accounting criterion B-9, “Custody and Administration of Assets (B-9)”, until the maturity of the transaction.

Collateral granted and received other than cash in repurchase agreements - In relation to the collateral in repurchase transactions granted by the seller to the buyer (other than cash), the buyer recognizes the collateral received in memorandum accounts, by following the guidelines on custody transactions established in accounting criterion B-9. The selling party reclassifies the financial asset on its consolidated balance sheet, and it is presented as restricted, for which purpose the standards for valuation, presentation and disclosure are followed in accordance with the respective accounting treatment.

When the buyer sells the collateral or provides it as a guarantee, the proceeds from the transaction are recognized, as well as an account payable for the obligation to repay the collateral to the selling party (measured initially at the price agreed), which is valued at fair value for its sale, or, if it is given as guarantee in another repurchase transaction, at its amortized cost, (any spread between the price received and the value of the account payable is recognized in results of the year).

Furthermore, if the buyer then becomes a seller for another repurchase transaction using the same collateral received as guarantee for the initial transaction, the repurchase interest agreed in the second transaction must be recognized in results of the year as it is accrued, in accordance with the effective interest method, adjusting the account payable valued at amortized cost as mentioned above.

The memorandum accounts recorded for collateral received by the buyer are cancelled when the repurchase transaction reaches maturity or there is a default on the part of the seller.

For transactions in which the buyer sells or in turn provides the collateral received as guarantee (for example, when another repurchase or securities loan transaction is agreed), the control of such sold or pledged collateral is performed in memorandum accounts, by applying for valuation purposes the standards for custody transactions established in accounting criterion B-9.

The memorandum accounts recorded for collateral received which were in turn sold or pledged by the buyer, are canceled when the collateral sold is acquired to repay it to the seller, or when the second transaction in which the collateral was granted reaches maturity or there is a default on the part of the counterparty.

Securities loans - Securities loans are transactions in which the transfer of securities is agreed from the lender to the borrower, with the obligation to return such securities or other substantially similar ones on a given date or as requested, in exchange for a premium as consideration. In these transactions, a collateral or guarantee is requested by the lender from the borrower.

At the contracting date of the securities loan, when the Institution acts as lender, it records the security subject matter of the loan transferred to the borrower as restricted, for which purpose the standards for valuation, presentation and disclosure, based on the respective accounting treatment, are followed. Furthermore, the collateral received that guarantees the securities loaned is recorded in memorandum accounts.

The amount of the premium earned is recognized in results of the year through the effective interest method during the term of the transaction.

When it acts as the borrower, at the contracting date of the securities loan, the Institution records the security subject matter of the loan received in memorandum accounts, following the valuation guidelines for the securities recognized, in the account “Assets in custody or under administration”.

The security subject matter of the transaction received and the collateral received are presented in memorandum the heading of “Collateral received by the Institution”. The collateral received from other transactions are presented under the heading of “Collateral received and sold or pledged as guarantee by the Institution”.

Derivatives **-** The Institution carries out two different types of transactions:

– *Trading* - Consists of the position assumed by the Institution as market participant for purposes other than hedging open risk positions.

– *Hedging* - Consists of the purchase or sale of derivative financial instruments to reduce the risk of a transaction or group of transactions.

The Institution's policies require that for purposes of entering into derivative transactions, both trading parties must belong to the Financial System and have authorization from the Central Bank of Mexico to carry out this type of transaction, classifying and, if applicable, determining risk exposure lines. Prior to carrying out these transactions, corporate customers must be granted a credit line authorized by the Credit Risk Committee or provide readily realizable guarantees through the pertinent bond contracts. Transactions involving mid-sized and small businesses, as well as individuals, are carried out through readily realizable guarantees established in bond contracts.

The assets and/or liabilities arising from transactions with derivative financial instruments are recognized or cancelled in the consolidated financial statements on the date the transaction is carried out, regardless of the date of settlement or delivery of the asset.

The Institution initially recognizes all derivatives (including those forming part of hedges) as assets or liabilities (depending on the rights and/or obligations they embody) in the consolidated balance sheet at fair value, which presumably reflects the price at which the transaction was agreed. Any transaction costs that are directly attributable to the acquisition of the derivative are directly recognized in results under "Net gain on financial assets and liabilities".

All derivatives are subsequently valued at fair value without deducting the transaction costs incurred for their sale or other types of disposal; this valuation effect is then recognized in the results of the period under "Net gain on financial assets and liabilities".

Derivatives must be presented under a specific asset or liability heading depending on whether their fair value (as a consequence of the rights and/or obligations they embody) results in a debit or credit balance, respectively. These debit or credit balances can be offset as long as they comply with the offsetting rules established by the applicable accounting criterion.

In the consolidated balance sheet, the heading derivatives must be split between those held for trading and hedging purposes.

Trading transactions

– *Optional securities ("Warrants"):*

  Optional securities are documents which represent a temporary right acquired by the holders in exchange for the payment of a premium for the issue in Shares or Indexes, whereby such right expires at the end of the effective term. Therefore, holding such securities implies recognition that the intrinsic value and the market price of the optional security in the secondary market may vary based on the market price of the reference assets.

– *Forwards and futures contracts*:

  The balance represents the difference between the fair value of the contract and the contracted forward price. If the difference is positive, it is considered as surplus value and presented under assets; if negative, it is considered as a deficit and presented under liabilities.

– *Options:*

  The balance represents the fair value of future cash flows to be received, and the valuation effects are recognized in results of the year.

The balance represents the fair value of future cash flows to be delivered, and the valuation effects are recognized in results of the year.

– *Swaps:*

The balance represents the difference between the fair value of the swap asset and liability.

Hedging transactions

Hedge derivatives are valued at market value, and the effect is recognized depending on the type of accounting hedge, as follows:

a. If they are fair value hedges, the primary hedged position is valued at market and the net effect of the derivative hedge instrument is recorded in results of the period under the heading "Net gain on financial assets and liabilities".

b. If they are cash flow hedges, the hedge derivative is valued at market and the valuation of the effective part of the hedge is recorded in the account "Result from valuation of cash flow hedges". The ineffective part is recorded in results of the period under the heading "Net gain on financial assets and liabilities".

c. Hedges of a net investment in a foreign transaction that complies with all the conditions are accounted for in manner similar to cash flow hedges; the effective portion is recognized in stockholders equity and the ineffective portion is recognized in results.

***Embedded derivatives* -** The Institution separates the embedded derivatives of structured notes, whereby the reference underlying is based on the exchange rate, price indexes, interest rate options with extendable periods and UMS bond price options..

In the case of debt and bond contracts in which the reference underlying is an interest rate with implied cap, floor and collar. The reference underlying's are considered to be closely related to the host contract, and consequently, these items are not bifurcated. Accordingly, the main contract issued for debt and bonds is recorded based on the applicable criteria to each contract, at the amortized cost in both cases.

Collateral granted and received in derivatives transactions not performed in recognized markets or stock exchanges - The account receivable generated for cash collateral provided in derivative transactions not performed in recognized markets or stock exchanges is presented under the heading "Other accounts receivable", whereas the account payable generated for the reception of collateral provided in cash is presented under the heading "Sundry creditors and other accounts payable".

Collateral delivered in credit instruments is recorded as restricted securities for guarantees, and collateral received in credit instruments for derivative transactions is recorded in memorandum accounts.

***Loan portfolio* -** The balances in the loan portfolio represent the amounts disbursed to borrowers, less repayments made to date, plus accrued but unpaid interest. The "Allowance for loan losses" is presented as a deduction from the total loan balance

The Institution classifies its portfolio under the following headings:

a. *Commercial:* Direct or contingent loans, including bridge loans, denominated in Mexican pesos or foreign currency, as well as any accrued interest, granted to corporations or individuals with business activities and used in relation to commercial or financial activities; includes loans granted to financial institutions, excluding interbank loans with maturities of less than three business days, loans related to factoring transactions and loans related to finance lease transactions which are entered into with such corporations or individuals; loans granted to trustees who act on behalf of trusts and credit schemes commonly referred to as "structured" transactions in which there is a change in net assets that allows for the individual assessment of the risk associated with the scheme. Also included are loans granted to States, Municipalities and decentralized agencies.

b. *Home mortgages:* Direct loans denominated in Mexican pesos, foreign currency, Investment Units or multiples of the minimum wage ("VSM"), as well as any accrued interest, granted to individuals and used for the acquisition, construction, remodeling or improvement of housing, for non-businesss purposes; includes equity loans secured by the home of the borrower and home mortgage loans granted to former employees who rendered services to the credit institution.

c. *Consumer:* Direct loans, denominated in Mexican pesos or foreign currency, as well as any accrued interest, granted to individuals in relation to credit card operations, personal loans, payroll transactions (excluding those granted through a credit card), loans for the acquisition of consumer durables and finance lease transactions entered into with individuals; includes consumer loans granted to former employees who rendered services to the credit institution.

Performing loans – The Institution has the following criteria to classify the loans as performing portfolio:

- Loans that are current in the payments of both principal and interest.
- Loans that do not exhibit characteristics of non-performing portfolio.
- Restructured or renewed loans which have evidence of sustained payment.

Non-performing loan portfolio - The Institution applies the following criteria to classify outstanding loans as non-performing.

- Loans with a single payment of principal and interest at maturity are considered non-performing 30 days after the date of maturity.
- Loans with a single payment of principal at maturity and with periodic interest payments are considered non-performing 90 days after interest is due or 30 days after principal is due.
- Loans whose principal and interest payments have been agreed in periodic installments are considered non-performing 90 days after an installment becomes due.
- If debts are composed by revolving credits with two outstanding monthly billing periods or, if the billing period is not monthly, when payments have been outstanding for 60 or more days.
- Mortgage loans with periodic partial payments of principal and interest and are considered non-performing when a payment is 90 days or more in arrears.
- Customer checking accounts showing overdrafts will be reported in the non-performing portfolio at the date of the overdraft.
- If the borrower is declared bankrupt in accordance with the Commercial Bankruptcy Law, except for the following:

    i. Loans on which the Institution continues to collect payments under the terms of the fraction VIII, article 43 of the Commercial Bankruptcy Law.
    ii. Loans that are granted under the terms of article 75 in relation with the fractions II and III of article 224 of the Commercial Bankruptcy Law.

- Immediate payment documents referred to by Accounting Criterion B-1, "Funds Available", of the Commission when not collected within the allotted period of time (2 or 5 days as appropriate).

Non-performing portfolio which are restructured or renewed will remain in non-performing portfolio until there is evidence of sustained payment; i.e., payment by the borrower without arrears for the total amount of principal and interest due and payable for at least three consecutive installments in accordance with the loan payment scheme, or, in the case of loans with installments that cover periods in excess of 60 calendar days, the payment of one installment as established in the accounting criteria of the Commission.

The loan payments referred to in the preceding paragraph must cover at least 20% of principal or the total amount of any interest accrued under payment restructuring or renewal schemes. However, accrued interest recognized in memoranda accounts is not considered for this purpose.

Furthermore, loans with a single payment of principal upon maturity and periodic payments of interest that are restructured or renewed during the credit term are classified as non-performing portfolio, until there is evidence of sustained payment. This includes loans for which at least 80% of the original term of the loan has not elapsed, loans for which payments received have not covered the total amount of accrued interest or covered the principal of the original amount of the loan, and loans that would have been settled as of the date of renewal or restructuring in question.

The accrual of interest is suspended at the time the loan is classified as non-performing portfolio, including those loans which, in accordance with the respective contract, capitalize interest to the amount of the debt. While a loan remains in the non-performing portfolio, accrued interest is recorded in memoranda accounts. When interest on non-performing portfolio is collected, it is recognized directly in the results of the year under the heading "Interest income".

With regard to ordinary uncollected accrued interest on loans that are classified as non-performing portfolio, the Institution creates an allowance for the total amount of accrued interest outstanding at the time the loan is transferred to non-performing portfolio.

Acquisitions of loan portfolio - On the acquisition date, acquired loan portfolio must be measured based on the contractual value of the portfolio and the same portfolio classification used by the originator; any difference arising in relation to the acquisition price is recorded as follows:

a) When the acquisition price is lower than the portfolio's contractual value, the difference is recognized in results of the year under the heading "Other operating income (expense)", up to the amount of the allowance for loan losses recognized in accordance with the Commission's rules, and any remaining amount as a deferred credit, which will be amortized on a proportional basis in relation to the contractual value of the loan;

b) When the acquisition price of the portfolio is higher than its contractual value, a deferred charge is recognized, which will be amortized on a proportional basis in relation to the contractual value of the loan;

c) Regarding the acquisition of revolving credits, such difference will be recognized directly to results of the year on the acquisition date.

Financial asset derecognition– The Institution only derecognizes a financial asset when the related contractual rights expire or when the Institution transfers the financial asset because: a) the contractual rights to receive the cash flows derived from the financial asset are transferred, or b) the contractual rights to receive the cash flows derived from the financial asset are retained, while assuming the contractual obligation to pay these cash flows to a third party.

When a portion of the financial asset is derecognized, the Institution must:

a) Derecognize the portion of the transferred financial asset based on the most recent book value, including, if applicable, the proportional part of the estimates and/or supplementary accounts associated with the financial asset. If applicable, the respective proportion of the unapplied or unrecognized effects associated with the financial asset must be recognized in the results of the year.
b) Recognize the payments received from or incurred by the transaction, while considering any new financial assets and assumed obligations at fair value.
c) For recognition purposes, the Institution utilizes an accounting criterion reflecting the nature of the payment in question.
d) The Institution recognizes in the results of the year the gain or loss derived from the difference between the book value of the eliminated portion of the financial asset and the sum of (i) the received or incurred payments (recognized at fair value) and (ii) the effect (profit or loss) resulting from the accrued valuation recognized in stockholders' equity' and attributable to this portion.

Allowance for loan losses -

The Institution recognizes the allowance for loan losses based on the following:

– *Commercial loan portfolio:*

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

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

In which:

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

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

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

For purposes of the above:

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

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

Where:

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

Unsecured loans-

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

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

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

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

$$EI_i = S_i$$

II. For other credit lines:

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

Where:

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

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

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

Loans granted under the terms of the Commercial Bankruptcy Law

This methodology mainly contemplates the consideration of collateral created under the terms of article 75 of the Commercial Bankruptcy Law for the determination of the Severity of the Loss by applying certain adjustment factors or discount percentages applicable to each type of admissible security interest based on personal or real property.

Pursuant to the foregoing, in the case of loans granted under the terms of section II of article 224 of the Commercial Bankruptcy Law, the Severity of the Loss will be subject to the following treatment:

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

Where:

Collateral = Any collateral created under the terms of article 75 of the Commercial Bankruptcy Law by applying, as the case may be, adjustment factors or discount percentages for each type of admissible security interest based on personal or real property.

Adjusted Estate = The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in article 224, section I of the aforementioned Law and applying a 40% discount to the resulting amount.

Si = Unpaid balance of the loans granted under the terms of article 224, section II of the Commercial Bankruptcy Law at the classification date.

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

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

Where:

Adjusted Estate' = The Estate, as this term is defined in the Commercial Bankruptcy Law, deducting the amount of the obligations referred to in sections I and II of article 224 of the aforementioned Law and applying a 40% discount to the resulting amount.

Si = Unpaid balance of the loans granted under the terms of article 224, section III of the Commercial Bankruptcy Law at the classification date."

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

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

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

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

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

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

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

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

– *Portfolio of States and Municipalities:*

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

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

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

Where:

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

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

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

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

Total Credit Score = α *(PCCt) + (1-*α*) PCCl*

Where:

PCCt =	Quantitative Credit Score = IA+ IB + IC
PPCl =	Qualitative Credit Score = IIA + IIB
α =	80%
IA =	Average days in arrears with banking institutions (IFB) + % of on time payments with IFB + % of on time payments with non-bank financial institutions.
IB =	Number of ratings agencies recognized in accordance with the provisions which provide a classification to the State or Municipality.
IC =	Total debt to eligible participations + debt service to adjusted total revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + proprietary revenues to total revenues.
IIA =	Local unemployment rate + presence of financial services of regulated entities.
IIB =	Contingent obligations derived from retirement benefits to adjusted total revenues + operating balance sheet to local Gross Domestic Product + level and efficiency of collections + robustness and flexibility of the regulatory and institutional framework for budget approval and execution + robustness and flexibility of the regulatory and institutional framework for approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the stock market.

– *Unsecured loans -*

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

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

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

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

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

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

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

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

– *Mortgage portfolio:*

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

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

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

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

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

– *Consumer loan portfolio that does not include credit card operations:*

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

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

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

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

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

Level of risk	**Allowance Percentage Ranges for Loan Losses**		
A1	0%	to	2.00%
A2	2.01%	to	3.00%
B1	3.01%	to	4.00%
B2	4.01%	to	5.00%
B3	5.01%	to	6.00%
C1	6.01%	to	8.00%
C2	8.01%	to	15.00%
D	15.01%	to	35.00%
E	35.01%	to	100.00%

For this portfolio, general reserves were considered in risk “A” rating. The specific reserves were the ones with risk rating of “B” or above.

– *Consumer credit card loan portfolio:*

The Commission approved the Institution’s request to apply an internal credit card rating model per Document 111-1/69930/2009 on June 22, 2009, which has been applied from the month of August 2009.

In Document 121-1/118710/2016 dated February 3, 2016, the Commission granted authorization to apply new parameters for the classification of revolving consumer loan portfolio used in its “Expected Loss Internal Methodology”, which were applied starting on February 2016.

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

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

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

- Loss severity - Is calculated based on variables such as portfolio type, balance aging and noncompliance period.

- Exposure - Is determined according to the credit limit and current balance.

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

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

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

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

Additional reserves:

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

Restructuring and renewal processes

A restructuring process is a transaction derived from any of the following situations:

a) The extension of credit enhancements given for the loan in question, or

b) The modification of original credit or payment scheme conditions, which include:

- the modification of the interest rate established for the remainder of the loan period;
- the change of currency or account unit, or
- the concession of a grace period regarding the payment obligations detailed
- in the original credit terms, unless this concession is granted after the originally- agreed period, in which case it is considered as a renewal.

Restructuring transactions do not include those which, at the restructuring date, indicate payment compliance for the total amount due for principal and interest and which only modify one or more of the following original credit conditions:

Credit enhancements: only when they imply the extension or substitution of credit enhancements for others of higher quality.

Interest rate: when the agreed interest rate improves.

Currency: provided the respective rate is applied to the new currency.

Payment date: only if the change does not mean exceeding or modifying payment periodicity. Modifying the payment date must not permit nonpayment in any given period.

A renewal is a transaction which extends the loan duration or maturity date or when the loan is paid at any time by using the proceeds of another loan contracted with the same entity in which one of the parties is the same debtor or another individual or entity with equity shareholding relationships thereby constituting a joint risk. A loan is not considered to be renewed when disbursements are made during the term of a pre-established credit line.

Restructured or renewed non-performing loans remain in the non-performing portfolio until evidence of sustained payment is obtained; i.e., timely borrower payment compliance in relation to the total principal and accrued interest due, with a minimum of three consecutive payments in accordance with the loan payment scheme or, in the case of loans with payment periods exceeding 60 calendar days, the settlement of one payment, as established by the accounting criterion issued by the Commission.

The loan payments referred to by the preceding paragraph must cover at least 20% of principal or any interest accrued under the restructuring or renewal payment scheme. Accrued interest recognized in memoranda accounts is not considered for this purpose.

If a restructuring or renewable process is used to consolidate different loans granted to the same borrower in a single loan the treatment applied to the total debt balance resulting from this restructuring or renewal process reflects the rating given to the lowest rated among the component loans.

Performing loans other than those with a single principal payment and the payment of interest accrued periodically or at maturity, which are restructured or renewed before at least 80% of the original credit period has elapsed are only considered as performing when the borrower has a) settled all accrued interest, and b) paid the principal of the original loan amount which was due at the renewal or restructuring date.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Performing loans other than those involving a single principal payment, the periodic payment of interest or at maturity and which are restructured or renewed during the final 20% of the original credit period are only classified as performing when the borrower has a) settled all accrued interest; b) paid the original loan amount due at the loan renewal or restructuring date and, c) paid 60% of the original loan amount.

If all the conditions described in the preceding paragraph are not fulfilled, loans are classified as non-performing from their restructuring or renewal date and until evidence of sustained payment is obtained.

Loans involving a single principal payment, the payment of interest periodically or at maturity and which are restructured during the credit period or renewed at any time are classified as non-performing portfolio until evidence of sustained payment is obtained.

Loans which are initially classified as revolving and which are restructured or renewed at any time are only considered as performing when the borrower has settled all accrued interest, the loan has no overdue billing periods and the elements needed to verify the borrower’s capacity to pay are available, i.e., it is highly likely that the borrower will settle the outstanding payment.

Securitization with transfer of ownership - By securitizing the mortgage portfolio with transfer of ownership, the Institution (the "Transferor") transfers the financial assets through a securitization vehicle (the "Trust"), to enable the latter to issue securities through an intermediary (the "Brokerage House"), for placement among small investors, which represent the right to the returns or the proceeds generated from the securitized financial asset, and as consideration the Transferor receives cash and a certification granting it the right to the remaining cash flows from the Trust after payment of the certificates to their holders.

The Transferor provides administrative services for the transfer of the financial assets and recognizes revenues derived from such services at the time they are earned. Such revenues are presented under the heading "Commissions and fee income". Any expenses incurred from managing the Trust will be reimbursed by the Trust itself with the prior authorization of the Common Representative, provided that the Trust has sufficient cash flows to make such reimbursement. The Transferor will hold any payments made on account of the Trust in debtor accounts until the latter reimburses such expenses.

On December 17, 2007, the Commission authorized the Institution, through Document 153/1850110/2007, registered in the National Securities Register of the Share Certificate Issuance Program up to the amount of $20,000 or its equivalent in UDIs with an effective term of five years computed as of the authorization date; such program is revolving.

The Institution recognized the securitized transactions performed during 2009 in accordance with the accounting criteria issued by the Commission in April 2009 regarding C-1 "Asset recognition and derecognition", C-2 "Securitized transactions" and C-5 "Consolidation of special-purpose entities". After applying these criteria, the Institution derecognized the securitized assets held by the trusts, which were subsequently consolidated on its balance sheet. Accordingly, these assets are recorded under assets in the balance sheet. The securitizations performed prior to 2009 are not consolidated, based on the treatment established by the Commission.

The benefit valuation methodology applied to the securitized transaction residual is detailed below:

- The Institution has tools to measure and quantify the impact of securitized transactions on the balance sheet and statement of income based on the cost of funding, release of capital, reserves and liquidity levels when structuring issuances and during the life of each.

- The valuation system measures the follow-up of certificate performance and the subordinated portions recorded by the Institution and, if applicable, it also values the bond position to consider its possible sale on a secondary market.

- The valuation model is used to calculate the Institution's constant historical prepayment rate computation, the mortality rate, current credit percentage, interest rate, issuance amount and value of guarantees with respect to the loan guarantee, among other items.

Notwithstanding the above, the Institution has taken a conservative position and decided not to recognize the valuation of the benefits on the remaining securitization transactions of the trusts 711, 752, and 847 resulting from the application of the methodology explained above, and recognized only the amortization of the value of the confirmed cash flows received from such trusts, which are held at amortized cost.

The characteristics of securitization contracts are detailed in Note 12.

Other receivable, net - Balances of sundry debtors that are not settled within the 90 or 60 days following their initial recognition (the number of days depend on whether balances are identified or not) are reserved with a charge to results of the year, regardless of the probability of recovery.

The debit and credit balances of the transaction settlement accounts represent currency and security purchases and sales recorded on the date of transaction.

Foreclosed assets or assets received through payment in kind, net - Assets that are foreclosed or received through payment in kind are recorded at the lower of cost or fair value, less the direct and incremental costs and expenses incurred when they were awarded.

Property acquired through legal foreclosure are recognized on the date on which the foreclosure ruling is issued.

Property received as payment are recorded on the date on which the in-kind payment document is executed or when the delivery or transfer of ownership is formalized in a document.

On the recording date of the foreclosed assets or assets received through payment in kind, the value of the asset which originated the foreclosure, as well as its respective reserve, must be canceled from the balance sheet, or the portion involving accrued or overdue payments settled through the partial payments in kind referred to by accounting criterion B-6, “Loan Portfolio”.

If the value of the asset which originated the foreclosure, net of reserves, exceeds the value of the foreclosed assets, the difference will be recognized in results of the year under the heading “Other operating income (expenses)”.

When the value of the asset that originated the foreclosure, net of reserves, is less than the value of the foreclosed assets, the value of the latter must be adjusted to the net value of the asset.

Foreclosed assets are valued according to the type of asset in question, and such valuation must be recorded against results of the year as “Other operation income (expenses)”, as the case may be.

In accordance with the rules of the Commission, the mechanism to follow in determining the allowance for holding foreclosed assets or assets received as payment in kind, is as follows:

Allowance for personal property

Time elapsed as of the repossession or payment-in-kind (months)	Allowance percentage
Up to 6	0%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

Allowance for real estate property

Time elapsed as of the repossession or payment-in-kind (months)	Allowance percentage
Up to 12	0%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

Property, furniture and equipment, net - Are recorded at acquisition cost. Assets acquired prior to December 31, 2007 were restated by applying factors derived from UDIs up to that date. The related depreciation and amortization is recorded by applying a given percentage based on the estimated useful life of such assets to the cost restated to that date.

Depreciation is determined based on the cost or the cost restated until 2007, using the straight-line method as of the month following the acquisition date, applying the following rates:

	Rate
Real estate	2.5%
Construction	1.3%
Construction Components:	
Elevators	3.3%
Power plants	2.8%
Pipelines	2.8%
Air conditioner	2.8%
Computer equipment	25.0%
ATM's	12.5%
Furniture and equipment	10.0%
Vehicles	25.0%
Machinery and equipment	10.0%

The estimated useful lives, residual value and depreciation method of construction and its components, are reviewed at the end of each year, and the effect of any change in estimate is recognized initially and recorded on a prospective basis.

Until December 31, 2015, the Institution capitalizes the interest from financing as part of construction in progress.

Impairment of long-lived assets in use- The Institution reviews the book value of long-lived assets in use, in the presence of any indicator of impairment which shows that the book value might not be recoverable, considering the higher of the present value of the future net cash flows or the net selling price. Impairment is recorded if the book value exceeds the higher of the aforementioned values. The indicators of impairment considered for such purposes are, among others, the losses from operations or negative cash flows in the period, if they are combined with a history or projection of losses, depreciation and amortization charged to results which, in percentage terms, in relation to revenues, are substantially higher than those of previous years, or the services rendered, competition and other economic and legal factors.

Equity investments- Are represented by those equity investments made by the Institution in entities over which it has significant influence but lacks control, and are initially recorded at acquisition cost and subsequently valued by the equity method. The dividends received are decreased from the equity investment.

Furthermore, there are other equity investments which are recorded at acquisition cost and the dividends received from these investments are recognized in results for the year, except when they refer to profits from periods before the acquisition, in which case they are recorded as a reduction to the equity investment.

Income Tax - Income Tax ("ISR") is recorded in results of the year in which they are incurred. The deferred tax derived from the temporary differences is recognized by using the assets and liabilities method, which compares the accounting and tax values of the assets and liabilities. This comparison results in temporary differences, both deductible and creditable, which are added to the tax credit for the undeducted allowance for loan losses, and the tax rate at which the items will reverse is then applied. The deferred tax asset is recorded only when it can very probably be recovered.

The effect of all the items above is presented net in the balance sheet within the caption “Deferred taxes, net”.
Asset tax paid which is expected to be recovered is recorded as a tax credit and is presented in the balance sheet under the heading of “Deferred charges, prepaid expenses and intangibles”.

Deferred taxes - Deferred taxes which are expected to be recovered are recorded as a tax credit and is presented in the balance sheet under the heading of “Deferred charges, prepaid expenses and intangibles”.

Other assets - Software, computer developments and intangible assets are recorded originally at the face value incurred, and were restated from that date of acquisition or disbursement until December 31, 2007, using the factor derived from UDIs.

The amortization of software, computer developments and intangible assets with a definite useful life is calculated by the straight-line method, applying the respective rates to the restated expense.

Direct employee benefits - Under Mexican Labor Law, the Institution is liable for the payment of severance indemnities and seniority premiums to employees terminated under certain circumstances.

The Institution records the liability for severance payments, seniority, pensions, comprehensive medical services and life insurance as it is accrued, in accordance with actuarial calculations based on the projected unit credit method, using nominal rates. The Institution recognizes the actuarial gains and losses against the result of the year, in accordance with NIF D-3 “Employee Benefits”.

Therefore, the liability is being recognized which, at present value, will cover the benefits obligation projected to the estimated date of retirement of the employees working at the Institution and its subsidiaries, as well as the obligation derived from the retired personnel.

Provisions - Provisions are recognized for present obligations as a result of past events, that are probable to result in the future use of economic resources and that can be reasonably estimated.

Foreign currency transactions - Foreign currency transactions are recorded at the exchange rate effective at the transaction date except for those generated by foreign branches. Assets and liabilities denominated in foreign currency are adjusted at the period end exchange rate published by the Central Bank of Mexico. Exchange fluctuations related to these assets and liabilities are charged to the income statement.

Financial margin - The Institution’s financial margin is comprised of the difference between total interest income less interest expense.

Interest income is comprised of the general returns generated by the loan portfolio based on the periods established in loans executed with borrowers and negotiated interest rates, the application of interest collected in advance, the premiums or interest accrued by deposits made with financial entities, bank loans, margin accounts, securities investments, repurchase agreements and securities loans. In addition, amortization of debt placement premiums and commissions collected for initially granting credit, as well as dividends of equity instruments are included in interest income.

Interest expense is comprised of the premiums, discounts and interest, bank loans, repurchase agreements, securities loans, debentures, debt placement issuance expenses and discounts. The amortization of costs and expenses incurred to originate loans is included within interest expense.

Commissions charged and associated costs and expenses - Commissions charged for initial loan origination are recorded as deferred revenues under “Deferred revenues and other advances”, and are amortized to earnings under “Interest income”, using the straight line method over the life of the loan, except for those related to revolving loans, which are amortized over a 12 month period.

Commissions collected on the restructuring or renewal of loans are added to the commissions originated and are recognized as a deferred loan that is amortized to results using the straight-line method throughout the new term of the loan.
Commissions recognized after the initial loan grant, those incurred as part of the maintenance of such loans, or those collected on undrawn loans are recognized in earnings when they are incurred.

Commissions collected for credit card annual fees, whether the first or subsequent renewal fees, are recognized as deferred revenues under “Deferred revenues and other advances”, and are amortized over a 12 month period against earnings under “Commission and fee income”.

The incremental costs and expenses associated with the initial loan grant are recognized as a deferred charge and are amortized against earnings as “Interest expense” during the same accounting period in which income from collected commissions is recognized.

Any other costs or expenses, including those related to promotion, advertising, potential customers, management of existing loans (follow-up, control, recoveries, etc.) and other ancillary activities related to the establishment and monitoring of loan policies are recognized directly in earnings as incurred under the respective line item that corresponds to the nature of the cost or expense.

Costs and expenses associated with the issuance of credit cards are recognized as a deferred charge, which is amortized to earnings over a 12 month period under the respective line item that corresponds to the nature of such cost or expense.

On the cancellation date of a credit line, the remaining unamortized balance of commission fees collected for credit lines cancelled before the end of the 12 month period are recognized directly in results for the year under the heading “Commissions and fees collected”.

Memorandum accounts –

Memorandum accounts are used to record assets or commitments which do not form part of the Institution's balance sheet because the related rights are not acquired or such commitments are not recognized as a liability of the entities until such eventualities occur, respectively. The amounts accrued in the memorandum accounts have only been subject to audit tests when an accounting record arises from their information (the memorandum accounts that were not audited are indicated in each case):

– *Contingent assets and liabilities:*

  Any formal claims received by the Institution which involve some kind of liability are recorded in books.

– *Loan commitments:*

  Loan commitments represent the amount of letters of credit granted by the Institution which are considered as irrevocable commercial loans not utilized by the borrowers, and unused authorized credit lines.

  The items recorded in this account are subject to loan classification.

– *Assets in trust or under mandate (unaudited):*

  Assets in trust include the value of the goods received in trust, and the data related to the administration of each one is kept in separate records. Assets under mandate record the declared value of the goods subject to mandate contracts executed by the Institution.

– *Assets in custody or under administration (unaudited):*

This account is used to record the goods and securities which are received from third parties for custody or to be administered by the Institution.

Securities in custody and under administration are deposited in S.D. Indeval, Deposit Institution Securites, S.A. de C.V.

– *Collateral received by the Institution:*

This balance represents the total amount of collateral received in repurchase transactions and securities loans, with the Institution acting as the repurchasing party and borrower.

– *Collateral received and sold or given in guarantee by the Institution:*

This balance represents the total collateral received and sold or given in guarantee when the Institution acts as a repurchasing party and borrower.

– *Uncollected earned interest derived from non- performing loans:*

The interest earned is recorded in memorandum accounts once a performing portfolio loan is transferred to non-performing portfolio.

– *Other record accounts (unaudited):*

As of December 31, 2016 and 2015, the other recording accounts present a balance of $3,188,624 and $2,682,535 respectively.

Cash Flow Statement - The consolidated cash flow statement presents the Institution's ability to generate cash and cash equivalents, as well as how the organization uses those cash flows to meet their needs. The cash flow statement has been prepared using the indirect method based on the provisions of Criterion D-4 "Cash Flow Statements" of the Accounting Criteria.

The consolidated statement of cash flows, together with the rest of the consolidated financial statements provide information that enables the user to:

- Assess the changes in assets and liabilities of the Institution and on its financial structure.

- Evaluate collection and payment amounts and dates in order to adapt to circumstances and opportunities to generate and/or apply cash and cash equivalents.

4. Funds available

At December 31, 2016 and 2015, funds available consisted of the following:

	2016	2015
Cash	$ 54,211	$ 55,964
Banks	88,779	21,453
Restricted cash	42,864	72,188
Other quick funds	895	497
	$ 186,749	$ 150,102

Banks include deposits in domestic and foreign banks in Mexican pesos and U.S. dollars, translated at the exchange rate published by the Central Bank of Mexico of $20.6194 Mexican pesos and $17.2487 Mexican pesos per one U.S. dollar, as of December 31, 2016 and 2015, respectively, and are comprised as follows:

	Mexican pesos		U.S. Dollars (in Mexican pesos)		Total	
	2016	2015	2016	2015	2016	2015
Deposits with foreign credit institutions	$ 336	$ -	$ 73,115	$ 16,755	$ 73,451	$ 16,755
Central Bank of Mexico	14,692	4,664	636	34	15,328	4,698
	$ 15,028	$ 4,664	$ 73,751	$ 16,789	$ 88,779	$ 21,453

As of December 31, 2016 and 2015, restricted funds available are as follows:

	2016	2015
Monetary regulation deposits (1)	$ 40,250	$ 59,682
Foreign exchange to be received (2)	62,333	49,542
Foreign exchange to be delivered (2)	(60,285)	(42,418)
Interbank loans call money (3)	-	5,000
Other restricted deposits	566	382
	$ 42,864	$ 72,188

(1) As of December 31, 2016 and 2015, the sole account of the Central Bank of Mexico includes the Institution's Monetary Regulation Deposits in the Central Bank of Mexico, which amount to $40,250 and $59,682, respectively. These Monetary Regulation Deposits will have an indefinite duration, for which purpose the Central Bank of Mexico will provide timely notice of the date and the procedure for withdrawal of the respective balances. Interest on the deposit is payable every 28 days by applying the rate established in the Regulations issued by the Central Bank of Mexico.

On May 12, 2016 through Circular 9/2016, the Bank of Mexico issued rules for the auction of Reportable Monetary Regulation Bonds (BREMS R), which indicate that these instruments can be settled with monetary regulation deposit (DRM) resources. The current Provisions establish that the DRM may be comprised of cash, securities or both.

At December 31, 2016 and 2015, the Institution holds BREMS R for the amount of $28,950 and $13,210, respectively, which form part of the DRM. These amounts are recorded as restricted under the heading of "Investments in securities" in the category of securities available-for-sale. This is the case because the bond issuance prospectus establishes that they must only be sold directly or through repurchase transactions to the Bank of Mexico, when determined by the latter through its general provisions.

(2) Foreign currencies to be received and delivered for purchases and sales to be settled in 24 and 48 hours as of December 31, 2016 and 2015 are composed as follows:

	2016	
	Balance in foreign Currency (Millions of US dollars)	Mexican peso equivalent
Purchases of foreign currencies to be received at 24 and 48 hours	3,023	$ 62,333
Sales of foreign currencies to be settled at 24 and 48 hours	(2,924)	(60,285)
	99	$ 2,048

	2015	
	Balance in foreign Currency (Millions of US dollars)	Mexican peso equivalent
Purchases of foreign currencies to be received at 24 and 48 hours	2,872	$ 49,542
Sales of foreign currencies to be settled at 24 and 48 hours	(2,459)	(42,418)
	413	$ 7,124

When the foreign exchange deliverable or receivable on the purchases and sales are recorded under the heading of "Funds available", the settlement accounts for the equivalent value of these operations are recorded net in the balance sheet under the headings of "Other accounts receivable, net" and "Payables from settlement of operations".

(3) "Call money" operations granted to December 31, 2015, represent interbank loan transactions agreed at a term shorter than or equal to four business days, at a rate of 5.75% and 3.32%, respectively.

5. Margin accounts

At December 31, 2016 and 2015, margin accounts are comprised as follows:

	2016	2015
Derivatives margin in authorized markets	$ 8,998	$ 2,774

6. Investment in securities

At December 31, 2016 and 2015, financial instruments were as follows:

a. ***Trading -***

	2016				2015
Instrument	Acquisition Cost	Accrued interest	Increase (decrease) due to valuation	Book value	Book value
Securitized certificates	$ 6,255	$ 88	$ (40)	$ 6,303	$ 10,555
Sovereign debt Eurobonds	6,268	74	(178)	6,164	7,582
Net equity instruments	6,071	-	(321)	5,750	5,287
ADR's	7,384	-	(90)	7,294	1,168
Promissory notes with returns realizable at maturity (PRLV)	54	-	-	54	39
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	281	20	(4)	297	2,693
Corporate Eurobonds	2,472	24	39	2,535	1,636
Fixed-rate bonds	1,776	119	(24)	1,871	8,776
Certificates of Deposit (CEDES)	-	-	-	-	600

Instrument	2016 Acquisition Cost	2016 Accrued interest	2016 Increase (decrease) due to valuation	2016 Book value	2015 Book value
Mexican Bank Saving Protection Bonds (BPA´s)	7,963	109	(14)	8,058	1,216
Bank securitized certificates	384	6	-	390	2,372
Exchangeable securitization certificates (CBIC´s)	333	7	-	340	232
Federal Treasury Securities (CETES)	169	-	-	169	591
Federal Government Development Bonds (BONDES)	417	1	-	418	8,146
Treasury Bills	-	-	-	-	8,965
Treasury Notes	103	1	(2)	102	85
	39,930	449	(634)	39,745	59,943
Collateral granted (a.1.)	197,262	101	497	197,860	188,926
Value date purchases (a.2.)	15,154	75	(42)	15,187	6,149
Value date sales (a.3.)	(17,702)	(92)	32	(17,762)	(5,556)
Total	$ 234,644	$ 533	$ (147)	$ 235,030	$ 249,462

During 2016 and 2015, the Institution recognized in valuation gains (losses) for net amounts of $195 and ($276), respectively.

At December 31, 2016 and 2015, the remaining periods of these investments were as follows:

Instrument	2016 Less than 1 month	2016 Between 1 and 3 Months	2016 More than 3 Months	2016 Without a Fixed period	2016 Total acquisition cost
Securitization certificates	$ -	$ -	$ 6,255	$ -	$ 6,255
Sovereign debt Eurobond	-	-	6,268	-	6,268
Net equity instruments	-	-	-	6,071	6,071
ADR's	-	-	-	7,384	7,384
Promissory notes with returns realizable at maturity (PRLV)	-	-	54	-	54
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	-	-	281	-	281
Corporate Eurobonds	-	-	2,472	-	2,472
Fixed-rate bonds	-	-	1,776	-	1,776
Mexican Bank Saving Protection Bonds (BPA´s)	-	-	7,963	-	7,963
Bank securitized certificates	-	-	384	-	384
Exchangeable securitization certificates (CBIC´s)	-	-	333	-	333
Federal Treasury Securities (CETES)	-	19	150	-	169
Federal Government Development Bonds (BONDES)	-	-	417	-	417
Treasury Notes	-	-	103	-	103
Total	$ -	$ 19	$ 26,456	$ 13,455	$ 39,930

Instrument	2015 Less than 1 month	Between 1 and 3 Months	More than 3 Months	Without a Fixed period	Total Acquisition Cost
Securitization certificates	$ 70	$ 30	$ 10,351	$ -	$ 10,451
Sovereign debt Eurobond	380	-	7,368	-	7,748
Net equity instruments	-	-	-	5,578	5,578
ADR's	-	-	-	1,217	1,217
Promissory notes with returns realizable at maturity (PRLV)	-	-	39	-	39
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	-	-	2,692	-	2,692
Corporate Eurobonds	5	-	1,680	-	1,685
Fixed-rate bonds	-	-	8,678	-	8,678

Instrument	2015 Less than 1 month	Between 1 and 3 Months	More than 3 Months	Without a Fixed period	Total Acquisition Cost
Certificates of Deposit (CEDES)	-	300	300	-	600
Mexican Bank Saving Protection Bonds (BPA´s)	-	-	1,208	-	1,208
Bank securitized certificates	-	34	2,320	-	2,354
Exchangeable securitization certificates (CBIC´s)	-	-	228	-	228
Federal Treasury Securities (CETES)	-	591	-	-	591
Federal Government Development Bonds (BONDES)	-	-	8,142	-	8,142
Treasury Bills	-	-	8,970	-	8,970
Treasury Notes	-	-	86	-	86
Total	$ 455	$ 955	$ 52,062	$ 6,795	$ 60,267

a.1. The collateral granted as of December 31, 2016 and 2015 was comprised as follows:

Instrument	2016 Acquisition cost	Accrued interest	Valuation Increase (decrease)	Book value	2015 Book value
Fixed-rate bonds	$ 14,504	$ 23	$ (43)	$ 14,484	$ -
Mexican Bank Saving Protection Bonds (BPA´s)	20,779	8	11	20,798	-
Federal Government Development Bonds (BONDES)	29	-	-	29	-
Federal Treasury Securities (CETES)	2	-	-	2	-

Instrument	2016 Acquisition cost	2016 Accrued interest	2016 Valuation Increase (decrease)	2016 Book value	2015 Book value
Security loans	35,314	31	(32)	35,313	-
Other collateral	-	-	-	-	40,020
Bank securitization certificates	1,863	-	-	1,863	72
Federal Government Development Bonds (BONDES)	15,286	2	(1)	15,287	3,450
Fixed rate bonds	22,637	7	36	22,680	26,963
Mexican Bank Saving Protection Bonds (BPA´s)	91,428	57	497	91,982	52,613
Federal Treasury Securities (CETES)	6,706	1	-	6,707	58,296

Instrument	2016 Acquisition cost	2016 Accrued interest	2016 Valuation Increase (decrease)	2016 Book value	2015 Book value
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	15,950	1	(11)	15,940	1,845
Exchangeable securitization certificates (CBIC´s)	4,061	1	8	4,070	4,574
Net equity instruments	36	-	1	37	-
Securitization certificates	3,981	1	(1)	3,981	1,093
Bonds received as repurchase agreement collateral	161,948	70	529	162,547	148,906
Total restricted securities	$ 197,262	$ 101	$ 497	$ 197,860	$ 188,926

a.2. Value date purchases at December 31, 2016, and 2015 was comprised as follows:

Instrument	2016 Acquisition Cost	2016 Accrued Interest	2016 Valuation Increase (Decrease)	2016 Book Value	2015 Book Value
Net equity instruments	$ 164	$ -	$ -	$ 164	$ 500
ADR's	748	-	(54)	694	66
Fixed rate bonds	10,450	61	7	10,518	4,142
Federal Treasury Securities (CETES)	150	-	-	150	596
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	3,075	6	(2)	3,079	541
Mexican Bank Saving Protection Bonds (BPA´s)	-	-	-	-	202
Securitization certificates	300	7	1	308	-
Sovereign debt Eurobond	267	1	6	274	102
	$ 15,154	$ 75	$ (42)	$ 15,187	$ 6,149

a.3. Value date sales at December 31, 2016, and 2015 were comprised as follows:

Instrument	2016 Acquisition Cost	2016 Accrued Interest	2016 Valuation Increase (Decrease)	2016 Book Value	2015 Book Value
Fixed rate bonds	$ (8,549)	$ (45)	$ (12)	$ (8,606)	$ (2,880)
Federal Treasury Securities (CETES)	(547)	-	-	(547)	(397)
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	(3,651)	(6)	2	(3,655)	(1,596)
Securitization certificates	8	(15)	-	(7)	(92)
Net equity instruments	(167)	-	1	(166)	(134)
Federal Government Development Bonds (BONDES)	(846)	(1)	-	(847)	-
Mexican Bank Saving Protection Bonds (BPA´s)	(997)	(1)	-	(998)	-
ADR's	(102)	-	-	(102)	(17)
Sovereign debt Eurobonds	(2,851)	(24)	41	(2,834)	(440)
	$ (17,702)	$ (92)	$ 32	$ (17,762)	$ (5,556)

b. ***Available for sale -***

Instrument	2016 Acquisition Cost	2016 Accrued Interest	2016 Valuation Increase (Decrease)	2016 Book value	2015 Book value
Sovereign debt Eurobonds	$ 15,786	$ 332	$ 766	$ 16,884	$ 25,738
Securitization certificates	13,062	169	(383)	12,848	15,357
Corporate Eurobonds	10,248	154	(899)	9,503	3,061
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	-	-	-	-	314
Net equity instruments	814	-	(81)	733	610
ADR's	13	-	470	483	381
Certificates of Deposit (CEDES) UDI's	-	-	-	-	117
Bank Eurobonds	350	3	(2)	351	294
Banco de México's Monetary Regulation Bonds (BREMS)	3,720	1	-	3,721	-
	43,993	659	(129)	44,523	45,872
Restricted securities (b.1.)	110,040	33	(3,932)	106,141	102,074
Total	$ 154,033	$ 692	$ (4,061)	$ 150,664	$ 147,946

At December 31, 2016, the remaining scheduled maturities of the above instruments were as follows:

Instrument	Between 1 and 3 months	More than 3 months	Without a fixed period	Total acquisition cost
Bank Eurobonds	$ -	$ 15,786	$ -	$ 15,786
Securitization certificates	350	12,712	-	13,062
Corporate Eurobonds	187	10,061	-	10,248
Net equity instruments	-	-	814	814
ADR's	-	-	13	13
Bank Eurobonds	-	350	-	350
Banco de México's Monetary Regulation Bonds (BREMS)	-	3,720	-	3,720
Total	$ 537	$ 42,629	$ 827	$ 43,993

At December 31, 2015, the remaining scheduled maturities of the above instruments were as follows:

Instrument	Between 1 and 3 months	More than 3 months	Without a fixed period	Total acquisition cost
Net equity instruments	$ -	$ -	$ 803	$ 803
ADR's	-	-	11	11
Sovereign debt Eurobonds	-	25,561	-	25,561
Corporate Eurobonds	585	2,459	-	3,044
Bank Eurobonds	-	293	-	293
Securitization certificates	266	14,963	-	15,229
Certificates of Deposit (CEDES) UDI's	-	75	-	75
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	-	346	-	346
Total	$ 851	$ 43,697	$ 814	$ 45,362

b.1. Collateral granted (restricted securities) as of December 31, 2016 and 2015, were as follows:

Instrument	2016				2015
	Acquisition cost	Accrued interest	Increase (Decrease) due to valuation	Book value	Book value
Fixed rate bonds	$ 79,467	$ 24	$ (3,911)	$ 75,580	$ 87,567
Federal Government Development Bonds (BONDES)	-	-	-	-	143
Securitization certificates	28,942	8	-	28,950	13,210
Banco de México's Monetary Regulation Bonds (BREMS)	356	-	(21)	335	-
Total collateral receivable from repurchase agreements	108,765	32	(3,932)	104,865	100,920
Treasury Bills given as collateral	1,275	1	-	1,276	1,154
Total restricted securities	$ 110,040	$ 33	$ (3,932)	$ 106,141	$ 102,074

c. ***Held to maturity -***

The following securities have medium and long-term maturities:

Instrument	2016 Acquisition cost	2016 Accrued interest	2016 Book value	2015 Book value
Government bonds- Mortgage debtor support program	$ 15,656	$ -	$ 15,656	$ 15,052
Government bonds- State and Municipality debtor support program	-	-	-	1,774
U.S. Treasury securities	-	-	-	51
Total	$ 15,656	$ -	$ 15,656	$ 16,877

For the years ended December 31, 2016 and 2015, the yields related to the overall held to maturity portfolio, recorded in the result of the year, amounted to $661 and $487, respectively.

d. ***Collateral Received***

The terms and conditions for the delivery of securities as collateral are in line with the framework contracts of Repurchase Agreements, Securities Loans, and Derivatives (ISDA/CEMOF). These contracts establish the exchange of collateral, which will help mitigate the credit risk, in order to have a reasonable level of collateral; the collateral granted does not fulfill criteria for transfer of ownership, for which reason the entity providing the collateral retains the corporate and economic rights of such instruments, unless there is default on the secured obligations. However, these framework contracts stipulate the temporary use and enjoyment of such securities with the commitment to return them at maturity of the guarantee transaction or margin return calls due to a decrease in the secured value at risk.

As a result of the collateral exchange agreements of financial institutions which have a negative market value, a commitment is made to deliver to the other party (which therefore presents a positive market value) assets or cash to reduce the exposure for credit risk, under the terms stipulated in the aforementioned bilateral contract.

7. Repurchase transactions

As of December 31, 2016 and 2015, repurchase transactions were comprised as follows:

a. ***Repurchase agreement receivables*** –

As repurchasing party:

Instrument	2016 Asset Side Receivable under repurchase	2016 Liability Side Collateral sold or delivered	2016 Debit	2015 Asset Side Receivable under repurchase	2015 Liability Side Collateral Sold or delivered	2015 Debit
Federal Government Development Bonds (BONDES)	$ 1,220	$ 1,179	$ 41	$ 48,840	$ 48,665	$ 175
Fixed rate bonds	5,488	5,249	239	6,717	6,650	67
Mexican Bank Saving Protection Bonds (BPA´s)	1,400	1,400	-	10,973	10,922	51
Securitization certificates	2,323	2,314	9	12,000	1,062	10,938
Total	$ 10,431	$ 10,142	$ 289	$ 78,530	$ 67,299	$ 11,231

b. Repurchase payables –

Security vendor:

Instrument	2016 Liability side payables under resale agreements	2015 Liability side payables under resale agreements
Fixed rate bonds	$ 98,205	$ 110,943
Mexican Bank Saving Protection Bonds (BPA´s)	89,180	51,434
Federal Government Development Bonds (BONDES)	15,288	3,049
Federal Treasury Securities (CETES)	6,706	57,914
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	16,304	1,847

Instrument	2016 Liability side payables under resale agreements	2015 Liability side payables under resale agreements
Securitization certificates	4,259	1,376
Banco de México's Monetary Regulation Bonds (BREMS)	28,975	13,216
Bank Bonds	1,507	72
Exchangeable securitization certificates (CBIC´s)	4,061	4,580
Total	$ 264,485	$ 244,431

At December 31, 2016 and 2015, the interest (premiums) earned by the Institution were $14,629 and $13,744, respectively is recorded in the consolidated statements of income in the "Interest income". Also, at December 31, 2016 and 2015, the interest (premiums) charged to the Institution were $11,728 and $9,734, respectively.

c. Payables in transactions involving securities loans and derivatives

Instrument	2016 Memoranda accounts: Collateral received for securities loans	2016 Memoranda accounts: Collateral received for loans and sold or given in guarantee	2016 Liability portion: Payables from collateral Sold or given in guarantee	2015 Memoranda accounts: Collateral received for securities loans	2015 Memoranda accounts: Collateral received for loans Sold or given in guarantee	2015 Liability portion: Payables from collateral sold or given in guarantee
Borrower:						
Government securities -						
Fixed rate bonds	$ 20,490	$ 20,490	$ 20,490	$ 22,941	$ 22,941	$ 22,941
Net equity instruments	41	41	41	6,577	6,577	6,577
Federal Mexican Government Development Bonds in UDIS (UDIBONDS)	7,570	7,570	7,570	2,634	2,634	2,634
Federal Treasury Securities (CETES)	1,945	1,945	1,945	4,746	4,746	4,746
Net equity instruments	4,370	4,370	4,370	-	-	-
	34,416	34,416	34,416	36,898	36,898	36,898

Instrument	2016 Memoranda accounts: Collateral received for securities loans	2016 Memoranda accounts: Collateral received for loans and sold or given in guarantee	2016 Liability portion: Payables from collateral Sold or given in guarantee	2015 Memoranda accounts: Collateral received for securities loans	2015 Memoranda accounts: Collateral received for loans Sold or given in guarantee	2015 Liability portion: Payables from collateral sold or given in guarantee
Repurchase agreements:						
Securitization certificates	2,315	2,315	-	-	-	-
Federal Government Development Bonds (BONDES)	1,181	1,181	-	49,958	49,958	-
Net equity instruments	36	36	-	-	-	-
Fixed rate bonds	1,402	1,402	-	17,617	17,617	-
Mexican Bank Saving Protection Bonds (BPA´s)	5,439	5,439	-	10,929	10,929	-
	10,373	10,373	-	78,504	78,504	-
Total	$ 44,789	$ 44,789	$ 34,416	$ 115,402	$ 115,402	$ 36,898

Premiums payable were recognized in the results of 2016 and 2015 for the amount of $63 and $44, respectively.

At December 31, 2016 and 2015, the Institution has contracted repurchase agreements for an average period of 22 days, while transactions involving securities loans are performed over an average period of 8 days.

8. Derivatives

At December 31, 2016 and 2015, securities and derivative transactions were as follows:

a. ***Derivatives*** - The chart below shows the open derivative instrument transactions of the Institution as of December 31, 2016 and 2017. The currency position generated by these derivative instruments must be added to the position in the balance sheet in order to obtain the year-end position amount analyzed in Note 26.

Trading:

Transaction	2016 Notional amount: Asset	2016 Notional amount: Liability	2016 Balance: Debit	2016 Balance: Credit
Long-term futures position	$ 90,228	$ 90,228	$ -	$ -
Short-term futures position	8,459	8,459	-	-
Long-term forwards contracts	497,619	489,326	17,411	9,118
Short-term forwards contracts	484,231	501,706	1,742	19,217
Options acquired	6,200	-	6,200	-
Options sold	-	11,983	-	11,983
Swaps	1,013,433	997,538	123,604	107,709
	$ 2,100,170	$ 2,099,240	$ 148,957	$ 148,027

Transaction	2015 Notional amount Asset	Liability	Balance Debit	Credit
Long-term futures position	$ 25,864	$ 25,864	$ -	$ -
Short-term futures position	16,330	16,330	-	-
Long-term forwards contracts	381,528	381,837	8,779	9,088
Short-term forwards contracts	339,906	347,927	2,776	10,797
Options acquired	4,419	-	4,419	-
Options sold	-	7,813	-	7,813
Swaps	908,032	900,683	79,880	72,531
	$ 1,676,079	$ 1,680,454	$ 95,854	$ 100,229

Hedging:

Transaction	2016 Notional amount Asset	Liability	Balance Debit	Credit
Long-term forwards contracts	$ 2,778	$ 2,485	$ 293	$ -
Short-term forwards contracts	142	188	-	46
Swaps	93,980	86,302	18,641	10,963
	$ 96,900	$ 88,975	$ 18,934	$ 11,009

Transaction	2015 Notional amount Asset	Liability	Balance Debit	Credit
Long-term forwards contracts	$ 2,873	$ 2,779	$ 94	$ -
Short-term forwards contracts	314	297	38	21
Swaps	101,939	96,639	13,147	7,847
	$ 105,126	$ 99,715	$ 13,279	$ 7,868

b. ***Futures and forward contracts -*** For the year ended December 31, 2016, the Institution carried out transactions in recognized markets (Mexican Derivatives Market (Mex-Der) Chicago and ITAU), including an equity of $7,650 distributed in rates of $(13), currencies of $6,635, indexes of $867 and securities of $161.

For the year ended December 31, 2015, the Institution carried out transactions in recognized markets (Mexican Derivatives Market (Mex-Der) Chicago and ITAU), including an equity of $5,263 distributed in rates of $34, currencies of $4,939, indexes and securities of $290.

The Institution also entered into forward contracts with the principal foreign currencies. At the close of the year 2015, the following contracts are open:

Trading:

Type of Transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Deliverable	Book balance
Futures	M10 Bonds	$ 885	$ 885	$ -	$ -	$ -
	Index	2,981	2,981	3	3	-
	S&P	167	167	148	148	-
	U.S. dollars	4,426	4,426	90,077	90,077	-
		$ 8,459	$ 8,459	$ 90,228	$ 90,228	$ -
Forwards	U.S. dollars	$ 456,394	$ 474,167	$ 478,535	$ 470,069	$ (9,307)
	Index	17,771	17,598	17,910	18,088	(5)
	Equity	147	140	576	563	20
	Bonds	9,919	9,801	598	606	110
		$ 484,231	$ 501,706	$ 497,619	$ 489,326	$ (9,182)

Hedging:

Type of Transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Deliverable	Book balance
Forwards	U.S. dollars	$ 142	$ 188	$ 2,778	$ 2,485	$ 247

At the close of the year 2015, the following contracts are open:

Trading:

Type of transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Deliverable	Book balance
Futures	TIIE	$ 4,824	$ 4,824	$ -	$ -	$ -
	M10 Bonds	-	-	2,394	2,394	-
	BMF	20	20	472	472	-
	Index	4,319	4,319	300	300	-
	S&P	-	-	5,747	5,747	-
	U.S. dollars	7,167	7,167	16,951	16,951	-
		$ 16,330	$ 16,330	$ 25,864	$ 25,864	$ -
Forwards	U.S. dollars	$ 311,781	$ 320,009	$ 369,754	$ 369,858	$ (8,332)
	Index	11,715	11,509	6,091	6,303	(6)
	Equity	5,157	5,161	5,683	5,676	3
	Bonds	11,253	11,248	-	-	5
		$ 339,906	$ 347,927	$ 381,528	$ 381,837	$ (8,330)

Hedging:

Type of transaction	Underlying	Sales: Receivable	Sales: Contract value	Purchases: Contract value	Purchases: Deliverable	Book balance
Forwards	U.S. dollars	$ 314	$ 297	$ 2,873	$ 2,779	$ 111

c. ***Options*** - At December 31, 2016, option transactions were as follows:

Trading:

Type of transaction		Underlying	Notional amount	Fair Value
Purchases	OTC Options	Interest rates	$ 82,842	$ 2,374
		Equity securities and index	28,058	2,008
		U.S. dollars	51,595	1,147
	Market options	Equity securities and index	7,421	671
				$ 6,200
Sales	OTC Options	Interest rates	$ 198,528	$ 2,000
		Equity securities and index	19,473	8,310
		U.S. dollars	52,860	1,217
	Market options	Equity securities and index	12,183	456
				$ 11,983

At December 31, 2015, option transactions were as follows:

Trading:

Type of transaction		Underlying	Notional amount	Fair Value
Purchases	OTC Options	Interest rates	$ 35,898	$ 666
		Equity securities and index	16,065	1,852
		U.S. dollars	80,416	701
	Market options	Equity securities and index	6,804	1,200
				$ 4,419
Sales	OTC Options	Interest rates	$ 226,836	$ 956
		Equity securities and index	12,071	5,603
		U.S. dollars	83,261	262
	Market options	Equity securities and index	6,879	992
				$ 7,813

d. ***Swaps -*** At December 31, 2016, swaps transactions were as follows:

Trading:

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Currency	U.S. Dollar	$ 302,861	$ 244,825	$ 325,705	$ 256,489	$ 69,216
	Mexican Peso	197,706	180,798	287,031	291,844	(4,813)
	UDIS	91,196	107,613	-	-	-
	Euro	45,386	84,599	49,789	94,408	(44,619)
	Colombian Peso	2,182	875	-	-	-
	Pound Sterling	1,274	1,274	1,711	1,809	(98)
	Swiss Franc	-	4,059	-	4,404	(4,404)
	Chilean Peso	3,651	-	-	-	-
				664,236	648,954	15,282
Interest rates	Mexican Peso		1,784,178	$ 255,501	$ 252,846	$ 2,655
	U.S. Dollar		1,107,436	88,954	90,580	(1,626)
	Pound Sterling		510	15	30	(15)
	Euro		104,006	1,635	1,821	(186)
				346,105	345,277	828
Shares	U.S. Dollar		5,614	$ 3,457	$ 59	$ 3,398
	Mexican Peso		2,077	36	3,382	(3,346)
				3,493	3,441	52
CDS	U.S. Dollar		825	$ 29	$ 24	$ 5
CRA	Mexican Peso		-	$ (272)	$ -	$ (272)
Authorized markets	Mexican Peso		96,058	$ (158)	$ (158)	$ -
				$ 1,013,433	$ 997,538	$ 15,895

At December 31, 2015, swap transactions were as follows:

Trading:

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Currency	U.S. dollar	$ 248,490	$ 206,434	$ 267,706	$ 217,944	$ 49,762
	Mexican peso	172,766	156,591	271,080	264,092	6,988
	UDIS	88,944	101,460	-	-	-
	Euro	31,365	69,536	33,234	76,460	(43,226)
	Colombian peso	333	692	-	-	-
	Pound Sterling	1,272	1,272	1,647	1,719	(72)
	Swiss Franc	-	3,449	-	3,741	(3,741)
	Chilean Peso	2,890	-	-	-	-
				573,667	563,956	9,711

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Interest rates	Mexican peso		$ 2,362,155	$ 260,287	$ 261,581	$ (1,294)
	U.S. dollar		951,357	71,797	72,321	(524)
	Pound Sterling		509	39	37	2
	Euro		69,758	2,324	2,512	(188)
				334,447	336,451	(2,004)
Shares	U.S. dollar		$ 1,135	$ 53	$ 28	$ 25
	Mexican peso		84	2	1	1
				55	29	26
CDS	U.S. dollar		$ 1,380	$ 44	$ 35	$ 9
CRA	Mexican peso		$ -	$ (393)	$ -	$ (393)
Authorized markets	Mexican peso		$ 3,163	$ 212	$ 212	$ -
				$ 908,032	$ 900,683	$ 7,349

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions, at annual rates ranging from 1.80% to 20.26%. At December 31, 2015, the notional amount of swaps was $2,362,155.

Hedging:

At December 31, 2016 –

Underlying	Currency	Receivable contract value	Payable contract value	Receivable	Payable	Net position
Currency	Mexican peso	$ 18,400	$ 21,006	$ 20,046	$ 23,806	$ (3,760)
	U.S. dollar	33,067	8,294	40,005	9,438	30,567
	Pound Sterling	-	1,202	-	1,740	(1,740)
	Euro	-	15,390	-	18,723	(18,723)
				60,051	53,707	6,344
Interest rates	Mexican peso	$ -	$ 29,231	$ 13,135	$ 12,666	$ 469
	U.S. dollar	-	70,831	20,794	19,929	865
				33,929	32,595	1,334
				$ 93,980	$ 86,302	$ 7,678

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 5.02% to 8.91%. At December 31, 2016, the notional amount of swaps was $29,231.

At December 31, 2015 –

Hedging:

Underlying	Currency	Contract value receivable	Contract value deliverable	Receivable	Deliverable	Net position
Currency	Mexican peso	$ 22,949	$ 21,241	$ 25,430	$ 25,090	$ 340
	U.S. dollar	34,975	8,015	42,166	9,349	32,817
	Pound Sterling	-	1,200	-	1,693	(1,693)
	Euro	-	23,390	-	26,582	(26,582)
				67,596	62,714	4,882
Interest rates	Mexican peso	$ -	$ 30,713	$ 13,806	$ 14,861	$ (1,055)
	U.S. dollar	-	56,353	20,537	19,064	1,473
				34,343	33,925	418
				$ 101,939	$ 96,639	$ 5,300

The Institution entered into nominal interest rate swaps in Mexican pesos with various institutions at annual rates ranging from 3.33% to 8.91%. At December 31, 2015, the notional amount of swaps was $30,713.

Collateral received in OTC derivatives as of December 31, 2016 and 2015 is recorded under the heading "Payables for collateral received in cash" and is shown as follows:

	2016			2015
Cash received as derivatives warranty	Acquisition cost	Accrued interest	Book value	Book value
Actimed, S.A. de C.V., SIID	$ -	$ -	$ -	$ 2
Banco Actinver, S.A., IBM	-	-	-	2
Banco Base, S.A., IBM	188	-	188	100
Banco Inbursa, S.A., IBM	1,531	-	1,531	1,483
Banco JP Morgan, S.A., IBM	778	1	779	510
Banco Nacional de Obras, S.N.C	-	-	-	654
Banco Regional de Monterrey, S.A., IBM	29	-	29	41
BBVA Banco Continental	27	-	27	161
BBVA Colombia	-	-	-	225
Banco Nacional Com Exterior, S.N.C.	544	3	547	510
Bimar Internacional	392	-	392	446
Credit Agricole CIB	2,042	1	2,043	1,626
Credit Suisse Securities	3,221	2	3,223	8,146
Deutsche Bank	7,103	5	7,108	2,542
Goldman Sachs Paris	5,921	4	5,925	3,795
HSBC Bank USA N.A N.Y	109	-	109	46
J. Aron and Company	1,129	1	1,130	1,065
Merrill Lynch Cap.S.E	1,111	1	1,112	569
Morgan Stanley & CO	188	-	188	393
Morgan Stanley SAS	2,071	1	2,072	1,294
Natixis	1,543	1	1,544	1,576
Sociedad Hipotecaria Federal, S.N.C.	-	-	-	1,373
Valores Mexicanos Casa de Bolsa, S.A. de C.V.	35	-	35	1

Cash received as derivatives warranty	2016 Acquisition cost	2016 Accrued interest	2016 Book value	2015 Book value
VECTOR Casa de Bolsa, S.A. de C.V.	7	-	7	22
Actiganamassa DCV SIID	1	-	1	-
Alsea SAB de CV	131	-	131	-
BBVA SERVEX	846	-	846	-
Banco Interacciones	201	1	202	-
Banco Santander (México), S.A.	2,511	12	2,523	-
Banco ve por mas S.A.	14	-	14	-
Banco Mercantil del Norte	3,447	2	3,449	-
Casa de Bolsa Finame	68	-	68	-
Morgan Stanley CAP S	729	-	729	-
XIGNUX, S.A. de C.V.	318	-	318	17
Total collateral received in cash	$ 36,235	$ 35	$ 36,270	$ 26,599

As of December 31 2016 and 2015, the Institution has not registered “Collateral received” in accounts.

e. ***Transactions with embedded derivative financial instruments –***

Held for trading purposes:

Transaction type	2016 Book value Asset	2016 Book value Liability	2016 Balance Asset	2016 Balance Liability
Options acquired	$ 1,009	$ -	$ 1,009	$ -
Options sold	-	1,249	-	1,249
Swaps	18,993	17,498	5,541	4,045
	$ 20,002	$ 18,747	$ 6,550	$ 5,294

Transaction type	2015 Book value Asset	2015 Book value Liability	2015 Balance Asset	2015 Balance Liability
Options acquired	$ 238	$ -	$ 238	$ -
Options sold	-	1,119	-	1,119
Swaps	18,869	17,524	5,195	3,850
	$ 19,107	$ 18,643	$ 5,433	$ 4,969

f. ***Embedded options (Underlying) -***

Held for trading purposes:

Transaction type		Underlying	2016 Face value	2016 Fair value
Purchases	OTC Options	U.S. dollar	$ 3,860	$ 12
		Interest rates	1,196	48
		Indexes	28,434	949
			$ 33,490	$ 1,009

Transaction type		Underlying	2016 Face value	2016 Fair value
Sales	OTC Options	Interest rates	$ 13,173	$ 14
		Indexes	14,413	1,195
		U.S. dollar	3,439	40
			$ 31,025	$ 1,249

Transaction type		Underlying	2015 Face value	2015 Fair value
Purchases	OTC Options	U.S. dollar	$ 257	$ 2
		Interest rates	33,293	178
		Indexes	2,991	58
			$ 36,541	$ 238
Sales	OTC Options	Interest rates	$ 13,506	$ 105
		Indexes	15,647	1,011
		U.S. dollar	107	3
			$ 29,260	$ 1,119

g. ***Embedded swaps (Underlying)***

Held for trading purposes:

Underlying	Currency	2016 Receivable face value	2016 Receivable market value	2016 Payable market value	2016 Fair value
Currency	Mexican peso	$ 4,509	$ 4,544	$ 4,622	$ (78)
	U.S. dollar	4,785	5,388	5,232	156
	Euro	381	438	432	6
		$ 9,675	$ 10,370	$ 10,286	$ 84
Interest rate	Mexican peso	$ 45,450	$ 8,478	$ 7,109	$ 1,369
	U.S. dollar	1,112	146	102	44
		$ 46,562	$ 8,624	$ 7,211	$ 1,413

Underlying	Currency	2015 Receivable face value	2015 Receivable market value	2015 Payable market value	2015 Fair value
Currency	Mexican peso	$ 5,272	$ 5,315	$ 5,403	$ (88)
	U.S. dollar	4,556	5,335	4,950	385
	Euro	358	419	411	8
		$ 10,186	$ 11,069	$ 10,764	$ 305
Interest rate	Mexican peso	$ 49,401	$ 7,618	$ 6,635	$ 983
	U.S. dollar	1,015	182	125	57
		$ 50,416	$ 7,800	$ 6,760	$ 1,040

As of December 31, 2016, the Institution has entered into the following hedge contracts:

Type of Hedge: Cash Flow Hedges

Description of coverage	Risk hedged	Hedge instrument	Maximum maturity date of hedge	Fair value hedge instrument	Periods in which flows affect results	Amount recognized in comprehensive income of the period	Amount that is reclassified from Equity to Income Statement	Line of the Consolidated Income Statement where the Hedge is being applied	Line of the Consolidated Balance Sheet where the primary position is recorded	Ineffectiveness recognized
Partial coverage of Monetary Regulation Deposit	Variable flows from the DRM	24 IRS FIJA/TIIE	Jun - 2020	$ (302)	41 months	$ (644)	$ 22	Interest Margin from Funds available	Restricted Funds available	-
Coverage of expenses and investment in EUR and USD	Exchange rate variation in estimated expense flows	12 FWD sale EUR/MXP	Jun - 2017	$ 293	5 months	$ 200	$ 372	Expenses	Property, furniture and equipment Marketing	-
Coverage of sovereign bonds of the Brazilian government	Variable flows from the bond	1 FWD sale BRL/USD/MXN	January - 2017	$ -	0 months	$ (18)	$ -	Interest Margin from Securities	Securities	N/A

* As of the date the cash flows prognosticated for the transactions occurred within the time initially agreed.

Type of Hedge: Fair Value

Description of coverage	Nature of the records covered	Hedge instrument	Maximum maturity of hedge	Fair value hedge instrument	Gain/loss hedge instrument	Gain/loss hedging element	Part of the balance sheet where the primary position is recorded	Ineffectiveness recognized
Coverage of loans in USD and MXP From Fixed Rate to Floating-Rate	Fixed Rate Risk on Loans in USD And Fixed Rate in MXP	• 6 IRS Pays Variable Interest in USD and receives fixed interest • 2 IRS Pays Variable Interest in MXP and receives fixed interest	2040	$ 134	$ 1,786	$ (1,547)	Performing Loan Portfolio	-
Coverage of Mexican Sovereign Bonds in EUR/USD/GBP	Fixed Rate on Bonds UMS in EUR/ USD/GBP - V/F	70 CCS V/F	2025	$ (5,652)	$ 406	$ (403)	Investment in securities	-
Coverage Issuance of Subordinated Notes USD	Fixed Rate on Notes Issued USD V/F	31 IRS F/V	2024	$ 871	$ (2,173)	$ 2,173	Subordinated debt	-
Coverage Issuance of Subordinated Notes USD	Fixed Rate on Notes Issued USD V/F	24 CCS F/V	2024	$ 3,680	$ (1,227)	$ 1,224	Subordinated debt	-
Coverage of Corporate Bonds	Fixed Rate in Foreign Currency USD, EUR, UDI	54 CCS V/F	2025	$ (837)	$ 420	$ (410)	Investment in securities	(3)
Coverage of Corporate Bonds	Fixed Rate on Bonds USD	48 IRS V/F	2025	$ 527	$ 448	$ (448)	Investment in securities	-

* The Fair value of the Cross Currency Swaps (CCS) do not include the exchange rate, as it is not part of the hedging.

IRS - Interest rate Swaps. CCS - Cross currency swaps.

9. Loan portfolio

Loans granted classified by type of loan at December 31, 2016 and 2015, were as follows:

	Performing portfolio		Non-performing portfolio		Total	
	2016	2015	2016	2015	2016	2015
Commercial loans-						
Denominated in Mexican pesos-						
Commercial	$ 254,914	$ 210,673	$ 5,578	$ 4,913	$ 260,492	$ 215,586
Rediscounted portfolio	13,203	8,119	49	44	13,252	8,163
Lease portfolio	1,831	1,311	21	6	1,852	1,317
Denominated in U.S. dollars- (equivalent in Mexican pesos)						
Commercial	138,285	122,355	324	137	138,609	122,492
Rediscounted portfolio	606	1,239	26	48	632	1,287
Lease portfolio	1,135	258	2	11	1,137	269
Total Commercial or business activity loans	409,974	343,955	6,000	5,159	415,974	349,114
Financial entities	19,606	15,869	322	499	19,928	16,368
Government entities	142,641	137,515	1	1	142,642	137,516
Total Commercial loans	572,221	497,339	6,323	5,659	578,544	502,998
Consumer loans-						
Credit card	102,712	95,280	4,016	3,789	106,728	99,069
Other consumer loans	143,253	122,702	4,739	3,644	147,992	126,346
Total consumer loans	245,965	217,982	8,755	7,433	254,720	225,415
Mortgage loans						
Residential and non-residential	166,694	150,959	6,828	7,208	173,522	158,167
Low income	14,821	16,883	853	1,105	15,674	17,988
Total mortgage loans	181,515	167,842	7,681	8,313	189,196	176,155
Total Loan portfolio	$ 999,701	$ 883,163	$ 22,759	$ 21,405	$ 1,022,460	$ 904,568

During 2016 and 2015, the Institution acquired portfolio in the amount of $0 and $158, respectively, with a corresponding book value at the time of the purchase of $0 and $1, respectively.

At December 2016 and 2015, housing loan portfolio includes restricted securitized performing portfolio of $4,689 and $5,663, respectively, and non-performing portfolio of $89 and $94, respectively.

Commercial loans are detailed below; the distressed and non-distressed performing and non-performing portfolios at December 31, 2016 and 2015, are also identified. This portfolio does not include guarantees and interest collected ahead of time, which are shown as part of the commercial portfolio on the consolidated balance sheet:

	2016				
	Distressed		Non-distressed		
Portfolio	Performing	Non performing	Performing	Non performing	Total
Business or commercial activity	$ -	$ 5,144	$ 380,172	$ 6	$ 385,322
Loans to financial entities	-	322	19,601	-	19,923
Loans to government entities	-	1	142,640	-	142,641
Business credit card	-	1,552	30,637	638	32,827
Company credit card	-	2	101	1	104
Total	$ -	$ 7,021	$ 573,151	$ 645	$ 580,817

	2015				
	Distressed		Non-distressed		
Portfolio	Performing	Non performing	Performing	Non performing	Total
Business or commercial activity	$ -	$ 3,488	$ 316,189	$ 990	$ 320,667
Loans to financial entities	-	321	16,080	179	16,580
Loans to government entities	-	1	137,515	-	137,516
Business credit card	3	802	27,997	1,120	29,922
Company credit card	-	2	86	2	90
Total	$ 3	$ 4,614	$ 497,867	$ 2,291	$ 504,775

The restructured and renewed portfolio at December 31, 2016, and 2015 were as follows:

	2016		
Restructured Portfolio	Performing	Non performing	Total
Business or commercial activity	$ 62,279	$ 1,582	$ 63,861
Consumer loans	1,050	999	2,049
Mortgage loans	16,848	3,838	20,686
Total	$ 80,177	$ 6,419	$ 86,596

	2015		
Restructured Portfolio	Performing	Non performing	Total
Business or commercial activity	$ 55,558	$ 1,415	$ 56,973
Consumer loans	898	1,151	2,049
Mortgage loans	17,379	4,182	21,561
Total	$ 73,835	$ 6,748	$ 80,583

At December 31, 2016, the Institution has collateral in real property in the amount of $8,473, together with collateral in securities in the amount of $5,634, for restructured commercial loans.

At December 31, 2015, the Institution has collateral in real property in the amount of $9,589, together with warranties in securities in the amount of $4,973, for restructured commercial loans.

As of December 31, 2016 and 2015, aging of non-performing portfolio is as follows:

	2016				
	Period				
Portfolio	1 to 180 days	181 to 365 days	366 days to 2 years	Warranty	Total
Business or commercial activity	$ 1,855	$ 2,689	$ 3,109	$ (1,330)	$ 6,323
Consumer loans	8,337	418	-	-	8,755
Mortgage loans	1,641	1,981	4,059	-	7,681
Total	$ 11,833	$ 5,088	$ 7,168	$ (1,330)	$ 22,759

Portfolio	2015 Period 1 to 180 days	181 to 365 days	366 days to 2 years	Warranty	Total
Business or commercial activity	$ 3,128	$ 1,547	$ 2,224	$ (1,240)	$ 5,659
Consumer loans	7,134	314	-	(15)	7,433
Mortgage loans	1,452	2,286	4,575	-	8,313
Total	$ 11,714	$ 4,147	$ 6,799	$ (1,255)	$ 21,405

At December 31, 2016 and 2015, unaccrued commissions for initially granting credit, by type and average payment period, are as follows:

	2016 By amortization period 1 to 5 years	15 years	More than 15 years	Total
Business or commercial activity	$ 652	$ 553	$ 167	$ 1,372
Mortgage loans	-	15	194	209
Total	$ 652	$ 568	$ 361	$ 1,581

	2015 By amortization period 1 to 5 years	15 years	More than 15 years	Total
Business or commercial activity	$ 463	$ 447	$ 180	$ 1,090
Mortgage loans	-	21	217	238
Total	$ 463	$ 468	$ 397	$ 1,328

As of December 31, 2016 and 2015, the balances of non-performing loan portfolio fully reserved and eliminated from the balance sheet were as follows:

Concept	2016	2015
Business or commercial activity	$ 2,729	$ 3,866
Consumer loans:		
Credit card	3,273	3,316
Other consumer loans	3,037	3,783
	6,310	7,099
Mortgage loans	5,415	4,223
Total	$ 14,454	$ 15,188

As of December 31, 2016 and 2015, the amounts of portfolio sold without including securitization transactions, were as follows:

Concept	2016	2015
Business or commercial activity	$ -	$ 978
Credit card and consumer	10,683	12,392
Mortgage loans	1,182	1,335
Total	$ 11,865	$ 14,705

As of December 31, 2016 and 2015, the amount of lines of credit and letters of credit recorded in memoranda accounts comes to $553,195 and $458,700, respectively.

Revenues from interest and commissions recorded in the financial margin, segmented by type of loan, are comprised as follows:

Type of loan	2016 Interest	2016 Commissions	2016 Total	2015 Total
Commercial loans-				
Denominated in Mexican pesos-				
Commercial	$ 19,641	$ 1,021	$ 20,662	$ 15,616
Rediscounted portfolio	828	-	828	564
Lease portfolio	120	-	120	79
Denominated in U.S. dollars-				
Commercial	5,111	1	5,112	3,890
Rediscounted portfolio	72	-	72	56
Lease portfolio	46	-	46	7
Total commercial loans	25,818	1,022	26,840	20,212
Loans to financial entities	865	-	865	487
Loans to government entities	7,549	-	7,549	5,977
Total commercial loans	34,232	1,022	35,254	26,676
Consumer loans -				
Credit card	29,766	-	29,766	27,934
Other consumer loans	28,699	409	29,108	24,696
Total Consumer loans	58,465	409	58,874	52,630
Mortgage loans	18,306	61	18,367	17,408
Total	$ 111,003	$ 1,492	$ 112,495	$ 96,714

As of December 31, 2016 and 2015, the amount of the recoveries of loan portfolio written off or eliminated were $695 and $738, respectively, recognized in the heading, "Other operating income" in the consolidated statement of income.

At December 31, 2016 and 2015, loans classified by economic sectors were as follows:

	2016 Amount	2016 Concentration percentage	2015 Amount	2015 Concentration percentage
Private (companies and individuals)	$ 415,964	40.68%	$ 349,114	38.59%
Credit card and consumer	254,720	24.91%	225,415	24.92%
Mortgage	189,196	18.50%	176,155	19.47%
Government entities	142,642	13.95%	137,516	15.20%
Financial	17,490	1.71%	13,917	1.54%
Foreign (non-Mexican entities)	2,438	0.25%	2,450	0.28%
Other past-due loans	10	-	1	-
Total	$ 1,022,460	100.00%	$ 904,568	100.00%

Related-party loans - At December 31, 2016 and 2015, loans granted to related parties in accordance with the provisions of article 73 of the law of credit institutions, amounted to $39,962 and $39,750, respectively. The amount of related-party loans at December 31, 2016 and 2015 includes $16,716 and $13,984, respectively, of letters of credit, which are recorded in memorandum accounts.

Credit support program -

Early termination of debtor support programs:

On July 15, 2010, an agreement was signed between the Federal Government, through the Treasury Department (SHPC), and certain Credit Institutions, with the participation of the Mexican Bankers' Association, to early terminate the debtor support programs (the "Agreement").

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

- Housing Loan Debtor Support Program

- Housing Loan Debtor Benefits Agreement

At December 31, 2010, the amount of the payment obligations of the Federal Government is comprised as follows:

Restructured loans under the Agreement	$	4,098
Non-performing portfolio which showed payment compliance as of March 31, 2011		37
Total base mount	$	4,135

General conditions of payment obligations of Federal Government:

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

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

The interest accruing shall be at the rate resulting from the arithmetic average of the annual rates of return based on discounted CETES within 91 days, issued during the immediately preceding month each period, led to a yield curve within 28 days, capitalized monthly, for the periods in which are not available with the observed rates, interest rates futures Cetes within 91 days of the month immediately preceding each period, which publishes Proveedor Integral de Precios, S.A.

As of December, 31, 2015, the annuities have been totally paid.

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

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

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

Loan granting policies and procedures - The Institution's credit manual regulates the granting, control and recovery of loans. This manual was authorized by the Board of Directors and outlines the parameters to be followed by officers involved in the credit process, which are based on the Credit Institutions Law, the conservative credit rules established by the Commission and sound banking practices.

Credit authorization under the Board of Directors' responsibility is centralized in empowered committees and officers.

In the credit management function the general process from promotion to recovery is defined, specifying, by business unit, the policies, procedures and responsibilities of the officers involved, as well as the tools to be used in each step of the process.

The credit process is based on a thorough analysis of loan applications, in order to determine the comprehensive risk of each debtor. For most loans, debtors must at least have an alternate repayment source.

The principal policies and procedures to determine concentrations of credit risk and which form part of the credit manuals are:

Common risk:

- Establish the criteria for determining the individuals or corporations that represent common risk for the Institution.
- Establish the criteria for determining whether individuals and/or corporations act in unison and are integrated into the same business group or consortium, in order to identify potential accumulated risk and the maximum limit of financing to be granted.

Maximum financing limit:

- Make known the maximum legal credit rules issued by the authorities.
- Communicate the updated maximum credit limit for the Institution, as well as the handling of exceptions.

Risk diversification:

At December 31, 2016, and 2015, the Institution disclosed that it maintains the following credit risk operations in compliance with the general risk diversification rules established in the Accounting Criteria and applicable to asset and liability transactions, as follows:

- At December 31, 2016, and 2015, the Institution has no loans with debtors or groups of entities or individuals representing a joint risk in which the individual amount exceeds 10% of its basic capital, respectively. As of December 31, 2015 it had a debtor of $17,216, representing 12% of the basic capital.
- As of December 31, 2016 and 2015, the maximum amount of financing with the three largest debtors amounts to $31,020 and $26,754, respectively and represent 19.8% of the basic capital.

Potential risk:

- Loan applications must be sanctioned in terms of the amount of the risk.
- Avoid risk exposure above the legal limit and other institutional limits established.

Consumer loans, mortgage loans and loans to small and micro-sized companies are subject to automated evaluation and follow-up mechanisms that have been implemented, based on certain standard factors which, under the Institution's criteria, are used to make decisions and allow greater efficiency in the handling of the high volume of loan applications.

10. UDI-denominated restructured loans

At December 31, 2016 and 2015, restructured loans denominated in UDIS amounted to $2,242 and $2,901, respectively.

11. Allowance for loan losses

The following table presents the results of basic loan ratings of the Institution made for the purpose of recording the loan loss allowance based on the requirements discussed in Note 3:

	2016				
		Allowance for loan losses			
Risk category	**Total loans**	**Commercial**	**Consumer**	**Mortgage**	**Total allowance**
A1	$ 747,109	$ 1,337	$ 1,408	$ 271	$ 3,016
A2	129,740	561	1,442	166	2,169
B1	60,570	161	1,460	53	1,674
B2	41,086	178	1,495	48	1,721
B3	26,107	217	1,254	29	1,500
C1	19,097	119	1,289	160	1,568
C2	20,105	77	2,965	312	3,354
D	17,819	1,379	1,655	1,742	4,776
E	15,224	2,595	5,880	1,298	9,773
	1,076,857	6,624	18,848	4,079	29,551
Excepted Additional	-	-	-	454	454
Total	$ 1,076,857	$ 6,624	$ 18,848	$ 4,533	$ 30,005

2015					
		Allowance for loan losses			
Risk category	Total loans	Commercial	Consumer	Consumer	Total allowance
A1	$ 597,656	$ 726	$ 1,116	$ 234	$ 2,076
A2	120,489	573	1,220	169	1,962
B1	56,385	269	1,217	64	1,550
B2	46,717	160	1,657	32	1,849
B3	32,363	443	1,227	22	1,692
C1	17,703	239	1,008	135	1,382
C2	18,102	236	2,464	299	2,999
D	16,804	1,430	1,494	1,704	4,628
E	15,494	2,006	4,566	1,413	7,985
	921,713	6,082	15,969	4,072	26,123
Excepted	22,073	-	-	-	-
Additional	-	213		1,050	1,263
Total	$ 943,786	$ 6,295	$ 15,969	$ 5,122	$ 27,386

The total loan portfolio balance used for classification purposes includes amounts related to the irrevocable lines of credit granted, letters of credit and guarantees given, which are recorded in memorandum accounts.

The balance of the estimate at December 31, 2016 and 2015 is determined based on the balance of the portfolio at that date.

The allowance for loan losses at December 31, 2016 and 2015 covers 100% of non-performing accrued interest.

The amount of the allowance at December 31, 2016 and 2015 includes the classification of loans granted in foreign currency valued at the exchange rate in effect on December 31, 2016 and 2015.

At December 31, 2016, and 2015, the Institution has created additional mortgage portfolio reserves of $454 and $1,050, respectively, which represent the supplement required by the internal expected loss rating model.

At December 31, 2016, and 2015, the Institution has created additional commercial portfolio reserves of $0 and $213, respectively, which represent the supplement required by the internal expected loss rating model.

At December 31, 2016 and 2015, the allowance for loan losses represents 131.84% and 127.94%, respectively, of the non-performing loan portfolio.

At December 31, 2016 and 2015, allowance by type of portfolio risk estimates is comprised as follows:

Item	2016	2015
Commercial loans-		
Commercial	$ 5,740	$ 5,447
Financial entities	618	514
Government entities	266	334
	6,624	6,295
Consumer	18,847	15,969
Mortgage	4,534	5,122
Total allowance	$ 30,005	$ 27,386

Changes in the allowance for loan losses - Below is an analysis of the allowance for loan losses:

		2016		2015
Balance at beginning of year	$	27,386	$	26,081
Allowances charged to income statement		32,383		28,482
Applications and write-offs of the year		(29,938)		(27,329)
Exchange effect		174		152
Balance at end of year	$	30,005	$	27,386

12. Securitization operations

Mortgage portfolio securitizations –

The Institution has issued securitization certificates ("CB"), which have generally been formalized through the following contracts:

Irrevocable Trusts created between BBVA Bancomer – Invex, Grupo Financiero for the Issuance of Fiduciary Securitization Certificates –

– ***Transfer contract -***

This contract is entered into by and between the Institution ("Transferor"), Banco Invex, S.A. ("Transferee") and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative") for the purpose of assigning, on the part of the Transferor, performing portfolio, to the Irrevocable Fiduciary Certificate Issuance Trust ("the Stock Market Certificates"), free of all encumbrance and without reservation or limitation of title, together with all related benefits, proceeds and accessories applicable. The Transferor is liable only for the declarations included in such contract, for which reason non-compliance with any of the declarations will only mean that the "Transferor" replacing one or more of the ineligible loans or reimbursing in cash the proportional part of the consideration; consequently, the Transferor does not assume any obligation regarding the mortgage loans. Furthermore, the consideration was fixed as the right to receive the total amount obtained in the placement of the SMCs, less the respective issuance costs.

– ***Irrevocable Fiduciary Stock Market Certificate Issuance Trust Contract -***

This contract is entered into by and between the Institution ("Trustor" and "First Beneficiary"), Banco Invex, S.A. ("Trustee"), and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative"), which stipulates that the objective of the Trust is the acquisition of mortgage loans, free of all encumbrance and without any reservation or limitation of title, in terms of the Assignment Contract, the issuance of SMCs, which will have such mortgage loans as a source of payment and the placement of the SMCs among small investors; while the Trustee will have all those powers and obligations considered necessary to achieve such purpose.

The same contract established the initial value of guarantees with respect to the loan backing the certificate, which amount is recorded for accounting purposes under "Benefits receivable from securitized transactions" for the Institution.

– ***Portfolio Management and Collection Contract -***

This contract is entered into by and between the Institution ("Administrator"), Banco Invex, S.A. ("Trustee") and Monex Casa de Bolsa, S.A. de C.V. ("Common Representative"). Under this contract, the Trustee contracted the Administrator to carry out the management and collection solely and exclusively in relation to the mortgage loan and any "Foreclosed assets" that were transferred in the assignment contract. Accordingly, to enable the Administrator to fulfill its obligations, the Trustee will pay a management commission to the Administrator equivalent to the amount resulting from multiplying the unpaid balance of the principal of the mortgage loans by the percentage stipulated and divided by 12.

Irrevocable Trust Number 989 created between BBVA Bancomer – CI Banco (formerly The Bank New York Mellon) for the Issuance of Securitization certificates -

On June 17, 2013, the Commission issued Document Number 153/6937/2013 to authorize the registration of the Institution with the National Securities Registry of the Program for the issuance of Securitization Certificates for amounts up to $20,000 or the equivalent in UDIS for a five-year period as of the authorization date.

On June 21, 2013, the sixth issuance of mortgage portfolio securitization certificates was made for the amount of $4,413, based on the program for the issuance of securitization certificates authorized by the Commission.

– ***Assignment Contract -***

On that same date, the Institution, in its capacity as trustor and final trust beneficiary, and the Trustee, in its capacity as trustee and through their Joint Representative, executed Irrevocable Trust No. F/00989 for the issuance of fiduciary securitization certificates to enable the Trustee to issue securitization certificates to be offered to investors through the Mexican Stock Exchange, Bolsa Mexicana de Valores, S.A.B. de C.V. ("BMV"), and which will be underwritten by mortgage loans.

– ***Irrevocable Trust Contract for the Issuance of Fiduciary Securitization Certificates -***

This contract was executed by the Institution; (Trustor and final Trust Beneficiary) CI Banco, S.A., Institución de Banca Múltiple (formerly The Bank of New York Mellon, S.A., Institución de Banca Múltiple), (Trustee) and Monex Casa de Bolsa, S.A. de C.V. (Joint Representative), which stipulates that the purpose of the trust is to acquire mortgage loans, free from liens or encumbrances and without any ownership reserves or limitations pursuant to the terms of the Assignment Contract, to issue securitization certificates. These securitization certificates will have the aforementioned mortgage loans as their source of payment and to allow them to be offered to investors. Meanwhile, the trustee will have all the powers and obligations needed to attain this objective.

– ***Portfolio Administration and Collection Contract -***

This contract was executed between the Institution (Administrator) and CI Bank, S.A., Institución de Banca Múltiple (formerly The Bank of New York Mellon, S.A., Institución de Banca Múltiple), (Trustee) and Monex Casa de Bolsa, S.A. de C.V. (Joint Representative). Under the terms of the contract, the Trustee contracted the Administrator to perform administration and collection activities exclusively related to the mortgage loans and any foreclosed real property transferred through the Assignment Contract. Accordingly and to enable the Administrator to fulfill its obligations, the Trustee will pay an administration commission to the Administrator.

The specific characteristics of each issue are detailed below:

	Trusts					
Concept	**711**	**752**	**781**	**847**	**881**	**989**
Execution date of trust contract	19-Dec-07	13-Mar-08	5-Aug-08	08-Dec-08	03-Aug-09	21-Jun-13
Number of loans assigned	2,943	1,587	9,071	18,766	15,101	10,830
Amount of portfolio	$ 2,644	$ 1,155	$ 5,696	$ 5,823	$ 6,545	$ 4,413
SMCs issued	25,404,498	11,143,185	11,955,854	55,090,141	59,101,116	41,920,673
Face value per SMC (in Mexican pesos)	$ 100 pesos	$ 100 pesos	100 UDIS	$ 100 pesos	$ 100 pesos	$ 100 pesos
Amount of issue of SMC	$ 2,540	$ 1,114	$ 4,830	$ 5,509	$ 5,910	$ 4,192
Series A1	-	-	$ 2,415	-	$ 562	-
Series A2	-	-	$ 2,415	-	$ 1,732	-

Concept	Trusts 711	752	781	847	881	989
Series A3	-	-	-	-	$ 3,616	-
Gross annual interest rate	9.05%	8.85%	-	9.91%		6.38%
Series A1	-	-	4.61%	-	6.14%	-
Series A2	-	-	5.53%	-	8.04%	-
Series A3	-	-	-	-	10.48%	-
Effective duration of the SMC (years)	20.5	20.42	24.84	22	20.08	20
Value of certification	$ 103	$ 40	$ 866	$ 314	$ 635	$ 221
Value of guarantees with respect to the loan %	3.9%	3.5%	15.2%	5.4%	9.7%	5.0%
Total cash flow received for the assignment	$ 2,507	$ 1,091	$ 4,751	$ 5,475	$ 5,733	$ 4,129

The third issue, which refers to Trust 781, was made in UDIS. The exchange rate of the UDI used at the issue date is $4.039765 Mexican pesos per UDI.

As of December 31, 2016 and 2015, amounts reported under "Benefits to be received in securitization operations", of $197 and $1,136 represent the outstanding trust certificates of unconsolidated securitizations.

The summarized financial information of unconsolidated securitization trusts as of December 31, 2016 and 2015, are shown below:

No. of Trust	711		752		781		847	
	2016	2015	2016	2015	2016	2015	2016	2015
Assets	$ 541	$ 698	$ 285	$ 357	$ -	$ 2,360	$ 1,473	$ 1,856
Liabilities	$ 494	$ 634	$ 261	$ 329	$ -	$ 259	$ 1,347	$ 1,690
Stockholders' equity	$ 47	$ 64	$ 24	$ 28	$ -	$ 2,101	$ 126	$ 166
Net result	$ 6	$ 1	$ 3	$ 2	$ -	$ 183	$ 19	$ 19

At the December 2016 close, Trust No.781 has a zero balance because, in April 2016, the securitization certificates pertaining to its securitized mortgage portfolio were settled ahead of time. At the settlement date, the net loan portfolio value was $2,093, which is equal to a total of 3,975 mortgage loans. The effect recognized in the Institution's results was a profit of $1,307.

In compliance with the order of rules and priority of distributions established in clause 11 of the Trust Contract described in this Note, the Assignee will distribute to the last Beneficiary, in proportion to the percentage represented by the respective certification, the residual or surplus of the Assignee (cash flows of principal and interest).

13. Receivables, sundry debtors and prepayments, net

The balance at December 31, 2016 and 2015, consists of the following:

Item	2016	2015
Debtors from transaction settlement (a)	$ 60,138	$ 32,106
Loans to officers and employees	10,954	10,240
Sundry debtors	2,802	3,376
Debtors from collateral provided through OTC derivatives (b)	5,795	14,213
Others	1,585	1,710
	81,274	61,645
Less – Allowance for uncollectible accounts	(467)	(573)
Total	$ 80,807	$ 61,072

(a) The receivables for settlement of transactions as of December 31, 2016 and 2015, are composed as follows:

	2016	2015
Foreign currencies	$ 46,218	$ 26,451
Investments in securities	12,832	4,455
Derivatives	1,088	1,200
Total	$ 60,138	$ 32,106

(b) Receivables for collateral granted on OTC derivatives as of December 31, 2016 and 2015 is comprised as follows:

	2016			2015
Collateral provided through derivatives	Acquisition cost	Accrued interest	Book value	Book value
BBVA Servex	$ -	$ -	$ -	$ 9,363
Banco INVEX	23	-	23	21
Banco Mercantil del Norte	-	-	-	359
Banco Monex	60	-	60	28
Banco Nacional de México, S.A., IBM	418	2	420	487
Barclays Bank PLC	138	-	138	267
BPN Paribas	1,425	1	1,426	1,373
HSBC México, S.A., IBM	926	1	927	1,491
JP Morganchase BK NY	89	-	89	438
Morgan Stanley & Co	-	-	-	81
Royal Bank of Scotland	91	-	91	39
Actinver Casa Bolsa GFA	4	-	4	-
Banca Afirme, S.A.	72	-	72	-
Banca Mifel, S.A IBM	6	-	6	-
Banco Actinver IBM	5	-	5	-
Banco Nacional de OB	1,730	8	1,738	-
BBVA Chile	98	-	98	-
BBVA Colombia SA	60	-	60	-
Societé Géneralé	638	-	638	256
Toronto Dominion Bank	-	-	-	10
Total	$ 5,783	$ 12	$ 5,795	$ 14,213

14. Foreclosed assets, net

Foreclosed assets at December 31, 2016 and 2015, were as follows:

Item	2016	2015
Buildings	$ 4,571	$ 5,296
Land	2,256	2,750
Securities	23	20
	6,850	8,066
Less - Allowance for impairment of foreclosed assets	(2,984)	(2,404)
Total	$ 3,866	$ 5,662

The changes in the reserve for decreases in real estate value are summarized below, for the years ended December 31, 2016 and 2015:

	2016	2015
Opening balance	$ 2,404	$ 1,669
Application to income statement	1,119	977
Termination of Trust 781 (Bursa 03)	34	-
Reserve application sale of asset and others	(573)	(242)
Ending balance	$ 2,984	$ 2,404

15. Property, furniture and equipment, net

Property, furniture and equipment at December 31, 2016 and 2015 were as follows:

Item	2016	2015
Furniture and equipment	$ 13,236	$ 14,347
Office space	8,947	9,023
Installation costs	16,157	15,747
Land	2,725	2,725
Construction	14,176	12,980
Construction in progress	36	172
	55,277	54,994
Less- Accumulated depreciation and amortization	(12,714)	(15,353)
Total	$ 42,563	$ 39,641

For the year ended December 31, 2016, depreciation and amortization are $3,192 and $ 1,879, respectively.

For the year ended December 31, 2015, depreciation and amortization are $2,421 and $1,453, respectively.

As part of the strategic project during 2015, the movement of staff to new corporate headquarters was made, and $11,149 was reclassified from construction process and its components.

16. Equity investments

Investments in associates were valued according to the equity method, while other permanent investments were recorded at their acquisition cost. The most significant of these investments are detailed below:

Entity	Equity participation 2016	Equity participation 2015	2016	2015
Fideicomiso No.1729 *INVEX* - Portfolio Disposal	32.25%	32.25%	$ 758	$ 758
I+D México, S.A. de C.V. (1)	-	50.00%	-	283
Compañía Mexicana de Procesamiento, S.A. de C.V.	50.00%	50.00%	136	124
Servicios Electrónicos Globales, S.A. de C.V.	46.14%	46.14%	125	120
Seguridad y Protección Bancarias, S.A. de C.V.	22.32%	26.14%	15	15
Unidad de Avalúos México, S.A. de C.V. “AVAMEX” (2)	-	99.99%	-	50
Others	Various	Various	173	168
Total			$ 1,207	$ 1,518

(1) On March 18, 2016, the Institution sold its shareholding in I+D México, S.A. de C.V.; the sale generated an effect of $131, which was recorded under the heading of “Discontinued operations” in the consolidated statement of income.

(2) On July 29, 2016, the Institution sold its shareholding in Unidad de Avalúos México, S.A. de C.V., (“AVAMEX”); the sale generated a gain of $421, which was recorded in the consolidated statement of income under the heading of “Discontinued operations”.

The investment in shares of associates as of December 31, 2016 and 2015 was determined in some cases based on unaudited financial information, which is adjusted, if any differences arise, once the audited information becomes available.

At December 31, 2016 and 2015, the dividends received from associates and other permanent investments were $75 and $62, respectively.

At December 31, 2016 and 2015, the Institution earned equity in the results of associates for the amount of $16 and $100, respectively.

17. Deferred taxes

The Institution has recognized a net deferred income tax asset resulting from temporary differences between the book and tax bases of assets and liabilities and tax loss carryforwards at December 31, 2016 and 2015, of $14,998 and $12,309, respectively, as follows:

Item	2016 Temporary Difference Item	2016 Temporary Difference Deferred income taxes	2015 Temporary Difference Item	2015 Temporary Difference Deferred income taxes
Temporary differences - assets:				
Undeducted allowance for loan losses	$ 32,572	$ 9,772	$ 30,526	$ 9,158
Commissions and interest	9,036	2,711	9,403	2,821
Advance premium on swap	-	-	2,210	663
Provisions	6,416	1,925	5,186	1,556
Other assets	3,682	1,105	3,883	1,165

Item	2016 Temporary Difference Item	2016 Temporary Difference Deferred income taxes	2015 Temporary Difference Item	2015 Temporary Difference Deferred income taxes
Foreclosed assets	3,891	1,167	3,350	1,005
Tax loss carry	48	14	93	28
Valuation securities available-for-sale (capital)	5,667	1,700	986	296
Accounts Receivable and Payable	467	140	570	171
Total assets	61,779	18,534	56,207	16,863
Temporary differences - liabilities:				
Net gain in financial instruments	8,615	2,585	14,067	4,220
Valuation Hedging purposes	87	26	447	134
Advance premium on swap	1,977	593	-	-
Pension allowance	423	127	550	165
Other liabilities	684	205	116	35
Total liabilities	11,786	3,536	15,180	4,554
Net deferred tax asset	$ 49,993	$ 14,998	$ 41,027	$ 12,309

Based on financial projections, the deferred tax balance derived from the allowance for loan losses will be realized in the medium-term.

18. Other assets

Other assets at December 31, 2016 and 2015 were as follows:

Item	2016	2015
Software (net)	$ 3,796	$ 3,626
Prepaid expenses	2,152	2,906
Pension plan prepayment	756	1,010
Other unapplied expenses	345	409
Total	$ 7,049	$ 7,951

As of December 31, 2016 and 2015, the amortization of software is determined based on cost or restated cost up to 2007, using the straight-line method, as of the month following that of its purchase, by applying the 20% rate.

The amount of the historical cost and software amortization at December 31, 2016 and 2015 are detailed below:

Item	2016	2015
Historical cost	$ 13,469	$ 11,958
Amortization	(9,673)	(8,332)
Total	$ 3,796	$ 3,626

19. Deposits

Liquidity coefficient - The provisions of the Treatment for Admission of Liabilities and Investment for Foreign Currency Transactions, issued by the Central Bank of Mexico for credit institutions establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

Based on the above procedure, in 2016 and 2015 the Institution was subject to liquidity requirements of U.S. $51 and $4 million, respectively, and maintained investments in liquid assets of U.S. $3,551 and $979 million respectively, reflecting liquidity excesses of U.S. $3,649 million and U.S. $975 million, respectively.

At December 31, 2016 and based on short or long-term due dates, the average "Mexican peso" resource attraction rates are 0.83% and 3.62%, together with 0.02% and 0.39% for "Foreign Currency", respectively.

At December 31, 2015 and based on short or long-term due dates, the average "Mexican peso" resource attraction rates are 0.65% and 2.67%, together with 0.05% and 0.20% for "Foreign Currency", respectively.

	2016	2015
Demand deposits-		
Demand deposits	$ 754,858	$ 678,708
Time deposits-		
Notes with interest payable at maturity	161,540	144,310
Time deposits	36,066	35,516
Credit instruments issued (a)	79,990	91,220
Inactive global deposits account	3,170	2,501
Total	$ 1,035,624	$ 952,255

(a) Credit instruments issued

Description of the principal programs

As of December 31, 2016 and 2015, the Institution has placed short-term and long-term debt with a market value of $79,990 and $91,220, respectively, composed as follows:

Instrument	2016	2015	Period (days)	Rate
Bank bonds LP	$ 31,977	$ 30,951	1,474	5.81%
Bank bonds CP	3,198	6,989	323	5.84%
Securitized certificates MXP	10,338	8,858	2,366	6.73%
Securitized certificates UDIS	18,862	18,242	5,355	4.03%
Senior Notes	15,615	26,180	3,653	4.38%
Total	$ 79,990	$ 91,220		

20. Interbank loans and loans from other entities

At December 31, 2016 and 2015, interbank loans and loans from other entities were as follows:

Item	Mexican pesos		U.S. dollars in Mexican pesos		Total	
	2016	2015	2016	2015	2016	2015
Bank loans	$ 1,111	$ 6,711	$ 55	$ 94	$ 1,166	$ 6,805
Loans call money	413	450	-	1,121	413	1,571
Loans from other entities	15,960	11,049	1,665	1,413	17,625	12,462
Total	$ 17,484	$ 18,210	$ 1,720	$ 2,628	$ 19,204	$ 20,838

Interbank loans and loans from other entities in foreign currency were contracted by the Institution with terms ranging from three days to 4 years and annual rates ranging between 0.714% and 1.50% annual in 2016. Such loans are contracted with eight foreign financial institutions

Interbank loans and loans from other entities in foreign currency were contracted by the Institution with terms ranging from four days to 5 years and annual rates ranging between 0.55% and 1.50% annual in 2015. Such loans are contracted with eight foreign financial institutions.

The Institution maintains availability of liquidity in the central bank up to the amount of the Monetary Regulation Deposits (DRM), the balance were $40,230 and $59,676 (excluding interest) for 2016 and 2015 respectively. The amount of this line ready for the year 2016 and 2015 amounted to $1,120 and $702; respectively, while the balance of the overdraft amounted to $39,110 and $58,974, respectively.

21. Labor benefits

The Institution has liabilities from labor obligations related to severance payments, which will cover the pension, seniority premiums due upon retirement. The Institution also has a plan for integral medical services to pensioners and their economic dependents, as well as the payment of life insurance. The amount of such labor liabilities is determined based on calculations performed by independent actuaries using the projected unit credit method and in conformity with the methodology established in NIF D-3. The management of plan assets is made through an irrevocable trust.

As of January 1, 2007, following the execution of the employer substitution contract, all the Institution's employees (except the Chief Executive Officer) were transferred to the payroll of BBVA Bancomer Operadora, S. A. de C.V., a company belonging to the Financial Group. Employees retained all vested benefits and only personnel without vested benefits were transferred to a variable compensation scheme. Given the above, the Institution only has a labor obligation related to the retirees and only one active employee.

	2016					
		Others retirement benefits				
	Pension plan and seniority premiums	Integral medical services	Life insurance	Retiree sports facility	Severance payments	Total
The information on the projected net (liability) asset is presented below:						
Defined benefits obligations	$ (2,996)	$ (5,033)	$ (838)	$ (13)	$ (4)	$ (8,884)
Plan assets at fair value	3,481	4,858	1,345	-	-	9,684
Net defined benefits liability	485	(175)	507	(13)	(4)	800
At December 31, 2016, defined benefits liability were composed as follows:						
Opening balance January 1, 2016	$ 3,111	$ 4,963	$ 833	$ 14	$ 3	$ 8,924
Labor cost of the current service	-	-	-	-	1	1
Financial cost	269	442	74	1	1	787
Actuarial losses and gains generated in the period	80	70	(63)	(1)	-	86
Benefits actual payment during the year	(464)	(442)	(6)	(1)	-	(913)
Reductions	-	-	-	-	(1)	(1)
Net Assets (Liabilities) for benefits obligations	$ 2,996	$ 5,033	$ 838	$ 13	$ 4	$ 8,884
At December 31, 2016, plan assets ("AP") were as follows:						
Opening balance	$ 3,770	$ 4,899	$ 1,294	$ -	$ -	$ 9,963
Contributions made by the entity	-	218	-	-	-	218
Returns expected from plan assets	330	436	117	-	-	883
Actuarial losses and gains generated during the period	(155)	(253)	(60)	-	-	(468)
Benefits paid	(464)	(442)	(6)	-	-	(912)
Plan assets	$ 3,481	$ 4,858	$ 1,345	$ -	$ -	$ 9,684
Opening balance	$ 659	$ (64)	$ 461	$ (14)	$ (4)	$ 1,038
Net interest	61	(6)	43	(1)	-	97
Fund contributions	-	218	-	-	-	218
Estimated payments	-	-	-	1	-	1
Re-measurements recognized in OCI	(235)	(323)	3	1	-	(554)
Net Assets (Liabilities) for benefits obligations	$ 485	$ (175)	$ 507	$ (13)	$ (4)	$ 800
At December 31, 2016, obligations for defined benefits were composed as follows:						
Labor cost of the current service						
Current service	$ -	$ -	$ -	$ -	$ (1)	$ (1)
Past services from the early reduction of obligations	-	-	-	-	1	1
Net interest derived from the Net Liability or Net Asset of Defined Benefits						
Interest costs of Defined-Benefit Obligations	(269)	(442)	(74)	(1)	-	(786)
Interest income from Plan Assets	330	437	117	-	-	884
Net cost for the period	$ 61	$ (5)	$ 43	$ (1)	$ -	$ 98

	2016					
		Others retirement benefits				
	Pension plan and seniority premiums	Integral medical services	Life insurance	Retiree sports facility	Severance payments	Total
At December 31, 2016, the remediation of the net defined-benefit liability and asset is composed as follows:						
Reconciliation of actuarial gains (losses)						
Opening balance of obligation gains (losses)	$ -	$ -	$ -	$ -	$ -	$ -
Obligation gains (losses)	(80)	(70)	63	1	-	(86)
Closing balance of obligation gains (losses)	$ (80)	$ (70)	$ 63	$ 1	$ -	$ (86)
Opening balance of asset return gains (losses)	$ -	$ -	$ -	$ -	$ -	$ -
Gains (losses) from the return of plan assets	(155)	(252)	(60)	-	-	(467)
Closing balance of obligation gains (losses)	$ (155)	$ (252)	$ (60)	$ -	$ -	$ (467)
Closing balance of net gains (losses)	$ (235)	$ (322)	$ 3	$ 1	$ -	$ (553)

	2015					
		Others retirement benefits				
	Pension plan and seniority premiums	Integral medical services	Life insurance	Retiree sports facility	Severance payments	Total
The information on the projected net liability (asset) is presented below:						
Defined benefit obligation	$ 3,111	$ 4,964	$ 832	$ 14	$ 4	$ 8,925
Plan assets	(3,769)	(4,899)	(1,294)	-	-	(9,962)
Unfunded liability (prepaid expense)	(658)	65	(462)	14	4	(1,037)
Current (liabilities) net asset derived from employee pensions	$ (658)	$ 65	$ (462)	$ 14	$ 4	$ (1,037)
At December 31, 2015, obligations for defined benefits were composed as follows						
Opening balance January 1, 2015	$ 3,275	$ 5,162	$ 842	$ 15	$ 3	$ 9,297
Financial cost	268	434	71	1	1	775
Actuarial losses and gains generated in the period	16	(223)	(78)	(1)	3	(283)
Benefits paid	(448)	(410)	(5)	(1)	(3)	(867)
Reductions	-	1	2	-	-	3
Obligations for defined benefits	$ 3,111	$ 4,964	$ 832	$ 14	$ 4	$ 8,925
Amount of obligations for benefit acquired	$ 3,111	$ 4,964	$ 832	$ 14	$ -	$ 8,921
At December 31, 2015, plan assets were as follows:						
Opening balance	$ 4,181	$ 5,266	$ 1,287	$ -	$ -	$ 10,734
Returns expected from plan assets	347	444	110	-	-	901
Actuarial losses and gains generated during the period	(311)	(402)	(100)	-	-	(813)
Reductions	-	1	2	-	-	3
Benefits paid	(448)	(410)	(5)	-	-	(863)
Plan assets	$ 3,769	$ 4,899	$ 1,294	$ -	$ -	$ 9,962

	2015					
		Others retirement benefits				
Pension plan and seniority premiums	Integral medical services	Life insurance	Retiree sports facility	Severance payments	Total	Pension plan and seniority premiums
The amortization period of the unamortized items is five years For the years ended December 31, 2015, the net cost of the period was as follows:						
Financial cost	$ 268	$ 434	$ 71	$ 1	$ 1	$ 775
Return on plan assets	(347)	(444)	(110)	-	-	(901)
Immediate recognition of actuarial losses for the year	327	178	22	(1)	3	529
Net cost of the period	$ 248	$ 168	$ (17)	$ -	$ 4	$ 403

The nominal interest rates utilized in the actuarial calculations were:

Item	2016	2015
Expected rate of return of assets	9.95%	9.30%
Discount rate	9.95%	9.30%
Wage increases rate	4.75%	4.75%
Medical services increase rate	6.75%	6.75%

Below is the effect of the one percentage point increase or reduction in the rate of the assumed variance trend of medical attention costs as of December 31, 2016.

	+ 1%	- 1%
In net cost of the period	$ 44	$ (38)
In the defined benefits obligations	$ 444	$ (385)

As of the year 2010, the plan entitled sports for retirees is established, due to the right of employees to continue receiving the sports service once they retire. Under this scheme the Institution pays part of the dues and the employee the rest.

At December 31, 2016 and 2015, the plans for indemnities and sports for retirees did not have assets to fund the obligations for defined benefits.

At December 31, 2016, assets of the various plans were invested in government securities. Also, the expected return on plan assets at December 31, 2016 was estimated by an amount of $884 and $901 of gains respectively, being the real at the same date in the amount of $500 and $(234) gains and handicapping performance.

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22. Subordinated debt

Item	2016	2015
Non-preferred capitalization notes for US $500 million, issued in May 2007 at an interest rate of 6.0080% issued May 17, 2017, payable semiannually and LIBOR + 1.81% as of May 18, 2017, payable quarterly, and maturing on May 17, 2022, the number of outstanding securities is 500,000 with a face value of $1,000 dollars each.	$ 10,310	$ 8,624
Non-preferred capitalization notes for USD 1,000 million, issued in April 2010, at an interest rate of 7.25% payable semiannually, beginning as of October 22, 2010, and maturing on April 22, 2020, the number of outstanding securities is 1,000,000 with a face value of $1,000 dollars each.	20,619	17,249
Preferred capitalization notes for USD 1,250 million, issued in March 2011, at an interest rate of 6.50% payable semiannually, starting at September 10, 2011 and maturing on March 10, 2021, the number of outstanding securities is 1,250,000 with a face value of $1,000 dollars each.	25,774	21,561
Preferred capitalization notes for USD 1,000 million, issued in July 2012, at an interest rate of 6.75% and additional issuances of USD 500 million on September 2012, at an interest rate of 5.45% payable semiannually starting on March 30, 2013, and maturing on September 30, 2022, the number of outstanding securities is 1,500,000 with a face value of $1,000 US dollars each.	30,929	25,873
Preferred capitalization notes for USD 200 million, issued in November 2014, at an interest rate of 5.35% payable semiannually, starting on May 12, 2015, and maturing on November 12, 2029, the number of outstanding securities is 200,000 with a face value of $1,000 dollars each.	4,124	3,450
Unpaid accrued interest	1,429	1,201
Total	$ 93,185	$ 77,958

The debt issuance costs related to these issues are amortized using the straight-line method over the term of the debt.

On December 31, 2015 the Institution exercised the early redemption option of the “Debentures BANCOMER 08-3” for the amount of $2,859, which were issued on December 11, 2008, with maturity on November 26, 2020.

23. Related parties

Balances and transactions with related parties, as established in Bulletin C-3 "Related Parties", issued by the Commission, are as follows:

	2016	2015
Banco Bilbao Vizcaya Argentaria, S.A.		
Derivative financial instruments	$ 378	$ (9,474)
Payables from repurchase agreements	$ (4,113)	$ (441)
Grupo Financiero BBVA Bancomer, S.A. de C.V.		
Account payable	$ 2,465	$ 4,426
BBVA Bancomer Operadora, S.A. de C.V.		
Fees paid for administrative services	$ 15,729	$ 12,058
Account payable	$ 2,837	$ 1,823
BBVA Bancomer Servicios Administrativos, S.A. de C.V.		
Fees paid for administrative services	$ 9,187	$ 7,480
Account payable	$ 2,072	$ 1,558
Seguros BBVA Bancomer, S.A. de C.V.		
Commissions income	$ 2,151	$ 1,746
Insurance premiums paid	$ 286	$ 916
BBVA Bancomer Gestión, S.A. de C.V.		
Commissions income	$ 2,477	$ 2,426
Aplica Tecnología Avanzada, S.A. de C.V.		
Deposits	$ 1,223	$ 18
Performing loans	$ 1,443	$ 604
Income:		
Interest	$ 29	$ 20
Commissions collected on loan originations	25	20
	$ 54	$ 40
Fees paid for administrative services	$ 32	$ 31
Expense:		
Processing and system development	$ 2,384	$ 2,252
Facileasing, S.A. de C.V.		
Deposits	$ 32	$ 46
Performing loans	$ 6,278	$ 7,802

	2016	2015
Income:		
Interest	$ 213	$ 229
Fees paid for administrative services	$ 65	$ 59
Facileasing Equipment, S.A. de C.V.		
Deposits	$ 265	$ 128
Performing loans	$ 6,476	$ 7,768
Income:		
Interest	$ 277	$ 301
Fees paid for administrative services	$ 43	$ 41

As of December 31, 2016 and 2015, there are other transactions and operations with related parties which are not material, and therefore have not been revealed.

24. Income taxes

The main changes affecting brought to the Institution:

a) *Income Tax*

The Institution is subject to ISR. In accordance with the Income Tax Law the rate for 2016 and 2015 was 30%.

ISR is calculated by considering as taxable or deductible certain effects of inflation, such as the depreciation calculated on values in constant pesos, and the effect of inflation is accrued or deducted on certain monetary assets and liabilities through the annual adjustment for inflation.

The Institution pays ISR and therefore recognizes deferred ISR. The provision in results is composed as follows:

	2016	2015
Current:		
ISR	$ (10,974)	$ (13,516)
Deferred:		
ISR	$ 1,106	$ 4,695

Taxable income - The principal items which affected the determination of the Institution's tax results were the annual adjustment for inflation, provisions for expenses, the result from markets valuation, the difference between book and tax depreciation and amortization and the deduction for bad debts, in relation to the accounting increase of the estimate.

The reconciliation of the statutory ISR rate and the effective rate, expressed as a percentage of income before income taxes, which is the tax incurred by the Institution, is as follows:

	2016	2015
Statutory rate	30.00%	30.00%
Add (deduct) -		
Effect of nondeductible items	1.01%	0.52%
Annual adjustment for inflation	(2.98%)	(2.62%)
Cancellation of income and expense provisions from previous years	(3.43%)	(3.27%)
Other effects	(1.27%)	(1.00%)
Effective rate	23.33%	23.63%

Recoverable IMPAC - As of December 31, 2016 and 2015, the Institution has recoverable IMPAC of $381 and $553, respectively.

Other Tax Matters:

The following balances are in effect at December 31, 2016 and 2015:

	2016	2015
Net tax income account	$ 75,616	$ 60,323
Contributed Capital Account	$ 62,538	$ 60,505

25. Stockholders' equity

Capital stock - The capital stock of the Institution at December 31, 2016 and 2015, was as follows:

	Number of shares at Par Value of $0.28 Mexican pesos per share					
	2016			2015		
	Authorized	Unsubscribed	Paid-in	Authorized	Unsubscribed	Paid-in
Series "F"	9,107,142,859	(1,378,926,692)	7,728,216,167	9,107,142,859	(1,378,926,692)	7,728,216,167
Series "B"	8,749,999,999	(1,324,851,134)	7,425,148,865	8,749,999,999	(1,324,851,134)	7,425,148,865
Total	17,857,142,858	(2,703,777,826)	15,153,365,032	17,857,142,858	(2,703,777,826)	15,153,365,032

	Historical Amount					
	2016			2015		
	Authorized	Unsubscribed	Paid-in	Authorized	Unsubscribed	Paid-in
Series "F"	$ 2,550	$ (386)	$ 2,164	$ 2,550	$ (386)	$ 2,164
Series "B"	2,450	(371)	2,079	2,450	(371)	2,079
Subtotal	$ 5,000	$ (757)	4,243	$ 5,000	$ (757)	4,243
Capitalization of restatement			10,971			10,971
Restatement to Mexican pesos as of December 2007			8,924			8,924
Total			$ 24,138			$ 24,138

At the Stockholders' Ordinary General Meeting held on February 26, 2016, agreement was reached that given the consolidated financial statements approved at such Meeting reported net income in fiscal year 2015 in the amount of $266,813, the following applications were made:

a) The net profit of the year of $26,813 was recorded in the "Result of Prior Years" account.

b) The distribution of dividends was authorized for up to the amount of $19,350, of which the amount of $15,450 was taken from the "Result of prior years" account at the rate of $1.019575517872 Mexican pesos per share. Of this amount, $3,145 was paid to stockholders on March 29, 2016, $6,035 on June 22, 2016, and $3,805 in September 21, 2016.

If profits are distributed without incurring tax attributable to the Institution, this will have to be paid when the dividend is distributed. Therefore, the Institution must track the income subject to each rate.

As of January 1, 2014, based on the LISR reforms, dividends paid by Mexican companies to individuals and residents abroad incur an additional 10% income tax; in the case of residents abroad, the respective tax treaties may be applied.

Capital reductions will incur tax on the excess of the amount distributed against tax value, determined in accordance with the LISR.

The net result of the institution is subject to the legal provision requiring that 5% of the profits of each year be transferred to the legal reserve until it equals 20% of the share capital. This reserve may not be distributed to stockholders during the existence of the Financial Group, except in the form of dividends.

Capitalization index (unaudited) - Current regulations establish requirements for specific net capital levels, as a percentage of risk assets, for both market and credit purposes. However, in order to determine net capital, deferred taxes represent a maximum of 10% of basic capital.

Based on the standard method, the transactions are classified in eight different groups depending on the counterparty, and must be weighted based on the degree of risk applicable to the respective loan classification assigned by one of the Ratings Agencies.

Furthermore, under this method a higher weighting factor is assigned to the non-performing portfolio (115% and 150%) and the mortgage loans will now have a factor of between 50% and 100%, depending on the level of down payment and the related guarantees provided.

– *Capitalization for operating risk:*

Based on the changes to the Banks Sole Circular published by the Commission on December 31, 2014, in order to calculate the capitalization requirement for operating risk, the Institution must utilize:

- The Alternative Standard Method, authorized by the Commission on November 27, 2015.

The capital requirement based on the Alternative Standard Method should be constructed within a term of three years; the weighting factor is considered according to the business line.

According to the amendments to the Capitalization rules issued in December 2014, which went into effect in October 2015, please note the following:

– *Capitalization due to market risk:*

According to the amendments to the capitalization rules which went into effect October 2015, the weighting factors applicable to the RC-01, RC-02, RC-03 and RC-04 reports were amended. Furthermore, in RC on the share positions (RC-05) the weighting factors for General Market Risk are being changed; the calculation for portfolio diversification is omitted to instead use 8% for specific market risk; and, finally, the calculation for Liquidation Risk is eliminated.

A new RC was added to the Market requirements, RC-18, which captures the Gamma and Vega effects on the Options positions and is reflected in the total Market Risk at the close of December 2018. This requirement is additional to the requirements generated in the rest of the RCs.

– *Capitalization for credit risk*

With regard to credit risk, the amendments to the capitalization rule meant that the counterparty risk would be divided into counterparty credit risk and risk with related parties, credit risk for adjustment of credit valuation and with related parties and exposure to the default fund in clearinghouses.

The capitalization ratio of the Institution as of December 31, 2016 amounted to 13.73% of total risk (market, credit and operational) and 19.75% credit risk, which are 3.23 and 9.25 points higher than the minimum required.

The amount of net capital, composed Complementary Basic Capital and is broken down below (the figures shown may differ in their presentation of the basic financial statements):

– *Basic capital:*

Concept	Account
Stockholders' equity	$ 158,506
Capitalization instruments	9,362
Subordinated debt instruments related to securitization schemes	(716)
Deductions equity investments in financial institutions	(3,880)
Organizational costs and other intangibles	(4,544)
Total	$ 158,728

The main characteristics of debt and capital notes were as follows:

Item	Appraised Amount	Maturity Date	Calculation Percentage	Weighted Average Amount
Non-convertible debt considered as basic capital:				
Eligible capital notes	$ 10,310	17/05/2022	60%	$ 6,186
Eligible capital notes	20,619	22/04/2020	60%	12,372
Total	$ 30,929			$ 18,558

– *Complementary capital:*

Item		Amount
Obligations and capitalization instruments	$	32,399
Allowance for loan losses		7
Total	$	32,406
Net capital	$	191,134

The main characteristics of debt and capital notes were as follows:

Item		Appraised Amount	Maturity Date	Calculation Percentage		Weighted Average Amount
Non-convertible debt considered as complementary capital:						
BANCOMER-08-3						
Eligible capital notes	$	25,774	10/03/2021	60%	$	15,465
Eligible capital notes		20,619	30/09/2022	60%		12,372
Eligible capital notes		10,310	30/09/2022	60%		6,186
Total	$	56,703			$	34,023

Assets at risk are as follows:

– *Assets subject to market risk:*

Item		Risk-Weighted Positions		Capital Requirements
Transactions in Mexican pesos with a nominal rate	$	200,035	$	16,003
Transactions in Mexican pesos with real rate or rate denominated in UDIS		19,595		1,568
Rate of return based on the General Minimum Wage		16,336		1,307
Interest rate transactions in foreign currency with a nominal rate		44,564		3,565
Positions in UDIS and Mexican pesos with yield linked to NCPI		43		3
Positions in currencies with yield indexed to exchange rates		12,095		968
Positions in shares or with yield indexed to the price of a share or group of shares		32,757		2,621
Transactions based on the General Minimum Wage		128		10
Gamma (RC-18)		9,816		785
Vega (RC-18)		1,083		87
Surtax		8,236		659
Total market risk	$	344,688	$	27,576

– *Assets subject to credit risk:*

Item	Risk-Weighted Assets	Capital Requirements
Weighted at 10%	$ 1,255	$ 100
Weighted at 11.5%	1,837	147
Weighted at 20%	20,077	1,606
Weighted at 23%	3	-
Weighted at 50%	42,343	3,387
Weighted at 75%	39,251	3,140
Weighted at 100%	399,322	31,946

Item	Risk-Weighted Assets	Capital Requirements
Weighted at 115%	11,065	885
Weighted at 150%	1,150	92
Weighted at 1250%	817	65
Internal methodology TDC / E and C	384,899	30,792
CVA	32,322	2,586
ECC	32	3
Counterpart	17,808	1,425
Related	15,453	1,236
Repurchase	247	20
Total credit risk	$ 967,881	$ 77,430
Operational risk	$ 79,479	$ 6,358

Equity Management - Institution has the equipment, processes and systems required to correctly identify, measure, monitor, control and mitigate the risks to which it is exposed. Please see Note 33 for a more detailed explanation.

Likewise, periodic processes have been defined and established to ensure that financial reports disclose and reflect the risks to which the Institution is exposed.

As required by the Commission, the Institution performs exercises involving the preparation of annual financial projections for stress scenarios.

The Institution also performs an analysis that includes certain liquidity crisis scenarios. These stress scenarios estimate the magnitude of the effects generated for the self-financing ratio and the capacity of available explicit assets to cover maturities with a 12-month horizon so as to ascertain the Institution's survival horizon. The results of these activities show that the Institution has a satisfactory level of resistance as regards liquidity crisis scenarios.

Similarly, the Institution has different management mechanisms which it can activate in the event of different stress scenarios that could impair its solvency as regards capital and/or liquidity. Given the Institution's robust financial position and balance sheet structure, these resources allow it to access local and international wholesale markets to obtain financing and capital, dispose of high quality assets for sale and/or securitization, and discount securities on the market and with the Central Bank of Mexico.

Consequently, the Institution has the mechanisms needed to effectively mitigate stress scenarios which could impair its capital and liquidity.

For further detail, please consult “Exhibit 1-O” as required by the Provisions “Information supplemental to the fourth quarter 2016”, in compliance with the obligation to disclose information on the Capitalization Ratio, which is located on the following Internet page www.bancomer.com/informacioninversionistas.

26. Position in foreign currency

At December 31, 2016 and 2015, the exchange rate determined by the Central Bank of Mexico and used by the Institution to value its assets and liabilities in foreign currency (translated to U.S. dollars) was $20.6194 Mexican pesos and $17.2487 Mexican pesos per U.S. dollar, respectively, and the position in foreign currency was as follows:

	Millions of U.S Dollars	
	2016	**2015**
Assets	13,970	13,291
Liabilities	(13,741)	(13,592)
Net liability position in U.S. dollars	229	(301)
Net liability position in Mexican pesos (nominal value)	$ 4,722	$ (5,192)

As of February 24, 2017, the foreign currency position (unaudited) is similar to that of the close of the year and the exchange rate as of that date is $19.8335 Mexican pesos per US$1.00.

According to the provisions of the Central Bank of Mexico, the position reported to that institution as of December 31, 2016 and 2015 was USD $129 and USD $72 million, respectively short, which includes delta FX options, and excludes assets and liabilities that are not computable.

The Institution performs transactions in foreign currency, primarily in US dollars, Euros and Japanese yen. The Institution does not disclose its position in currencies other than the US dollar, as it is largely immaterial. The parity of other currencies with the Mexican peso is referenced to the US dollar and is in compliance with the Central Bank of Mexico regulations. Consequently, the Institution's position in all foreign currencies is consolidated in US dollars at each monthly close.

27. UDI position

At December 31, 2016 and 2015, the Institution had UDI-denominated assets and liabilities translated into Mexican pesos, considering the prevailing conversion rate of $5.562883 Mexican pesos and $5.381175 Mexican pesos per UDI, respectively, as follows:

	Millions of UDIs	
	2016	**2015**
Assets	5,561	5,079
Liabilities	(5,085)	(5,096)
Net (liability) asset position in UDIS	476	(17)
Net (liability) assets position in Mexican pesos (nominal value)	$ 2,648	$ (92)

As of February 24, 2017 the position in UDIS (unaudited) is similar to that of the close of the year and the exchange rate as of that date is $5.681649 Mexican pesos per UDI.

28. Preventive and protective savings mechanism

The Bank Savings Protection Institute ("IPAB") was approved on January 19, 1999. It is intended to establish a bank savings protection system for individuals who perform any of the established guaranteed transactions, while regulating the financial support granted to Full-Service Banking Institutions to protect the public interest.

The IPAB has resources derived from the mandatory fees paid by financial institutions, which reflect their risk exposure levels based on their level of capitalization and other indicators determined by the internal regulations of the IPAB Governance Board. These fee s must be paid monthly for an amount equivalent to one twelfth of four thousandths of the monthly average of daily debit transactions of the month in question. During 2016 and 2015, contributions made by the Institution to IPAB for insurance to deposits amounted to $4,585 and $4,049, respectively.

29. Financial margin

For the years ended December 31, 2016 and 2015, the main items composing the financial margin were as follows:

	2016		
		Amount valued	
	Mexican pesos	Dollars	Total
Interest income:			
Loan portfolio interest and returns	$ 106,484	$ 4,519	$ 111,003
Securities interest and returns	20,030	583	20,613
Interest from quick assets	2,481	262	2,743
Interest and premiums from repurchase agreements and securities loans	700	-	700
Interest on margin accounts	172	-	172
Commissions collected on loan originations	1,480	12	1,492
Others	1,073	83	1,156
Total interest income	132,420	5,459	137,879
Interest expense:			
Deposit interest	(15,153)	(461)	(15,614)
Interest from loans provided by banks and other entities	(1,032)	(26)	(1,058)
Debenture interest	(221)	(3,775)	(3,996)
Interest and premiums from repurchase agreements and securities loans	(12,721)	-	(12,721)
Expenses incurred to initially grant loan	(393)	-	(393)
Others	(932)	(61)	(993)
Total interest expense	(30,452)	(4,323)	(34,775)
Financial margin	$ 101,968	$ 1,136	$ 103,104

	2015		
		Amount valued	
	Mexican pesos	Dollars	Total
Interest income:			
Loan portfolio interest and returns	$ 91,647	$ 3,723	$ 95,370
Securities interest and returns	4,855	346	5,201
Interest from quick assets	2,610	84	2,694
Interest and premiums from repurchase agreements and securities loans	13,693	-	13,693
Interest on margin accounts	86	-	86

	2015		
		Amount valued	
	Mexican pesos	Dollars	Total
Commissions collected for initially granting credit	1,288	79	1,367
Others	1,301	119	1,420
Total interest income	115,480	4,351	119,831
Interest expense:			
Deposit interest	(11,789)	(677)	(12,466)
Interest from loans provided by banks and other entities	(820)	(25)	(845)
Debenture interest	(1,073)	(2,125)	(3,198)
Interest and premiums from repurchase agreements and securities loans	(10,745)	-	(10,745)
Expenses incurred to initially grant credit	(142)	-	(142)
Others	(497)	(129)	(626)
Total interest expense	(25,066)	(2,956)	(28,022)
Financial margin	$ 90,414	$ 1,395	$ 91,809

30. Commissions and fee income

For the years ended December 31, 2016 and 2015, the main items for which the Institution recorded commissions and fee income in the consolidated statement of income were as follows:

Concept	2016	2015
Credit and debit cards	$ 18,812	$ 16,287
Bank commissions	6,847	7,722
Investment funds	2,477	2,426
Insurance	2,125	1,684
Others	5,977	5,124
Total	$ 36,238	$ 33,243

During 2016 and 2015, the amount of revenues received by the Institution in trust operations amounted to $341 and $292, respectively.

For the years ended December 31, 2016 and 2015, the main items for which the Institution recorded Commission and fee expense in the consolidated statement of income were as follows:

Concept	2016	2015
Credit card	$ (6,642)	$ (5,101)
Effective credit card reward points	(2,345)	(2,224)
Promotion fund warranties	(714)	(570)
Cash Management and fund transfer	(441)	(1,359)
Credit placement	(482)	(730)
Appraisals	(294)	(157)
Sale of foreclosed goods	(324)	(394)
Purchase-sale of securities	(268)	(194)
Others	(528)	(663)
Total	$ (12,038)	$ (11,392)

31. Net gain on financial assets and liabilities

For the years ended December 31, 2016 and 2015, the main items composing the Net gain on financial assets and liabilities were as follows:

	2016	2015
Valuation result:		
Derivatives	$ 8,527	$ 3,303
Foreign currency	(6,720)	(2,674)
Securities investments	(2,212)	1,507
	(405)	2,136
Purchase-sale result:		
Derivatives	(125)	1,417
Foreign currency	3,643	2,745
Securities investments	449	(3,036)
	3,967	1,126
Total	$ 3,562	$ 3,262

32. Segment information

The Institution and its subsidiaries take part in different activities of the financial system, such as credit operations, treasury operations, and transfer of funds from abroad, distribution and administration of investment funds, among others. Performance evaluation, as well as the management of the risks of the different activities, is based on the information produced by the Institution's business units, more than the legal entities in which the results generated are recorded.

Below we present the revenues obtained during the years 2016 and 2015, which show the difference segments as indicated in the preceding paragraph:

2016 Concept	Total	Commercial Bank	Corporate and Government Banking	Market Operation	Other Segments
Financial margin	$ 103,104	$ 79,991	$ 20,211	$ 3,511	$ (609)
Allowance for loan losses	(32,383)	(30,292)	(2,091)	-	-
Net interest income after allowance for loan losses	70,721	49,699	18,120	3,511	(609)
Commissions and fees, net	24,200	17,553	6,289	27	331
Net gain on financial assets and liabilities	3,562	1,617	529	1,693	(277)
Other operating income (expenses)	1,551	1,412	174	1	(36)
Net operating revenues	100,034	$ 70,281	$ 25,112	$ 5,232	$ (591)
Administration and promotion costs	(57,743)				
Net operating revenues	42,291				
Share in net income of unconsolidated subsidiaries and affiliates	16				
Income before income taxes	42,307				
Current income tax	(10,974)				
Deferred income tax	1,106				
Income before discontinued operations	32,439				
Discontinued operations	872				
Net income	$ 33,311				

2015 Concept	Total	Commercial Bank	Corporate and Government Banking	Market Operation	Other Segments
Financial margin	$ 91,809	$ 67,168	$ 16,683	$ 2,562	$ 5,396
Allowance for loan losses	(28,482)	(28,363)	(119)	-	-
Net interest income after allowance for loan losses	63,327	38,805	16,564	2,562	5,396
Commissions and fees, net	21,851	16,444	5,164	507	(264)
Net gain on financial assets and liabilities	3,262	1,660	324	697	581
Other operating income (expenses)	854	430	172	(1)	253
Net operating revenues	89,294	$ 57,339	$ 22,224	$ 3,765	$ 5,966
Administration and promotion costs	(51,959)				
Net operating revenues	37,335				

2015 Concept	Total	Commercial Bank	Corporate and Government Banking	Market Operation	Other Segments
Share in net income of unconsolidated subsidiaries and affiliates	100				
Income before income taxes	37,435				
Current income tax	(13,516)				
Deferred income tax	4,695				
Income before non-controlling interest	28,614				
Non-controlling interest	(1)				
Net income	$ 28,613				

Other segments include the results related to management of the loan portfolio assigned to the recovery area.

33. Risk management and derivatives transaction (Unaudited figures)

Organizational structure

The Risk Department reports directly to senior management of the Financial Group, thus guaranteeing the independence of the Business Units and establishing the necessary autonomy to determine the functions and profile of the respective teams.

Generally speaking, based on national and international best practices, three specialized Credit Risk Teams have been created: one covering the wholesale portfolio, PyMEs and the other the retail portfolio, assuming the admission, follow-up and recovery functions. By the same token, the management of market, structural and liquidity risks is gathered into a single unit, to which is added the management of risks of non-bank businesses and asset handling.

As support for the above-mentioned units, the Technology and Methodologies unit has been created, with technical expertise which will help to meet the specialized needs of the Risks areas, while a Follow-Up and Reporting Unit has been established for the integration, follow-up and generation of the necessary reports for all the internal or external areas which have to participate in best risk management; this unit also plays an important role in the information disclosure processes and their strict adherence to national and international regulations.

Furthermore, the Internal Controllership unit has been established to guarantee the correct implementation and development of the Internal Control System of the Financial Group, while also including the Technical Unit.

Compliance in the area of Comprehensive Risk Management is based on the recognition of fundamental principles for the efficient and effective management of risks, evaluating them on quantifiable and non-quantifiable bases, with the aim of satisfying the basic processes of identification, measurement, monitoring, limitations, control and dissemination.

Furthermore, the regulatory entities of insurance companies, pension firms and retirement fund managers have issued provisions to this effect. By way of summary, below we present the main activities performed in this regard by the Institution.

Qualitative Information:

- *Participation of the governing bodies:*

  The Institution's risk management model is characterized by the direct influence of its corporate entities with regard to both the definition of the risk strategy and the follow-up and continuous supervision of its implementation.

  The Board of Directors establishes the general risk strategy. In accordance with this strategy, the Board of Directors' Risk Committee Representative proposes policies and specific risk limits for each risk type for the Board's approval, while also providing follow-up on compliance. In this way, the strategy approved by the Board of Directors includes the Institution's risk appetite, fundamental metrics and the basic structure of limits, risk types and asset classes, together with risk management control model bases.

  The Board of Directors' Risk Committee Representative is responsible for performing a risk analysis and providing periodic risk follow-up within the sphere of corporate entity attributes, while controlling and providing detailed follow-up on the risks affecting the Institution taken as a whole, which allows the integration of the risk management strategy and application of approved policies to be effectively monitored.

- *Policies and procedures:*

  Risk manuals with standard contents, including strategy, organization and operating, technological and methodological frameworks, and regulatory processes. Specific manual for legal risks, including related methodologies.

  Defined and limited third-party responsibilities, risk training programs and communication of policies and procedures.

- *Tactic decision making:*

  Independence of the Comprehensive Risk Management Unit, which establishes monitoring processes through reports and alerts to detect instances of impairment, together with business objective departures and the structure of limits defined by risk type.

  The Institution's different risk units participate in the preparation of the Risk Appetite that the Institution is willing to assume to attain its business objectives and which must be submitted for the approval of the Board of Directors, as regards general issues, and to the Risk Committee in the case of specific exposures and sub-limits.

  The Institution has adequate authorization processes for new products and/or services that imply risks and which include the ratification of each individual product and/or service by the Risk Committee.

- *Tools and analyses:*

  Continuous measurement of credit, market and liquidity risks under consistent methodologies and parameters. Budgets are prepared for these metrics, which serve as the basis for the Institution's risk management.

  Follow-up on the analysis of risks incurred by the Institution's different business units. This follow-up considers risk metrics, the risk appetite, the main risk concentrations, compliance with regulatory limits, the credit stress analysis, calculation of the regulatory capital requirement, structural risks, market risks, the liquidity risk, operating risk and legal risk.

The methodologies and parameters utilized to measure risks are periodically calibrated and submitted for the approval of the competent entities.

Establishment of periodic analyses of sensitivity, testing under extreme conditions and review and improvement of models.

Install monitoring and operational and legal risk control methodologies in conformity with international standards.

- *Information:*

  Information is the cornerstone of risk management and is utilized for anticipatory management purposes based on the definition and establishment of early warning indicators and metrics to anticipate risk profile movements - positive and negative - (customers, portfolios, products, asset classes). It is also used to avoid impairment and indicate departures and potential threats derived from all risks and defined axes during the different phases (current, impaired and in recovery), at all the organizational levels of the risk function (risk units in the different business areas, corporate area and specialized areas) and corporate entities, thereby ensuring its coherence and compliance with applicable regulatory requirements.

- *Technological platform:*

  Comprehensive review of all source and calculation systems for risk quantification, projects for the improvement, quality and sufficiency of data and automation.

- *Audit and comptrollership:*

  Participation of internal audit regarding compliance with Regulations on Comprehensive Risk Management and implementation of compliance plans by type and area of risk.

  The Audit Committee provides periodic follow-up on the recommendations resulting from each audit.

  Performance of audits in compliance with Regulations on Comprehensive Risk Management by a firm of independent experts, concluding that risk measurement models, systems, methodologies, assumptions, parameters and procedures comply with their functionality based on the characteristics of the risk operations, instruments, portfolios and exposures of the Institution.

  The Institution believes that at this date it fully complies with the provisions of Regulations on Comprehensive Risk Management, while projects continue to improve measurements and limitations, automation of processes and methodological refinements.

Methodological framework - Techniques for valuation, measurement and description of risks

For risk purposes, the Institution's balance sheet is envisioned as follows:

- *Market risk:* Operations and investment portfolios- Investments in trading securities, securities, ledger of repurchase transactions and related derivative transactions.

  Structural balance - Available-for-sale, other assets, including securities held to maturity and derivatives for the management of interest rate risk.

- *Credit risk:*

  Comercial Loans – Traditional wholesale loan portfolio, and exposures from investments in issues, and counterparts in derivative financial instruments.

  Retail/consumer loans- Credit cards and non-revolving consumer loan portfolio.

  Mortgage - Mortgage loan portfolio.

  Internal parameters are utilized in all portfolios for management purposes. In order to calculate capital and reserves, the Institution utilizes advanced internal models for the Credit Card, Enterprises and Large Enterprises portfolios, which are the models approved by the Commission.

  Within the Wholesale Portfolio, the definition of subgroups based on the sales figure function has been established as a global criterion:

Sales volume	**Segment**
>60 million mxp	Enterprises
>=50 million usd	Large Enterprises (Corporate)

  Non-revolving consumer portfolios, mortgage portfolios and the commercial portfolio with a sales volume of less than $60 utilize standard models to calculate capital and reserves.

- *Liquidity risk:*

  Banking business, with positions on and off the balance sheet, including loans, traditional deposits, investments in securities, derivatives, majority financing, etc.

  Furthermore, if there is a contractual obligation, the follow-up and control over the liquidity risk of the banking business includes liquidity which might be required by its subsidiaries, entities belonging to the same Financial Group or relevant related parties, and liquidity which the banking business itself might require from some of such entities or related parties.

- ***Market Risk:***

  The purpose of market risk management is as follows:

  - The proper identification of the risks to which the Financial Group is exposed, by maintaining positions in financial instruments for operational or investment purposes.
  - Measurement of exposures through the application of proven and reliable processes and methodologies.
  - Continuous risk monitoring.
  - Efficient limitation of exposures.
  - Effective control over positions.
  - Inform decision-making bodies of the risks assumed/profitability obtained within the portfolios controlled.

With regard to the process for market risk measurement and the operating and investment portfolios, the daily measurement of market risk is made through Value at Risk (VaR) statistical techniques, such as the central measurement:

1. Define the degree of sensitivity in the valuation of positions to changes in prices, interest rates or indexes.

2. Reasonably estimate the expected change for a specific time horizon with certain prices, rates, rates or indexes, considering it the degree to which they can be moved

3. Reevaluate the portfolio to such expected changes sets and thereby determine the maximum potential loss in terms of value.

In summary, the Value at Risk (VaR) has been fixed based on the view that one day's operation will not lose more than the amount calculated 99% of the time, in the positions that are within Global Markets, considering a horizon of 500 business days.

When significant risks are identified, they are measured and limits are assigned in order to ensure adequate control. The global measurement of risk is made through a combination of the methodology applied to the Trading Portfolios and the Structural Balance Sheet. Historical Simulation without smoothing is the official methodology currently utilized to calculate the VaR.

	4Q 2015	3Q 2016	4Q 2016
VaR of trading securities			
One-day VaR	$ 184	$ 148	$ 122
10-day VaR	582	468	386
	$ 766	$ 616	$ 508

	VaR 1 day	VaR 10 days
VaR of trading securities		
Interest rate	$ 108	$ 343
Variable income	$ 41	$ 132
Foreign currency	$ 30	$ 96
Interest rate Vega	$ 29	$ 93
Variable income Vega	$ 26	$ 83
Foreign currency Vega	$ 2	$ 7

Furthermore, daily simulations are performed of the losses or gains on the portfolios by means of reassessments under catastrophic scenarios (stress tests). These estimates are generated by applying percentage changes to the risk factors, which were observed in a specific period of the history, which covers significant market turbulence. Every month back testing is performed to compare the daily losses and gains that would have been observed if the same positions had been held, by considering only the change in value due to a market movement against the calculation of the value at risk, so that the models used can be calibrated.

Structural Balance Sheet

The market risk of the Structural Balance sheet or structural risk is defined as the potential change produced in the financial margin and/or in the net worth of an entity due to changes in interest rates and/or exchange rates.

In relation to the Structural Balance of interest rates and exchange rates, sensitivity of Economic Value and Financial Margin are calculated by virtue of movements parallel to an increase or drop in interest rates (+/- 100 basis points), as well as the estimate of expected losses in simulation scenarios of nonparallel movements in risk factors (interest rate and exchange rate), according to the methodology authorized by the Risks Committee. A system of alerts has been established for previous metrics; monthly follow-up is provided by the Risk Committee and is quarterly presented to the Board of Directors; mitigation measures have been established for those cases in which alert limits are exceeded.

The structural risk measurement system is QRM (Quantitative Risk Management), which in turn incorporates the characterization of the headings of the Structural Balance Sheet according to the financial characteristics of each heading.

The methodology behind the Economic Value consists of estimating the fair value of the positions on the Structural Balance Sheet, through the calculation of the current value of its net future flows (the flows expected from its assets less the flows expected from its liabilities) discounted at market interest rates. By the same token, the methodology behind the Financial Margin metrics is based on the projection of the interest income and expenses from the Structural Balance Sheet, month-to-month in a 12 month horizon, considering the projected growth of the business. Specifically, the principal assumptions behind the characterization of the headings of the Structural Balance Sheet are as follows:

- Prepayment rates: Supposes an advance payment of certain headings of the Structural Balance Sheet, such as mortgage loans, commercial portfolio, among others.

- Evolution of products which do not have a maturity date: for sight deposits and credit card, core or stable and volatile balances are calibrated, and subsequently their evolution over time is forecast.

The assumptions behind the characterization of the headings on the Structural Balance Sheet are modeled based on historical observations, of the same headings of the Structural Balance Sheet and the evolution of the risk factors. At least once a year there is a revision and validation of the adjustment of the models and systems comprising the risk metrics of the Structural Balance Sheet.

To monitor the structural balance risk interest rate and exchange rate, in which the Assets and Liabilities Committee is the executive body responsible for handling the situation. Such committee adopts investment and hedging strategies within the policies and risk limits approved by the Board of Directors and delegated Risk Committee of the Board. Figures are presented in annual terms.

Estimated Economic Value Sensitivity

Portfolio	-100 pb	+100 pb	Red flag use
Mexican pesos	$ 5,731	$ (5,809)	45.7 %
Foreign currency	(3,214)	2,973	50.6 %
Total	$ 2,517	$ (2,836)	19.8%

Financial Margin Sensitivity Projected to 12 Months

Portfolio	-100 pb	+100 pb	Red flag use
Mexican pesos	$ (1,168)	$ 1,108	25.7%
Foreign currency	(697)	692	40.9%
Total	$ (1,865)	$ 1,800	32.9%

4Q 16 Exposure to structural balance risk

The Economic Value sensitivity presents below the percentage of red flag use, on average at monthly closes.

The Financial Margin sensitivity projected to 12 months presents below the percentage of limit use, on average at monthly closes.

Portfolio	Red flag use	Limit use
Mexican pesos	35.2%	31.8%
Foreign currency	41.0%	30.2%

- ***Credit risk***

  The measurement of credit risk is associated with volatility of expected revenues and has two basic measures: Expected Loss (PE) and Unexpected Loss (PNE).

  The PE of a portfolio represents the average credit balance which was not paid, plus the net of the losses incurred for its recovery and is considered as an inevitable business loss from granting credit over time. The calculation of the Global PE of each portfolio first requires the determination of the PE for each borrower; for this reason, the model focuses initially on an individual situation.

  - Expected Loss = Probability of Default x Severity of Loss x Exposure

  - Exposure refers to the maximum amount of the balance at the time of the default; the elements which enable this factor to be determined are the size of the line, disposition of the line and type of product.

  - Probability of Default is the likelihood that a customer may default on his obligations. The elements which enable the determination of this factor are risk classification by client, migration of credit quality and situation of non-performing portfolio.

  - Severity of Loss is that net economic loss from the recovery of financing; the elements which enable this factor to be determined are recovery expenses (foreclosure and sale) and the type of collateral.

Portfolio *	Percentage
Commercial	0.7%
Consumer	6.0%
Mortgage	0.4%

Portfolio *	PI's	Severity
Commercial	1.7%	38.0%
Consumer	5.4%	87.1%
Mortgage	1.5%	25.4%

* The parameters are weighted on the current portion of each of the portfolios and are calculated based on internal models of the Institution.

Once the level of expected loss is determined, its volatility determines the amount of economic capital necessary to cover the identified risks. As the credit losses may vary significantly over time, it may be inferred that creating a fund with an amount equal to the average loss will have covered the credit loss in the long term; however, in the short-term the fluctuations and, therefore, the risk, remain in effect and generate uncertainty. Therefore, it should also be covered with a second fund that can be used as collateral to be paid when the latter exceed the average losses.

From our standpoint, the average losses can be supported with the creation of an allowance for loan losses which should be treated as a cost of the credit business.

The second fund created to cover unexpected losses should be assured by setting aside a specific amount of capital which may be used or not, but which assures the solvency of the Financial Group in the event of above average losses. This allocated capital therefore depends on how volatile the credit losses are over time and is known as economic capital, so as to give it a risk connotation.

The level of solvency desired by the Financial Group has to be established in the calculation of the PNE, in such a way that the amount allocated covers the volatility of the losses a specific number of times, thus assuring a specific credit quality for the bank at a certain level of probability. This solvency probability is determined by using the risk classification with which the institution wishes to operate; consequently, the economic capital will have to be equal to the amount necessary for the probability to materialize. Furthermore, the origination models (Scorings or Ratings) are defined for use in all the transaction and portfolio levels and in the behavior models they are established for the most important portfolio, which is Credit Cards. These models, apart from supporting the credit decision, are linked with the probability of default established above.

Every month an estimate is made of Expected Loss, Economic Capital and Regulatory Capital based on Internal Models.

Scope and nature of risk information and measurement systems and their reporting

The information systems are housed in a system developed internally for the Institution, which is run in a mainframe IBM environment (Host) as part of the ALTAMIRA unified bank management platform, DB2 databases, and is developed in COBOL.

The Institution ensures that the data used to prepare reports is taken from unified sources by risk type, which have been reconciled, are traceable and essentially automatic (or involve manual sources with controls). This data has a single definition to guarantee reporting frequency, distribution and confidentiality, among other aspects.

Internal model approval

The Institution applies internal methodologies to standardized portfolios; i.e., it does not partially adopt internal methods within portfolios.

The Commission authorized the use of advanced internal models for the first time on June 22, 2009 for the revolving consumer portfolio, and on April 21, 2014 in the case of Enterprises and Large Enterprises.

New parameters were authorized on January 28, 2016 and February 5, 2016 for the Credit Card, Enterprises and Large Enterprises portfolios, respectively.

Exposure to Default

The exposure to default (EAD) is defined as the calculation of the disposed balance in the period under analysis, plus the Available balance and line granted, adjusted for Credit Conversion Factors, (CCF1 and CCF2), respectively, CCF1 and CCF2 are calibrated from historic information.

EAD = Disposed Balance + CCF1*Undisposed Balance + CCF2 *Limits

Probability of default

In the calibrations of the probabilities of default, a definition of default based on 90 days is used, which matches the default definition used by Basel II.

Consequently, for the Institution, a transaction/customer will be considered as “bad” or in arrears when either of the following options arises:

- 90 days have elapsed since the day of the first nonpayment
- The amount should go through a materiality filter so that the transaction/customer may be considered in arrears.

The materiality filter is the only difference as regards the default definition established by Article 2 Bis 68 of the CUB.

Severity of Loss

The method used to estimate the severity or LGD is the so-called Workout LGD, based on the cash flow discount of exposures in arrears recovered at different moments in time derived from the portfolio recovery process. The recovery cycle is the process in which a contract goes into arrears and ends when it emerges from such situation. Once a contract goes into arrears, it begins a recovery process known as a recovery cycle in which those movements that increase the debt and which reduce the debt are accounted for. That part which could not be recovered is known as a Loss and if it is expressed as a percentage of the Exposure to Default, it is known as Severity of Loss.

Throughout this recovery process, there is a constant identification of the amounts entering capital accounts, recoveries in memorandum accounts and capital accounts, and the amount of exposure at the time of default. Therefore, the severity is calculated as the difference between the accrued deposits less discounted recoveries (carried to present value) at the opening date of the cycle, for the exposure to default.

Severity = LGD = (Σ entries in arrears - Σ recoveries)/EAD

o *Coverage and/or mitigation policies by each type of risk*

The establishment of personal guarantees or security interests in personal or real property, apart from improving the credit structure of the operation, allows the estimate of the Severity of the Loss to be mitigated in order to reduce the credit reserves derived from the regulatory portfolio classification.

The Institution performs revaluations of the loans, depending on the type of collateral, using statistical methods or confirming the existence and physical condition of the collateral. The value of the personal and real estate guarantees is updated each year over the term of the loan, except for those which require an ongoing evaluation (shares listed on stock markets) or for discontinued periods (investment projects).

The Institution has a robust system in place to handle financial security interests in real or personal property and a calculation engine, which have been certified by the Commission, according to the integral method to recognize credit risk coverage, established in Articles 2 Bis 31, 2 Bis 36, 2 Bis 37 and 2 Bis 48 of the CUB.

The integral approach used for the hedge recognition is governed by the following points:

<u>Amount of adjusted collateral</u>*:* The adjusted amount of collateral decreases its market value to take into consideration the loss in value which it may suffer due to the effects of the fluctuation in its market price and fluctuation in exchange rates.

$$CA_i = \frac{C_i}{C_i^{**}} \cdot (1 - H_C^i - H_{FX}^i) \cdot \frac{(t-0.25)_i}{T-0.25}$$

Covered and uncovered exposure: The calculation of uncovered exposure (E*) is a cyclical process in which each iteration is incorporated into a new collateral (CAi) according to the prioritization determined, until there is no eligible collateral to be included in the process.

Internal ratings process: For the Companies and Large Companies internal model, the Institution considers Groups III and IV and certain cases from Group V of the Rules for the Capitalization Requirements of Full-Service Banks and National Credit Institutions and Development Banks of the Commission. Group IV excludes customers with Investment Projects, as well as Small and Medium Mortgage Promoters, and Small and Medium Companies (Pymes) according to the sales volume (customers with transactions valued at less than MX $ 60 million). Large Promoters are considered from Group III.

Description of portfolios with certified internal models:

A Description of the Wholesale Portfolio, which has been rated according to internal models, is provided below:

Close EYGE December 2016

Scale	Available	Balance	Exposure to Default	Weighted median severity	Weighted median risk	Exposure non-financial security interest	Exposure financial security interest
A1	$ 50,474	$ 312,517	$ 328,117	39%	1%	$ 180,822	$ 7,689
A2	633	17,133	17,308	38%	3%	14,122	72
B1	120	4,333	4,369	38%	5%	1,993	82
B2	643	2,765	2,907	37%	6%	3,428	55
B3	10	1,104	1,109	38%	8%	385	71
C1	1	122	122	40%	17%	-	-
E	5	2,474	2,477	77%	100%	10,417	-
Total	$ 51,886	$ 340,448	$ 356,409	39%*	1%*	$ 211,167	$ 7,969

Average weighted percentage

For the Credit Card internal model, the Institution considers Group VI (Consumer and Housing loans) in accordance with the Capitalization Rules of the CUB. Such Group matches the loans made to customers -Individuals - who were granted a revolving credit line for personal use.

A description of the credit card portfolio is detailed below:

Close TDC December 2016

Scale	Available	Balance	Exposure to Default	Weighted median severity	Weighting average weighted risk
A1	$ 42,803	$ 37,177	$ 56,131	76%	2%
A2	16,362	15,897	20,951	78%	4%
B1	10,011	9,848	12,709	79%	6%
B2	8,901	8,819	11,226	79%	7%
B3	9,316	9,219	11,758	79%	9%
C1	10,128	9,225	12,855	79%	11%
C2	11,817	10,848	15,380	77%	21%
D	2,659	1,844	3,429	78%	34%
E	3,311	2,275	4,005	83%	58%
Total	$ 115,308	$ 105,152	$ 148,444	78%*	8%*

Average weighted percentage

- *Analysis of estimated losses according to certified internal models*

  The Backtest exercise matches estimated losses calculated by using the internal model with incurred losses, so as to determine whether established parameters adequately predict their behavior during an annual timeframe.

  The level of reserves is considered to be adequate when, at the close of the annual timeframe, the amount of actual losses accrued for certified portfolios does not exceed the band established for estimated reserves.

  The result obtained for certified portfolios during the third quarter of 2016 is detailed below:

Backtesting 3Q16

Loan Portfolio	PE MI Sep16	Clean-up Oct15-Sep16	DIF $ (SMTO - PE)	% USE
Total	$ 11,601	$ 9,455	$ (2,146)	82

  The loss use is 82%, which is acceptable.

Internal ratings systems and the relationship between internal and external credit risk ratings

The Institution utilizes two types of credit risk model, which are clearly differentiated by the portfolio to which they are applied and the informatics systems supporting the rating tools used for contracts and customers (Scoring and Rating, respectively). The rating institutions utilized to assign ratings to loan portfolio transactions are Standard & Poor's, Moody's and Fitch.

Scoring (retail portfolios) and Rating (wholesale portfolios) tools are utilized to ensure that the decisions made by the Institution's entities maintain the portfolio's profitability and the required quality level.

- *Rating*

  The Rating module is to provide tools for analysis and valuation which enable a loan classification to be given to a customer based on homogeneous data and criteria for the Financial Group. The Rating is a tool for customer classification, geared towards Company Banking and Corporate Banking.

  The Rating basically consists of classifying the customer based on a series of quantitative variables, which are obtained from the Financial Statements (Balance Sheet and Profit and Loss Account) and from a series of qualitative variables (sector, market position, etc.).

  Using these variables, a series of rules or red flag signals are established which enable the agent or analyst to clarify specific aspects which require a justification (elevated indebtedness, reduced level of proprietary funds, etc.) which, depending on their importance, might condition the result obtained for the loan to be granted.

- *Scoring*

  The Scoring module provides tools for analysis and valuation which enable a credit rating to be fixed with a focus on product based on homogeneous data and criteria for the financial group. There are two types of Scoring:

  - Origination Scoring, which is obtained at the time of contracting, based on proprietary information of the operation and information requested from the customer, generates a score for each operation.
  - Behavioral Scoring is obtained each month, based on payments behavior with the Institution. This model, which is used in the assignment of scores for each of the operations, is easy to understand, stable and enables the expert to use it in decision-making.

- *Profitability Measurement*

  Aside from calculating capital requirements derived from its credit risk, the Institution also utilizes internal estimates to measure the profitability of transactions awaiting acceptance and stock.

  In the case of loans granted to Enterprises, Large Enterprises, IFI, States and Sovereign Entities, Profitability and Added Economic Benefit indicators are calculated during the customer evaluation process.

  The Institution utilizes two methodologies to measure loan portfolio profitability. One of these involves measuring profitability based on the regulatory capital calculated according to risk-weighted assets (RoRC), while the other methodology measures profitability in relation to economic capital (RAROEC).

Liquidity Risk

a) Concentration limits regarding the different groups of collateral received and the principal sources of financing

Apart from the regulatory liquidity ratios, the liquidity risk control scheme of the Institution is based on the establishment of limits in three fundamental areas: a) Self-financing through the LtSCD ratio or Loan to Stable Customer Deposits (maximum relationship of the financing of the net credit investment with stable customer deposits); b) Diversification of the financing structure through a maximum amount of Short-Term (FCP); and c) Capacity to absorb liquidity shocks through the 30 day Basic Capacity (CB 30d – available liquidity buffer coefficient and net outlays of liquidity established within the respective unexpired deadline). There are also red flags to prevent the limits from being exceeded, including the follow-up on other unexpired deadlines. There are also metrics to identify possible threats in advance to allow for the adoption, as the case may be, of the necessary preventive measures, including indicators of concentration of financing or liquidity in foreign exchange or diversification of long-term financing, among others.

December 2016 Liquidity risk exposure: average monthly closes

Absolute margin in relation to the limit (positive without excess, negative with excess)

LtSCD	10%
FCP 12m	$171,762
CB 30d	45%

*Annual perspective

b) Exposure to liquidity risk and financing needs at Institution level, bearing in mind legal, regulatory and operational limitations and the transferability of liquidity

The Institution exposure to liquidity risk and its financing needs are based on the principle of decentralized and independent management of liquidity (including the Institution or any of its associated entities), so as to avoid dependencies or subsidies and eventual contagion due to crisis. At all times they take into account the legal, regulatory and operational limitations on the transferability of liquidity of the applicable rules in setting the liquidity risk policies of the Institution, including the regimes for admission of liabilities and investments for liability transactions in Foreign Currency of Banxico, operating rules of the payment systems, risk diversification in the performance of liability operation specified by the Provisions, among others.

In the case of the investment regime for liability operations in Foreign Currency, apart from the Shortfall regulatory limit, as a preventive measure there is also a red flag system in place which is stricter than the regulatory limit for the investment regime for liability operations in Foreign Currency of Banxico.

Balance sheet operations itemized by expiration deadlines and the resulting liquidity gaps, including operations recorded in memorandum accounts.

The following table details the liquidity gaps of Institution at different terms.

Millions of Mexican pesos	At sight	30 days	Six months	One year	More than one year	No expiration date	Total
Funds available	$ 148,356	$ 3,137	$ 2,114	$ 7,975	$ 46,384	$ 3,999	$ 211,964
Loan portfolio	-	58,298	145,473	74,585	704,854	-	983,211
Securities portfolio	-	-	9,130	31,296	338,738	-	379,164
Repurchase agreements	-	5,320	5,015	-	-	-	10,335
Total Assets	$ 148,356	$ 66,755	$ 161,732	$ 113,856	$ 1,089,976	$ 3,999	$ 1,584,673
Deposits	$ 1,799	$ 104,024	$ 68,438	$ 1,168	$ 49	$ 754,935	$ 930,414
Issues and Debentures	-	3,720	22,215	2,217	169,666	-	197,818
Payables from repurchase agreements	-	252,653	24,240	-	-	-	276,893
Net rest of balance sheet	-	-	-	-	-	179,547	179,547
Total liabilities	$ 1,799	$ 360,398	$ 114,893	$ 3,385	$ 169,715	$ 934,482	$ 1,584,673
Off-balance-sheet	$ -	$ 76	$ 248	$ (457)	$ (1,727)	$ -	$ (1,860)
Liquidity gaps	146,556	(293,567)	47,085	110,015	918,534	(930,483)	-
Accumulated gaps	146,556	(147,011)	(99,925)	10,089	928,624	(1,860)	-

** The figures in the preceding table only consider the Institution individually, not on a consolidated basis.*

- *Embedded derivatives-*

  Under the programs for issuance of Structured Bank Bonds of the Institution, it has recorded foreign currency, ratios and interest-rate options, equivalent at an interest rate sensitivity of $(3.4) to a base point; also, the Institution has recorded interest rate and foreign currency swaps with an interest rate sensitivity of $(4.2) to a base point.

Qualitative information

(a) The liquidity risk is handled in the Institution by considering for such purpose the tolerance to such risk; the structure and responsibilities for liquidity risk management; internal liquidity reports; the liquidity risk strategy and the policies and procedures through the business lines and with the Board of Directors.

The handling of liquidity risk in the Institution is governed by the following principles: decentralized and independent liquidity management; self-financing of the credit activity of the banks; liquidity planning in the process of growth planning in the activity; clear segregation of functions to achieve a proactive management of liquidity risk, including intraday liquidity and management of collateral, establishment of a transfer pricing system and standards for internal use of liquidity; as well as alignment with regulatory requirements.

The structure and responsibilities for liquidity risk management are clearly segregated by function and area:

- *Setting of general policies, fundamental metrics and limits.* The risk liquidity policies are approved by the Board of Directors, with the prior favorable opinion of the Risk Committee; which bodies approve the liquidity risk limits scheme.

- *Risk identification, measurement and control*. Risks identifies, measures and establishes measurements to control liquidity risk to which the Financial Group is subject through the setting, follow-up and reporting of a limits scheme.

- *Management of investing and deposits activity*. This is performed by the business areas in accordance with the risks policy.

- Liquidity management and financing. This is performed by Finances, specifically in the Financial Management area, leaving short-term performance delegated (including the performance of intraday liquidity) in the Global Markets unit

- Generation of follow-up information. As much as possible, the Systems and Finances areas of the Financial Group supply the relevant information for purposes of liquidity risk. At the same time, Risks promotes the ongoing improvement of information quality to ensure a correct decision-making process.

The status of the limits and red flags is reported through daily internal reports to Senior Management, internal audit and the areas which handle risk, even more frequently in times of crisis

Strategies are outlined within the risk limits approved by the Board of Directors and Risks Committee delegated by the Board, and are agreed upon in the Assets and Liabilities Committee, always within the liquidity risk tolerance approved. Also, follow-up is given on the evolution of liquidity risk and excess risk in these bodies.

a) Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized

Every year the Financial Group prepares a growth plan of its activity, considering the business's growth projections, the maturities profile of assets and liabilities, the appetite for risk and projected market conditions. On such basis, the financing plan is prepared in the wholesale markets, seeking to maintain diversification in financing, thus ensuring that there is no excessive dependence on short-term financing.

b) Liquidity risk mitigation techniques used

The Institution liquidity risk model, based on the principles quoted in subsection (a) of this Section II, at all times takes into account the legal, regulatory and operational restrictions on the transferability of liquidity.

Specifically, one of the strengths of the Institution is based on the quality of its funding, which is diversified by type of customers, instruments and markets. With regard to deposits, there is an extensive network of retail and wholesale customers. This attraction of deposits is complemented and strengthened with local and international issues, maintaining constant access to debt markets.

If liquidity risk limits or red flags are triggered, specific action and communication procedures are established within the Financial Group, based on a clear definition of roles by the different areas and decision-making bodies, with the level of communication depending on whether a limit or red flag was triggered. Also, there is a Liquidity Contingency Plan, which when activated has an inventory of action measures classified by type, based on whether they are related with Banxico, the wholesale market or commercial activity. Mitigation techniques include internal and external liquidity sources, selected according to the situation of the current and forecast market, prudence in the activity, financial and reputational impact, among others.

c) Use of stress tests

Liquidity risk stress tests are performed under different scenarios, in each case evaluating the status of coverage of the available liquidity buffer with the liquidity needs of the scenario in question under different temporary horizons. The results of these tests form an integral part of the Liquidity Contingency Plan, given that the latter is activated by them.

Description of contingent financing plans

The Liquidity Contingency Plan or Contingency Financing Plan is considered a fundamental part of liquidity risk management at times of liquidity stress.

It contains concrete procedures to facilitate decision-making, a rapid adoption of contingent measures and efficient communication, specifying the functions and responsibilities in these situations, together with the authority to activate it. It is defined on the basis of four principles: coordination between the participating units, effective level of information, confidentiality of the actions and information and enforceability. It is authorized by the Board of Directors of the Institution, with the prior favorable opinion of its delegated Risk Committee; the proposal of the Liquidity Contingency Plan to the Board of Directors and its subsequent amendments is made by the Managing Director of the Institution.

Furthermore, the Financial Group has a Contingency Plan or Recovery Plan in place which establishes possible actions to be performed to restore its financial position in light of adverse scenarios which might affect its solvency and/or liquidity. This plan describes the situation of the Institution by detailing key business lines, recovery indicators, and corporate governance if adverse scenarios arise and the processes needed to implement recovery measures. This plan is also approved by the Board of Directors.

o *Liquidity Coverage Coefficient (CCL)*

The Liquidity Coverage Coefficient quantifies the potential capacity of the Institution to meet 30 day liquidity with available liquid assets in a stress scenario.

According to the information disclosure requirements specified in Exhibit 5 of the General Provisions on Liquidity Requirements for Full Service Banks, the following is the Liquidity Coverage Coefficient Disclosure Form, corresponding to the fourth Quarter of 2016.

Liquidity coverage coefficient (Millions of Mexican pesos)	**Unweighted amount**	**Weighted amount**
Computable liquid assets		
Total computable liquid assets	Not applicable	$ 225,058
Cash outlays		
Stable financing	$ 374,905	$ 18,745
Less stable financing	141,751	14,175
Unsecured retail financing	516,656	32,920
Operational deposits	103,701	25,023
Nonoperational deposits	252,383	105,355
Unsecured debt	3,186	3,186
Unsecured wholesale financing	359,270	133,564

Liquidity coverage coefficient (Millions of Mexican pesos)	Unweighted amount	Weighted amount
Secured wholesale financing	Not applicable	2,490
Outlays related to financial derivatives	11,604	11,604
Lines of credit and liquidity	489,551	29,836
Additional requirements	501,155	41,440
Other contingent financing obligations	11,280	11,280
Total cash outlays	Not applicable	221,694
Cash receipts		
Cash receipts from secured transactions	$ 8,684	$ 116
Cash receipts from unsecured transactions	69,042	39,036
Other cash receipts	1,868	1,868
Total cash receipts	$ 79,594	$ 41,020
Total computable liquid assets	Not applicable	$ 225,058
Net total cash outlays	Not applicable	$ 180,676
Liquidity coverage coefficient	Not applicable	124.46%

a) *Calendar days included in the quarter being disclosed*

The quarter reported includes 92 calendar days.

b) *The primary causes of the results of the Liquidity Coverage Coefficient and the evolution of its principal components.*

During the quarter, the CCL improves based on increased customer attraction, primarily retail customers, thereby improving the overall composition with more stable funding and exceeding the credit activity CCL.

The growth of customer attraction allowed the Institution to maintain a high level of liquid assets, most of which are of high quality (government debt and central bank deposits).

Description	1 Q	2 Q	3 Q	4 Q
Liquid assets	$ 200,218	$ 209,993	$ 219,014	$ 225,058
Outlays	$ 170,614	$ 172,388	$ 182,209	$ 180,676
CCL	118.72%	121.78%	120.57%	124.46%

Millions of Mexican pesos

c) *Changes in the principal components in the quarter reported*

Description	Changes 4T vs 3T
Liquid assets	$ 6,044
Outlays	$ 329
Receipts	$ 1,862
Net Outputs	$ 1,533
CCL	3.90%

Millions of Mexican pesos

d) *Evolution of the composition of Eligible and Computable Liquid Assets*

Eligible and Computable Liquid Assets Millions of Mexican pesos		3 Q		4 Q		Variance
N1 Cash	$	118,806	$	155,490	$	36,684
N1 Securities		74,703		44,023		(30,680)
N2 A		19,102		19,168		66
N2 B		6,404		6,376		(28)
Total	$	219,015	$	225,057	$	6,042

* Weighted amounts based on the CCL discount factor.

e) *Concentration of financing sources*

One of the great strengths of the Institution is the quality of its funding, which is diversified by type of customers, instruments and markets. With regard to deposits, there is an extensive network of both retail and wholesale customers. This attraction of deposits is supplemented and strengthened with local and international issues, over different terms, and constant access is maintained with debt markets.

The following table shows the principal financing sources at the close of the year.

Sources of financing (December 2016)	% of total liabilities
Customer deposits	66%
Collateralized financing	19%
Securities	6%
Debentures	7%
Money market	2%
Interbank	1%

f) *Exposures in financial derivatives and possible margin calls.*

The Institution's exposure, according to current local exposure guidelines regarding derivatives for the Liquidity Coverage Coefficient referenced to the net disbursements expected for the next 30 days, plus a contingent disbursement for transactions involving derivative financial instruments (LBA: lookback approach), is detailed below:

Description	December 2016
Net outlay of derivatives to 30 days plus contingent outlay (LBA)	$ 11,179

g) *Mismatch of foreign currencies*

The liquidity risk associated with foreign currency transactions is covered in conformity with the provisions of the Liquidity Coefficient in Foreign Currency, established by Banxico. Furthermore, the risk associated with the exchange rate is duly funded and is handled within the regulatory limits.

h) *Degree of centralization of liquidity management and interaction between the group's units*

The responsibility for handling liquidity is concentrated in the Financial Management unit, which reports directly to the CFO and is independent from the business units. It maintains a direct interaction with the business areas, defining strategies for how to use and attract liquidity. The strategies are applied within the risk limits approved by the Board of Directors and the Board's delegated Risk Committee, and are agreed upon in the Assets and Liabilities Committee, the executive body responsible for handling capital and the structural risks of the balance sheet with regard to interest rates, exchange rates and liquidity.

i) *Cash flow outlays and receipts that, if appropriate, are not captured in this framework but which the Institution considers relevant for its liquidity profile*

The Institution considers that all relevant flows are covered in the CCL metric, for which reason there are no additional flows to be considered.

The Institution has cash flow hedges to reduce exposure to variances in flows, changing such flows to a fixed rate in order to improve the sensitivity of the financial margin. The method used to evaluate prospective effectiveness is by sensitivity analysis; retrospective effectiveness is measured by comparing the change in the present value of the flows from the hedge instrument against the changes in the present value of the flows from the hedged position.

Operational Risk

The measurement and control of operational risk is the responsibility of a separate operational risk unit which manages market risk and credit risk, as well as audit units and compliance.

Aware of the importance of considering all aspects associated with operating risk, the Institution has implemented comprehensive risk management which not only includes the quantitative aspects of risk, but also seeks to measure other elements that require the introduction of qualitative evaluation mechanisms, without overlooking the objectivity of the systems utilized for this purpose. An operating risk is defined as one that cannot be classified as a credit or market risk. This is a broad definition which primarily includes the following risk classes: process, fraud, technological, human resources, commercial and legal practices, and suppliers and disasters.

The operating risk management model is based on a cause-effect model which identifies the operating risk associated with the Institution's processes through a continuous improvement circuit:

- <u>Identification</u>. Consists of determining which risk factors (circumstances which can become operating risk events) reside in the processes of each business/support unit. This is the most important part of the cycle because it determines the existence of all other parts.

- <u>Quantification.</u> The cost that can be generated by a risk factor is quantified by using historical data (database of operating losses) or estimated in the case of risks which have not arisen as past events. This quantification is based on two components: occurrence frequency and monitoring the impact generated in the event of occurrence.

- <u>Mitigation.</u> After having identified and quantified operating risk factors, if this risk exceeds desired levels, a mitigation process is implemented to reduce the risk level by either transferring it or modifying the processes which reduce the frequency or impact of an event. Mitigation decisions are made by the Operating Risk Committee created by each business/support unit.

- <u>Follow-up</u>. Qualitative follow-up is provided to analyze the evolution of the operating risk, which involves evaluating the implementation level of mitigation measures. Quantitative follow-up consists of measuring the evolution of causal operating risk indicators, while also analyzing the evolution of operating risk losses recorded in a database.

In the specific case of technological risks, aside from the general operating risk methodology, a technological Risk Committee has also been created to ensure that identified risks and mitigation plans are standardized throughout the Institution and are compliant with logical security, business continuity, data processing efficiency and technological evolution standards. Likewise, this Committee ensures the adequate management of the Institution's technological infrastructure.

In the case of legal risk, aside from the operating risk management circuit, the probability of an adverse verdict derived from administrative processes or legal proceedings in which the Institution is either plaintiff or defendant is also calculated.

Given that the different departments have doubts regarding compliance with certain operating processes established by Mexican and/or foreign laws, consultations are periodically requested from attorneys specializing in different areas to obtain a reliable legal opinion and guarantee compliance with legal provisions.

Based on the above, the institution considers that the main factors influencing the legal risk are: degree of non-compliance with local regulations types of judicial process which involves; lawsuit amount and likelihood of an unfavorable outcome.

Operating Risk events can arise in the Banking Business for different reasons such as: fraud, process operating errors, disasters, technological deficiencies and legal risks, etc. Accordingly, the Institution has established robust internal models to enable it to timely determine the occurrence of operating risk events. Operational risk derives from the probability that there will be human errors, inadequate or defective internal processes, systems failures and also external events which might represent a loss for the Institution. This definition includes legal risk and excludes strategic and/or business risk and reputational risk.

Operational risk is inherent to all the activities, products, systems and processes, and its origins are quite varied (processes, internal and external frauds, technological, human resources, commercial practices, disasters, suppliers). The management of operational risk is integrated into the global risk management structure of the Financial Group.

Throughout the Institution there is an integrated internal control and operational risk methodology. This methodology helps to identify risks in the organization's areas, generate analyses to prioritize risks according to their residual estimate (after including the effect of the controls), link the risks to the processes and establish an objective level for each risk which, by comparison with the residual risk, identifies weaknesses that can be managed. To provide the necessary support to this methodology, the Institution has a corporate application: STORM (Support Tool for Operational Risk Management), which includes indicator and scenario modules.

The framework of operational risk management defined by the Institution includes a governance structure based on three lines of defense with: clear demarcation of the responsibilities, policies and procedures common to the entire Institution, systems to identify, measure, monitor, control and mitigate the operational risks and losses, as well as tools and methodologies to quantify the operational risk in terms of capital

- **Framework of operational risk management: Three lines of defense**

    - *Business units*

      They manage the operational risk of their respective areas, coordinated by the GRO Business in the areas, and by the process owners and controls.

    - Internal Controllership, GRO Country and Internal Control Specialists

      The Internal Controllership function and GRO Country (Operational Risk Management Country) are responsible for designing, maintaining and updating the framework of operational risk and Internal Control in the Institution and confirming that it is correctly applied in the field of the business and support areas.

    - They define procedures, systems and tools.

    - Reporting to Senior Management.

      The Internal Control Specialists assess the effectiveness of the documented controls and assure the permanent updating of the internal control system, in adherence to the Internal Control objectives and guidelines defined by the Controllership and authorized by the Board of Directors at the behest of the Audit Committee.

      Internal Audit:

      In general it ascertains compliance with the framework of operational risk management, with independent review and testing of the controls, processes and systems of the Institución.

Operational risk management in the Institution is designed and coordinated from the Operational Risk Management function (GRO Country) in conjunction with the corporate criteria of the Institution. The business or support areas in turn have Operational Risk Managers (GRO Business) which for functional purposes report to GRO Country and are responsible for implementing the model in the day-to-day of the business areas. Accordingly, the Institution has an operational perspective, which is where the operational risks are identified and prioritized and mitigation decisions are taken.

To carry out this task, the Institution has tools in place to cover the qualitative and quantitative aspects of operational risk:

Operational Risk Management Tool - The STORM corporate tool documents the identification and management of the most important risks which constitute the reference to focus attention on the Operational Risk Management Committees of the business and support units, and on the delegated Risk Committees of the Board of Directors held during the year.

Indicators fixed in the principal operational risks and their controls: The indicators help measure the evolution of the risks and their controls over time, generate red flag signals and measure the effectiveness of the controls on an ongoing basis. These indicators are defined and followed up by the Internal Control Specialists.

SIRO Tool - Operational risk events almost always have a negative impact on the accounts of the Institution. To ensure detailed control over them, they are registered in a database known as SIRO (Operational Risk Integrated System). To ensure reliability it receives the information directly from accounting by automatic interfaces in 95% of the cases.

- *Capitalization for operational risk*

Based on the changes to the Provisions published by the Commission on December 31, 2014, which define the methodological criteria to determine the capital requirement for operational risk through the Basic, Standard, and Alternative Standard approaches, the Financial Group requested and obtained authorization from the Commission on November 27, 2015, to use the Alternative Standard method to calculate the capital requirement for operational risk, based on the information as of October 2015.

The Alternative Standard Method consists of a simple totaling of the net revenues for each of the eight business lines, multiplied by the factors related to each line, except when it involves the calculation of the capital requirements for Operational Risk of the retail banking and commercial banking business lines, for which the capital requirement will be calculated by substituting the monthly net revenue of each of these lines of business, for the amount exercised of monthly loans and advances for each business line, multiplied by a fixed factor “m”, which will be 0.035.

The factors to be used by business line are as follows:

Business lines	% Applicable to each business line
Corporate finances	18
Transactions and sales	18
Retail banking	12
Commercial banking	15
Payments and settlements	18
Agency services	15
Asset management	12
Retail brokerage	12

To calculate the net revenues and the amount exercised of loans and advances, it is essential to consider the amount applicable to the 36 months before the month for which the capital requirement is being calculated, which must be grouped into three periods of 12 months to determine the annual net revenues.

The losses derived from operational risk in 2016 were $1,555, mainly due to frauds and operational errors.

34. Financial indicators (unaudited)

As of December 31, 2016 and 2015, according to article 182 of the Provisions, the Institution’s financial indicators are as follows:

Ratio	2016	2015
Ratio of default	2.23%	2.40%
Hedge ratio of portfolio of non-performing loans	131.84%	127.90%
Operating efficiency	3.68%	3.20%
ROE	17.74%	19.70%
ROA	1.50%	1.70%
Capitalization ratio credit and market risk	13.73%	14.90%
Basic capital 1 on credit, market and operational risk		10.90%
Liquidity	74.98%	78.60%
Net adjusted interest margin (MIN) /Average Productive Assets	4.36%	4.30%

35. Ratings

At December 31, 2016, the ratings assigned to the Institution are as follows:

Ratings Agency	Global Scale ME Long Term	Global Scale ME Short Term	National Scale Long Term	National Scale Short Term	Perspective
Standard & Poor's	BBB+	A-2	mxAAA	mxA-1+	Stable
Moody's	A3	P-2	Aaa.mx	MX-1	Stable
Fitch	A-	F1	AAA (mex)	F1+ (mex)	Stable

36. Contingencies

As of December 31, 2016 and 2015, there are claims filed against the Institution in ordinary civil and commercial lawsuits, as well as payment requests issued by the tax authorities. However, according to its attorneys, the claims filed are considered without merit and, in the event of adverse rulings, its financial position would not be significantly affected. For such purpose, the Institution has weighted the impact of each one and has recorded a reserve for $298 and $300 in these cases.

At December 31, 2016 and 2015, certain labor lawsuits have been filed against the Institution. However, its attorneys consider that these claims are without merit and that an adverse outcome would not significantly affect the Institution's financial position. Consequently, at December 31, 2016 and 2015, the Institution has analyzed the effect of each of these lawsuits and has recorded a reserve of $281 and $229 for labor lawsuits.

37. Subsequent events

The Stockholders' Special Meeting of January 27, 2017 approved the merger of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as the absorbing company, with the entities denominated Hipotecaria Nacional, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, Grupo Financiero BBVA Bancomer; Desitel Tecnología y Sistemas, S.A. de C.V. and Betese, S.A. de C.V. as the absorbed entities. The merger took effect as of February 15, 2017.

Regarding the payment of a dividend for up to the amount of $19,350 approved by the Stockholders' Ordinary General Meeting of February 26, 2016, the fourth payment of the dividend declared on December 16, 2016 for $2,465, was made on January 25, 2017.

38. New accounting principles

NIF´s issued by the CINIF applicable to the Institution

At December 31, 2016, the CINIF has issued the following NIFs and Interpretations to FRS (INIF) that could have an impact on the consolidated financial statements of the Institution:

a. Improvements to NIF 2017 - The following improvements were issued which generate accounting changes effective as of January 1, 2017:

   NIF B-13, Events after the date of the financial statements, NIF B-6, Statement of financial position, NIF C-19, Financial instruments payable, and NIF C-20, Financial instruments receivable – If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted.

NIF D-3, Employee benefits – Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term labor liability should be a free market rate with a very low credit risk, which represents the value of money over time. Consequently, either the government bond market rate or the market rate for high-quality corporate bonds in absolute terms in a deep market, could be used, indistinctly, provided that the latter complies with the requirements established in Appendix B– Application guidance, B1– Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market. Early application is allowed.

b. Improvements to NIF 2017 – The following improvements do not generate accounting changes:

NIF C-2, Investment in financial instruments
NIF C-3, Accounts receivable
Bulletin C-15, Impairment in the value of long-lived assets and their disposal
NIF C-16, Impairment of financial instruments receivable
NIF C-20, Financial instruments to collect principal and interest

The improvements consist of outlining the scopes and definitions of these NIF to clearly indicate the appropriate application and accounting treatment; consequently, no effective date was established for these improvements. Furthermore, improvements were made to different NIF to change the acronyms used to identify certain receivable financial instruments.

c. The following NIF were issued and are effective January 1, 2018:

NIF C-2, Investments in financial instruments
NIF C-3, Accounts receivable
NIF C-9, Provisions, contingencies and commitments
NIF C-10, Financial derivatives and hedging relationships
NIF C-16, Impairment of financial instruments receivable
NIF C-19, Financial instruments payable
NIF C-20, Financial instruments receivable
NIF D-1, Revenues from contracts with customers
NIF D-2, Costs from contracts with customers
NIF B-17, Determination of fair value- *(Subject to the issuance of the NIF)*

NIF C-2, Investment in financial instruments (FI) – The main change in this standard is the classification of the FI in which the investment is made. The intention of acquisition and utilization of an investment in an FI is discarded for purposes of determining its classification, and is replaced by the business model concept for the management of investments in FI to procure cash flows, which may be obtaining a contractual return from an FI, from the collection of contractual returns and/or sale or obtaining profits from their purchase and sale, with the aim of classifying the different FI. Furthermore, the investments in FI cannot be reclassified between the different categories (loans and receivables, financial liabilities at fair value and trading), unless the business model changes, which is considered unlikely to occur.

NIF C-3, Accounts receivable – The main changes consist of specifying that: a) the accounts receivable based on a contract represent a financial instrument; b) the allowance for bad debts for commercial accounts is recognized from the time the revenue is accrued, based on the expected credit losses; c) the time value of money should be considered as of the initial recognition; consequently, if the effect of the present value of the account receivable is material based on its term, it should be adjusted based on such present value, and d) required disclosures include an analysis of the change between the opening and closing balances of the allowance for bad debts.

NIF C-9, Provisions, contingencies and commitments – The term probable replaced the term virtually avoidable in the definition of liabilities. The first-time application of this NIF does not generate accounting changes in the financial statements.

NIF C-10, Financial derivatives and hedging relationships - (Subject to the issuance of the NIF)

NIF C-16, Impairment of financial instruments receivable (FIR) – Determine when and how the expected losses from impairment of FIR should be recognized; this is when, as result of an increase in the credit risk, it is concluded that a part of the future cash flows from the FIR will not be recovered, and proposes that the expected loss should be recognized based on the historical experience of credit losses, current conditions and reasonable and sustainable forecasts of the various quantifiable future events that might affect the amount of the future recoverable cash flows of the FIR, which means that estimates must be made and should be periodically adjusted based on past experience. Furthermore, in relation to interest-bearing FIR, entities shall estimate the amount and timing for the cash flows expected to be recovered, as the recoverable amount must be recognized at present value.

NIF C-19, Financial instruments payable – Establishes: a) the possibility of valuing, after their initial recognition, certain financial liabilities at fair value, when certain exceptional conditions are fulfilled; b) the valuation of long-term liabilities at their present value at initial recognition, considering their present value when their term exceeds one year or outside normal credit conditions, and c) when a liability is restructured, but the future cash flows to settle the liability are not substantially modified, the costs and commissions disbursed in this process will affect the amount of the liability and will be amortized based on a modified effective interest rate, instead of directly affecting the net income or loss.

NIF C-20, Financial instruments receivable – Specifies the classification of financial instruments in the assets, based on the business model: a) if the intention is to generate a profit through a contractual return, predetermined in a contract, they are recognized at amortized cost; b) if they are also used to generate a profit based on their purchase and sale, they are recognized at fair value. Any embedded financial derivative that modifies the cash flows of principal and interest from the host instrument will not be separated; instead, all will be valued at fair value, as if it were a negotiable financial instrument.

NIF D-1, Revenues from contracts with customers – Previously there was no Mexican accounting standard for revenue recognition, for which reason the main changes focus on providing greater consistency in revenue recognition and eliminating weaknesses in the previous supplemental standards. The most important changes consist of establishing a model for revenue recognition based on the following steps: a) transfer of control, the basis for the timeliness of revenue recognition; b) the identification of the different performance obligations in a contract; c) the allocation of the transaction amount between the different unfulfilled obligations based on independent selling prices; d) the introduction of the concept conditional account receivable, when an unfulfilled obligation is satisfied and an unconditional right to the consideration is generated because only the passage of time is required for the payment of such consideration to become enforceable; e) the recognition of collection rights, where in certain cases there may be an unconditional right to the consideration before an unfulfilled obligation is satisfied, and f) the valuation of the revenue, considering aspects such as the recognition of significant financing components, the noncash consideration cash and the consideration payable to a customer.

NIF D-2, Costs from contracts with customers – Separates the standard for recognition of the costs from contracts with customers from that related to recognition of the revenues from contracts with customers, and expands the scope to include costs related to all types of contracts with customers.

(1) Early application of these NIF is permitted as of January 1, 2016, provided that it is done in conjunction.

At the date of issuance of these consolidated financial statements, the Institution has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

39. Authorization of the issuance of the consolidated financial statements

The consolidated financial statements were authorized for issuance on February 24, 2017, by the Board of Directors of the Institution and are subject to approval by the Annual General Meeting of Shareholders of the Institution who may be modified in accordance with the provisions in the General Law of Commercial Companies.

40. Review of the consolidated financial statements by the Commission

The accompanying consolidated financial statements at 31 December 2016 and 2015 are subject to review by the Commission, so that the same may be modified as a result of that review by this supervisory authority.

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