

## **IMPORTANT NOTICE**

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**CONFIRMATION OF YOUR REPRESENTATION:** You have accessed the attached document on the basis that you have confirmed your representation to BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, acting through its Texas Agency (“Bancomer”) and to BBVA Securities Inc., BNP Paribas Securities Corp., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “initial purchasers”) that (1) you consent to delivery of the attached document and any amendments or supplements thereto by electronic transmission and (2) either (A) you are a QIB (within the meaning of Rule 144A under the U.S. Securities Act of 1933, as amended (the “Securities Act”) or (B) you are a non-US person as defined in Regulation S under the Securities Act.

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**RESTRICTIONS:** The attached document is being furnished in connection with an offering exempt from registration under the Securities Act.

ANY NOTES TO BE ISSUED HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS REGISTERED UNDER THE SECURITIES ACT OR PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION. YOU ARE NOT AUTHORIZED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED DOCUMENT, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH DOCUMENT IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by the initial purchasers or Bancomer that would or is intended to, permit a public offering of the securities, or possession or distribution of the attached document (in preliminary, proof or final form) or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required, except as described in the attached document. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of Bancomer in such jurisdiction.

This document is being distributed only to and directed only at persons who have professional experience in matters relating to investments falling within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as “relevant persons”). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

You are reminded that the attached document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, may be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



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

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

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

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

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

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

**Investing in the Notes involves risks. See “Risk Factors” beginning on page 21.**

**Issue Price: 99.505%**

plus accrued interest, if any, from and including January 17, 2018, or the Issue Date

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

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

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

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

This offering memorandum has been prepared on the basis that any offer of the Notes in any member state of the EEA ("Member State") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Member State of Notes which are the subject of the offering contemplated in this Offering Memorandum may only do so in circumstances in which no obligation arises for the Issuer or any of the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither we nor the initial purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the initial purchasers to publish or supplement a prospectus for such offer. Neither we nor the initial purchasers have authorized, nor do they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the initial purchasers, which constitute the final placement of the Notes contemplated in this offering memorandum.

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

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

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

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

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

*Joint Bookrunners*

<b>BBVA</b>	<b>BNP PARIBAS</b>	<b>BofA Merrill Lynch</b>	<b>J.P. Morgan</b>
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The date of this offering memorandum is January 11, 2018.

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

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

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

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

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

We are relying upon an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the Notes, you will be deemed to have made the acknowledgements, representations and agreements and the restrictions described above and as further described under “Transfer Restrictions” in this offering memorandum. We are not, and the initial purchasers are not, making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

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

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

This offering memorandum does not constitute an offer of, or an invitation by or on behalf of, us or the initial purchasers or any of our or their respective directors, officers and affiliates to subscribe for or purchase any securities in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this offering memorandum and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales.

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

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

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

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

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

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

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

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

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

- (1) you are not a retail client in the EEA (as defined in the PI Rules);
- (2) whether or not you are subject to the PI Rules, you will not (a) sell or offer the Notes (or any beneficial interests therein) to retail clients in the EEA or (b) communicate (including the distribution of this offering memorandum or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules), in any such case other than (i) in relation to any sale or offer to sell the Notes (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell the Notes (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (x) you have conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Notes (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Notes (or such beneficial interests therein) and (y) you have at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) (“MiFID”) to the extent it applies to you or, to the extent MiFID does not apply to you, in a manner which would be in compliance with MiFID if it were to apply to you; and
- (3) you will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

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

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

#### **NOTICE TO PROSPECTIVE INVESTORS IN CHILE**

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

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



## AVAILABLE INFORMATION

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

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

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

We will make available to the holders of the Notes, at the corporate trust office of the Trustee at no cost, copies of the Indenture as well as this offering memorandum, including a review of our operations, and our annual audited consolidated financial statements and our unaudited quarterly consolidated financial statements, each prepared in conformity with Mexican Banking GAAP (as defined herein). We will also make available for inspection at the corporate trust office of the Trustee our unaudited quarterly consolidated financial statements prepared in accordance with Mexican Banking GAAP. Information is also available for inspection at the office of The Bank of New York Mellon SA/NV, Dublin Branch (the “Listing Agent”).

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

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

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

We have been advised by Texas counsel that a money judgment rendered in Mexico for amounts due under the Indenture or the Notes (other than a judgment for taxes, fines or other penalties) that has become final, conclusive and enforceable under the judicial system of Mexico would generally be enforceable against the Issuer in a Texas court if such judgment meets the requirements of the Uniform Foreign Country Money-Judgment Recognition Act as

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

## FORWARD-LOOKING STATEMENTS

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

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

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

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

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

## **PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION**

### **Accounting Principles**

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

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

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

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

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

### **Reclassifications**

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

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

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

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

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

### **Currencies**

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

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

### **Terms Relating to our Loan Portfolio**

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

“*Total performing loans*” and “*total performing loan portfolio*” refer to the aggregate of (1) the total principal amount of loans outstanding as of the date presented, (2) amounts attributable to “*accrued interest*, but unpaid” (3) “*rediscounted loans*” and (4) the “*UDI Trusts*” (as explained below). Under Mexican Banking GAAP, we include as income for any reporting period interest accrued but unpaid during that period. Such “*accrued interest*” is reported as part of our total performing loan portfolio in the financial statements until it is paid or becomes part of the total non-performing loan portfolio in accordance with CNBV rules. “*Rediscounted loans*” are peso- and U.S. dollar-denominated loans made to finance projects in industries that qualify for priority status under the wholesale lending programs of the Mexican Government’s development banks and are generally funded in part by such development banks. In accordance with Mexican Banking GAAP, rediscounted loans are recorded on the balance sheet as outstanding loans until they are paid or becoming non-performing in accordance with CNBV’s rules. As is mandated by the CNBV, total performing loans include the off-balance sheet portfolio trusts, or the UDI Trusts, which are trusts holding our loans converted into UDIs that are consolidated in our financial statements. Under a UDI-based loan or financial instrument, interest is calculated on the outstanding UDI balance of the loan or financial instrument. Principal and interest payments are made by the borrower in an amount in pesos equivalent to the amount due in UDIs at the stated value of the UDIs on the day of payment. Under the UDI Trust program, we are liable for all future losses, if any, on the loans in the UDI Trusts. See notes 3, 10 and 11 to our Financial Statements included elsewhere in this offering memorandum.

The terms “*total non-performing loans*” and “*total non-performing loan portfolio*” include past-due principal and past-due interest. For a description of our policies regarding the classification of loans as non-performing, see “Selected Statistical Information—Non-Performing Loan Portfolio.” The term “*net non-performing loans*” refers to total non-performing loans less allowance for loan losses on these loans.

References in this offering memorandum to “*provisions*” are to additions to the loan loss allowance or reserves recorded in a particular period and charged to income, except in the case of certain provisions associated with loans and foreclosed assets and other loan losses that were charged to stockholders’ equity (net of deferred taxes). See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations.”

References in this offering memorandum to “*allowance*” are to the aggregate loan loss allowance or reserves shown as of a particular date as a balance sheet item.

The terms “*total loans*” and “*total loan portfolio*” include total performing loans plus total non-performing loans, each as defined above. The terms “*net total loans*” and “*net total loan portfolio*” refer to net total performing loans plus net non-performing loans, as defined above.

The loan portfolio information provided in “Selected Statistical Information” was determined in accordance with the manner in which we have presented the components of our loan portfolio in other sections of this offering memorandum as described above, except that the data for the loan portfolio presented under “Selected Statistical Information” does not include amounts attributable to accrued interest, which represented less than 1% of our total loan portfolio as of December 31, 2016. See “Selected Statistical Information—Loan Portfolio” and the footnotes to the tables included therein.

### **Terms Relating to our Capital Adequacy**

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

- “*Total Capital*” or “*Total Net Capital*” refers to total net capital (*capital neto*), as such term is determined based on the Mexican Banking Law and the Rules for Capitalization referred to below.
- “*Tier 1 Capital*” refers to the basic capital (*parte básica*) of the Total Net Capital, as such term is determined based on the Rules for Capitalization.
- “*Tier 2 Capital*” refers to the *parte complementaria* (additional portion) of the Total Net Capital (*capital complementario*), as such term is determined based on the Rules for Capitalization.
- “*Capital Ratios*” refers to each of the ratios of (i)(a) the Total Net Capital (*capital neto*), (b) Capital Fundamental or (c) Tier 1 Capital to (ii) risk-weighted assets calculated in accordance with the methodology established from time to time by the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*, or the SHCP) or the CNBV, as the case may be, pursuant to the Rules for Capitalization and the Mexican Capitalization Requirements.
- “*General Rules Applicable to Mexican Banks*” means the General Rules Applicable to Mexican Banks (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*) published by the CNBV in the Federal Official Gazette on December 2, 2005, as such regulations have been amended and may be further amended from time to time.
- “*Rules for Capitalization*” means as of August 29, 2017, the provisions regulating the capitalization of banks included in the General Rules Applicable to Mexican Banks issued by the CNBV, as such regulations may be amended or superseded.

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

## **Other Definitions**

The following additional definitions are used in this offering memorandum:

- “Mexican Stock Exchange” means the Bolsa Mexicana de Valores, S.A.B. de C.V.
- “*Repurchase Agreement*” means a Mexican law governed repurchase and resale agreement (*reporto*) pursuant to which a party agrees to a temporary purchase or sale of securities in exchange for (1) a specified premium to be paid or received, and (2) the obligation to resell or repurchase the underlying security. Repurchase agreements may or may not be secured.
- “*Sofom*” means multi-purpose financial entities, or *sociedades financieras de objeto múltiple*.

## **Rounding Adjustments**

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

## **Market Share and Ranking Information**

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



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## OFFERING MEMORANDUM SUMMARY

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

### **The Bank**

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

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

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

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

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

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

We operate through two main units:

- *Wholesale Banking*: serves medium-sized enterprises and government entities; as well as major corporations and institutional customers. Through this business unit we provide companies with bridge loans for the construction industry and credit for the distribution and purchase of vehicles. In addition, this business unit provides banking services for Mexican federal agencies, states and municipalities. It also provides lending, mergers and acquisitions, capital markets (equity and fixed income), cash management and e-banking and money-market instruments to Mexico's major corporates and institutional customers.
- *Business Development (Retail Banking)*: We refer to this segment as Business Development (Retail Banking) since the majority of our business for this segment is in the retail sector with customers utilizing a single product such as a deposit account or mortgage and provides us with the best

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

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

	As of September 30, 2017 <sup>(1)</sup>	
	Market Share	Rank
Total assets .....	22.8%	1
Total deposits .....	23.3%	1
Total loans .....	23.3%	1
Number of branches .....	14.6%	1
Wholesale loans .....	21.0%	1
Corporate loans .....	21.0%	1
Consumer loans .....	27.8%	1
Mortgage loans .....	27.1%	1

(1) Source: CNBV.

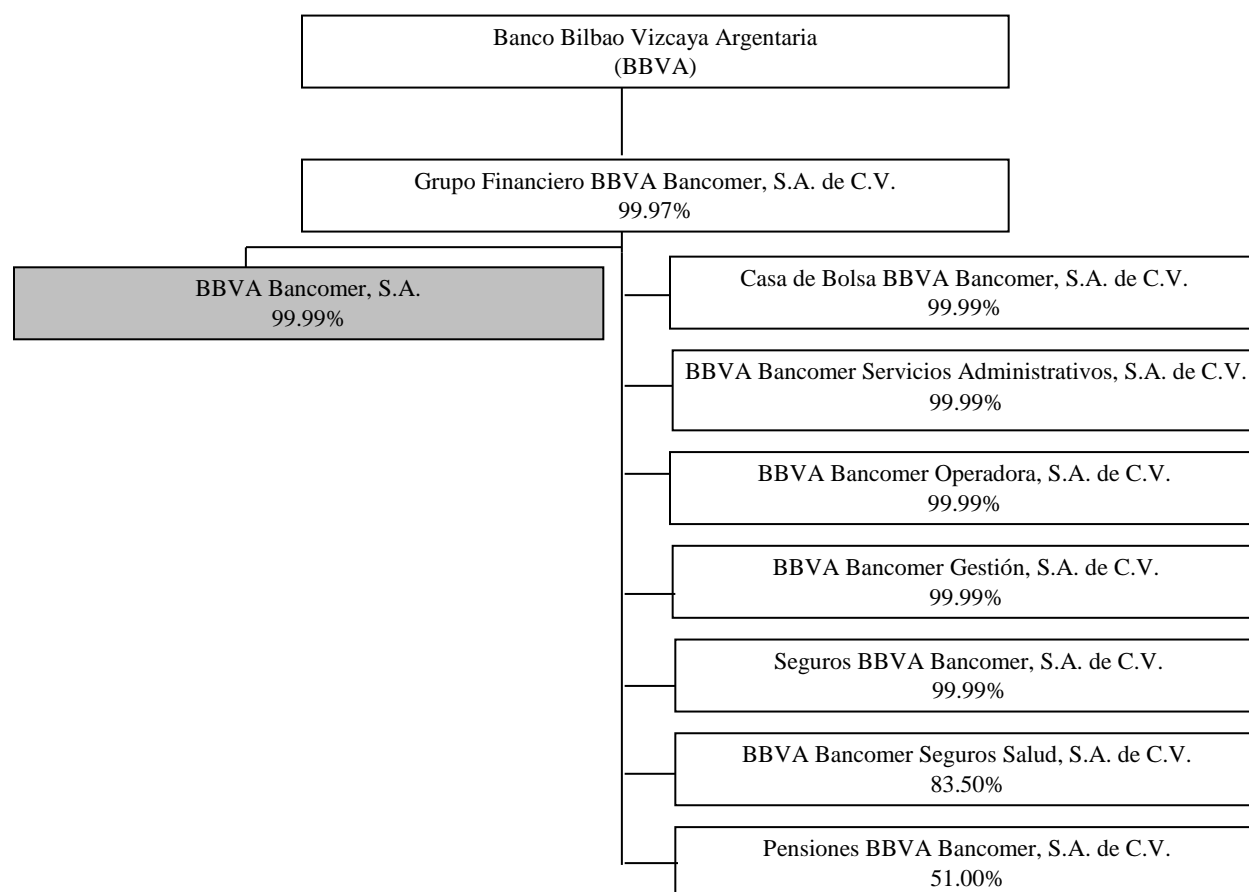
## Organizational Structure

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

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

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

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



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

## Our History

### *General*

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

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

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

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

### ***BBVA's Investment in GFB***

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

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

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

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

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

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

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

### **Strategy**

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

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

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

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

### ***Enhance customer experience***

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

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

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

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

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

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

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

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

### ***Optimize profitability through capital allocation***

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

diversification in terms of geography, customers and products and which has contributed to our steady growth over time.

### ***Optimize efficiencies***

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

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

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

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

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

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

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

### ***Maintain a skilled and experienced workforce***

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

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

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

### ***Focus on social responsibilities***

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

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

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

### ***Continually seeking to improve risk management policies***

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

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

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



## Market Information

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

	BBVA Bancomer	Banamex	Banorte	Santander	HSBC	Scotiabank
	(millions of Ps., except for percentage)					
Total loans .....	1,071,033	627,271	602,929	613,263	287,744	296,797
Total deposits .....	1,154,584	685,279	637,124	699,279	334,231	315,550
Market share (total loans) .....	23.3%	13.7%	13.2%	13.4%	6.3%	6.5%
Total assets .....	1,962,725	1,144,714	1,043,406	1,212,150	633,723	437,403
Total loans/total assets .....	54.6%	54.8%	57.8%	50.6%	45.4%	67.9%
Total loans/total deposits <sup>(1) (2)</sup> .....	92.8%	91.5%	94.6%	87.7%	86.1%	94.1%
Equity .....	174,841	161,762	89,887	117,245	56,141	45,370
Net result <sup>(3)</sup> .....	33,311	10,571	15,044	15,750	1,174	4,373
Return on assets (ROA) .....	1.9%	1.3%	1.7%	1.4%	0.3%	1.3%
Return on equity (ROE) .....	22.1%	9.2%	19.0%	15.7%	3.8%	12.0%
Cost of funding <sup>(4)</sup> .....	1.98%	1.96%	2.85%	3.91%	2.94%	4.24%
Non-performing loan ratio <sup>(5)</sup> .....	2.2%	0.8%	1.8%	1.5%	2.9%	2.1%
LTM efficiency ratio <sup>(6)</sup> .....	41.9%	69.9%	44.3%	51.4%	64.2%	56.8%
Branches .....	1,845	1,496	1,144	1,224	973	551

(1) Total deposits (*Capitación Tradicional*) is defined by the CNBV as the sum of time deposits, demand deposits, credit notes issued and resources from dormant or inactive accounts.

(2) Deposits include demand deposits and term deposits (“*depósitos de exigibilidad inmediata*” and “*depósitos a plazo*,” respectively, from its original Spanish source).

(3) Audited financial statements as publically filed, as of December 31, 2016.

(4) Calculated as the weighted average cost of time and demand deposits, as reported by *Banco de México*.

(5) Refers to “delinquency index” as defined by the regulator (“*IMOR ajustado*” from its original Spanish source).

(6) Calculated as the sum of 2016 figures plus nine months accumulated as of September 30, 2017 minus nine months accumulated figures as of September 30, 2016.

## THE OFFERING

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

<b>Issuer</b> .....	BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, acting through its Texas Agency.
<b>Notes</b> .....	<b>U.S.\$1,000,000,000 5.125% SUBORDINATED PREFERRED CAPITAL NOTES DUE JANUARY 18, 2033, WHICH WE REFER TO AS THE “NOTES.”</b>
<b>Principal Amount</b> .....	U.S. \$1,000,000,000.
<b>Interest and Principal</b> .....	<p>Subject to deferral during any Suspension Period (as defined below), an earlier redemption date and to one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from (and including) January 17, 2018 (the “Issue Date”), to (but excluding) January 18, 2028 (“Optional Call Date”), at a fixed rate per annum equal to 5.125%, payable semi-annually in arrears on July 17 and January 17 of each year (each an “Interest Payment Date”), commencing on July 17, 2018.</p> <p>Subject to deferral during any Suspension Period, an earlier redemption date and to one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount from time to time outstanding from (and including) the Optional Call Date to (but excluding) January 18, 2033 (the “Maturity Date”), at a fixed rate per annum equal to the sum of (a) the then-prevailing Treasury Yield (as defined below) and (b) 265 basis points payable semi-annually in arrears on each Interest Payment Date, commencing on July 17, 2028.</p> <p>Upon the occurrence of a Write-Down, any holder of Notes will be deemed to have irrevocably waived its right to claim or receive the Written-Down Principal (as defined below) of the Notes or any interest with respect thereto (or Additional Amounts), including any and all accrued and unpaid interest.</p> <p>If any Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay.</p> <p>For purposes hereof, “Business Day” shall mean any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York, New York or Mexico City, Mexico are authorized or required by law or executive order to remain closed.</p>
<b>Issue Price</b> .....	99.505% of the principal amount, plus accrued and unpaid interest, if any, from and including January 17, 2018.
<b>Issue Date</b> .....	January 17, 2018.
<b>Maturity Date</b> .....	January 18, 2033.
<b>Payment Upon Maturity</b> .....	Subject to the occurrence of one or more Write-Downs, unless the Notes have been redeemed prior thereto or a Suspension Period (as described below) is in effect on the Maturity Date, the Notes will be repaid on the

Maturity Date at their then Current Principal Amount outstanding, together with any accrued and unpaid interest thereon to (but excluding) the Maturity Date and any other amounts, including Additional Amounts (as defined below), due thereunder, in each case as provided in this offering memorandum.

**WE HAVE THE RIGHT TO AND WILL DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS) THE PAYMENT OF INTEREST DUE ON THE NOTES AND DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS) THE PAYMENT OF PRINCIPAL THEREOF FOR THE DURATION OF ANY SUSPENSION PERIOD, AS DESCRIBED BELOW. IN THE EVENT OF A DEFERRAL OF PAYMENT OF INTEREST ON THE NOTES, OR A DEFERRAL PAYMENT OF PRINCIPAL THEREOF, SUBJECT TO THE OCCURRENCE OF ONE OR MORE WRITE-DOWNS, SUCH INTEREST WILL BE PAYABLE (WITHOUT ANY INTEREST ON SUCH PREVIOUSLY ACCRUED INTEREST) ON THE DATE THAT IS TWELVE BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS. IF A SUSPENSION PERIOD EXISTS ON THE MATURITY DATE, OR ANY REDEMPTION DATE, PAYMENT OF PRINCIPAL WILL BE DEFERRED WITH INTEREST UNTIL THE DATE THAT IS TWELVE BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS. IF A WRITE-DOWN OCCURS, THE WRITTEN-DOWN PRINCIPAL, AND ANY INTEREST ACCRUED AND NOT YET PAID WITH RESPECT THERETO DURING ANY SUSPENSION PERIOD, WILL BE CANCELLED.**

<b>Current Principal Amount .....</b>	“Current Principal Amount” means in respect of each Note, at any time, the outstanding principal amount of such Note, being the Original Principal Amount of such Note as such amount may be reduced, on one or more occasions, as a result of a Write-Down or a redemption of the Notes, as the case may be.
<b>Original Principal Amount .....</b>	“Original Principal Amount” means, in respect of each Note, the amount of the denomination of such Note on the Issue Date.
<b>Indenture .....</b>	The Notes will be issued under the Indenture, dated as of January 17, 2018 among us and the Trustee, and countersigned by the CNBV.
<b>Unsecured; Not Guaranteed .....</b>	<b>THE NOTES WILL BE UNSECURED AND WILL NOT BE INSURED OR GUARANTEED BY ANY OF OUR SUBSIDIARIES OR AFFILIATES, INCLUDING OUR PARENT COMPANY, OR BY THE IPAB OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO ANY OF OUR DEBT SECURITIES, SHARES OR ANY OF OUR EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF OUR SUBSIDIARIES OR AFFILIATES.</b>
<b>Trigger Event .....</b>	<b>A TRIGGER EVENT WILL BE DEEMED TO HAVE OCCURRED IF: (I) THE CNBV PUBLISHES A DETERMINATION, IN ITS OFFICIAL PUBLICATION OF CAPITALIZATION LEVELS FOR MEXICAN BANKS, THAT OUR FUNDAMENTAL CAPITAL RATIO (“FUNDAMENTAL CAPITAL RATIO”), AS CALCULATED PURSUANT TO THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS, IS EQUAL TO OR</b>

BELOW 4.5% (FOUR POINT FIVE PERCENT); (II) BOTH (A) THE CNBV HAS NOTIFIED US THAT IT HAS MADE A DETERMINATION, PURSUANT TO ARTICLE 29 BIS OF THE MEXICAN BANKING LAW, THAT A CAUSE FOR REVOCATION OF OUR LICENSE HAS OCCURRED RESULTING FROM (X) OUR ASSETS BEING INSUFFICIENT TO SATISFY OUR LIABILITIES, (Y) OUR NON COMPLIANCE WITH CORRECTIVE MEASURES IMPOSED BY THE CNBV PURSUANT TO THE MEXICAN BANKING LAW, OR (Z) OUR NON COMPLIANCE WITH THE CAPITALIZATION REQUIREMENTS SET FORTH IN THE MEXICAN CAPITALIZATION REQUIREMENTS AND (B) WE HAVE NOT CURED SUCH CAUSE FOR REVOCATION, BY (A) COMPLYING WITH SUCH CORRECTIVE MEASURES, OR (B)(1) SUBMITTING A CAPITAL RESTORATION PLAN TO, AND RECEIVING APPROVAL OF SUCH PLAN BY, THE CNBV, (2) NOT BEING CLASSIFIED IN CLASS III, IV, OR V, AND (3) TRANSFERRING AT LEAST 75% (SEVENTY FIVE PERCENT) OF OUR SHARES TO AN IRREVOCABLE TRUST OR (C) REMEDYING ANY CAPITAL DEFICIENCY, IN EACH CASE, ON OR BEFORE THE THIRD OR SEVENTH BUSINESS DAY IN MEXICO, AS APPLICABLE, FOLLOWING THE DATE ON WHICH THE CNBV NOTIFIES US OF SUCH DETERMINATION; OR (III) THE BANKING STABILITY COMMITTEE, WHICH IS A COMMITTEE FORMED BY THE CNBV, THE MINISTRY OF FINANCE AND PUBLIC CREDIT (*SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO*), *BANCO DE MÉXICO* AND THE *INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO* OF MEXICO, DETERMINES PURSUANT TO ARTICLE 29 BIS 6 OF THE MEXICAN BANKING LAW THAT, UNDER ARTICLE 148, SECTION II, PARAGRAPHS (A) AND (B) OF THE MEXICAN BANKING LAW, FINANCIAL ASSISTANCE IS REQUIRED BY US TO AVOID REVOCATION OF OUR LICENSE BECAUSE OUR ASSETS ARE INSUFFICIENT TO SATISFY OUR LIABILITIES, OR FOR ITS FAILURE TO COMPLY WITH CORRECTIVE MEASURES, TO COMPLY WITH CAPITALIZATION REQUIREMENTS OR TO SATISFY CERTAIN LIABILITIES WHEN DUE, AS A MEANS TO MAINTAIN THE SOLVENCY OF THE MEXICAN FINANCIAL SYSTEM OR TO AVOID RISKS AFFECTING THE MEXICAN PAYMENTS SYSTEM AND SUCH DETERMINATION IS EITHER MADE PUBLIC OR NOTIFIED TO US (FOR THE AVOIDANCE OF DOUBT, PURSUANT TO ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS, A TRIGGER EVENT SHALL OCCUR IF FINANCIAL ASSISTANCE OR OTHER LOANS SHALL BE GRANTED TO US PURSUANT TO ARTICLE 148, SECTION II, PARAGRAPHS (A) AND (B) OF THE MEXICAN BANKING LAW).

Write-Down.....

IF A TRIGGER EVENT OCCURS, THE FOLLOWING WRITE-DOWNS (EACH, A “WRITE-DOWN”) SHALL BE DEEMED TO HAVE OCCURRED ON THE WRITE-DOWN DATE, AUTOMATICALLY AND WITHOUT ANY ADDITIONAL ACTION BY US, THE TRUSTEE OR THE HOLDERS OF THE NOTES:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Withholding Tax Redemption .....

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

REPLACE THE NOTES SUCH THAT WE REMAIN IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) WE HAVE OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, OR A SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED, THEN WE SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR WITHHOLDING TAX REDEMPTION.

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

**Special Event Redemption .....**

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



SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED, THEN WE SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR SPECIAL EVENT REDEMPTION.

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

Suspension Period.....

A SUSPENSION PERIOD WILL COMMENCE AND WE WILL DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS) THE PAYMENT OF INTEREST AND PRINCIPAL DUE THEREON UPON THE OCCURRENCE OF ONE OF THE FOLLOWING EVENTS:

(1) ANY OF THE FOLLOWING CAPITAL RATIOS APPLICABLE TO US DECLINES BELOW THE MINIMUM PERCENTAGE REQUIRED, FROM TIME TO TIME, BY THE MEXICAN CAPITALIZATION REQUIREMENTS WHICH AS OF THE DATE OF THE OFFERING MEMORANDUM ARE: (A) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (B) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), OR (C) 7% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS, IN EACH CASE, ANY APPLICABLE CAPITAL SUPPLEMENT (CURRENTLY, A SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT FOR GRADE IV BANKS OF 1.50% AND ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT APPLICABLE TO US, BOTH TO BE CREATED BY US IN FOUR ANNUAL STEPS COMMENCING DECEMBER 31, 2016) (A "CAPITAL RATIOS EVENT"); OR

(2) THE CNBV INSTITUTES ANY PREVENTIVE OR CORRECTIVE MEASURE AGAINST US PURSUANT TO EITHER ARTICLE 121 OR ARTICLE 122 OF THE MEXICAN BANKING LAW OR ANY SUCCESSOR PROVISIONS (INCLUDING THE CORRESPONDING RULES SET FORTH UNDER THE GENERAL RULES APPLICABLE TO MEXICAN BANKS) THAT REQUIRES DEFERRING OR CANCELING PAYMENTS OF INTEREST AND PRINCIPAL OTHERWISE DUE ON THE NOTES IF WE ARE CLASSIFIED AS CLASS III (OR EQUIVALENT CLASSIFICATION UNDER ANY SUCCESSOR PROVISIONS) OR BELOW UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS (A "MEXICAN REGULATORY EVENT").

NEITHER THE OCCURRENCE NOR THE CONTINUANCE OF A SUSPENSION PERIOD SHALL GIVE RISE TO AN EVENT OF DEFAULT UNDER THE INDENTURE OR THE NOTES.

SUBJECT TO THE OCCURRENCE OF ONE OR MORE WRITE-DOWNS, A SUSPENSION PERIOD SHALL TERMINATE AND THE PAYMENT OF INTEREST DUE ON THE NOTES AND

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

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

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

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

INTEREST PAYMENT DATE(S) ON WHICH SUCH PAYMENTS WOULD HAVE BEEN PAYABLE, AND THESE INTEREST PAYMENTS WILL BE PAYABLE (WITHOUT ANY INTEREST ON SUCH PREVIOUSLY ACCRUED INTEREST) ON THE DATE THAT IS 12 BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS, EXCEPT TO THE EXTENT SUCH PRINCIPAL IS CANCELLED PURSUANT TO ONE OR MORE WRITE-DOWNS. IF A SUSPENSION PERIOD EXISTS ON THE MATURITY DATE OR ANY REDEMPTION DATE, OR THE MATURITY DATE OR SUCH REDEMPTION DATE IS ON A DATE THAT IS LESS THAN TWELVE BUSINESS DAYS AFTER A SUSPENSION PERIOD ENDS, PAYMENT OF PRINCIPAL WILL BE DEFERRED WITH INTEREST UNTIL THE DATE THAT IS 12 BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS, EXCEPT TO THE EXTENT SUCH PRINCIPAL IS CANCELLED PURSUANT TO ONE OR MORE WRITE-DOWNS. WHEN A SUSPENSION PERIOD IS NO LONGER IN EFFECT, WE WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. IF A WRITE-DOWN OCCURS, THE WRITTEN-DOWN PRINCIPAL, AND ANY INTEREST ACCRUED WITH RESPECT THERETO DURING ANY SUSPENSION PERIOD, WILL BE CANCELLED.

**Events of Default; No Acceleration  
Except in Case of Certain Events  
Involving, Liquidation or  
Dissolution .....**

An “Event of Default” is defined in the Indenture as (i) a default in the payment of interest or Additional Amounts, if applicable, due and payable in respect of any of the Notes, unless such payment of interest or Additional Amounts is deferred as a result of a Suspension Period, and such default continues for a period of 30 calendar days; (ii) a default in the timely payment of the principal of the Notes, when the same shall become due and payable, other than during a Suspension Period; (iii) a payment by us, during a Suspension Period, of dividends or other distributions in respect of our capital stock; or (iv) certain events involving our liquidation (including *liquidación or resolución*), or dissolution.

**For the avoidance of doubt, the occurrence of one or more Write-Downs shall not constitute an Event of Default.** Upon the occurrence of an Event of Default, holders of the Notes may have limited enforcement remedies, as described in this offering memorandum. The payment of the principal, interest and other amounts due on or with respect to the Notes may be accelerated only upon the occurrence of an Event of Default described in (iv) above (a “Liquidation Event of Default”). There is no right of acceleration of the payment of principal of the Notes upon the occurrence of any of the other Events of Default noted above, including a default in the payment of principal or interest.

In addition, holders of the Notes may have no enforcement remedies for an Event of Default upon the occurrence of a Trigger Event and related Write-Down.

**Voting Rights ..... None**

<b>Use of Proceeds .....</b>	We intend to use the net proceeds of the issuance of the Notes to strengthen our regulatory capital ratios and for general corporate purposes.
<b>Payment of Additional Amounts .....</b>	<p>All payments made by or on our behalf in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the United States, or any other jurisdiction through which payments are made (each a “Relevant Jurisdiction”) or any authority or agency therein or thereof having power to tax (collectively, “Relevant Tax”) unless the withholding or deduction of such Relevant Tax is required by law. In that event, subject to certain exceptions and limitations as described in “Description of the Notes—Payment of Additional Amounts,” we will pay as further distributions of interest and principal such additional amounts (“Additional Amounts”) as may be necessary so that the net amounts received by the holders or beneficial owners of the Notes or their nominees after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, to the extent described in this offering memorandum in “Description of the Notes—Payment of Additional Amounts.”</p> <p>We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify the holders for any such taxes paid by the holders.</p>
<b>Listing .....</b>	Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE.
<b>Governing Law .....</b>	<p><b>THE INDENTURE AND THE NOTES WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. WHETHER A TRIGGER EVENT (LEADING TO A WRITE-DOWN) OR A CAPITAL RATIOS EVENT OR A MEXICAN REGULATORY EVENT (LEADING TO A SUSPENSION PERIOD) HAS OCCURRED IS BASED UPON A DETERMINATION BY THE APPLICABLE MEXICAN REGULATOR, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). WHETHER A WITHHOLDING TAX EVENT OR A TAX EVENT HAS OCCURRED IS BASED UPON A DETERMINATION IN ACCORDANCE WITH MEXICAN LAW (OR OTHER APPLICABLE LAW IN THE CASE OF A WITHHOLDING TAX EVENT INVOLVING A JURISDICTION OTHER THAN MEXICO), AS AMENDED FROM TIME TO TIME, EVIDENCED BY AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM AND, IF REQUIRED, A CERTIFICATION BY US. WHETHER A CAPITAL EVENT HAS OCCURRED IS DETERMINED BY US, AS SET FORTH IN THIS OFFERING MEMORANDUM, IN ACCORDANCE WITH MEXICAN LAW (AS AMENDED FROM TIME TO TIME). THE RANKING AND SUBORDINATION OF THE NOTES, WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, MEXICAN LAW (AS AMENDED FROM TIME TO TIME). WE WILL WAIVE ANY RIGHTS WE MAY HAVE UNDER THE LAW OF THE STATE OF NEW YORK NOT TO GIVE EFFECT TO ANY SUCH</b></p>

**DETERMINATION TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW. ANY PROCEEDINGS IN RESPECT OF OUR *LIQUIDACIÓN OR RESOLUCIÓN* WILL BE CONDUCTED IN ACCORDANCE WITH THE MEXICAN BANKING LAW, AND ANY MERGER OR CONSOLIDATION SHALL BE SUBJECT TO APPLICABLE APPROVALS UNDER THE MEXICAN BANKING LAW AND ANY OTHER APPLICABLE MEXICAN LAWS, AS AMENDED FROM TIME TO TIME.**

**Form and Denomination .....** The Notes have been issued in minimum denominations of U.S. \$200,000 and integral multiples of U.S. \$1,000 in excess thereof and the Notes will initially be represented by global notes.

**Securities Identification Numbers....** 144A ISIN: US05533UAF57  
144A CUSIP: 05533U AF5  
Reg S ISIN: USP16259AM84  
Reg S CUSIP: P16259 AM8

## RISK FACTORS

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

### Risks Relating to our Business

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

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

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

- increased regulation of the financial industry, which may increase our costs of capital, require us to increase our capital reserves, affect the pricing of our products and services and limit our ability to pursue business opportunities or to grow our loan portfolio;
- the inability to estimate losses inherent in credit exposure or to make difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our customers to pay their leases and loans;
- inability of corporate and individual borrowers to timely or fully comply with their existing obligations;
- economic downturn or insufficient recovery of the economy generally and the financial markets, which may adversely impact our business, financial condition and results of operations;
- the derivatives markets and similar operations, including volatility affecting those operations, could adversely impact global financial systems and the solvency of its participants;
- the value of the portfolio of investment securities that we hold may be adversely affected; and
- our ability to raise capital and liquidity on favorable terms, or at all, whether due to increasing our cost of capital or forcing us to increase our rates charged to customers, may have a material

adverse effect on us, as well as by extension on our margins, financial condition and results of operations.

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

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

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

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

In addition, legal and regulatory reforms in the Mexican banking industry have also increased competition among banks and among other financial institutions. We believe that the Mexican Government's policies of adopting market-oriented reforms in the financial industry have caused greater competition. As financial sector reform continues, foreign financial institutions, some with greater resources than us, have entered and may continue to enter the Mexican market either by themselves or in partnership with existing Mexican financial institutions and compete with us. There can be no assurance that we will be able to compete successfully with such domestic or foreign financial institutions or that increased competition will not have a substantial adverse effect on us.

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

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

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

- in 2009, for credit card loans;
- in 2011, for consumer, mortgage and government loans;

- in 2013, for commercial loans;
- in 2014, for loans to financial institutions;
- In 2015, for revolving consumer loan portfolio.

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

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

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

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

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

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

**The future of government sector lending in Mexico is uncertain.**

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



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

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

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

- order amendments to our standard form commercial banking documentation (such as loan and account agreements), if CONDUSEF deems that provisions included in such agreements are detrimental to users;
- order the attachment of our assets for the benefit of our customers; and
- initiate class actions for the benefit of groups of customers.

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

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

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

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

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

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

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

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

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

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

We are subject to comprehensive regulation and supervision by Mexican regulatory authorities and in respect of our Texas Agency, certain U.S. regulatory authorities. The Mexican regulatory authorities include *Banco de México*, the CNBV, the IPAB and the SHCP. See “The Mexican Financial Industry.” These regulatory authorities have broad powers to adopt regulations and other requirements that affect all aspects of our capitalization, organization and operations, including changes to capital adequacy and reserve requirements, compliance with rules relating to secrecy, the imposition of anti-money laundering measures and the authority to regulate the terms of products, including the interest rates we charge and the fees we collect in exchange for services. Moreover, Mexican and U.S. financial regulatory authorities possess significant powers to enforce applicable regulatory requirements, including the imposition of fines, requiring that new capital be contributed, inhibiting us from paying dividends to shareholders or paying bonuses to employees, or the revocation of licenses to operate our business (including our banking or broker-dealer licenses).

Furthermore, in the event we encounter significant financial problems or become insolvent or in danger of becoming insolvent, Mexican banking authorities would have the power to take over our management and operations. As noted above, our business and operations are subject to increasingly significant rules and regulations that are required to conduct banking and financial services business. These apply to our business operations, affect our financial returns, include reserve and reporting requirements, and set forth conduct of business regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Liquidity and funding risks may materially and adversely affect us.**

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

We anticipate that our customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as a source of funds. The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the amounts we expect or are not renewed.

We cannot assure you that liquidity and funding problems will not affect the Mexican banking system in the future or that liquidity constraints will not affect us in the future. While we expect to be able to pay or refinance our projected liabilities, we cannot assure you that we will be able to repay our liabilities or refinance our liabilities on favorable terms.

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

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

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

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

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

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

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

**If we are unable to effectively control the level of non-performing or poor credit quality loans in our current loan portfolio and in new loans we extend in the future, or if our loan loss reserves are insufficient to cover actual loan losses, this may have a material adverse effect on us.**

Non-performing or low credit quality loans can negatively impact our results of operations. We cannot assure you that we will be able to effectively control and reduce the number of impaired non-performing loans in our loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our loan portfolio or factors beyond our control, such as the impact of macroeconomic trends, internal and external political events affecting Mexico or events affecting certain industries. In addition, while we believe our current loan loss reserve is adequate to cover all loan losses in our loan portfolio, our current loan loss reserves may

prove to be inadequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our loan portfolio. As a result, if our credit quality deteriorates we may be required to increase our loan loss reserves, which may adversely affect us. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our loan loss reserves are or will be sufficient to cover actual losses. If we are unable to control or reduce the level of our non-performing or poor credit quality loans, we could be materially adversely affected.

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

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

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

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

We routinely transact with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other financial institutions. Many of the routine transactions we enter into expose us to significant credit risk in the event of default by one of our significant counterparties. For example, the financial health of a number of European governments was shaken by the European sovereign debt crisis in 2011, contributing to volatility of financial and credit markets. Recently, economic conditions in the Eurozone economies have improved, reducing the default risks of some nations and of the financial system as a whole. In 2016, however, Brexit caused a sharp spike in volatility as it opened up the possibility of major nations withdrawing from the European Union. In 2017, recent electoral results in France and more favorable positive economic conditions in Europe have had a calming effect on the credit and financial markets. These liquidity concerns have had, and may continue to have, an adverse effect on interbank financial transactions in general and on us in particular, given that our ultimate parent, BBVA, is incorporated in Spain. Should any of these nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilized. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material and adverse effect on us.

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

IPAB manages the bank savings protection system and the financial support granted to banks in Mexico. Under Mexican law, banks are required to make monthly contributions to IPAB to support its operations that are equal to 1/12 of 0.4% (the annual rate) multiplied by the average of certain liabilities minus the average of certain assets. Mexican authorities impose regular assessments on banking institutions covered by IPAB for funding. We contributed to IPAB Ps. 3,389 million in 2014, Ps. 4,049 million for the year ended December 31, 2015, Ps. 4,585 million in 2016, and Ps. 3,623 million in the first nine months of 2017. In the event that IPAB's reserves are insufficient to manage the Mexican bank savings protection system and provide the necessary financial support required by troubled banking institutions, IPAB maintains the right to require extraordinary contributions of participants in the system that we may be required to make. Such extraordinary contributions would increase our expenses and could have a material adverse effect on us.

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

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

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

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

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

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

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

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

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

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

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

One of our main strategies is to focus on the retail banking sector and to grow our retail loan portfolio rapidly. Demand for the loan products we offer depends on economic conditions, including GDP growth rates, inflation, unemployment, the cost of energy and other necessities, the ability of consumer credit, interest rates, consumer confidence, retail trends and foreign currency exchange rates. These economic conditions are beyond our control. If economic conditions worsen, demand for our consumer goods will likely decline. A decline in demand for consumer goods would also reduce demand for our durable goods loans. A decline in demand for consumer goods would also likely reduce demand for our payroll loans, to the extent those loans are used to finance consumer purchases. As a result, our loan portfolio may become increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and, result in increased loan losses. In addition, Mexico was recently affected by a series of significant earthquakes that affected our customers. Due to the recent timing, we are not yet in a position to fully assess the financial effect of these natural disasters on our financial condition or results of operations, and to date we have not provided for any losses in respect of those events. Furthermore, because the penetration of bank lending products in the Mexican retail sector historically has been low, there is little basis on which to evaluate how the retail sector will perform in the event of an economic crisis, such as a recession or a significant currency devaluation. Consequently, our historical loan loss experience may not be indicative of the performance of our loan portfolio in the future.

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

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

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

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

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

Mexican law applicable to publicly traded companies and financial groups and institutions, as well as our bylaws, provide for several procedures designed to ensure that the transactions entered into with or among companies in our financial group are carried out on an arm's-length basis, including the requirement that our Board of Directors approve such transactions and that transactions with affiliates do not exceed certain thresholds.

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



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

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

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

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

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

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

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

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

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

For the operation of the SNA, the Mexican Congress approved the General Law on the National Anticorruption System (*Ley General del Sistema Nacional Anticorrupción*), the Federal Anticorruption Law on Public Contracts (*Ley Federal Anticorrupción en Contrataciones Públicas*), the General Law on Administrative Accountability (*Ley General de Responsabilidades Administrativas*) and the Organic Law of the Federal Tribunal of the Administrative Justice (*Ley Orgánica del Tribunal Federal de Justicia Administrativa*). In addition, it approved

the Law on Auditing and Accountability of the Federation (*Ley de Fiscalización y Rendición de Cuentas de la Federación*), and amendments on internal controls of the federal executive branch to the Organic Law of the Public Administration (*Ley Orgánica de la Administración Pública Federal*), to the Fiscal Coordination Law (*Ley de Coordinación Fiscal*) and to the General Law for Governmental Accounting (*Ley General de Contabilidad Gubernamental*).

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

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

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

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

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

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

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

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

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

Our ability to remain competitive will depend in part on our ability to upgrade our information technology on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base while still ensuring the security of our information technology infrastructure. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could materially adversely affect us.

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

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

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

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

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

To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us, including the revocation of our license. In addition, our business and reputation could suffer if our infrastructure is used for money laundering or illegal or improper purposes and some of our operations could be suspended by regulatory authorities. Any of these situations could have a materially adverse effect on our business, financial position or results of operations.

Further, if we are associated with, or even accused of being associated with, or become a party to, money laundering, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal

enforcement (including being added to any “blacklists” that would prohibit certain parties from engaging in transactions with us), any one of which could have a material adverse effect on us.

## **Risks Relating to Mexico and Other Markets**

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

We are a Mexican bank and most of our operations and assets are located in Mexico. As a result, our business, financial condition and results of operations may be affected by the general condition of the Mexican economy, the devaluation of the peso as compared to the U.S. dollar, price instability, inflation, changes in oil prices, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico over which we have no control.

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

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

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

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

We cannot predict the impact that political, economic and social conditions will have on the Mexican economy. Furthermore, we cannot provide any assurances that political, economic or social developments in Mexico,

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

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

Most of our operations are dependent upon the performance of the Mexican economy, mainly on matters such as peso-U.S. dollar parity, price volatility and inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deterioration in economic conditions that have had a negative impact on us. We cannot assume that such conditions will not return or that such conditions will not have a material and adverse effect on us.

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

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

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

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

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

In 2016, the peso depreciated by 20.5% against the U.S. dollar and in the first nine months of 2017, the peso appreciated by 8.6% against the U.S. dollar. The Mexican Government has implemented a series of measures to limit the volatility of the peso. However, we cannot assure you that such measures will be applied in the future or will be effective if applied or how such measures will impact the Mexican economy.

Severe devaluation or depreciation of the peso may also result in government intervention, as has occurred in other countries or disruption of international foreign exchange markets. While the Mexican Government does not currently restrict the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer other currencies outside of Mexico, the Mexican Government could enact restrictive exchange control policies in the future. There are no current restrictions to convert pesos into U.S. dollars. The exchange rate is determined

only by supply and demand as a result of a floating regime. Devaluation or depreciation of the peso against the U.S. dollar may also materially adversely affect us.

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

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

Economic conditions in Mexico have become increasingly correlated to economic conditions in the United States as a result of the North American Free Trade Agreement and increased economic activity between the two countries, which was highlighted during the 2008 to 2009 economic crisis affecting the United States. The Mexican economy continues to be influenced by the U.S. economy, and therefore, the deterioration of the United States' economy, the termination of NAFTA, renegotiation of NAFTA or other related events, or delays in the recovery of the U.S. economy may impact the economy of Mexico. In 2009, the GDP of the United States contracted by 3.5% while Mexican GDP fell by 4.7%. This recession caused unemployment to increase from an average of 5.8% in 2008 to an average of 10.3% in 2009 in the United States and from 4.3% in September 2008 to 6.4% in September 2009 in Mexico. This sudden change in economic conditions reduced credit demand, caused a 28.9% depreciation of the peso from September 2008 to March 2009 and triggered a monetary policy response by *Banco de México* that resulted in low interest rates, which decreased to 4.5% in December 2009 from its December 2008 level of 8.3%. These changes in macroeconomic conditions in Mexico did not have a material impact on our business or operations. In addition, the possibility of normalization of monetary policy in the U.S. has caused an increase in the volatility of the peso/U.S. dollar exchange rate. The relative strength of the U.S. dollar against other currencies, including the peso, could impact manufacturing's contribution to growth, thus affecting economic activity in Mexico.

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

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

During 2011 and 2012, the developments in the global economy, and particularly in Europe, increased the risk premiums in global credit markets, which in turn generated volatility in the Mexican financial markets. Given the transitory nature of such volatility, due to several measures taken by the European authorities, the Mexican economy was not materially affected by it. In 2013, the uncertainties regarding the recovery of the U.S. economy and the changes made to its monetary policy in the short- and medium-term resulted in increased volatility in the debt and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Issuers of securities in Mexico are required to make public disclosures that are different and that may be less substantial than disclosures required in countries with highly developed capital markets. In addition, accounting and other reporting principles and standards for credit and other financial institutions in Mexico and the financial results reported using such principles and standards may differ substantially from those results that would have been obtained using other principles and standards, such as U.S. GAAP. See "Annex A—Significant Differences Between Mexican



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

## **Risks Relating to the Notes**

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

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

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

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

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

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

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

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

below. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of an investment in the Notes.

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

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

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

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

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

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

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

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

Due to such delay, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date after DTC commences such suspension fail to settle through DTC even though such transfers were initiated prior to the Trigger Event that caused the principal amount of the Notes to be reduced to zero. In such circumstances, transferors of such Notes would not receive any consideration through DTC in respect of such intended transfer because DTC will not settle such transfer after commencement of such suspension. Similarly, it is possible that transfers that are initiated prior to such suspension and scheduled to settle on a date before DTC commences such suspension will be settled through DTC even though such transfers were initiated after the Trigger Event that caused

the principal amount of the Notes to be reduced to zero. In such circumstances, transferees of the Notes may be required to pay consideration through DTC even though, upon the occurrence of such Trigger Event, no amounts under the Notes will thereafter become due, and such transferees will have no rights whatsoever under the Indenture or the Notes to take any action or enforce any rights or instruct the Trustee to take any action or enforce any rights whatsoever against us, regardless of whether they have received actual or constructive notice of such fact. The settlement of the Notes following a Trigger Event will be subject to procedures of DTC that are in place at such time.

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

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

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

- all of our senior obligations have been paid in full as described in “Description of the Notes—Subordination”; and
- we are actually declared bankrupt or are dissolved or put into liquidation for purposes of Mexican law. As a result, recoveries on the Notes may be substantially limited.

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

Upon the occurrence and continuation of certain specified changes affecting the tax treatment of the Notes or treatment of the Notes as capital securities under the Rules for Capitalization, which may occur from time to time, as described under “Description of the Notes—Redemption—Withholding Tax Redemption” and “Description of the Notes—Redemption—Special Event Redemption,” we will have the option under the Indenture for the Notes to redeem the Notes, at any time prior to the Maturity Date, in whole (but not in part) subject to any regulatory requirements, which may be amended from time to time.

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

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

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

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

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

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio and expected income;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments, i.e., U.S. dollars, is different from the currency in which such potential investor's financial activities are principally denominated and the possibility that the entire principal amount of the Notes be paid in a different currency and could be lost;
- understand thoroughly the terms of the Notes, such as the provisions governing the Write-Down (including, in particular, the calculation of the fundamental capital ratio, as well as under what circumstances a Trigger Event will occur), and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate possible scenarios for economic, banking industry, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

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

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

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

The rating of the Notes addresses the likelihood of payment of principal at their maturity. The rating also addresses the timely payment of interest on each payment date. The rating of the Notes is not a recommendation to purchase, hold or sell the Notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure you that the rating of the Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. An assigned rating may be raised or lowered depending, among other things, on the

respective rating agency's assessment of our financial strength, as well as its assessment of Mexican sovereign risk generally. In July 2017, S&P revised its outlook of Mexico from "Negative" to "Stable," as well as its ratings of Mexican financial institutions including BBVA Bancomer from "Negative" to "Stable." In August 2017, Fitch Ratings revised its outlook of Mexico and several Mexican financial institutions, including BBVA Bancomer, from "Negative" to "Stable."

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

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

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

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

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

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

We have not and will not register the Notes with the Mexican National Securities Registry maintained by the CNBV and therefore we may not publicly offer the Notes or sell the Notes, nor can they be the subject of brokerage activities in Mexico, except that we may privately offer and place the Notes in Mexico to institutional and qualified investors. Future trading prices of the Notes will depend on many factors including, among other things, prevailing

interest rates, our operating results, and the market for similar securities. The initial purchasers have informed us that they may make a market in the Notes. However, the initial purchasers are not obligated to do so and any such market-making activity may be terminated at any time without notice to you. In addition, such market-making activity will be subject to the limits of the Securities Act. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. See “Plan of Distribution.” In addition, trading or resale of the Notes (or beneficial interests therein) may be negatively affected by other factors described in this offering memorandum arising from this transaction or the market for securities of Mexican issuers generally.

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

We are organized under the laws of Mexico as a multi-purpose bank (*institución de banca múltiple*) with limited liability (*sociedad anónima*). Most of our directors, officers and controlling persons reside outside of the United States. In addition, all or a substantial portion of our assets and their assets are located outside of the United States. As a result, it may be difficult for holders of Notes to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of our Mexican internal counsel, there is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

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

Although our obligations to pay U.S. dollars outside Mexico are valid, under Article 8 of the Mexican Monetary Law (*Ley Monetaria de los Estados Unidos Mexicanos*), if proceedings are brought in Mexico seeking to enforce in Mexico our obligations under the Notes, we would not be required to discharge such obligations in Mexico in a currency other than Mexican currency. Pursuant to such Article 8, an obligation that is payable in Mexico in a currency other than Mexican currency may be satisfied in Mexican currency at the rate of exchange in effect on the date and in the place payment occurs. Such rate currently is determined by *Banco de México* every business banking day in Mexico and published the following business banking day in the Federal Official Gazette. It is unclear, however, whether the applicable rate of exchange applied by the Mexican court to determine the Mexican Judgment Currency is the rate prevailing at the time when the judgment is rendered or when the judgment is paid. Provisions that purport to limit our liability to discharge our obligations as described above, or to give any party an additional course of action seeking indemnity or compensation for possible deficiencies arising or resulting from variations in rates of exchange, may not be enforceable in Mexico.

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

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

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

## **USE OF PROCEEDS**

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

## EXCHANGE RATES AND CURRENCY

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

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

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

(1) Source: *Banco de México*.

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

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

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



## DIVIDENDS

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

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

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

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

## CAPITALIZATION

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

The following table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Use of Proceeds” and our Financial Statements and the notes thereto included elsewhere in this offering memorandum.

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

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

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

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

### Reclassifications

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

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

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

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

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

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

## Audited Financial Information

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

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

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

(1) Translated at the rate of Ps. 20.6194 per U.S. \$1.00, the fixed exchange rate published by *Banco de México* in the Federal Official Gazette on December 31, 2016.

(2) See “Selected Statistical Information-Return on Average total assets and average stockholders’ equity.”

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

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

(5) See “Selected Statistical Information—Grading of Loan Portfolio.”

## Unaudited Financial Information

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

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

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

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

- (1) Translated at the rate of Ps. 18.1590 per U.S. \$1.00, the fixed exchange rate published by *Banco de México* in the official Gazette of the Federation on September 30, 2017.
- (2) Determined on an annualized basis, based on beginning- and end-of-period balances.
- (3) Represents net income divided by average total assets. Average total assets are determined on an annualized basis, based on beginning- and end-of-period balances.
- (4) Efficiency ratio is equal to total non-interest expense as a percentage of the aggregate of net interest income and non-interest income (commission and fees, *plus* trading income *plus* other operating income). For this purpose, net interest income and non-interest income are calculated before provision for loan losses.

## Other Financial Data and Ratios

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

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

Loans graded “C1”, “C2”, “D” and “E” as a percentage of					
total					
loans <sup>(1)</sup> .....	11.05%	8.92%	7.99%	7.23%	7.07%

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



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

The financial information presented in this section should be read in conjunction with our Financial Statements included elsewhere in this offering memorandum. Our Financial Statements have been prepared in accordance with Mexican Banking GAAP, which differs in significant respects from Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS. For a discussion of significant differences between Mexican Banking GAAP and U.S. GAAP and Mexican Banking GAAP and IFRS, see “Annex A—Significant Differences Between Mexican Banking GAAP and U.S. GAAP” and “Annex B—Significant Differences Between Mexican Banking GAAP and IFRS,” respectively. No reconciliation of any of our Financial Statements to U.S. GAAP has been prepared for this offering memorandum. Any such reconciliation could result in material quantitative differences. See “Presentation of Certain Financial and Other Information.”

### Economic Environment

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

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

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

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

### Effect of Tax Legislation

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

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

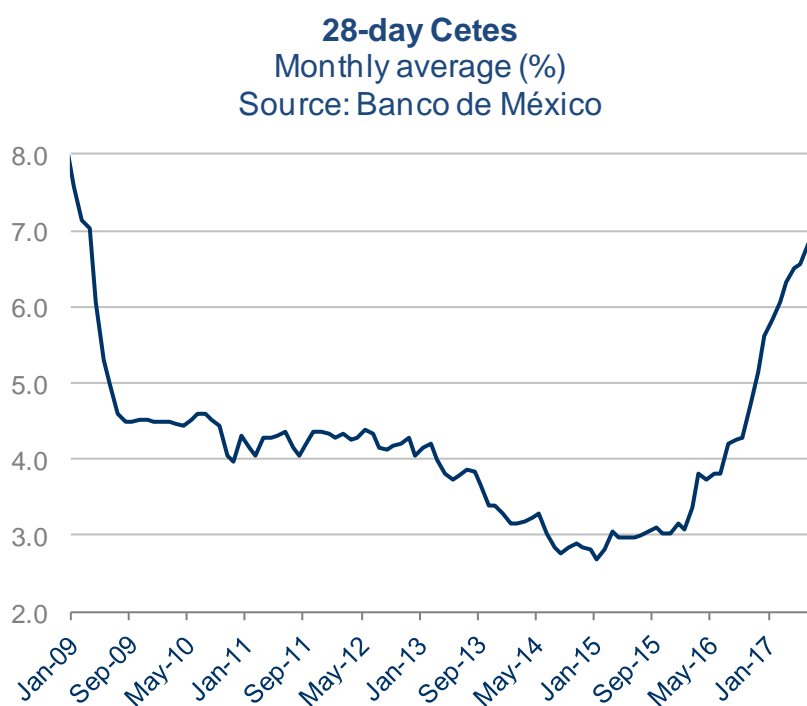
Based on financial projections and pursuant to INIF 8 (*Interpretación a las Normas de Investigación Financiera* 8, issued by the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información*

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

### Effects of Changes in Interest Rates

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

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



- During 2014, the weakness of the Mexican economy prompted Banco de México to reduce the reference rate by 50 basis points to 3.0%, the lowest level since the reference rate was made the main instrument of monetary policy. As a result, short-term rates dropped to 2.7% and 2.8% in the case of 28-day *Cetes* and 91-day *Cetes*, respectively. For 2014, 28-day *Cetes* averaged 3.0% and 91-day *Cetes* averaged 3.1%.
- During 2015, inflation reached an all-time low of 2.3%, reflecting the absence of demand-side pressures and a sharp decline in telecommunication prices. With no pressures in the domestic front, *Banco de México* followed the 25 basis points rate increase of the Federal Reserve in December and raised the reference rate to 3.25%. This was *Banco de México*'s first rate increase since 2007. Short-term rates were steady for 2015, averaging 3.0% and 3.2% for 29-day *Cetes* and 91-day *Cetes*, respectively.

- During 2016, the volatility in the financial markets had a significant effect on the exchange rate and led *Banco de México* to preemptively increase the reference rate. After a 25 basis points rate increase in December 2015, global events including the decrease in oil prices, renewed concerns over the Chinese economy, Brexit and the outcome of the U.S. presidential and congressional elections, provoked sharp depreciation of the exchange rate and raised concerns about a potential passthrough of prices. In response, *Banco de México* raised interest rates by 250 basis points. As a consequence, yields on 28-day and 91-day *Cetes* increased to 5.8% and 6.0%, respectively, leading to averages of 4.17% and 5.11% for the year ended December 31, 2016.
- During 2017, *Banco de México* raised interest rates by 150 basis points to 7.25%. As inflation unexpectedly increased in November, *Banco de México* raised the reference rate an additional 25 basis points after a five-month monetary pause. After interest rates were raised, 28-day *Cetes* and 91-day *Cetes* reached 7.2%, and 7.3%, respectively. In December 2017, 28-day *Cetes* and 91-day *Cetes* averaged 6.69% and 6.88%, respectively.

### Effects of Restructured Credits

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

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

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

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

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

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

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

### Critical Accounting Policies

The following is a description of certain key accounting policies on which our financial condition and results of operations are dependent. These key accounting policies generally involve complex quantitative analyses or are based on subjective judgments or decisions. In the opinion of our management, the most critical accounting policies under Mexican Banking GAAP are those related to the establishment of allowances for loan losses, valuation of securities and

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

### **Allowances for loan losses**

Our allowance for loan losses is maintained in accordance with the rules for the classification and rating of loan portfolios of Mexican banks and the creation of related reserves, or the Loan Classification and Rating Rules, set forth under the General Rules Applicable to Mexican Banks, which require that the commercial, consumer and mortgage loan portfolios must be rated every month.

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

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

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

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

### **Securities and derivatives**

The balance sheet reflects certain assets and liabilities related to our securities and derivatives portfolio at their estimated fair value. Such amounts are based on either listed market prices or estimated values derived by utilizing dealer quotes or internally generated modeling techniques. As market conditions change, such price vendors generally make adjustments to the fair value of securities and derivatives to reflect those conditions. Future sales of these securities will reflect the market conditions at the time and may differ significantly from the estimated fair market value reflected on the balance sheet, considering that these sales may be realized at a different date.

### **Deferred income tax assets**

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

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

### Employee retirement obligations

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

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

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

### Results of Operations

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

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

#### *Net interest income*

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

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

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

#### *Interest income*

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

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

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

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

#### *Interest expense*

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

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

#### *Allowance for loan losses*

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

#### *Non-interest income*

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

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

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

(1) These are services provided through GFBB affiliates.

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

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

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

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

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

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

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

#### *Administrative and promotional expenses*

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

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

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

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

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

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

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

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

#### *Current and deferred income tax*

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

#### *Net result*

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

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

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



### *Net interest income*

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

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

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

### *Interest income*

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

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

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

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

### *Interest expense*

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

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

#### *Allowance for loan losses*

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

#### *Non-interest income*

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

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

(1) These are services provided through GFBB affiliates.

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

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

Total commissions and fees were Ps. 24,200 million for the year ended December 31, 2016, compared to Ps. 21,851 million for the year ended December 31, 2015, an increase of Ps. 2,349 million, or 10.8%, due to an

increase in credit card commissions as a result of a higher transaction volume and increased fees from our management of investment funds due to a higher average volume of assets under management.

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

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

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

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

#### *Administrative and promotional expenses*

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

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

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

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

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

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

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

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

### *Current and deferred income tax*

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

### *Net result*

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

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

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

### *Net interest income*

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

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

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

### *Interest income*

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

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

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

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

#### *Interest expense*

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

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

#### *Allowance for loan losses*

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

#### *Non-interest income*

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

	For the Years Ended December 31,	
	2015	2014
	(millions of Ps.)	
<b>Commissions and Fees:</b>		
Account management.....	3,048	2,969
Cash management and fund transfers.....	3,114	2,907
Credit card.....	9,528	8,888
ATMs.....	760	699
Pension fund management.....	0	0
Trust.....	292	253
Mutual fund management <sup>(1)</sup> .....	2,435	2,472
Insurance <sup>(1)</sup> .....	1,684	1,460
Other.....	990	1,144
<b>Total commissions and fees</b> .....	<b>21,851</b>	<b>20,792</b>
	For the Years Ended December 31,	
	2015	2014
	(millions of Ps.)	
<b>Trading Income:</b>		
<b>Valuation Result:</b>		
Derivatives.....	3,664	(4,189)
Foreign currency.....	(2,674)	3,224
Securities investments.....	1,146	(1,888)
<b>Total valuation result</b> .....	<b>2,136</b>	<b>(2,853)</b>
<b>Purchase-sale result:</b>		
Derivatives.....	1,252	(877)
Foreign currency.....	2,745	1,859
Securities investments.....	(2,871)	5,162
<b>Total purchase-sale result</b> .....	<b>1,126</b>	<b>6,144</b>
<b>Total trading income (loss), net</b> .....	<b>3,262</b>	<b>3,291</b>

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

(1) These services are provided through GFBB affiliates.

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

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

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

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

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

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

#### *Administrative and promotional expenses*

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

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

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

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

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

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

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

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

#### *Current and deferred income tax*

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

#### *Net result*

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

### **Financial Position**

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

#### **Assets**

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

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

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

#### *Total performing loans*

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

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

the volume of our consumer loans. As of December 31, 2016, commercial loans represented 57.2% of total performing loans, consumer loans represented 24.6% of total performing loans and mortgages represented 18.2% of total performing loans.

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

#### *Total non-performing loans*

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

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

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

#### **Liabilities**

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

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

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



### *Deposits (including bank bonds)*

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

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

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

### *Interbank loans and loans from other entities*

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

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

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

### *Subordinated debt*

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

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

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

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

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

### **Stockholders' equity**

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

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

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

### **Liquidity and Funding**

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

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

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

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

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

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

maintain a healthy funding structure we hold liquid assets that can be used in the short term should we experience a stress scenario.

### **Foreign Currency Position**

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

*Banco de México* regulations require that a bank maintain open positions in foreign currencies no higher than a specified level with respect to its total Tier 1 Capital. As of September 30, 2017, our foreign currency-denominated assets, including derivative transactions, totaled U.S. \$19.2 billion (Ps. 349,408 million), representing 18% of our total assets. At that date, our foreign currency-denominated liabilities, including derivative transactions, totaled to U.S. \$18.7 billion (Ps. 340,373 million), representing 19% of our total liabilities. As part of our asset liability management strategy, we monitor closely our exposure to foreign currencies to minimize the effect of exchange rate movements on our income.

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

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

### **Capital Expenditures**

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

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

### **Risk-Based Capital**

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

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

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

Source: *Banco de México*

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

## Off-Balance Sheet Arrangements

In the normal course of business, we are a party to a number of off-balance sheet activities that contain credit, market and operational risk that are not reflected in our Financial Statements. These activities include commitments to extend credit not otherwise accounted for as contingent loans, such as overdrafts and credit card lines of credit, and long-term contractual obligations under operating leases or service contracts. We record our off-balance sheet arrangements as memorandum accounts, which are described more fully in note 3 to our Financial Statements included elsewhere in this offering memorandum.

We provide customers with off-balance sheet credit support through loan commitments. Such commitments are agreements to lend to a customer at a future date, subject to compliance with the contractual terms. Since substantial portions of these commitments are expected to expire without our having to make any loans, total commitment amounts do not necessarily represent our actual future cash requirements. These loan commitments totaled Ps. 522,833 million as of September 30, 2017, Ps. 553,195 million as of December 31, 2016, Ps. 458,700 million as of December 31, 2015 and Ps. 384,121 million as of December 31, 2014.

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

## SELECTED STATISTICAL INFORMATION

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

Unless otherwise specified, in accordance with Mexican Banking GAAP, our Financial Statements and the other financial information with respect to us contained in this offering memorandum are presented in consolidated form. We consolidate entities (including special-purpose entities, such as securitized transaction trusts) over which we exercise control. Our investments in affiliates are accounted for under the equity method. See note 16 to our Financial Statements included elsewhere in this offering memorandum.

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

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

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

The loan portfolio information provided in this “Selected Statistical Information” was determined in accordance with the manner in which we have presented the components of our loan portfolio elsewhere in this offering memorandum, except that the loan portfolio data presented under this “Selected Statistical Information” does not include amounts attributable to accrued interest, which as of December 31, 2016 represented 0.7% of our total loan portfolio. Presentation of the financial and statistical information included in this “Selected Statistical Information” may differ from the manner of presentation required by Mexican Banking GAAP standards for the presentation of our financial statements. Throughout this section, where we refer to “commercial and corporate” loans we refer to “wholesale banking” loans as designated elsewhere in this offering memorandum. See “The Bank—Business Units—Wholesale Banking.”

### **Average Balance Sheet and Interest Rate Data**

#### **Peso-denominated average balances and interest income**

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

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

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

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

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

### Average interest rate

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

#### *Average assets and interest rates*

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

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

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

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



*Average liabilities, stockholders' equity and interest rates*

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

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

## Changes in Net Interest Income and Expense

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

### *Interest-earning assets*

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

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

*Interest-bearing liabilities*

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

*Interest earning assets—yield and yield spread*

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

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

(1) Gross yield is interest income divided by average earning assets.

(2) Net yield represents the total of net interest income divided by average earning assets.

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

## Return on average total assets and average stockholders' equity

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

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

## Interest Rate Sensitivity of Assets and Liabilities

### Interest rates

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

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

### Interest rate sensitivity

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

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

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

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

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

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

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

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

### **Interest-Bearing Deposits with Other Banks**

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

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

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

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

## Securities

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

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



## Securities – maturities and average yields

The following table analyzes by currency, as of December 31, 2016, remaining maturities and weighted-average yields of securities held by us that have a specific date of maturity without the mark-to-market effect on securities.

### BBVA Bancomer, S.A., and subsidiaries consolidated

Million of nominal pesos

	From 1 to 89 days		From 90 to 179 days		From 6 to 12 months		From 1 to 2 years		From 2 to 3 years		From 3 to 4 years		From 4 to 5 years		More than 5 years		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total
<b>Peso-denominated:</b>																	
Mexican Government securities:																	
Cetes (federal treasury securities).....	Ps.3,219	5.09%	Ps.3,199	5.07%	Ps. 61	6.20%	Ps. -	0.00%	Ps. -	0.00%	Ps. -	0.00%	Ps. -	0.00%	Ps. -	0.00%	Ps. 6,479
Special Cetes (federal treasury securities).....	-	0.00%	-	0.00%	1,918	5.13%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	13,739	5.15%	15,657
Bondes (federal government development bonds) .....	98	4.37%	8	5.08%	10	5.00%	10,047	4.92%	4,126	4.73%	595	5.14%	1	5.65%	-	0.00%	14,885
BPAs (floating rate bonds issued by IPAB).....	182	5.73%	10,168	4.80%	4,357	4.41%	17,047	5.03%	33,910	4.99%	7,300	4.76%	31,138	4.64%	15,069	4.94%	119,171
Bono Tasa Fija (fixed-rate bond) .....	-	0.00%	233	5.65%	15,784	6.98%	19,132	5.13%	9,723	4.99%	33,871	4.86%	27,558	5.27%	46,646	5.57%	152,947
<b>Total Mexican Government securities .....</b>	<b>3,499</b>	<b>5.10%</b>	<b>13,608</b>	<b>4.88%</b>	<b>22,130</b>	<b>6.31%</b>	<b>46,226</b>	<b>5.05%</b>	<b>47,759</b>	<b>4.97%</b>	<b>41,766</b>	<b>4.84%</b>	<b>58,697</b>	<b>4.94%</b>	<b>75,454</b>	<b>5.37%</b>	<b>309,139</b>
Non government securities:																	
Bank bonds and certificates.....	1,312	5.95%	7	5.80%	2,106	6.22%	4,756	6.59%	3,119	6.66%	5,637	7.02%	1,261	7.38%	9,587	7.80%	27,785
Commercial paper .....	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
Other fixed-income securities .....	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
<b>Total peso-denominated.....</b>	<b>4,811</b>	<b>5.33%</b>	<b>13,615</b>	<b>4.88%</b>	<b>24,236</b>	<b>6.30%</b>	<b>50,982</b>	<b>5.19%</b>	<b>50,878</b>	<b>5.07%</b>	<b>47,403</b>	<b>5.10%</b>	<b>59,958</b>	<b>4.99%</b>	<b>85,041</b>	<b>5.64%</b>	<b>336,924</b>
<b>Udi-denominated:</b>																	
Udibonos (federal government development bonds) .....	-	0.00%	16	1.00%	(539)	0.89%	31	1.67%	13,247	5.64%	8	10.39%	28	2.71%	3,219	5.79%	16,010
Promissory Notes issued for highway program.....	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
CBICs .....	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	2,061	5.36%	2,333	4.88%	4,394
Banks bonds and certificates .....	-	0.00%	-	0.00%	243	4.21%	-	0.00%	-	0.00%	-	0.00%	77	6.11%	1,916	4.42%	2,236
<b>Total UDI-denominated.....</b>	<b>-</b>	<b>0.00%</b>	<b>16</b>	<b>1.00%</b>	<b>(296)</b>	<b>0.00%</b>	<b>31</b>	<b>1.67%</b>	<b>13,247</b>	<b>5.64%</b>	<b>8</b>	<b>10.39%</b>	<b>2,166</b>	<b>5.35%</b>	<b>7,468</b>	<b>5.16%</b>	<b>22,640</b>
<b>Foreign currency-denominated:</b>																	
Government securities:																	
Mexican Government securities issued abroad .....	(133)	-0.14%	-	0.00%	-	0.00%	90	6.70%	4,544	6.30%	1,003	4.26%	3,254	3.85%	17,892	3.45%	26,650

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

	<b>From 1 to 89 days</b>		<b>From 90 to 179 days</b>		<b>From 6 to 12 months</b>		<b>From 1 to 2 years</b>		<b>From 2 to 3 years</b>		<b>From 3 to 4 years</b>		<b>From 4 to 5 years</b>		<b>More than 5 years</b>		
	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>	<b>Total</b>
US Treasury bills .....	-	0.00%	1,274	0.50%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	102	1.63%	1,376
Commercial paper .....	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
Government securities from other countries .....	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
<b>Total Government securities....</b>	<b>(133)</b>	<b>0.00%</b>	<b>1,274</b>	<b>0.50%</b>	<b>-</b>	<b>0.00%</b>	<b>90</b>	<b>6.70%</b>	<b>4,544</b>	<b>6.30%</b>	<b>1,003</b>	<b>4.26%</b>	<b>3,254</b>	<b>3.85%</b>	<b>17,994</b>	<b>3.44%</b>	<b>28,026</b>
Euronotes .....	188	10.00%	-	0.00%	-	0.00%	964	5.78%	1,306	5.19%	1,447	6.08%	-	0.00%	1,987	4.63%	5,892
Investment trusts .....	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
Commercial paper .....	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
Other fixed-income securities .....	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-
<b>Total foreign currency-denominated .....</b>	<b>55</b>	<b>34.67%</b>	<b>1,274</b>	<b>0.50%</b>	<b>-</b>	<b>0.00%</b>	<b>1,054</b>	<b>5.85%</b>	<b>5,850</b>	<b>6.05%</b>	<b>2,450</b>	<b>5.34%</b>	<b>3,254</b>	<b>3.85%</b>	<b>19,981</b>	<b>3.56%</b>	<b>33,918</b>
<b>Total securities (excluding equity securities) .....</b>	<b>Ps.4,866</b>	<b>5.66%</b>	<b>Ps.14,905</b>	<b>4.50%</b>	<b>Ps.23,940</b>	<b>6.38%</b>	<b>Ps.52,067</b>	<b>5.20%</b>	<b>Ps.69,975</b>	<b>5.26%</b>	<b>Ps.49,861</b>	<b>5.11%</b>	<b>Ps.65,378</b>	<b>4.95%</b>	<b>Ps.112,490</b>	<b>5.24%</b>	<b>Ps.393,482</b>

## Loan Portfolio

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

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

## Loans by type and by borrower

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

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

(1) Includes loans to government entities and financial entities.

(2) Includes loans secured in whole or in part by cash, securities or property (including plant, inventory and equipment) and loans guaranteed by third parties.

(3) Includes various types of loans secured in whole or in part by cash, securities or other property (including plant or equipment otherwise not included above) and loans guaranteed by third parties.

(4) Does not include past-due interest.

## Loans by currency

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

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

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

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

## Loans to the public and private sectors

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

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

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

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

(1) Includes loans supported by the full faith and credit of the Mexican Government.

(2) Includes loans to individuals for business activities, as well as mortgage, credit card and other consumer loans and credit exposures connected to leasing.

(3) Includes loans to foreign banks, foreign companies, non-profit entities and certain other entities.

### *Performing commercial loans*

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

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

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

### *Performing consumer and residential mortgage loans*

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

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

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

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

### Loans by economic activity

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

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

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

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

(1) Includes loans to the public sector.

(2) Includes loans for commercial activities not directly related to manufacturing, as well as loans related to tourism.

(3) Includes credit extended to financial institutions.

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

## Maturity composition of the commercial and leasing loan portfolio

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

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

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

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

## Interest rate sensitivity of outstanding loans

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

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

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

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

## Non-Performing Loan Portfolio

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

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

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

- Loans with a single payment of principal and interest at maturity are considered past due 30 calendar days after the date of maturity.
- In the case of loans with a single repayment of principal at maturity, but with periodic interest payments, the total of the principal and interest to the 3 months of expiration.
- The loans whose payment of principal and interest had been agreed to in scheduled payments are considered past due 3 months after the first installment is past due.
- In the case of revolving credit granted, loans are considered past due when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 or more calendar days following maturity.
- Customer bank accounts showing overdrafts are reported as non-performing loans at the time the overdraft occurs.

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

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

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

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

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

- a. Settled the total amount of the accrued interest, and
- b. Settled the principal of the original loan, which should have been settled as of the date of renewal or restructuring, as the case may be.

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

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

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

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



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

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

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

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

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

## Grading of Loan Portfolio

### *Commercial loan portfolio*

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

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

Where:

- $R_i$  = Amount of the allowance for loan losses to be created for the nth loan.
- $PI_i$  = Probability of Default of the nth loan.
- $SP_i$  = Severity of the Loss on the nth loan.
- $EI_i$  = Exposure to Default on the nth loan.

The amount of the allowance for loan losses of each loan (PI<sub>i</sub>) is determined by applying the following formula:

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

For purposes of the above:

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

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

Where:

*Quantitative credit score<sub>i</sub>* = Is the score obtained for the nth borrower when evaluating the risk factors.

*Qualitative credit score<sub>i</sub>* = Is the score obtained for the nth borrower when evaluating the risk factors.

$\alpha$  = Is the relative weight of the quantitative credit score.

#### *Unsecured loans*

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

- 45%, for Preferred Positions.
- 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.
- 100%, for loans which are 18 months or more in arrears for the amount due and payable under the original terms.

The Exposure to Default of each loan (EI<sub>i</sub>) will be determined based on the following:

- 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<sub>i</sub> = S<sub>i</sub>
- For other credit lines:

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

Where:

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

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

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

### *Loans granted under the terms of the Commercial Bankruptcy Law*

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

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

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:

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

Where:

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

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

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

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

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

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

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

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

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

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

#### *Portfolio of States and their Municipalities:*

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

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

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

Where:

- $R_i$  = The amount of the allowance for loan losses to be created for the nth loan.  
 $PI_i$  = Probability of Default of the nth loan.  
 $SP_i$  = Severity of the Loss of the nth loan.  
 $EI_i$  = Exposure to Default of the nth loan.

The probability of default of each loan ( $PI_i$ ) 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  $PI_i$ , the total credit score of each borrower is calculated by applying the following formula:

$$Total\ Credit\ Score = \alpha (PCCt) + (1 - \alpha) PCCI$$

Where:

$PCCt$  = Quantitative Credit Score =  $IA + IB + IC$

$PPCI$  = Qualitative Credit Score =  $IIA + IIB$

$\alpha$  = 80%

$IA$  = Average days in arrears with banking institutions (IFB) + % of on time payments with IFB + % of on time payments with non-bank financial institutions.

$IB$  = Number of ratings agencies recognized in accordance with the provisions which provide a classification to the State or Municipality.

$IC$  = Total debt to eligible participations + debt service to adjusted total revenues + short-term debt to total debt + total revenues to current expense + investment to total revenues + proprietary revenues to total revenues.

$IIA$  = Local unemployment rate + presence of financial services of regulated entities.

$IIB$  = Contingent obligations derived from retirement benefits to adjusted total revenues + operating balance sheet to local Gross Domestic Product + level and efficiency of collections + robustness and flexibility of the regulatory and institutional framework for budget approval and execution + robustness and flexibility of the regulatory and institutional framework for approval and imposition of local taxes + transparency in public finances and public debt + issuance of outstanding debt in the stock market.

#### *Unsecured loans*

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

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

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

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

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

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

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

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

### *Mortgage portfolio*

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

- Probability of default: For portfolio with less than four payments in arrears, it is determined based on the number of late payments, the maximum delay in the last four monthly periods, the average payment commitment of the last seven periods, as well as the value of the credit enhancements with respect to the loans and the currency; and 100% if there are four or more late payments.
- Severity of loss: This is determined based on the value of the credit enhancement with respect to the loans and the means of formalizing the credit enhancement, and, in the case of unemployment insurance coverage, the balance of the housing subaccount.

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

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

### *Consumer loan portfolio that does not include credit card operations*

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

- Probability of default: Depending on the payment periodicity and the type of loan, it is determined using variables such as the number of payments in arrears, the maximum length of arrears, average payment compliance, the remaining term and the number of times that the loan is paid or financed.
- Severity of loss: This is 65% for up to 10 months in arrears and 100% thereafter.
- Exposure refers to the balance as of the classification date excluding interest accrued but not collected for loans in the non-performing portfolio.

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

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

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

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

*Consumer credit card loan portfolio*

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

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

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

- Non-compliance probability - Based on variables including portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.
- Loss severity – Calculated based on variables like portfolio type, balance aging and noncompliance period.
- Exposure – Determined according to the credit limit and current balance.

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

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

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

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

#### *Additional reserves*

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

#### *Analysis of graded loans*

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



As of December 31, 2016										
	2012		2013		2014		2015		2016	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(millions of Ps., except for percentages)										
<b>Total graded loans:</b>										
A1.....	Ps. 362,654	54.63%	Ps. 409,873	56.74%	Ps. 506,135	64.28%	Ps. 597,656	65.06%	Ps. 747,109	69.38%
A2.....	131,572	19.82%	134,178	18.58%	109,714	13.93%	120,489	13.12%	129,740	12.05%
B1.....	34,102	5.14%	58,007	8.03%	46,114	5.86%	55,964	6.09%	60,570	5.62%
B2.....	29,769	4.49%	31,708	4.39%	32,320	4.10%	46,717	5.09%	41,086	3.82%
B3.....	32,317	4.87%	24,241	3.36%	28,410	3.61%	32,363	3.52%	26,107	2.42%
C1.....	28,222	4.25%	16,057	2.22%	17,698	2.25%	17,703	1.93%	19,097	1.77%
C2.....	17,215	2.59%	17,212	2.38%	16,043	2.04%	18,102	1.97%	20,105	1.87%
D.....	17,785	2.68%	20,673	2.86%	18,515	2.35%	16,804	1.83%	17,819	1.65%
E.....	10,152	1.53%	10,401	1.44%	12,420	1.58%	12,830	1.40%	15,224	1.41%
Total.....	<u>663,788</u>	<u>100.00%</u>	<u>722,350</u>	<u>100.00%</u>	<u>787,369</u>	<u>100.00%</u>	<u>918,628</u>	<u>100.00%</u>	<u>1,076,857</u>	<u>100.00%</u>
Allowances grading of our loans.....	23,842		24,846		24,580		25,694		28,713	
Charge-offs applied after the grading.....	-		-		-		-		-	
Past-due interest.....	562		665		696		754		779	
Excess over minimum regulatory requirements.....	<u>3,391</u>		<u>1,690</u>		<u>708</u>		<u>835</u>		<u>428</u>	
Bancomer allowance.....	27,795		27,201		25,984		27,283		29,920	
Mercury Bank allowance.....	-		-		-		-		-	
Securitization Trust 881 allowances.....	99		77		67		62		53	
Bancomer Financial Holding allowance.....	-		-		-		-		-	
Financiera Ayudemos Allowance.....	40		58		30		41		32	
<b>Total allowance for loan losses.....</b>	<u>Ps. 27,934</u>		<u>Ps. 27,336</u>		<u>Ps. 26,081</u>		<u>Ps. 27,386</u>		<u>Ps. 30,005</u>	
<b>Allowance as a percentage of:</b>										
Graded loans.....		4.21%		3.78%		3.31%		2.98%		2.79%
Total loans plus interest <sup>(1)</sup> .....		4.21%		3.79%		3.22%		3.03%		2.93%
Total non-performing amount.....		128.81%		120.56%		118.81%		127.94%		131.84%
Total non-performing as a percentage of total loans plus interest <sup>(1)</sup> .....		3.27%		3.14%		2.71%		2.37%		2.23%
Total net non-performing loans (non-performing amounts less allowances) as a percentage of net total loans plus interest <sup>(1)</sup> .....		-0.98%		-0.67%		-0.53%		-0.68%		-0.73%

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

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

## Allowance for loan losses

### General

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

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

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

### Analysis of allowance for loan losses

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

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

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

### Allocation of allowance for loan losses by category

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

### Foreclosed real estate and other assets

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

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

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

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

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

### *Early termination of debtor support programs*

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

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

- Housing Loan Debtor Support Program
- Housing Loan Debtor Benefits Agreement

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

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

### *General conditions of payment obligations of the Mexican Government*

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

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

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

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

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

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

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

## Other Restructuring Programs

### Workout and credit recovery

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

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

### Short-Term Borrowing and Loans from to Repurchase Agreements

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

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

## Deposits

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

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

## THE TEXAS AGENCY

### General

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

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

### Activities

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

### Regulation of the Texas Agency

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

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

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

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

In addition to being subject to Texas banking laws and regulations, the Texas Agency is also subject to federal regulation primarily but not limited to the International Banking Act of 1978, as amended (the "IBA"), and the amendments to the IBA made pursuant to the Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA"), and to examination by the Board of Governors of the Federal Reserve Board. Under the IBA, as amended by FBSEA, all United States branches and agencies of foreign banks, such as the Texas Agency, are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by United States bank holding companies.

Among other things, FBSEA provides that a state-licensed branch or agency of a foreign bank may not engage in any type of activity that is not permissible for a federally licensed branch or agency of a foreign bank unless the Federal Reserve Board has determined that such activity is consistent with sound banking practice. A state branch or agency must also comply with the same single borrower lending limits applicable to national banks. These limits are based on the capital of the entire foreign bank. In addition, FBSEA authorizes the Federal Reserve Board to halt the activities of a United States branch or agency of a foreign bank if it finds that the foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country or there is reasonable cause to believe that such foreign bank, or an affiliate, has violated the law or engaged in unsafe banking practice in the United States, and as a result, continued operation of the branch or agency would be inconsistent with the public interest and purposes of the banking laws.



## THE BANK

### Overview

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

We are the principal subsidiary of GFBB, a Mexican financial services holding company. GFBB is controlled and substantially all of its capital stock is beneficially owned by BBVA, a leading Spanish bank. As of September 30, 2017, we accounted for 92% of GFBB's total assets and 85% of GFBB's net result.

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

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

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

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

We operate through two main units:

- *Wholesale Banking*: serves medium-sized enterprises and government entities; as well as major corporations and institutional customers. Through this business unit we provide companies with bridge loans for the construction industry and credit for the distribution and purchase of vehicles. In addition, this business unit provides banking services for Mexican federal agencies, states and municipalities. It also provides lending, mergers and acquisitions, capital markets (equity and fixed income), cash management and e-banking and money-market instruments to Mexico's major corporates and institutional customers.
- *Business Development (Retail Banking)*: We refer to this segment as Business Development (Retail Banking) since the majority of our business for this segment is in the retail sector with customers utilizing a single product such as a deposit account or mortgage and provides us with the best opportunity to offer these customers additional products and further develop our overall business. In 2015, we restructured our internal structural operations to allow for a simpler and more efficient management of our products and clients. In order to achieve this, we merged two areas: Digital

Banking and Business Development with Payment Methods (Retail Banking) to create the new banking unit called Business Development (Retail Banking). This Business Development (Retail Banking) unit serves individuals in the following classifications: high net-worth, upper affluent, affluent, upper mass and lower mass, as well as micro and small enterprises. This unit is focused on providing banking services and products such as: debit and credit cards, automobile loans, residential mortgage loans, consumer and payroll loans through our network of retail branches, ATMs and digital channels.

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

	As of September 30, 2017 <sup>(1)</sup>	
	Market Share	Rank
Total assets .....	22.8%	1
Total deposits.....	23.3%	1
Total loans .....	23.3%	1
Number of branches.....	14.6%	1
Wholesale loans.....	21.0%	1
Corporate loans.....	21.0%	1
Consumer loans .....	27.8%	1
Mortgage loans .....	27.1%	1

(1) Source: CNBV.

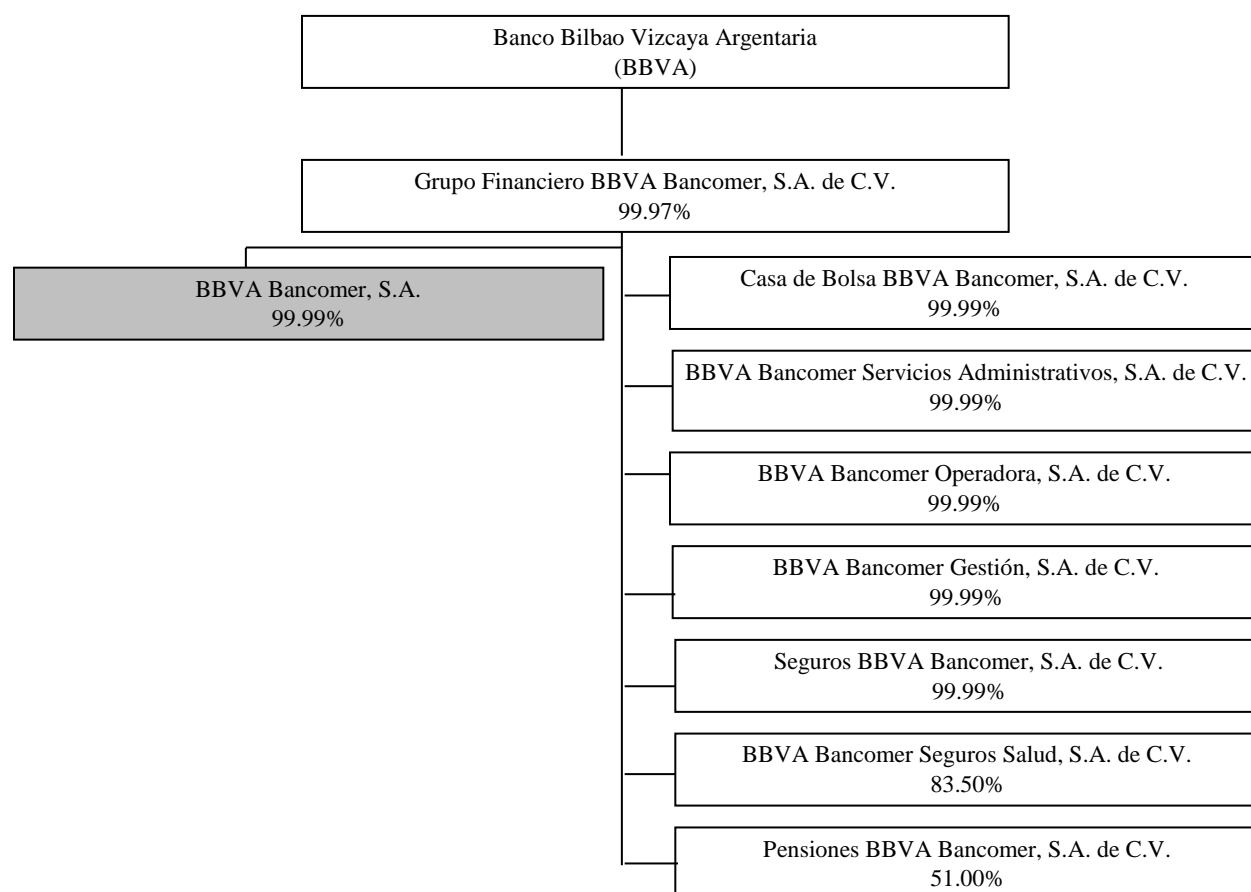
## Organizational Structure

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

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

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

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



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

## Our History

### *General*

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

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

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

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

### ***BBVA's Investment in GFB***

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

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

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

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

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

On June 6, 2016, we completed the sale of our subsidiary BTS for Ps. 1,249 million.

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

### **Strategy**

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

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

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

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

### ***Enhance customer experience***

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

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

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

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

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

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

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

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

### ***Optimize profitability through capital allocation***

In order to achieve this objective, we attempt to make our processes more efficient and utilize internal tools and metrics that allow a more efficient use of our capital, while complying with the requirements of local and global regulators. Our objective is to maximize return on capital steadily over time. We aim to do so through: (i) the use of

suitable management-oriented metrics which incorporate the customers' needs and seek to maximize the overall profitability of certain client relationships, (ii) efficient allocation of resources, (iii) the assessment of our business model in different economic scenarios, (iv) the continuation of our universal banking model which is focused on diversification in terms of geography, customers and products and which has contributed to our steady growth over time.

### ***Optimize efficiencies***

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

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

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

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

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

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

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

### ***Maintain a skilled and experienced workforce***

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

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

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

### ***Focus on social responsibilities***

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

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

We also focus on increasing financial education in Mexico through our program Educación Financiera: "*Adelante con tu futuro*," which provides participants with guidance on banking products and services. We hold various workshops that educate participants on savings, credit cards and mortgage loans. We have held these workshops at our retail branches, through mobile classrooms and electronic channels such as our website. Since we launched this project in 2008, we have provided financial education courses to more than 3,727,261 participants.

### ***Continually seeking to improve risk management policies***

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

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

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

## Market Information

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

	BBVA Bancomer	Banamex	Banorte	Santander	HSBC	Scotiabank
	(millions of Ps., except for percentages)					
Total loans.....	1,071,033	627,271	602,929	613,263	287,744	296,797
Total deposits .....	1,154,584	685,279	637,124	699,279	334,231	315,550
Market share (total loans).....	23.3%	13.7%	13.2%	6%	6.3%	6.5%
Total assets.....	1,962,725	1,144,714	1,043,406	1,212,150	633,723	437,403
Total loans/total assets .....	5%	54.8%	57.8%	5%	45.4%	67.9%
Total loans/total deposits <sup>(1) (2)</sup> .....	92.8%	91.5%	94.6%	9%	86.1%	94.1%
Equity.....	174,841	161,762	89,887	117,245	56,141	45,370
Net result <sup>(3)</sup> .....	33,311	10,571	15,044	15,750	1,174	4,373
Return on assets (ROA).....	1.9%	1.3%	1.7%	1%	0.3%	1.3%
Return on equity (ROE) .....	22.1%	9.2%	19.0%	9%	3.8%	12.0%
Cost of funding <sup>(4)</sup> .....	1.98%	1.96%	2.85%	9%	2.94%	4.24%
Non-performing loan ratio <sup>(5)</sup> .....	2.2%	0.8%	1.8%	5%	2.9%	2.1%
LTM efficiency ratio <sup>(6)</sup> .....	41.9%	69.9%	44.3%	3%	64.2%	56.8%
Branches.....	1,845	1,496	1,144	1,224	973	551

(1) Total deposits (*Capitación Tradicional*) is defined by the CNBV as the sum of time deposits, demand deposits, credit notes issued and resources from dormant or inactive accounts.

(2) Deposits include demand deposits and term deposits (“*depósitos de exigibilidad inmediata*” and “*depósitos a plazo*,” respectively, from its original Spanish source).

(3) As of December 31, 2016.

(4) Calculated as the weighted average cost of time and demand deposits as reported by *Banco de México*.

(5) Refers to “delinquency index” as defined by the regulator (“*IMOR ajustado*” from its original Spanish source).

(6) Calculated as the sum of 2016 figures plus nine months accumulated as of September 30, 2017 minus nine months accumulated figures as of September 30, 2016.

## Our Values

In July 2017, BBVA Group published a set of values to guide the BBVA Group in achieving its purpose and the strategic priorities. Our values are the following:

### *The customer comes first*

This value is our highest priority, as the customer is at the center of our business. We approach our customers with empathy by factoring in and adopting the customer’s point of view from the first point of contact so we can understand our customers’ needs better. This commitment to our customers requires that we always maintain integrity in our dealings with customers. As a result, we conduct the services we provide to customers in a legal and ethical manner. Additionally, we have a strong commitment to solving our customers’ specific problems and addressing our customers’ needs.

### *We think big*

This principle motivates us to set ambitious and aspirational goals which can impact on our customers. We aim to provide high-quality service to exceed our customers’ expectations and provide them with unique, personal experiences and solutions. We are determined to find new ways to improve our business, and we constantly seek to innovate to improve the quality of our services.

### *We are one team*

This value reflects the commitment of all of our employees to their roles within the Bank and to their personal goals, as well as to wider goals of the organization. We are focused on making employees feel passionate and enthusiastic about their work by cultivating trust among coworkers and creating a collaborative environment in which



to work. Our motto is, “I am BBVA,” which aims to highlight the importance of each member of our team in order to achieve our objectives and our purpose.

## **Business Units**

We are a bank in a constant state of transformation, focused each day on evolving and improving our customer service and products. Our business model is based on our customer classification which ensures that we provide strategic banking products and services which are catered to customers in the different classifications. We have the following banking units:

### ***Business Development (Retail Banking)***

We refer to this segment as Business Development (Retail Banking) since the majority of our business for this segment is in the retail sector with customers utilizing a single product such as a deposit account or mortgage and provides us with the best opportunity to offer these customers additional products and further develop our overall business. In 2015, we restructured our internal structural operations to allow for a simpler and more efficient management of our products and clients. In order to achieve this, we merged two areas: Digital Banking and Business Development with Payment Methods (Retail Banking) to create the new banking area called Business. This unit focuses on developing new businesses, new technology and channels to ensure we continue to be the market leader. This unit focuses on developing new businesses, technology and channels to ensure we continue to be the market leader. For example, all of our branches have been remodeled: larger “practicajas” have been installed with state-of-the-art ATMs where customers can also access consumer loans (one-click), making access to our products simpler for our customers. We have also integrated the Insurance Business unit within the Business Development (Retail Banking) unit, crucial for that product to be an integral part of the sales drive as we cross-sell our products across the network.

### ***Wholesale Banking***

In 2015, the Middle-Market and Government unit merged with the Corporate and Investment Banking unit to create the Wholesale Banking unit. This new unit’s primary purpose is to boost our capabilities and better serve customer institutions through a comprehensive offering of services that spans the most basic products to the most sophisticated. Through this unit, we offer products and services adapted to the specific needs of each relevant customer classification.

## **Business Development Unit (Retail Banking)**

### ***General***

The Business Development (Retail Banking) unit is our major operating business unit and includes sub-units for providing banking products and services and originating credit and debit cards, residential mortgage loans, consumer loans, payroll loans and loans to small businesses through our network of retail branches and ATMs, as well as alternative distribution channels. As of September 30, 2017, our Business Development (Retail Banking) lending portfolio comprised of 43% mortgages, 34% consumer loans and 23% credit cards.

As of September 30, 2017, we had 1,808 commercial branches and 11,519 ATMs throughout Mexico, as well as distribution channels outside of these networks, including 170,794 active POS terminals and our internet portal. As of September 30, 2017, our Business Development (Retail Banking) unit accounted for 49.5% of our total loan portfolio, 53.8% of our demand and time deposits, 67.1% of our net interest income and 83.8% of our fees income.

We have divided the customer base served by our Business Development (Retail Banking) unit into the following classifications: for individuals based on deposit size: ultra high net-worth (“UHN”), high net-worth, upper affluent, affluent, upper mass and lower mass; for small businesses including micro and small enterprises.

The Business Development (Retail Banking) unit focuses on increasing the value of the customer base and increasing cross-selling. We believe that payroll accounts (similar to direct deposits in the United States) is a key product in which entry by other Mexican banks has been modest and considerable potential for deposits and cross-selling exist. For the first nine months of 2017, we generated 668,665 payroll accounts. We intend to continue increasing the origination of payroll loans by offering our payroll accounts clients more benefits. We are also focused on delivering banking products and services to unbanked and underserved segments of the Mexican population.

The Business Development (Retail Banking) unit also emphasizes increasing productivity by reducing branch traffic through the installation of electronic payment systems at our branches and offering mobile and internet banking solutions to our customers. This is part of the new customer service model that has been implemented throughout our whole branch network.

### *Deposits*

We believe that our diversified and stable deposit base provides a low-cost source of funding. Our deposit base has traditionally been one of our strengths and represents an area of strategic importance. Our strategy is aimed at increasing our deposit base and maintaining competitive funding costs. We support this strategy through marketing campaigns seeking to increase both the balance of existing savings accounts and the number of new savings accounts opened.

As of September 30, 2017, the balance of demand deposits originated from the Business Development (Retail Banking) unit was Ps. 419,299 million, which represented 50.9% of our total demand deposits. This level of demand deposits contributed to a reduction of our funding costs, which, in turn, resulted in an increase in our net result for the year. As of September 30, 2017, balances in time deposits and mutual funds originated from the Business Development (Retail Banking) unit were Ps. 129,737 million and Ps. 314,594 million, respectively, which represented 76.3% of our total time deposits and mutual fund balances.

Through our Business Development (Retail Banking) unit, we issue debit cards from a variety of different account products. For the first nine months of 2017, we had debit card billing Ps. 914,758. For the year ended December 31, 2016, debit card billing totaled Ps. 1,119,119 million, representing a 13.1% annual increase as compared to the same period in 2015. In addition, we offer time deposits and mutual funds and we are continuously designing specialized products for customers in each classification.

### *Credit cards*

We are a leading bank issuer of Visa and MasterCard private label credit cards in Mexico. Revenues from credit card operations are derived primarily from annual fees charged per account, variable interest rates charged on monthly account balances and merchant fees. We originated 1.0 million new credit cards in 2014, 1.1 million for the year ended December 31, 2015, 1.3 million in 2016, and 961 thousand for the first nine months of 2017. As of September 30, 2017, total credit card loans outstanding were Ps. 100,680 million, while aggregate credit card billing for the first nine months of 2017 totaled Ps. 218,910 million.

We offer a wide array of different credit cards depending on the customer's monthly income, in order to reach all types of customers. Our credit card offerings include "*Bancomer Azul*", "*Bancomer Oro*", "*Bancomer Platinum*", and "*Bancomer Infinite*", which are accepted by all merchants in Mexico and abroad. We also offer "*Vida Bancomer*", the first customer loyalty program using a credit card with an embedded intelligent microchip running proprietary software developed to offer real-time rewards to customers and marketing and merchandising flexibility to merchants. As of September 30, 2017, approximately 4.5% of our credit cards were private label credit cards and represented Ps. 4,573 million in outstanding loans.

Our strong risk analysis platform allows us to monitor and differentiate the behavior of each customer to better identify customers with debt problems early on, and offer them a support plan through preferential rates. This support program helps us strengthen our credit card portfolio by offering better interest rates to credit card customers with higher credit scores, improving the quality of our service and the loyalty of our clients.

### *Consumer loans*

The consumer loan portfolio consists largely of unsecured personal loans, mainly for the purchase of consumer goods. Consumer lending, excluding credit card loans, reached Ps. 151,713 million as of September 30, 2017, representing a 7.9%, or Ps. 11,165 million, increase from Ps. 140,549 million as of September 30, 2016.

“*Creditón Nómina*” is a credit program collected through payroll deductions that offers customers the ability to borrow up to four months of salary and repay that balance over the course of three years. During the first nine months of 2017, we originated more than 668,000 payroll loans and 169,571 personal loans, and for the year ended December 31, 2016 we granted more than 686,000 payroll loans and more than 222,000 personal loans. Our platform for monitoring customer credit behavior and expanded multi-channel distribution network allowed us to offer pre-approved loans. For the first nine months of 2017, we originated over 536,447 pre-approved payroll and personal loans originated over 143,207 credits.

### *Residential mortgages*

We grant residential mortgages through our Business Development (Retail Banking) unit. As of September 30, 2017, we maintained our leadership position in the residential mortgage market, holding a 26.4% market share in number of new loans with 15,532 loans granted for an amount totaling Ps. 18,249 million. During 2016, we granted 35,345 loans for a total amount of Ps. 39,051 million. As of September 30, 2017, our residential mortgage portfolio totaled Ps. 191,766 million. The loan to value ratio of 87% our mortgage loans ranges from 50% to 90% depending on the type of product.

### ***Customer classifications***

#### *Ultra high net-worth*

We believe that “BBVA Bancomer UHN” is the first office of its kind in Mexico and the world, combining products and services for family offices and high net-worth investors with the backing of a global bank. As of September 30, 2017, thirteen relationship officers in two offices in Mexico served approximately 195 groups in this classification.

#### *High net-worth*

We provide personalized financial and investment services to these customers with our relationship officers who are familiar with the customer’s individual needs, and who can recommend and provide access to specialized products and services.

As of September 30, 2017, we had 68 relationship officers in 33 offices located throughout Mexico that attend approximately 6,000 customers. We seek to provide customers in this segment with tailored solutions for their financial needs. Products offered to this group of customers are mutual funds, brokerage services, and a wide range of wealth management products.

#### *Upper affluent*

We cater to this segment through our relationship officers that provide specialized products and tailored solutions for their financial needs rather than offering them generic products and services. As of September 30, 2017, 321 relationship officers in 64 offices attended approximately 45,000 customers of this segment.

#### *Affluent*

In 2011, we created a new customer classification to offer them specialized attention and tailor-made products. As of September 30, 2017, we had 1,856 “personal bankers” or specialized sales representatives to cater these customers.

We offer products to three types of customers within the affluent classification: (i) new and mono-product customers, to whom we offer attractive packages to increase cross-selling of product and service opportunities; (ii) bi-product customers, to whom we offer linked products with high benefits; and (iii) multi-product customers, to whom we offer additional benefits. This strategy allows us to increase cross-selling with our affluent customers, which was previously not serviced by dedicated sales representatives and in which no targeted products were offered.

#### *Upper mass*

The upper mass classification is our largest retail customer segment based on number of customers, with more than 8.4 million customers as of September 30, 2017. We provide products and services to individuals in the upper mass segment through 2,457 commercial executives and our retail distribution network throughout Mexico.

We are focused on providing customers in this classification with a wide range of products and services in a short period of time and under the highest credit quality standards. In particular, we have a strong focus on analyzing the credit behavior of our credit cards customers in order to offer them credit card upgrades.

#### *Lower mass*

This classification is dedicated to serving the low-income population without adequate access to financial services. We offer low-cost transactional accounts that allow customers to use our banking services. The bank correspondents network is useful for these customers. The CNBV approved our partnership with small merchants, supermarkets and pharmacies to install terminals (ATMs) that allow customers to manage deposits and payments. As of September 30, 2017, these partnerships have allowed us to expand our network and hours of operation until 8 p.m. in more than 33,144 points of sale.

We have launched the first mobile account in Mexico, *Cuenta Express*, which is linked to mobile phones and has an account number that is the same as the mobile phone number of the customer. Users of *Cuenta Express* do not need to maintain a minimum average balance.

We have also launched a mobile solution called Bancomer SMS that allows customers to use mobile phones to check their debit account balance, purchase minutes for their mobile phone and transfer money to other BBVA Bancomer debit accounts. This service is useful for our lower mass customers because it does not require an internet connection, since it is based on a messaging service using SMS.

#### *Micro and small businesses*

This classification provides services and originates loans for micro and small businesses. The maximum amount extended is usually limited to Ps. 15 million, all of which is generally secured. As of September 30, 2017, we had approximately 514,000 customers in this classification.

Innovation has been and continues to be the key to our success in this group of customers. In 2003, we developed the first unsecured revolving credit lines for our small business customers. We refer to these credit lines as “*Tarjeta Negocios*”; such credit lines are limited to Ps. 4.1 million, and are primarily used by our small business customers to finance their working capital needs. *Tarjeta Negocios* can also be used as a special purpose credit card, which allows a large number of our small business customers to access term financing for the first time. Small business owners can use their line of credit electronically and issue checks using their line of credit. More than 85% of *Tarjeta Negocios* include a guarantee scheme from NAFIN (*Nacional Financiera, S.N.C. Institución de Banca de Desarrollo*). NAFIN is a Mexican governmental development bank that, among other things, supports small business lending by providing guarantees to commercial banks to allow small businesses to access credit on more favorable terms than they would be able to obtain on a standalone basis.

In 2013, we were recognized by the Ministry of Economy as the financial intermediary that supported the largest number of micro and small enterprises. This is the fifth time that we have received this recognition of our contribution to the growth of micro and small enterprises through our innovative products and loans, as well as of our participation in programs supported by the Ministry of Economy for these customers. We have also increased the

number of specialized executives and branches to cater to micro and small businesses the Mexican Republic. During the first nine months of 2017, we granted more than 26,092 new loans to small and medium businesses. In 2016, we granted more than 44,800 new loans to this group of customers.

We also have a blog ([www.yosoypyme.net](http://www.yosoypyme.net)) dedicated to specialized information for small and medium businesses. This blog was created as part of the customized experience for small and medium business owners and offers a platform for business counseling with simple language and visual information.

### **Wholesale Banking Unit**

The Wholesale Banking unit focuses on medium sized companies, government entities, homebuilders and large corporations. We offer products and services adapted to the specific needs of the segment. As of September 30, 2017, our wholesale banking lending portfolio was comprised of 71% to companies and corporations, 21% to government entities, 5% to other financial entities and 2% to homebuilders.

### **Middle-Market**

In the middle-market segment we have a network of 131 offices consisting of 68 dedicated to mid-sized companies, 30 dedicated to government customers, and 33 that serve both types of customers. As of September 30, 2017, we had 53,276 customers in our middle-market and government segment, each with a variety of financial needs.

The middle-market loan portfolio reached Ps. 213,531 million as of September 30, 2017 and represents 35% of our total commercial loan portfolio. The quality of this portfolio has not been negatively impacted by its growth. As of September 30, 2017, the non-performing loan ratio was 1.2%.

Our middle-market customers are also an important source of deposits, as they mostly use cash management and saving products. We offer a wide array of products designed to meet its customers' needs in terms of cash management and collection solutions. Some of its more popular products are: (1) *Tesorería Integral Bancomer*, which provides easier and faster operation of our customers' financial transactions by the installation of high-technology software through our website; and (2) *Multipagos*, which is a software that has optimized the collection process.

#### *Consumer Finance*

In 2013, the Consumer Finance Business segment was created to offer financial services including credit for the distribution and purchasing of vehicles. This is a specialized business unit that works along the Middle-Market segment and allows us to service the automobile dealers (agencies).

As of September 30, 2017, the outstanding balance of automobile loans reached Ps. 42,695 million, an annual growth of 17.3%. During the first nine months of 2017, we granted 92,078 automobile loans, compared to 129,257 automobile loans in 2016.

#### *Housing developers*

This segment caters to housing developers who need bridge loans for construction purposes. As of September 30, 2017, our portfolio of loans to housing developers totaled Ps. 16,813 million. During the first nine months of 2017, we provided loans to finance the construction of 16,176 housing projects for a total of Ps. 13,362 million. In 2016, we granted credit for the construction of 32,587 housing projects, equivalent to Ps. 19,271 million.

#### *Government Entities*

The government banking segment services Mexican Federal agencies, states and municipalities. We have enhanced our relationships with our government entity customers, which has resulted in being positioned as a market leader in this segment. We offer several specialized products to our customers classified as government entities, such

as payroll for government employees, checking accounts, and tax collection solutions for states and municipalities. “*Multipagos*” and “*CIE en línea*,” for tax collections.

As of September 30, 2017, the government loan portfolio amounted to Ps. 128,356 million and accounted for 12.2% of our total commercial loan performing portfolio and 10.4% of our total demand and time deposits.

### **Corporate and Investment Banking**

Corporate and Investment Banking is focused on helping clients reach their objectives through sophisticated products and services in Lending, Corporate Finance, Global Markets, and Transaction Banking. We provide, among other things, products and services in lending, mergers and acquisitions, capital markets transactions (equity and fixed income), cash management, e-banking and money-markets.

The Corporate and Investment Banking unit includes Mexico’s major corporate and institutional customers through originating, distributing and managing lending, money-market and investment products and tailored financial solutions. In addition, this group provides financial advice and structuring and assures, originates and syndicates complex financing structures including project finance, trade finance and syndications.

As of September 30, 2017, our Corporate and Investment Banking unit provided services to approximately 460 groups of customers consisting of multi-national companies located in Mexico as well as institutional clients. As of September 30, 2017, our Corporate and Investment Banking classification accounted for 21.4% of our total performing loan portfolio, and 17.5% of our total demand and time deposits.

This unit strives to better serve our customers through the development of new products tailored to their needs. Some of our new products include: (i) *Bancomer Net Cash*, a global electronic banking solution that allows corporations, enterprises and government organizations to efficiently and securely execute all their banking transactions through one platform accessible remotely and at any time; (ii) *Bancomer Web Trader*, a simple system that allows investors to trade online and in real time and also offers them market information, analysis, news and applications that can be customized to support our clients’ decision-making.

### **Business through subsidiaries and affiliates**

*BBVA Bancomer USA, Inc.* In June 2016, we completed the sale of BTS for Ps. 1,249 million.

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

### **Competition**

#### **General**

The Mexican financial sector is highly competitive. We face strong domestic competition in all aspects of our businesses from other Mexican financial groups, commercial banks, insurance companies and securities-brokerage houses, as well as from non-Mexican banks and international financial intermediaries. In commercial banking, we compete with other large Mexican banks and non-Mexican banks, many of which, like us, have been incorporated into a financial group and seek to offer a broad array of products and services to their customers. We also compete with certain non-Mexican banks, primarily based in the United States, for the business of the largest Mexican industrial groups, government entities and high net worth individuals, as well as in providing financings in U.S. dollars. Additionally, we compete with other banks that have recently obtained banking licenses, such as Sabadell, ICBC and Mizuho Bank. In investment banking, we face competition principally from other major Mexican securities-brokerage houses, as well as from international investment banks.

Trends in associated markets are also shaping the competitive environment, such as entry by new players on digital platforms, including so-called “*Fintech Companies*,” which have demonstrated high concentrations in payments, lending and enterprise financial management. There are approximately 170 new players in this new fintech sector in Mexico. Furthermore, the Mexican banking industry in general has experienced increasing competition in recent years, partly due to the entry of new players. In addition, we have noticed a trend of investments by key banks updating their retail networks and growing their digital platforms and big data processing capabilities.

Commercial banks in Mexico compete in the retail market with limited-purpose financial institutions, or *Sofoles*, which offered mortgage, consumer and commercial loans mainly for low- and middle-income individuals. Since the Mexican economic crisis in 2009, most *Sofoles* were affected by liquidity problems as a result of difficulties experienced in obtaining funding and many have either disappeared or are in financial restructuring. Due to these restructurings, on July 19, 2013, the local regulator, CNBV, declared invalid the previous authorizations for *Sofoles*. The purpose was encouraging the entities migrating to another scheme, such as *Sofomes*.

As of September 30, 2017, the Mexican banking system was comprised of 48 private-sector banks, of which 60.4% are principally Mexican-owned and 39.6% are foreign-owned. Our largest competitors in the private-sector banks are Banamex, Santander, Banorte-Ixe, HSBC and Scotiabank, which together with BBVA Bancomer accounted for 74.8% of all assets of Mexican private sector banks as of September 30, 2017.

We believe that we have several advantages over many foreign banks and smaller Mexican banks that allow us to compete more effectively. We continuously seek to improve our products and services in order to address greater competition in recent years. The following table sets forth certain statistics relating to the Mexican commercial banking system as of September 30, 2017, except as otherwise indicated:

As of September 30, 2017							
	Asset		Loan		Deposits		Stockholders' Equity
	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount
(in millions, except percentages)							
Domestic private-sector banks .	2,929,174	26.5%	1,631,816	26.2%	1,753,593	27.1%	330,868
Foreign-owned banks .....	5,670,372	51.2%	2,946,679	47.3%	3,283,574	50.7%	595,612
Private-sector total .....	8,599,546	77.7%	4,578,495	75.3%	5,037,166	77.8%	926,480
Public-sector banks .....	1,743,911	15.8%	1,033,040	16.6%	911,752	14.1%	137,641
Total banking system .....	10,343,457	93.4%	5,611,535	90.0%	5,948,919	91.9%	1,064,121
Non-banking institutions* .....	726,121	6.6%	621,754	10.0%	525,868	8.1%	146,705
<b>Financial system total .....</b>	<b>11,069,577</b>	<b>100.0%</b>	<b>6,233,289</b>	<b>100.0%</b>	<b>6,474,786</b>	<b>100.0%</b>	<b>1,210,826</b>

Source: CNBV (with subsidiaries). Deposits includes: demand deposits, time deposits and bank bonds.

\*Includes SOFOMs, SOFIPOs, General Bonded Warehouses, Currency Exchange Centers and Credit Unions as of September 30, 2017.

## Deposits

As of September 30, 2017, we had deposits in an aggregate amount of Ps. 1,080,027 million. Our 23.3% market share for deposits, including borrowings from domestic financial institutions, ranks first among commercial banks in Mexico according to data from the CNBV. As of September 30, 2017, Ps. 828,229 million of our total deposits were demand deposits, representing a 27.2% market share and Ps. 234,929 million of our total deposits were time deposits, representing a 16.4% market share. As of September 30, 2017, the next two largest banks in terms of total deposits, Santander and Banamex, had deposits in an aggregate amount of Ps. 699,116 million and Ps. 685,279 million, respectively.

The following table sets forth the market shares in terms of deposits for the six Mexican commercial banks with the largest market shares as of September 30 of each of the last three years:

	Bank Deposits As of September 30,		
	2015	2016	2017
BBVA Bancomer .....	23.3%	22.5%	23.3%

Santander .....	13.9%	14.1%	13.9%
Banamex.....	14.9%	15.2%	13.6%
Banorte.....	13.0%	12.2%	12.6%
HSBC .....	7.6%	7.3%	6.6%
Scotiabank .....	5.3%	5.3%	6.3%
<b>Six main banks .....</b>	<b>78.1%</b>	<b>76.7%</b>	<b>76.3%</b>

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements).  
Market share includes commercial banks regulated by CNBV.

## Loans

As of September 30, 2017, we had the largest total loan portfolio among commercial banks in Mexico, with a total of Ps. 1,071,033 million. Our total loan portfolio represented 23.3% of the commercial banks market for loans. As of September 30, 2017, Ps. 609,193 million of our total loan portfolio were wholesale banking loans, representing a 21.0% market share; Ps. 264,313 million were consumer loans, representing a 27.8% market share; Ps. 450,359 million were corporate loans, representing a 21.0% market share; and Ps. 197,527 million were mortgage loans, representing a 27.1% market share. Despite the adverse macroeconomic environment and improved performance from our major competitors, our total loan portfolio experienced an annual growth rate of 8.32%. The following table sets forth the market shares in terms of loans for the six private-sector banks with the largest market shares as of September 30 of each of the last three years.

	<b>Bank Loans As of September 30,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
BBVA Bancomer .....	24.1%	23.6%	23.3%
Santander .....	14.4%	14.4%	13.4%
Banamex.....	14.2%	13.9%	13.7%
Banorte.....	13.3%	12.8%	13.2%
HSBC .....	6.3%	6.5%	6.3%
Scotiabank .....	5.6%	5.7%	6.5%
<b>Six main banks .....</b>	<b>77.8%</b>	<b>77.0%</b>	<b>76.3%</b>

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements).  
Market share includes commercial banks regulated by CNBV.

## Stockholders' Equity

As of September 30, 2017, we had a market share of 18.9% in terms of stockholders' equity according to data from the CNBV. We maintain a strong solvency position, despite dividend payout, increasing equity through recurrent income and organic capital generation.

The following table sets forth the level of stockholders' equity for the six largest commercial banks in Mexico (measured by stockholders' equity) as of September 30 of each of the last three years.

	<b>Bank Stockholders' Equity As of September 30,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
BBVA Bancomer .....	142,990	157,501	174,805
Santander .....	110,729	119,080	117,245
Banamex.....	151,794	151,478	161,762
Banorte.....	100,382	111,313	89,887



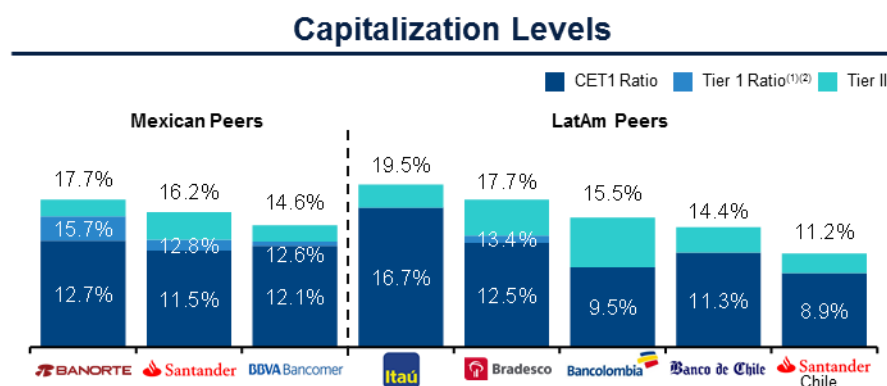
HSBC .....	47,672	47,432	56,141
Scotiabank .....	32,954	39,339	45,370
<b>Six main banks .....</b>	<b>586,521</b>	<b>626,143</b>	<b>645,211</b>

Source: CNBV (Quarterly Banking Report, annual consolidated financial statements).  
Market share includes commercial banks and the rest of the financial institutions regulated by CNBV.

### Other Indicators

We continue to maintain the lead in profitability among commercial Mexican banks and maintain a well-positioned, diversified and sound loan portfolio. Based on publicly available information, as of September 30, 2017, our capital ratio was 14.6% in the case of Total Net Capital, as compared to 16.2% for Santander and 17.7% for Banorte.

The following chart provides information with respect to us and selected leading banks in the region with respect to our capitalization levels.



Source: Information for Santander, Banorte, BBVA Bancomer, Itaú Unibanco Holding S.A., Banco Bradesco S.A., Bancolombia S.A., Banco de Chile and Santander Chile Holding S.A. ("Santander Chile") based on data as reported by each country's regulator, unless otherwise noted. Information for figures for Santander, Banorte and BBVA Bancomer sourced from the CNBV as of September 30, 2017; for Itaú Unibanco Holding S.A. and Banco Bradesco S.A. sourced from *Banco Central do Brasil* (Central Bank of Brazil) as of September 30, 2017; for Bancolombia S.A. sourced from the *Superintendencia Financiera* (Financial Superintendency of Colombia) as of September 30, 2017; and for Banco de Chile and Santander Chile sourced from the *Superintendencia de Bancos e Instituciones Financieras* (Bank and Financial Institution Superintendency of Chile) as of September 30, 2017. Each of these regulatory entities has different requirements, including with regards to reserves, financial statements standards and the calculation of the various ratios presented above, among others. Accordingly, this tabular comparison is for illustrative purposes only and we do not purport to assert that the above information is actually comparable.

(1) For Banco de Chile and Santander Chile: Tier 1 Ratio is calculated as basic capital divided by risk-weighted assets ("*capital básico / activos ponderados por riesgo de crédito*," from its original Spanish source).

(2) For Itaú Unibanco Holding S.A. and Banco Bradesco S.A.: Tier 1 Ratio is calculated as Tier 1 regulatory capital divided by risk-weighted assets ("*patrimônio de referência nível 1 / ativos ponderados pelo risco*," from its original Portuguese source).

### Properties

We are domiciled in Mexico and our headquarters are located at Paseo de la Reforma 510, Colonia Juárez, 06600, Mexico City, Mexico. As of January 31, 2017, we owned 499 of the properties on which 1,995 of our full-service branches are located. We lease the remainder of our branches from unaffiliated third parties. We believe that our facilities are adequate for their intended purposes. In 2008, we carried out the sale of our main properties, including our headquarters. During the same period, we purchased two plots of land intended for our new corporate headquarters. The new corporate buildings were built in 2015 and are located in the financial center of Mexico City, with our headquarters building being the *Torre BBVA Bancomer* in *Paseo de la Reforma*, and the operative building being *Torre Polanco* nearby in *Parques Polanco*.

We also own a data processing center called the *Centro de Procesamiento de Datos BBVA Bancomer*, the building measuring 6,082 square meters and houses our back-up computer facilities. The facility provides computer

services to our branches and operational centers in more than 500 regions in Mexico. We believe our communication network is the largest in Mexico and Latin America.

## Employees

The following table shows the breakdown of our full-time, permanent employees at the dates indicated:

	As of December 31,		As of September 30,	
	2014	2015	2016	2017
BBVA Bancomer .....	29,315	30,333	31,048	30,806
Overseas branches and representative offices .....	28	28	24	25
Subsidiaries .....	0	0	0	0
Total .....	<u>29,343</u>	<u>30,361</u>	<u>31,072</u>	<u>30,831</u>

As of September 30, 2017, we had 30,831 employees of which approximately 32% were unionized. All management positions are held by non-unionized employees. We are party to a single collective bargaining agreement. The collective bargaining agreement was signed on February 2, 2017 and expires on January 31, 2018. We consider relations with our employees to be satisfactory.

We have a comprehensive personnel training and development program that includes internal courses on operational, technical and commercial subjects, as well as participation in external seminars.

As required by Mexican law, we must make severance payments to employees whose employment is terminated under certain circumstances, as well as seniority premiums in cases of employees who have worked with us for at least 15 years and decided to terminate their employment with BBVA Bancomer. In addition, we offer pension funds to retired employees based on seniority, including life and disability insurance for all those who qualify for this benefit. All of our employees have the right to receive a productivity bonus. The benefits that we grant our employees include benefits and incentive programs in addition to those established by Mexican labor laws.

Under the terms of our employment agreements, we are required to make certain post-retirement payments to our employees and their dependents. In accordance with Mexican Banking GAAP, we are required to include the net between the present value of the actuarial liabilities and the assets for financing these liabilities, these payments as an additional liability that must be reflected on our balance sheet. We are permitted to record the additional liability stemming from these payments as a one-time charge to our income statement, or we may amortize the effect of these payments on a straight-line basis over the expected remaining period that our employees will be under employment. We record these differences (gain/losses) liabilities annually as a one-time charge to our income statement. The application of this Mexican Banking GAAP criterion did not have an adverse effect on our financial condition or results of operations for the nine-month period ended September 30, 2017.

On December 6, 2006, we entered into an employer substitution agreement (*contrato de sustitución patronal*) with Operadora pursuant to which, as of January 1, 2007, all of our employees (except for our Chief Executive Officer) were transferred to Operadora's payroll. The transfer was made in order to give GFBB the flexibility to deploy personnel into its various business units without requiring a change of employers. All employees' salaries and benefits are paid by Operadora. We pay an amount equal to all employees' salaries and benefits plus a commission to Operadora as a service fee. All of our former employees continue to enjoy their former benefits and seniority. As a result of this transfer, all of our former employees are now part of a performance-based compensation program.

## **Legal Proceedings**

### ***Deposit account cases***

We have faced a number of lawsuits from depositors who held deposit accounts with one of our predecessor entities from 1979 through 1992, the period during which these entities were owned by the Mexican Government. The plaintiff in each lawsuit has claimed that under the terms of the deposit agreement then in effect, we are required to pay the rate of interest (generally in excess of 95%) specified in such deposit agreement indefinitely, regardless of subsequent decreases in market interest rates.

In March of 2010, the Mexican Supreme Court issued rulings in three areas which will be applicable to the lawsuits described in the preceding paragraph. First, high interest rates agreed during a period of high inflation are only applicable to the period originally agreed by the parties. *Banco de México* will fix the applicable interest rate for any extension. Second, interests may only be capitalized if there is an express agreement between the parties. Third, unclaimed interests will prescribe ten years after they accrue. Based on the application of the foregoing, the amount of these contingencies has been substantially reduced and we consider them to be immaterial.

### ***Other litigation***

There are no relevant ongoing legal, administrative or arbitral proceedings other than those that are part of the normal course of our business, including those related to liquidation or bankruptcy proceedings, in which we, our subsidiaries or shareholders, directors and senior officials, are or could be involved, which could have or has had a significant impact on the outcome of our operations.

There are no legal, administrative or arbitral proceedings with contingencies amounting to more than 10% of the total assets of the Bank. For further information about other types of lawsuits and proceedings brought against us, see note 37 to our Financial Statements.

## **RISK MANAGEMENT**

### **General**

Our risk exposures consist of credit, liquidity, operational (including legal) and market risks. Credit risk is defined as the potential loss caused by the partial or total failure of a counterparty or issuer to perform on an obligation to us. Credit risk can affect the performance of both the loan portfolio and the investment portfolio. Liquidity risk encompasses funding liquidity risk, which refers to the inability to renew liabilities or acquire new ones at normal or stressed market conditions, and market liquidity risk, which refers to the inability to unwind or offset positions due to a lack of market depth, thereby affecting the value of an asset. Operational risk is the potential loss caused by failures or deficiencies in information systems, internal controls or errors while processing transactions. Market risk is the potential loss due to adverse changes in market prices of financial instruments as a result of movements in interest rates, foreign exchange rates and equity prices, and the adverse effect on our traditional banking activities of interest rate and foreign exchange rate fluctuations. We consider risk management an essential activity that requires ongoing improvement and adjustment according to our operations.

Mexican financial authorities have formulated rigorous risk management regulations for the banking sector. The CNBV has issued a set of requirements regarding risk management practices for all banking institutions in Mexico. The regulations require that banks have adequate policies and procedures in place to manage credit, liquidity, technological, market, operational and legal risk. This management process must include sound measurement and monitoring methods, as well as the establishment of risk limits. The regulations also require the establishment of a risk committee and a risk management unit. We have implemented and continue to update our program approved by our Board of Directors that fully complies with the CNBV requirements and requires higher standards with respect to many issues.

### **Risk Management Organizational Structure**

We have a general risk management and control model that we believe to be appropriate for our business model and our organization. This model allows us to carry out our activities within the parameters of our risk management and control strategy and policies that are defined by our governing bodies and adapt to a changing economic and regulatory environment. The model comprises the following basic elements: (i) governance and organization, (ii) our Risk Appetite Framework, (iii) decisions and processes, (iv) evaluation, monitoring and reporting and (v) infrastructure.

Our risk strategy is established by our governing bodies (the Board of Directors and the Risk Committee) through the Risk Appetite Framework and its statements, as well as the core metrics by type of risk, which together constitute the principles on which the risk function is based.

The head of the risk function at the executive level is the Chief Risk Officer (“CRO”) who is appointed by the Board of Directors as a member of senior management and reports directly to the Chief Executive Officer on the activities carried out by the corporate bodies. The CRO is supported by a structure consisting of risk units in the corporate area and specific risk units in the business areas. The CRO provides information to the Risk Committee about the performance of risk portfolios and the actions taken by his units to manage them.

The Risk Management Committee Strategies (“RMC-E”), the highest executive authority in terms of our risk management, was established to develop the strategies, policies, procedures and infrastructures required to identify, assess, measure and manage material risks faced by us in the ordinary course of business, which in some cases are subject to approval by our governing bodies.

In addition, we have a specific Internal Risk Control unit whose main function is to ensure the integration of our risk strategy in all areas of our management through an internal regulatory framework which we consider to be adequate.

## Credit Risk

### Credit policies and procedures

Credit risk policies and procedures constitute the internal regulatory framework on which prudential and integrated management is carried out during the credit life cycle (admission, monitoring and settlement).

The Risk Management Unit has the authority to authorize exposure to credit risk by the unit, by the Risk Committee or more senior levels within the Bank. The approval is the result of an analysis of the potential or existing client's ability to fulfill on a timely basis all financial obligations with business or other income. The risk decision is supported by risk models and tools which are used at all times pursuant to our policies and procedures.

### Credit risk quantification

We have an integrated bank-wide risk assessment system that provides us with sophisticated risk measurement tools and risk management practices. We use the following two measures for this purpose:

- Expected loss is calculated over the total outstanding credit portfolio. The credit scores are calculated using qualitative and quantitative information obtained from Financial Statements, and self-regulatory organizations (i.e. BC-Credit Bureau and AMB-Asociación Mexicana de Bancos). This score is determined to reflect the expected probability of default of a borrower and the expected loss given a default on any particular operation. We record this measure as a cost by creating a reserve for expected losses relating to a particular portfolio. As of September 30, 2017, the total allowance for expected loan losses equaled Ps. 32,133 million, or U.S. \$1,770 million.
- Unexpected loss represents the uncertainty that actual losses will, in fact, differ from expected loss as it measures the impact of external events that may affect the likelihood of a customer's payment and helps us to determine how much economic capital we need in order to maintain an investment grade that is satisfactory to our shareholders.

### Credit analysis and pricing

Account officers are trained and responsible for assigning risk ratings based on a set of quantitative and qualitative variables as well as on information from credit rating agencies and credit bureaus under homogeneous criteria. Different rating systems have been developed for different segments of clients. An account officer's analysis of a loan application is accompanied by a summary of the major sources of risk. With respect to commercial loans approval, there are several pre-authorizations required depending on the amount of the credit requested and a given debtor's rating, as shown in the table below.

Middle-Market Division's Credit Authorizations by Credit Amount	
Committee	Maximum amount (millions of U.S. \$)
Division Manager .....	30
Operations Technical Committee ("CTO").....	120
Risk Management Committee – Admission ("RMC-A").....	Greater than 120

The pricing of the loan is tied to our risk and operating costs. The pricing formula is based on the following factors: cost of funds (as priced by our finance division) based on general local market conditions, our yield model and market competition; commissions; operating costs; expected losses; required margins; adjustment for risk rating; and capitalization requirements.

## **Retail lending analysis**

We perform credit analyses of all our retail borrowers. In the case of individual borrowers, the credit approval process is based primarily on an evaluation of the borrower's repayment capacity. A branch officer evaluates the information presented by the prospective borrower taking into consideration the following factors: (i) the results generated by an automated scoring program, which takes into consideration the potential borrower's income, expenses and personal assets; (ii) the potential borrower's credit history; and (iii) our previous experience, if any, with the potential borrower. We have improved our systems for tracking the repayment of loans and credit card balances. Decisions on the granting of loans are taken at various levels and with varying degrees of involvement by directors and officers, depending on the size of the loan under consideration, the aggregate amount of credit outstanding to the borrower and the complexity of the loan.

Our credit evaluation procedures with respect to credit cards and consumer credits are based on a computerized credit scoring system. The credit scoring process centralizes the decision-making process in regard to both the issuance of credit cards and increases in credit lines, increasing the level of control exercised in making such decisions. We have taken additional steps to improve the quality of our credit card assets, including raising the minimum gross monthly income requirement for credit card applicants and verifying the information contained in credit card applications more rigorously. We have access to on-line information about the credit history of each of our credit card customers that we use in our decision-making process regarding increases or decreases in the credit line provided to a particular customer. We currently use the services of a Mexican credit bureau created jointly by us, other Mexican banks and a Mexican affiliate of TransUnion, a leading U.S. credit bureau, to manage our credit card portfolio. We have also been working on the development of additional decision-making systems aimed at verifying the reliability of the information obtained from our admission process.

Our mortgage loan origination process is centralized and based on a computerized credit scoring system. The credit process begins at the pre-qualification phase, which serves as a filter to the loan approval process, and provides all required applicant information including information about the applicant's credit history obtained through a credit bureau, which is reviewed to determine whether an applicant meets the pre-qualification standards. Appraisal of the property is undertaken through a centralized independent unit. The relevant officer reviews the applicant's file and the collateral file (including the appraisal) to determine the applicant's debt capacity and the authorized loan amount. Once a final decision is made, the credit contract is signed before a notary public, the deed is registered at the Public Registry, and the funds are disbursed to the applicant's checking account. Loan-to-value ratios are set according to the size of the loan with a maximum of 90%, which requires a minimum down payment of 10%. We only accept first mortgages on property.

## **Corporate and middle-market lending analysis**

A potential corporate borrower's evaluation focuses primarily on the credit history and reputation of its owners and management, its production processes and facilities, the diversification of its financing sources, its current and projected cash flows and the security offered for the loans. With respect to loans intended to finance a particular project, the evaluation focuses primarily on the experience of the borrower, the existence of a technological alliance, market conditions and the projected financial condition of the borrower. We assign a credit risk rating based on this analysis that helps to identify the customer's risk profile.

Account officers are responsible for preparing proposals regarding corporate loan applications. Each loan application is classified according to its industry sector and is then reviewed by the credit manager responsible for that particular sector to determine whether it merits further consideration. The credit manager, presents the proposal to the corresponding credit committee for approval.

Loan applications above U.S. \$100 million (or its peso equivalent) must be presented by the responsible credit manager to our Risk Management Committee that is comprised of the Credit Risk Officer, Wholesale Credit Risk Director and the credit managers of all sectors.

The Middle Market segment is covered by risk teams assigned to each of the divisions in which the business unit is divided. Division risk managers report directly to the central risk department and take credit decisions through divisional committees.

### **Monitoring**

We operate a compliance center to monitor our borrowers' compliance with the term of loans. The compliance center monitors the dates and payments of loans, the conditions and covenants of loans and any authorized exceptions to standard procedures. The monitoring process also includes the verification of the use of proceeds and satisfaction contractual conditions, financial analysis of the borrower and guarantors, on-site visits to the borrower's place of business, confirmation of credit bureau information and analysis of the economic environment, among other procedures. Finally, the compliance center also operates an early warning default system.

Pursuant to the rules governing lending activities under the General Rules Applicable to Mexican Banks, Mexican banks must implement certain measures relating to lending controls, including processes relating to loan promotion, evaluation, approval, documentation, management control and collection. We have implemented these measures with the approval of the CNBV.

### **Derivative financial instruments**

Credit exposure from derivative financial instruments arises from the risk that customers or counterparties will default on their obligations to us. To reduce this risk, each customer or counterparty engaged in these transactions must have either a trading line of credit, which takes into account the trading risk for each customer or counterparty, or a collateral deposit. The amount of risk implied in derivative financial instrument transactions, measured as the potential credit exposure, is added to the total risk authorized for a specific customer and must be authorized by a credit committee. To quantify the amount of line of credit utilized by a specific customer or counterparty in a derivative financial instrument transaction, our risk management unit calculates, by the use of statistics and volatility levels, the maximum expected credit exposure within a pre-defined confidence level. This amount is the potential credit exposure and corresponds to an amount that must be blocked out of the customers' or counterparties' line of credit. Lines of credit are monitored during the day and at the end of the day by a support area of our risk management unit and by our risk management unit.

### **Liquidity Risk**

Liquidity risk is related to the inability to meet efficiently both expected and unexpected current and future cash flows without affecting either our daily operations or our financial condition; it is also related to the structure of the balance sheet regarding the term structure gap between assets and liabilities. The purpose of managing liquidity risk is to minimize the cost of funds through adequate coverage of liquidity needs that arise in either the ordinary course of business or from unforeseen events.

Our treasury unit is responsible for maintaining adequate intraday and short-term liquidity levels in pesos and U.S. dollars. Our Asset and Liability Committee, or ALCO, is responsible for maintaining overall adequate liquidity levels in pesos and U.S. dollars. Our principal sources of peso funding are customer deposits, which are highly concentrated in checking accounts (non-interest and interest-bearing) and short-term notes with interest due at maturity. Our main sources of U.S. dollar funding are checking accounts (non-interest and interest-bearing), time deposits and foreign exchange derivatives.

Liquidity risk is analyzed by time horizon (short and long-term), by concentration of funding, between the liquidity buffer and net outflows, by encumbrance of the Bank's assets, and by uses and sources of funding under normal and extreme conditions. Liquidity risk is monitored through a limit scheme for quantitative and qualitative indicators where, if necessary, a contingency funding plan is implemented for immediate corrective actions.

## **Operational Risk**

Operational risk is risk that cannot be classified as credit risk, market risk or technical or biometric risk. We measure and endeavor to control operational risk through our operational risk management unit.

Our operational risk management unit reports to a risk executive officer who is responsible for establishing and implementing methodologies and procedures to identify, measure, value and mitigate operational risk throughout the Bank. Because operational risk mitigation is a part of every process, the responsibility of its management is assigned to each process owner or manager in the Bank who has designated a member of his staff as operational risk manager, each of whom works as a delegate of the operational risk management unit.

We mainly use tools such as “STORM” (System for Operational Risk Management) and SIRO to manage operational risk, each of which was developed in-house and is a proprietary trademark. STORM is a qualitative management tool that identifies and evaluates operational risk factors and helps us establish and prioritize mitigating measures, including a collection of a key risk indicators that are customized for each process and that provide information about the level and type of operational risk exposure in the respective process. SIRO is a database of historic losses suffered by us as a consequence of operational risk events that are classified by risk class and loss type, business unit and account, among other criteria.

Pursuant to applicable regulations in Mexico, as of the end of 2015, operational risk for regulatory capital is currently being calculated under a Basel II alternative standard approach (“ASA”). Operational risk for economic capital is calculated under a Basel II advanced approach with a diversified allocation of economic capital for each business unit. Calculations under the Basel II Advanced Measurement Approaches (“AMA”) have been estimated using data as of the end of July 2015 and June 2016, and will continue to be recalculated each year using data as of the end of each June.

## **Market Risk**

Our exposure to market risk arises from trading and investment in financial instruments, where interest rates, foreign exchange rates (mainly the peso/U.S. dollar exchange rate) and stock prices are the most important sources of market risks, and from traditional banking services such as deposit taking and lending, where the balance sheet is exposed to interest-rate risk and foreign-exchange risk.

Treasury and trading positions are evaluated on a daily basis for market risk using Value at Risk Methodology. In addition, information regarding risk versus limits, scenario analysis and stress tests is produced on a daily basis.

Our risk management unit uses a historical simulation model to calculate value at risk. Equally weighted historical simulation is used as the central measure, against which limits are compared. In addition, historical simulation with Exponentially Weighted Moving Average, or EWMA, is used as a complement because it is more sensitive to risk and, therefore, responds more quickly to changes in volatility and correlation levels. Finally, the effect of portfolio diversification is measured within each model.

Historical data of market parameters such as interest rate curves, foreign exchange prices, volatilities and stock indexes for the last two years are available for value at risk calculations. “Unwind Period Value at Risk” looks to reflect market liquidity risk by calculating the number of days it will take to unwind a position without affecting the market. In making these calculations, market outstanding amounts and trade volume information is compared against current exposures, with the information being updated periodically for internal use.

The following table sets forth the average, maximum and minimum values of the daily Value at Risk during the first nine months of 2017, as well as the daily limits in effect as of September 30, 2017. Daily Value at Risk is calculated with a 99% confidence level. Value at Risk is calculated to represent the maximum loss at this confidence level due to changes in market values of trading positions. The information below does not include securities that are no longer traded, recorded as for sale, or as held to maturity, or that are highly illiquid or in workout. During the



first nine months of 2017, daily Value at Risk did not exceed Ps. 300 million (U.S. \$16.6 million). The daily consolidated Value at Risk limit was Ps. 310 million. Limits are reviewed periodically.

	Nine months ended September 30, 2017			Actual limit as of September 30, 2017
	Average	Maximum	Minimum	
Equities .....	24.5	51.4	11.2	74.8
Interest rate .....	124.8	207.2	83.8	227.5
Foreign exchange .....	23.8	108.9	2.8	65
Vega EQ.....	14.8	44.2	8.0	107.3
Vega FX.....	2.7	6.2	0.7	21
Vega IR .....	21.6	33.4	12.7	58
Total .....	131.0	300.2	97.0	310

Stress testing is used to complement the value at risk methodology. Stress testing involves the creation of scenarios based on infrequent or catastrophic events to evaluate contingencies, and is of particular importance in periods of highly volatile or illiquid markets. The sensitivity analysis we conduct shows the effect on positions caused by predetermined changes in market variables (a 1% increase in interest rates).

In addition, we have a stop-loss process that issues a warning if losses reach a certain level preset by our board of directors. If a stop-loss warning is issued, the ALCO is convened to establish an action plan.

ALCO monitors our Basis Point Value (“BPV”) and Net Interest Income (“NII”), exposures and positions of our banking book. We seek to manage our assets and liabilities to reduce any potential adverse impact on our results of operation and economic value that might result from changes in interest rates. Risk control of interest rates is conducted through systematic monitoring of limit exposure. Particularly, we have established sensitivity alerts for BPV and expected NII for the following twelve months, as well as limits for economic capital, which is the maximum expected loss in net economic value with a 99% confidence level over a three-month volatility horizon, and for margin at risk, which is the maximum expected loss in net expected NII for the following 12 months with a 90% confidence level over a one-month volatility horizon.

The primary methods used to estimate the interest rate risk of the balance sheet portfolio are as follows:

- parallel and non-parallel scenario analysis (including theoretical and historical stress scenarios); and
- interest rate simulation.

Non-maturity products are characterized according to their economic durations and to their market rate sensitivity and using a stability model.

Our non-peso lending activities are generally priced based on LIBOR, with re-pricing intervals of one, three or six months depending on our funding opportunities. Spreads over the LIBOR reference rate are managed in accordance with our marginal cost of funding in currencies other than pesos.

## MANAGEMENT

### Board of Directors

Pursuant to Mexican Banking Law, the board of directors of the largest Mexican banks must be composed of a minimum of five and a maximum of 15 directors, of whom, at least 25% must be independent. There must also be an alternate director appointed for each director. Independent directors shall also have independent alternates. No more than a third of the board members may be employees of the relevant bank.

On February 28, 2017, our shareholders voted to elect the members of our board of directors. Our board of directors meets at least every three months and is chaired by Luis Robles Miaja, who is also the Chairman of the board of directors of GFBB.

The following table sets forth our current directors and their alternates:

<u>Name and position</u>	<u>Principal activity</u>	<u>Years on our board of directors</u>	<u>Age</u>
Chairman Luis Robles Miaja	Chairman of GFBB	16	57
Secretary José Fernando Pío Díaz Castañares	Legal Officer of BBVA Bancomer	16	55
Alternate Secretary Alfredo Aguirre Cárdenas	Legal Officer of BBVA Bancomer	5	53
Directors			
Alberto Bailleres González	Executive Chairman of Grupo Bal	25	86
Alejandro Ramírez Magaña *	CEO of Cinépolis de México, S.A. de C.V.	4	46
Fernando Gerardo Chico Pardo	Chairman and General Director of Promecap, S.C. and Aeropuestos del Sureste, S.A.	5	62
Carlos Vicente Salazar Lomelín	Executive Chairman and CEO of Coca-Cola FEMSA, S.A. of C.V.	12	66
Francisco González Rodríguez	Chairman of BBVA, S.A.	17	72
Ricardo Guajardo Touché *	Chairman of Audit Committee of GFBB	25	68
Carlos Torres Vila	CEO of BBVA, S.A.	0	51
Enrique Medina Fernández *	Founder Associate of Despacho Medina Fernandez, A.C.	4	75
Alternates			
Arturo Manuel Fernández Pérez	The Dean of the Instituto Tecnológico Autónomo de México (ITAM)	23	63
José Francisco Gil Díaz	Executive Chairman of Fundación Telefónica Data México, S.A.	7	73
Vice Chairman			
Eduardo Osuna Osuna	General Director of BBVA Bancomer	2	48
Andrés Alejandro Aymes Blanchet *	Aymes and Associated	17	77
José Fernando de Almansa y Moreno Barreda *	Board Member of Telefónica, S.A.	11	65
Vicente María Rodero Rodero	Independent Council	5	60
Fernando Gutiérrez Junquera	Deputy Director at the Chairman of BBVA, S.A.	4	60
Jaime Serra Puché *	Founder Associate and General Director of SAI Consultores, S.C.	10	66
Jorge Saenz-Azcunaga Carranza	Business Monitoring Responsible of BBVA, S.A	0	47

\* Independent directors

## **Examiners**

The examiners of the Bank must be residents of Mexico. The duties of the examiners include monitoring and supervising our operations, books and records. The examiners must comply with obligations imposed by law and internal statute and must meet the following requirements:

- technical capacity;
- knowledge and experience in accounting, financial, legal or administrative matters;
- quality of credit history;
- moral character; and
- absence of any legal impediment to the performance of their duties (such as conflict of interest).

Because of the relationship between the examiners and the Bank, the examiners are bound by confidentiality obligations. They may attend the board of directors' and shareholders' meetings but may not vote.

Although some of the functions of the examiner and the external auditor are similar, their responsibilities differ. To avoid conflicts of interest, examiners cannot sign the audit opinion on our annual financial statements. However, examiners and auditors may work for the same firm.

## **Board activities**

The main functions of our board of directors are to:

- manage and represent the company and fulfill its corporate purposes;
- appoint and dismiss chief executives, including the CEO, officers, agents, employees and external auditors of the Executive Officers Committee;
- create committees and commissions as it deems necessary, delineating their structure, organization and authority and granting them the necessary powers to carry out the business as the board may determine; and
- summon the ordinary and extraordinary shareholders' meetings.

## **Credit and market risk committee**

Our credit and market risk committee is responsible for:

- approving credit operations that involve more than U.S. \$30 million, or its equivalent in national and other currencies;
- approving credit and market risk management policies (excluding policies that must be approved by our board of directors);
- overseeing the development of our loan portfolio;
- To perform the functions inherent to the Compensation Committee related to the "General Provisions applicable to Credit Institutions" issued by the CNBV, and
- addressing certain special issues referred to it by our board of directors.

The current members of our credit risk committee are Andrés Alejandro Aymes Blanchet, Eduardo Osuna Osuna, Fernando Gerardo Chico Pardo, Arturo Manuel Fernández Pérez, Blanca Cecilia Muñoz Martínez and José Fernando Pío Díaz Castañares (Secretary).

### **Audit committee**

Our audit committee performs the following functions:

- *Internal Controls.* Our audit committee reviews and submits internal control procedures and policies to our board of directors for approval, analyzes and approves operations manuals and evaluates our internal control system, reporting its findings and recommendations to our board of directors.
- *Code of Ethics.* Our audit committee analyzes amendments to our code of ethics and submits its recommendations to our board of directors for its approval.
- *Financial Information.* Our audit committee makes recommendations to our board of directors concerning the preparation of our financial information to ensure it is useful, adequate and reliable. The committee also reviews our financial statements, on a quarterly and annual basis, before they are presented to our board of directors and reviews the relevant changes in accounting principles to ensure our financial statements comply with them.
- *Compliance.* Our audit committee reviews and approves the annual program of our compliance unit before it is presented to our board of directors, and the committee verifies our compliance with the program.
- *Anti-Money Laundering and Anti-Funding to Terrorism.* Our audit committee examines and approves annually the working plan about these matters. Every six months the committee evaluates the fulfillment of this plan and its outcomes.
- *Internal Auditing.* Our audit committee evaluates and makes recommendations to our board of directors concerning the appointment of the head of our internal audit unit; reviews and approves our annual auditing plan; supervises and evaluates the independence, quality and effectiveness of our internal auditing department; facilitates communication between our board of directors and our auditors, oversees training of internal auditors; and oversees the implementation of corrective measures taken based on recommendations from the audit committee.
- *External Auditing.* Our audit committee submits external auditing candidates to our board of directors for its approval, verifies that we rotate external auditors every five years, evaluates the independence of the external auditor, ensures that the external auditing program is based on contractual agreements and reviews the external auditor's reports before they are presented to our board of directors.
- *External Supervision.* Our audit committee reviews the results of any inspections by external supervisory bodies and oversees our compliance with their recommendations.
- *Systems.* The audit committee is informed about the incidents that occur in systems and services provided to users through electronic media (i.e., e-mail and websites), to ensure that measures are taken to prevent or avoid any incidents in the future.
- *Outsourcing Operations.* The audit committee is informed of the performance of contracted services to third parties, as well as of compliance with applicable regulations relating to such services, to ensure that appropriate mechanisms are followed to manage, control and protect information created, received, transmitted, processed or stored in the technological infrastructure, telecommunications or information processing services that are performed by such third parties.

- *Credit Risk.* The audit committee is provided with quarterly reports on any deviations detected with respect to objectives, guidelines, policies, procedures, strategy and current regulations concerning credit.
- *Derivative Operations.* Each year the audit committee is informed and informs the board of directors of the results of the annual evaluation regarding our compliance with the requirements imposed by *Banco de México* on our derivative operations, including approval by our board of directors of our procedures, products and risk limits, qualification of our personnel and sufficiency of our infrastructure and internal controls related to our derivative operations.
- *Remuneration System.* Each year the audit committee must update the board of directors regarding the compliance, procedures and success of the remuneration system.

The current members of our audit committee are Ricardo Guajardo Touché (Chairman), Andrés Alejandro Aymes Blanchet and Jaime Serra Puche. In addition, Fernando Pío Díaz Castañares and Alfredo Aguirre Cárdenas are Secretary and Alternate Secretary of the Committee, respectively, and do not have voting powers.

### Executive Committee

Our executive committee is responsible for:

- working on special and urgent matters of competence of the board of directors that cannot be considered by the entire board of directors given time limitations or other limiting factors. The resolutions of the executive committee must be ratified by the board of directors;
- being knowledgeable about any matter that the Chairman or the Chief Financial Officer submits to the committee;
- convening special meetings of the board of directors; and
- resolving any matter expressly delegated to it by the board of directors.

The current members of the executive committee are Luis Robles Miaja (Chairman), Eduardo Osuna Osuna, Alberto Bailleres González, Ricardo Guajardo Touché and Ricardo Torres Vila.

### Executive Officers

All of our executive officers are appointed by our Chief Executive Officer and their appointments are ratified by our board of directors. Since January 1, 2007, our executive officers, other than our Chief Executive Officer, are employed by Operadora. See “The Bank—Employees.”

The following table sets forth our executive officers as of September 30, 2017:

Name	Position	Years working for our group	Age
Luis Robles Miaja	Chairman of the Board and General Director of Presidency	24	57
Eduardo Osuna Osuna	General Director	23	48
Fernando Eguiluz Lozano	General Director—Talent and Culture	20	45
Luis Ignacio de la Luz Dávalos	General Director—Finance	16	46
Blanca Cecilia Muñoz Martínez	General Director—Risks	33	56
José Fernando Pío Díaz Castañares	General Director—Legal Services	24	55
Hugo Daniel Nájera Alva	General Director—Business Development and Payment Methods	25	53
Oscar Enrique Coppel Tirado	General Director—Commercial Banking Network	30	55
Francisco Javier Leyva Rubio	General Director—Systems and Operations	14	49
Natalia Ortega Gómez	General Director—Audit	14	39

<b>Name</b>	<b>Position</b>	<b>Years working for our group</b>	<b>Age</b>
Adrián Otero Rosiles	General Director—Wholesale and investment banking	15	41
Álvaro Vaqueiro Ussel	General Director—Global Markets	12	49

## **RELATED PARTY TRANSACTIONS**

### **Loans to Related Parties**

Pursuant to the Mexican Banking Law, no loans may be made to any bank officers or employees, except in connection with certain employment benefits. As permitted by the Mexican Banking Law, we currently provide loans to our employees at favorable rates.

Article 73 of the Mexican Banking Law regulates and limits our loans and other transactions (including securities and derivatives transactions) to related parties pursuant to which such parties may become creditors of a bank, including loans to (1) holders of 2% or more of GFBB's or its subsidiaries' shares, (2) principal and alternate board members of GFBB, any of its subsidiaries or us, (3) relatives of a board member or of a 2% or more shareholder of GFBB or us, (4) any person not an officer or employee of GFBB or us who, nevertheless, is empowered to contractually bind GFBB or us, (5) any corporation which has a director or officer in common with GFBB or us or (6) a corporation in which GFBB's external auditors, our employees, holders of 2% or more of GFBB's shares, 2% or more of our shares, or we or any director or officer of GFBB or of us holds 10% or more of the outstanding capital stock. The majority of our board of directors must approve such loans. Before approval, however, the loan must undergo our customary review procedures for loans, which will vary depending on the nature and amount of the loan, except that such loans must always be reviewed and recommended by the highest loan review committee at the management level, and must be recommended by a special committee of directors responsible for reviewing our largest loans and all loans falling within the scope of Article 73 of the Mexican Banking Law. In addition, certain filings must be made with the CNBV with respect to such loans. Loans to individuals in amounts less than the greater of (i) two million UDIs or (ii) 1% of a bank's Tier 1 net capital (approximately Ps. 158,728, as of December 31, 2016, in our case), are exempt from such provisions. Loans to related parties may not exceed 35% of a bank's Tier 1 Capital. The CNBV may, upon request, grant exemptions from these provisions.

SHCP has adopted rules which exclude from the category of loans to related parties loans granted to the Mexican Government, loans to companies that provide ancillary services to us, provided that in each of these cases such entities do not make a loan to a related party, and loans to our directors or directors of GFBB if they fall within the minimum thresholds set forth above. These loans are not considered for purposes of determining the 35% of Tier 1 Capital limit of our loan portfolio that may consist of loans to related parties, and do not require the prior approval of our board of directors.

As of December 31, 2016, our loans to related parties under Article 73 of the Mexican Banking Law totaled approximately Ps. 39,962 million, which comprised 3.93% of our total loan portfolio at such date. Of the Ps. 39,962 million, approximately Ps. 31,520 million were loans made to BBVA S.A. and its subsidiaries and approximately Ps. 8,442 million were loans made to borrowers affiliated with members of our board of directors. Our loans to related parties are made on terms and conditions comparable to other loans of like quality and risk. Of all the related party loans outstanding on December 31, 2016, approximately 86.6% were graded "A," and 13.4% "B" under the regulations of the CNBV. The majority of such credits are loans for either commercial or industrial activities.

### **Affiliate Transactions**

From time to time we enter into agreements, including service agreements, with our affiliates. We have entered into service agreements with our affiliates, including with (1) Servicios Corporativos Bancomer, S.A. de C.V. for the sale of certain banking products, (2) Seguros BBVA Bancomer, S.A. de C.V. for the sale of insurance policies and (3) Casa de Bolsa BBVA Bancomer, S.A. de C.V. for brokerage services.

Based on these service agreements, we receive fees on a cost basis from Seguros BBVA Bancomer, S.A. de C.V., and pay fees on a cost basis to Servicios Corporativos Bancomer, S.A. de C.V. and Casa de Bolsa BBVA Bancomer, S.A. de C.V. No assurance can be given that transactions between us, on the one hand, and GFBB and our affiliates (including BBVA), on the other hand, have been or will in the future be conducted on a basis as favorable to us as could be obtained by us from unaffiliated parties. Future conflicts of interest between us, on the one hand,

and GFBB and our affiliates (including BBVA), on the other hand, are likely to develop, which conflicts are not required to be and may not be resolved in our favor.

All of our transactions among our subsidiaries are carried out according to market conditions. For further information, see note 23 to our Audited Financial Statements.



## THE MEXICAN FINANCIAL INDUSTRY

### General

Mexico's financial industry is currently comprised of commercial banks, national development banks, brokerage firms, development trust funds and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, savings and loans companies, foreign exchange houses, factoring companies, bonded warehouses, financial leasing companies, mutual fund companies, pension fund management companies and limited purpose financial institutions. In 1990, Mexico adopted the Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) aimed at achieving the benefits of universal banking, which permits a number of financial services companies to operate as a single financial services holding company, which was amended and restated on January 10, 2014. Most major Mexican financial institutions are members of financial groups.

The principal financial authorities that regulate financial institutions are the Ministry of Finance and Public Credit, *Banco de México*, the CNBV, the National Commission for Retirement Savings (*Comisión Nacional del Sistema de Ahorro para el Retiro*), or CONSAR, the National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas*), or the CNSF, the IPAB, and the National Commission for the Defense of Financial Service Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*), or CONDUSEF.

### Trend toward multi-purpose banking institutions

Prior to 1978, the Mexican banking system was comprised primarily of specialized institutions, which were authorized to conduct specified financial activities pursuant to concessions granted by the Mexican Government. Institutions other than multi-purpose banking institutions were not permitted to engage in more than two of the specified activities. During the period from 1978 to the nationalization of commercial banks in 1982, the structure of the Mexican banking system evolved towards the creation of multi-purpose banking institutions, which were allowed to engage in the full range of banking activities.

### Nationalization and subsequent privatization

In September 1982, Mexico's president decreed the nationalization of private Mexican commercial banks. Effective November 18, 1982, a constitutional amendment was adopted to implement the nationalization, which granted the Mexican Government a monopoly on banking and credit service. The number of banking institutions was reduced from 68 to 29 in the first two years of nationalized banking. By 1988, the number had been further reduced to 18, of which six had national coverage, five were regional banks and seven were multi-regional banks. Only two banks, Banco Obrero, S.A. and Citibank N.A., were excluded from the nationalization and continued limited operations as privately-owned commercial banks.

Effective June 28, 1990, the Mexican Constitution was amended to permit Mexican individuals and financial services holding companies to own controlling interests in the then-existing 18 Mexican commercial banks owned by the Mexican Government. Subsequently, a new Banking Law was enacted to regulate the ownership and operation of Mexican commercial banks, national development banks and foreign financial institutions. Pursuant to the Banking Law, Mexico began the process of privatizing commercial banks. By the third quarter of 1992, the Mexican Government had privatized all 18 state-owned commercial banks. Since that time, new commercial banks, have been chartered and regulations regarding investment in the banking sector by foreign investors have been relaxed.

### Financial groups

The enactment of the Financial Groups Law in 1990 permitted the development of the universal banking model in Mexico. By July 1992, most major Mexican financial institutions had become part of financial groups controlled by a financial services holding company, such as ourselves, and made up of a number of financial operating entities. The operations of financial services holding companies are generally restricted to holding shares representing the capital stock of financial operating subsidiaries. Such subsidiaries may include Mexican banks, brokerage firms, insurance companies, bonding companies, mutual fund operators, bond-warehousing companies, Sofomes, foreign

exchange service providers , retirement fund administrators and financing companies that provide credit to low income borrowers (*sociedades financieras de crédito popular*). As a general rule, a financial services holding company must maintain a majority participation and effective control of at least two financial subsidiaries, provided that the holding of two Sofomes only will not constitute a financial services holding company.

The Mexican Financial Groups Law allows entities controlled by the same financial services holding company:

- to act jointly before the public, offer services that are supplemental to the services provided by the other and hold themselves out as part of the same group;
  - use similar corporate names; and
  - conduct their activities in the offices and branches of other entities as part of the same group.
- In addition, the Mexican Financial Groups Law requires that each financial services holding company enter into an agreement with each of its financial services subsidiaries pursuant to which the holding company agrees to be responsible secondarily and without limitation for the satisfaction of the obligations undertaken by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for the losses of its subsidiaries, up to the total amount of the holding company's assets. In the event that the assets of the financial services holding company are insufficient to meet the losses of its subsidiaries if occurred simultaneously, the financial services holding company must first meet the liabilities of the financial institutions that are part of the group and subsequently, the liabilities of any other entities that form the group will be prorated. For such purposes, a subsidiary is deemed to have losses if its assets are insufficient to meet its payment obligations. The subsidiaries will never be held liable for the losses of their financial services holding company or for the losses of the other subsidiaries of the group.

#### *Authorities of the Mexican Financial System*

The principal financial authorities that regulate financial institutions are the SHCP, the CNBV, the CONSAR, the CNSF, the IPAB, and CONDUSEF. These authorities are subject to a number of organic laws and other administrative regulations that govern their regulatory, supervisory and other powers. Also, these entities continually enact administrative regulations within the scope of their respective authority for the regulation of the corresponding financial entities, as further mentioned below. We, as a financial services holding company, are subject to the supervision and regulation of the CNBV. In addition, we and other financial subsidiaries are subject to the supervision and regulation of the corresponding financial authority, and are in constant interaction with such authorities during their normal course of business.

#### ***Banco de México***

*Banco de México* is the Mexican central bank, which is an autonomous entity that is not subordinate to any other body of the federal government. *Banco de México*'s primary purpose is to issue the Mexican currency, as well as maintaining the acquisition power of such currency, the establishment of reference interest rates and ensuring that the banking and payments systems perform under safe and sound principles.

#### ***SHCP***

The SHCP is the regulator in charge of proposing, conducting and controlling the economic policy of the federal government in matters of economics, tax, finance, public budget, public debt and income. Together with the CNBV and *Banco de México*, it is the primary regulator of commercial banks and national development banks. The SHCP participates in the process of incorporation, revocation, operation, merger, control and stock purchase of financial institutions.

### **CNBV**

The CNBV is a governmental body subordinate to the SHCP and has independent technical and executive powers. The CNBV is in charge of the supervision and regulation of financial entities, with the purpose of ensuring their stability and sound performance, as well as the maintenance of a safe and sound financial system. The scope of the CNBV's authority includes inspection, supervision, prevention and correction powers. The primary financial entities regulated by the CNBV are commercial banks, national development banks, regulated multiple purpose financial institutions, brokerage firms, as well as publicly traded companies and other entities that have issued debt securities to the public. The CNBV is also in charge of granting and revoking banking and securities brokerage licenses in Mexico.

### **CONSAR**

The CONSAR is a governmental body under the SHCP and has independent technical and executive powers. The CONSAR was created in 1997 as part of a comprehensive reform of the retirement savings and pensions system and is in charge of protecting the retirement savings of employees through the regulation and supervision of *Afores* and *Siefores*. The CONSAR evaluates risks borne by the participants in the retirement savings system and makes sure these participants are solvent and maintain adequate liquidity levels.

### **CNSF**

The CNSF is a governmental body under the SHCP and has independent technical and executive powers. The CNSF is in charge of the supervision and regulation of insurance and bonding companies, promoting the safe and sound development of the insurance and guaranty bond financial sectors.

### **IPAB**

After the 1994 financial crisis, the federal government created the IPAB, an independent, decentralized governmental institution with its own legal standing and assets. The IPAB's primary purpose is the protection and insurance of bank deposits, having also powers to provide solvency to banking institutions, contributing to the safe and sound development of the banking sector and the national payments system. The IPAB is also entitled to acquire assets from distressed banking institutions.

### **CONDUSEF**

The CONDUSEF is a governmental body under the SHCP. The CONDUSEF is in charge of protecting and defending the rights of users of financial services and serves as an arbitrator between financial institutions and their customers. Among other powers, CONDUSEF has the authority to order the amendment of standardized agreements used by financial entities when it considers that such agreements contain abusive clauses, it may issue general recommendations to financial institutions, and suspend the distribution of information regarding financial services and products that it considers confusing.

### **The Banking Sector**

Banking activities in Mexico have been and continue to be affected by prevailing conditions in the Mexican economy, and the demand for and supply of banking services have been vulnerable to economic downturns and changes in government policies. Prior to the early 1990s, lending by Mexican banks to the private sector had fallen to very low levels. It is estimated, however, that by the end of 1994 average total indebtedness of the private sector to Mexican commercial banks had grown to represent approximately 40.7% of Mexican GDP, with mortgage loans and credit card indebtedness generally growing faster than commercial loans. The devaluation of the peso in December 1994 initiated a crisis, and the resulting high interest rates and contraction of the Mexican economy in 1995 severely impacted most borrowers' ability to both repay loans when due and meet debt service requirements. These effects, among others, caused an increase in the non-performing loan portfolio of Mexican financial institutions, particularly during 1995, which adversely affected the capitalization level of financial institutions. Also,

increased domestic interest rates and the deteriorating value of the peso made it more difficult for financial institutions to renew dollar-denominated certificates of deposit and credit lines.

From 1995 through the end of 1997, the CNBV had assumed, or intervened in, the operations of 13 banks and had adopted several measures designed to protect, stabilize and strengthen the Mexican banking sector. These measures included:

- creating a temporary capitalization program to assist banks;
- establishing a foreign exchange credit facility with *Banco de México* to help banks with dollar liquidity problems;
- increasing the level of required loan loss reserves;
- establishing a temporary program for the reduction of interest rates on certain loans;
- establishing various programs to absorb a portion of debt service cost for mortgage loan debtors (including debt restructuring and conversion support programs); and
- broadening the ability of foreign and Mexican investors to participate in Mexican financial institutions.

### **Reforms to Mexican Banking Law**

On January 10, 2014, several amendments to the Mexican Banking Law were published in the Federal Official Gazette, and are currently in effect, with the following purposes:

**Update capital requirements according to Basel III.** The amendments to the Mexican Banking Law update the capital requirements for banking institutions by incorporating the requirements of the Basel III accords, currently included in the General Rules Applicable to Mexican Banks. The amendments specify that net capital will be comprised of capital contributions, retained profits and capital reserves. The CNBV is authorized to allow or prevent the inclusion of other items to calculate a bank's net capital, subject to the terms and conditions of the general rules to be issued by CNBV to further regulate the capital requirements for bank institutions.

**Strengthen measures to maintain the liquidity requirements of banks.** The amendments to the Mexican Banking Law grant authority to the CNBV to order adjustments to a bank's accounting registries. If a bank fails to meet the liquidity requirements imposed by CNBV and *Banco de México*, the CNBV may order the bank to adopt actions toward restoring the corresponding liquidity requirements, including suspending or partially limiting certain lending, borrowing or service operations of the bank, and requiring the bank to present a liquidity restoration plan.

**Create a special liquidation mechanism for banks.** The amendments to the Mexican Banking Law establish that the revocation of a bank's authorization to organize and operate as a banking institution, will immediately lead to the liquidation of the bank under the provision of the Mexican Banking Law excluding banks from the *concurso mercantil* procedure under the Mexican Bankruptcy Law. Except when the shareholders specifically request the revocation of the authorization to organize and operate as a bank, the IPAB will act as receiver (*liquidador judicial*) of the bank in liquidation.

**Allow foreign government to hold shares in Mexican banks under certain conditions.** The amendments to the Mexican Banking Law expressly set forth an exception to the rule prohibiting the participation of foreign governments in the capital stock of banking institutions, when such governments hold equity in the banking institution (i) pursuant to preventive temporary measures, such as financial support or rescue programs, (ii) when control over such institution is held through official entities (such as funds or support governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate separately from the relevant foreign government, and (iii) when the participation is indirect and does not imply the control by the relevant foreign government over the banking institution in terms of the Mexican Banking Law.

*Strengthen the authority of CNBV.* The amendments to the Mexican Banking Law reinforce the oversight powers of CNBV by giving it authority to order the suspension or limitation of transactions with related parties if such transactions are not within market terms. The CNBV may also order measures to stimulate banks into channeling more funds to the productive sector of the Mexican economy.

### **Initiatives to improve creditors' rights and remedies**

Mexico has enacted legislation to improve creditors' rights and remedies. These laws include collateral pledge mechanisms and a bankruptcy law.

### **Collateral mechanisms**

Laws regarding the perfection and enforcement of security interests include mechanism for pledging without transferring possession, as well as a common security device known in Mexico as the security trust. All personal property being used in a debtor's main business activity may be pledged, by making only a generic description of such property. The provisions regulating the security trust are similar to those governing pledges of personal property, except they provide that title to the collateral must be held by the trustee.

Also, for security pledges, there are provisions allowing the transfer of title to pledgee of the pledged assets, if agreed by the parties. Under the latest amendments to the Mexican Securities Market Law, if the transfer of property over the pledged securities is agreed upon by the parties, the pledgee may apply the market value of the pledged securities to the payment of the corresponding obligation in the event of default, without requiring the enforcement of such pledge before a court.

### **Deregulation of lending entities and activities**

In July 2006, the Mexican Congress enacted reforms to the General Law of Auxiliary Credit Organizations and Credit Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*), the Mexican Banking Law and the Foreign Investment Law (*Ley de Inversión Extranjera*), with the purpose of creating a new type of financial entity called multi-purpose financial entities ("Sofom"). In January 10, 2014 further amendments to the General Law of Auxiliary Credit Organizations and Credit Activities were published in the Federal Official Gazette to strengthen the oversight authority of the CNBV and the CONDUSEF in respect to Sofomes.

Sofomes are Mexican companies (*sociedades anónimas*) the main corporate purpose of which is to engage in lending and/or financial leasing and/or factoring services. Pursuant to the creation of Sofomes, the Ministry of Finance and Public Credit ceased to authorize the creation of *Sofoles* (limited purpose financing companies), and all existing Sofol authorizations were automatically terminated on July 19, 2013.

Sofomes can either be regulated entities or non-regulated entities. Sofomes that are regulated entities are subject to the supervision of the CNBV, and are required to include in their denomination the words "*Entidad Regulada*" (regulated entity) or the abbreviation thereof "E.R." All other entities whose main purpose is engaging in lending, financial leasing and factoring activities are non-regulated Sofomes and must indicate so in their corporate denomination by including the words "*Entidad No Regulada*" (non-regulated entity) or the abbreviation thereof, "E.N.R." Non-regulated Sofomes are not subject to the supervision of the CNBV.

Regulated Sofomes are companies that are affiliates of Mexican banks, of financial entities, financing companies that provide credit to low income borrowers (*sociedades financieras populares*), community financing companies (*sociedades financieras comunitarias*), savings and lending companies (*sociedades financieras de ahorro y préstamo*), or that offer debt securities registered in the RNV, or non-regulated Sofomes authorized by CNBV to be considered as a regulated entity.

In addition, for an entity to be considered a Sofom (regulated or non-regulated), the company must be registered with the CONDUSEF, and will be subject to its supervisions, as is the case with any other financial entity.

## SUPERVISION AND REGULATION

### General

Our operations are primarily regulated by the Mexican Banking Law, and the rules issued thereunder by the Ministry of Finance and Public Credit and the CNBV, as well as rules issued by *Banco de México* and IPAB. The authorities that supervise our operations are the Ministry of Finance and Public Credit, *Banco de México* and the CNBV.

The Ministry of Finance and Public Credit, either directly or through the CNBV, the role of which has been expanded, possesses broad regulatory powers over the banking system. Banks are required to report regularly to the financial regulatory authorities, principally the CNBV and *Banco de México*. Reports to bank regulators are often supplemented by periodic meetings between senior management of the banks and senior officials of the CNBV. Banks must submit their unaudited monthly and quarterly and audited annual financial statements to the CNBV for review, and must publish on their website and in a national newspaper their unaudited quarterly balance sheets and audited annual balance sheets. The CNBV may order a bank to modify and republish such balance sheets. From time to time, we are required to respond to information requests and to also cooperate with regulators in the course of an investigation.

Additionally, banks must publish on their website, among other things:

- the bank's basic consolidated and audited annual financial statements, together with a report containing the management's discussion and analysis of the financial statements and the bank's financial position, including any important changes thereto and a description of the bank's internal control systems;
- a description of the bank's board of directors, identifying independent and non-independent directors and including their resume;
- a description and the total amount of compensation and benefits paid to the members of the board of directors and senior officers during the past year;
- unaudited quarterly financial statements for the periods ending March, June and September of each year, together with any comments thereon;
- any information requested by the CNBV to approve the accounting criteria and special registries;
- a detailed explanation regarding the main differences in the accounting used to prepare the financial statements;
- the credit rating of their portfolio;
- the capitalization level of the bank, its classification (as determined by the CNBV) and any modifications thereto;
- financial ratios;
- a brief summary of the resolutions adopted by any shareholders' meeting, debenture holders' meeting, or by holders of other securities or instruments; and
- the bank's by-laws in effect at any time and from time to time.

The CNBV has the authority to grant and revoke authorizations to bank institutions and to impose fines for failing to comply with the provisions of the Mexican Banking Law, or regulations promulgated thereunder. In addition, *Banco de México* has authority to impose certain fines and administrative sanctions for failure to comply with the provisions of the Law of *Banco de México* (*Ley del Banco de México*) and regulations that it promulgates and the Law for the Transparency and Regulation of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), including violations relating to the regulation of interest rates and fees and the terms of disclosure of fees charged by banks to customers. Violations of specified provisions of the Mexican Banking Law are subject to administrative sanctions and criminal penalties.

### **Licensing of Banks**

An authorization of the Mexican Government is required to conduct banking activities. The CNBV, subject to the prior favorable opinion of *Banco de México*, has the power to authorize the establishment of new banks, subject to minimum capital standards, among other things. Approval of the CNBV is also required prior to opening, closing or relocating offices, including branches outside of Mexico or transfer of assets or liabilities between branches.

### **Intervention**

The CNBV may declare managerial intervention (*intervención*) of a banking institution pursuant to Articles 129 through 141 of the Mexican Banking Law and in such case the Governing Board of IPAB will appoint a “peremptory manager” (*administrador cautelar*) (the “CNBV Intervention”).

A CNBV Intervention pursuant to Articles 129 through 141 of the Mexican Banking Law will only occur when (i) during a calendar month, any of the Capital Ratios of a bank is reduced from a level equal to or above the minimum Capital Ratios required under the Mexican Capitalization Requirements, to 50% or less than such minimum Capital Ratios; (ii) the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and it does not submit itself to the conditional operation regime under Article 29 Bis 2 of the Mexican Banking Law, or (iii) the banking institution defaults with respect to any of the following payment obligations: (a) in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or *Banco de México*, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system, and (b) in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers and the Banking Stability Committee finds that any of the events described in the section “Financial Support—Determination by the Banking Stability Committee”, could occur. In addition, a CNBV Intervention may occur when the CNBV, in its sole discretion, determines the existence of irregularities that affect the stability or solvency of the bank or the public interest or the bank’s creditors.

The peremptory manager appointed by IPAB will assume the authority of the board of directors. The peremptory manager will have the authority to represent and manage us with the broadest powers under Mexican law and will not be subject to our board of directors or our shareholders. The appointment of the peremptory manager will be published in the Federal Official Gazette and in two National newspapers, and must be registered in the Public Registry of Commerce of the corresponding domicile.

### **IPAB**

The Banking Deposit Insurance Law, or the “IPAB Law” (*Ley de Protección al Ahorro Bancario*), which became effective January 20, 1999, provides for the creation, organization and functions of the IPAB, the bank savings protection agency. IPAB is a decentralized public entity that regulates the financial support granted to banks for the protection of bank deposits.

Only in exceptional cases may IPAB grant financial support to banking institutions. For a detailed description of the financial support that may be granted by IPAB, see “—Resolution and Payment of Guaranteed Obligations.”

According to the IPAB Law, banks must provide the information required by IPAB for the assessment of their financial situation and notify IPAB about any event that could affect their financial stability. The IPAB Law expressly excludes the release of such data from bank secrecy provisions contained in the Mexican Banking Law and expressly provides that IPAB and the CNBV can share information and databases of banks.

IPAB is authorized to manage and sell the loans, rights, shares and any other assets that it acquires to perform its activity according to the IPAB Law, to maximize their recovery value. IPAB must ensure that the sale of such assets is made through open and public procedures. The Mexican President is required to present annually a report to Congress prepared by IPAB with a detailed account of the transactions conducted by IPAB in the prior year.

IPAB has a governing board of seven members: (i) the Minister of Finance and Public Credit, (ii) the Governor of *Banco de México*, (iii) the President of the CNBV, and (iv) four other members appointed by the President of Mexico, with the approval of two-thirds of the Senate.

The deposit insurance to be provided by IPAB to a bank's depositors will be paid upon determination of liquidation of a bank. IPAB will act as liquidator or receiver, or both, in the liquidation of banks, according to the Mexican Banking Law. IPAB will guaranty obligations of banks to certain depositors and creditors (excluding, among others, financial institutions) only up to the amount of 400,000 UDIs per person per bank. IPAB will not guarantee (i) deposits and loans constituting negotiable instruments and bearer promissory notes; (ii) liabilities for financial institutions or subsidiaries of the bank, (iii) liabilities not incurred in the ordinary course of business and related party transactions, or (iv) liabilities assumed in bad faith or in connection with money laundering or other illegal activities.

Banks have the obligation to pay IPAB ordinary and extraordinary contributions as determined from time to time by the Governing Board of IPAB. Under the IPAB Law, banks are required to make monthly ordinary contributions to IPAB, equal to 1/12 of 0.4% multiplied by the average of the daily outstanding liabilities of the respective bank in a specific month, less (i) holdings of term bonds issued by other commercial banks; (ii) financing granted to other commercial banks; (iii) financing granted by IPAB; (iv) subordinated debentures that are mandatorily convertible in shares representing the capital stock of the banking institution; and (v) certain forward-operations.

IPAB's Governing Board also has the authority to impose extraordinary contributions in the case that, given the conditions of the Mexican financial system, IPAB does not have available sufficient funds to comply with its obligations. The determination of the extraordinary contributions is subject to the following limitations: (i) such extraordinary contributions may not exceed, on an annual basis, the amount equivalent to 0.3% multiplied by the total amount of the liabilities outstanding of the banking institutions that are subject to IPAB contributions; and (ii) the aggregate amount of the ordinary and extraordinary contributions may not exceed, in any event, on an annual basis, an amount equivalent to 0.8% multiplied by the total amount of the liabilities outstanding of the applicable banking institution.

The Mexican Congress allocates funds to IPAB on a yearly basis to manage and service the IPAB's liabilities. In emergency situations, IPAB is authorized to incur additional financing every three years in an amount not to exceed 6% of the total liabilities of Mexican banks.

### **Amendments to Banking Laws/Support Commercial Banking Institutions**

In January 2014, certain amendments to the Mexican Banking Law were enacted by Mexican Congress to reinforce the legal framework to adopt and grant financial support to commercial banking institutions undergoing financial difficulties.

### **Resolution and Payment of Guaranteed Obligations**

#### **Revocation of banking license**

In case that the CNBV revokes a license to organize and operate as a banking institution, the bank will immediately be in liquidation by the IPAB, according to the procedure set forth in the Mexican Banking Law. In



such a case, IPAB's Governing Board may determine to undertake the liquidation through any or a combination of the following transactions: (i) transfer the liabilities and assets of the banking institution in liquidation to another banking institution; (ii) constitute, organize and manage a new banking institution owned and operated directly by IPAB, with the exclusive purpose of transferring the liabilities and assets of the banking institution in liquidation; or (iii) any other alternative that may be determined within the limits and conditions provided by the Mexican Banking Law that IPAB considers as the best and less expensive option to protect the interest of bank depositors.

### **Causes to revoke a banking license**

The above mentioned amendments significantly expand the events upon which the CNBV may revoke a banking license. The following are among the most relevant events:

- if the banking institution is dissolved or initiates liquidation according to the procedure in the Mexican Banking Law;
- if the banking institution (a) does not comply with any minimum corrective measures ordered by the CNBV pursuant to Article 122 of the Mexican Banking Law; (b) does not comply with any special corrective measure ordered by the CNBV pursuant to such Article 122; or (c) consistently does not comply with an additional special corrective measure ordered by the CNBV;
- if the banking institution does not comply with the minimum Capital Ratios required under the Mexican Banking Law and the Mexican Capital Requirements;
- if the banking institution defaults with respect to any of the following payment obligations (a) in the case of obligations in an amount greater than 20,000,000 UDIs or its equivalent: (1) loans granted by other banking institutions, foreign financial institutions or *Banco de México*, or (2) payments of principal or interest on securities issued, that have been deposited with a clearing system, and (b) in the case of obligations in an amount greater than 2,000,000 UDIs or its equivalent, if during two business days or more, (1) it does not pay its obligations with one or more participants in clearing systems or central counterparts, or (2) it does not pay in two or more of its branches, banking deposits claimed by 100 or more of its customers.
- if the assets of the banking institution are insufficient to meet its liabilities.

Upon publication of the resolution of the CNBV revoking a banking license in the Federal Official Gazette and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated. Upon liquidation of a banking institution, IPAB shall proceed to make payment of all "guaranteed obligations" of the relevant banking institution, in compliance with the terms and conditions set forth by the Mexican Banking Law, other than those "guaranteed obligations" that have been actually transferred pursuant to article 186 of the Mexican Banking Law.

Obligations of a banking institution in liquidation that are not considered "guaranteed obligations" pursuant to the IPAB Law, and that are not effectively transferred out of the insolvent banking institution, will be treated as follows:

- term obligations will become due (including interest accrued);
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in pesos or UDIs will cease to accrue interest;
- unpaid principal amounts, interest and other amounts due in respect of unsecured obligations denominated in foreign currencies, regardless of their place of payment, will cease to accrue

interest and will be converted into pesos at the prevailing exchange rate determined by *Banco de México*;

- secured liabilities, regardless of their place of payment will continue to be denominated in the agreed currency, and will continue to accrue ordinary interest, up to an amount of principal and interest equal to the value of the assets securing such obligations;
- obligations subject to a condition precedent, shall be deemed unconditional;
- obligations subject to a condition subsequent, shall be deemed as if the condition had occurred, and the relevant parties will have no obligation to return the benefits received during the period in which the obligation subsisted; and
- derivatives, repos and securities loans will be early terminated and netted after two business days following the publication of the resolution of the CNBV revoking a banking license in the Federal Official Gazette and in two newspapers of wide distribution in Mexico.

Liabilities owed by the banking institution in liquidation will be paid in the following order of preference: (i) liquid and enforceable labor liabilities, (ii) secured liabilities, (iii) tax liabilities, (iv) liabilities to IPAB, as a result of the partial payment of obligations of the banking institution supported by IPAB in accordance with the Mexican Banking Law; (v) bank deposits, loans and other liabilities as provided by Article 46, Sections I and II of the Mexican Banking Law, to the extent not transferred to another banking institution, as well as any other liabilities in favor of IPAB different from those referred to clause (iv) above, (vi) any other liabilities other than those referred to in the following clauses, (vii) preferred subordinated debentures, (viii) non-preferred subordinated debentures (such as the Notes), and (ix) the remaining amounts, if any, shall be distributed to stockholders.

## **Financial Support**

### **Determination by the Banking Stability Committee**

The Banking Stability Committee (the “BSC”, formerly called the “Financial Stability Committee”), includes representatives of the Ministry of Finance and Public Credit, *Banco de México*, the CNBV and IPAB. In the case that the BSC determines that if a bank were to default on its payment obligations and such default may (i) generate, directly or indirectly, severe negative effects in one or more commercial banks or other financial entities, endangering their financial stability or solvency, and such circumstance may affect the stability or solvency of the financial system, or (ii) put the operation of the payments systems, necessary for development of economic activity, at risk, then the BSC may determine that a general percentage of all of the outstanding obligations of the troubled bank that are not considered “guaranteed obligations” under the IPAB Law and guaranteed obligations in amounts equal to or higher than the amount set forth under Article 11 of the IPAB Law (400,000 UDIs per person per entity), be paid as a means to avoid the occurrence of any of such circumstances. Notwithstanding the foregoing, under no circumstance may the transactions referred to in Sections II, IV and V of Article 10 of the IPAB Law (which include transactions such as liabilities or deposits in favor of shareholders, members of the board of directors and certain top level officers, and certain illegal transactions) or the liabilities derived from the issuance of subordinated debentures be covered or paid by IPAB or any other Mexican governmental agency.

### **Types of financial support**

In case that the BSC makes the determination referred to in the prior paragraph, then IPAB’s Governing Board will determine the manner according to which the troubled bank will receive financial support, which may be through either of the following options:

- If the BSC determines that the full amount of all of the outstanding liabilities of the relevant troubled bank institution (guaranteed and non-guaranteed) must be paid, then the financial support may be implemented through (i) capital contributions granted by IPAB in accordance with Articles 151 through 155 of the Mexican Banking Law, or (ii) credit support granted by

IPAB in accordance with Articles 156 through 164 of the Mexican Banking Law, and in either case the CNBV shall refrain from revoking the banking license granted to such commercial bank.

- If the BSC determines that less than the full amount of all the outstanding liabilities of the troubled commercial bank (guaranteed and non-guaranteed) must be paid, then the support will consist of the payment of the general percentage of outstanding obligations of the relevant troubled banking institution in determined by the BSC, in terms of article 198 of the Mexican Banking Law, or transferring the assets and liabilities of such banking institution to a third party, as set forth in Articles 194 or 197 of the Mexican Banking Law.

### **Conditional management regime**

As an alternative to revoking the banking license, the relevant bank may request, with the prior approval of its shareholders, the application of a conditional management regime. The conditional management regime may be requested when any of the Capital Ratios of the relevant bank is below the minimum required pursuant to the Mexican Capitalization Requirements. In order to qualify for such regime, the relevant commercial bank should (i) deliver to the CNBV a plan for the reconstitution of its capital, and (ii) transfer at least 75% of its shares to an irrevocable trust.

Banking institutions that fail to meet the minimum core capital required by the Mexican Capitalization Requirements may not adopt the conditional management regime.

### **Bank Liquidation Process**

According to the latest amendments to the Mexican Banking Law, enacted on January 10, 2014, upon publication of the resolution of the CNBV revoking a banking license, in the Federal Official Gazette and two newspapers of wide distribution in Mexico and registration of such resolution with the corresponding Public Registry of Commerce, the relevant banking institution will be dissolved and liquidation will be initiated, in terms of the procedure set forth in the Mexican Banking Law. The IPAB will be appointed liquidator of the banking institution.

In the event that the banking license is revoked because the assets of the relevant bank are insufficient to meet its liabilities, the IPAB shall undertake the liquidation procedure before a competent Federal court, according to the terms and conditions provided for a court liquidation (*liquidación judicial*) procedure under the Mexican Banking Law, in substitution of the *concurso mercantil* under the Mexican Bankruptcy Law. Moreover, the IPAB will be appointed as receiver (*liquidador judicial*) for purposes of the court liquidation procedure.

The IPAB will carry out the creditors' identification process. The IPAB must also comply with the following preference for the payment of the banking institution's debts: first, secured creditors; second, labor obligations; third, debts with a special privilege provided by statute; fourth, the unpaid balance in respect to the of the deposits insured by the IPAB and thereafter, payments shall be made in the preference provided in article 241 of the Credit Institutions Law, noting that the last debts to be paid are subordinated preferred and non-preferred obligations.

### **Capitalization**

The minimum subscribed and paid-in capital for banks is set in accordance with three different components: credit risk, market risk and operational risk. Pursuant to the Mexican Banking Law and the General Rules Applicable to Mexican Banks, banks may participate in any of the activities and render the services as provided under Article 46 of the Mexican Banking Law, as well as those permitted under other laws.

In accordance with the capitalization rules in effect as of January 1, 2017, the minimum equity capital required for banks that engage in all banking activities under the Mexican Banking Law is 90,000,000 UDIs.

The capitalization requirements in the General Rules Applicable to Mexican Banks set forth the methodology to determine the net capital (*capital neto*) relative to market risk, risk-weighted assets and operations risk. Under the relevant rules, the CNBV may impose additional capital requirements. The capitalization requirements provide

capitalization standards for Mexican banks similar to international capitalization standards, particularly with respect to the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices, or the Basel Committee, which includes the supervisory authorities of twelve major industrial countries.

The General Rules Applicable to Mexican Banks, classify Mexican banks in several categories based on their Capital Ratios. The corrective measures referred to below are determined based on the following classifications:

Fundamental Capital or CET1 (CCF)	Tier 1 Capital (CCB)	Net Capital Ratio (ICAP)				
		$\geq 10.5\% + \text{CBF}$	$\geq 8.0\%$	$\geq 7.0\% + \text{CBF}$	$\geq 4.5\%$	$< 4.5\%$
$\geq 7\% + \text{CBF}$	$\geq 8.5\% + \text{CBF}$	I	II			
	$\geq 7\% + \text{CBF}$	II	II	III		
$\geq 4.5\%$	$\geq 8.5\% + \text{CBF}$	II	II			
	$\geq 6\%$	II	II	III	IV	
	$\geq 4.5\%$	III	III	IV	IV	
$< 4.5\%$						V

Where:

ICAP = Net Capital Ratio (*Índice de Capitalización*)

CCB = Tier 1 Capital Ratio (*Coficiente de Capital Básico*)

CCF = Fundamental Capital Ratio (*Coficiente de Capital Básico Fundamental*)

CBF = Capital Supplements (Systemically Important Bank Capital Supplement + Countercyclical Capital Supplement)

The General Rules Applicable to Mexican Banks require Mexican banks to maintain Capital Ratios equal to or exceeding: (i) 10.5% in the case of the Total Net Capital (*capital neto*), (ii) 7.0% in the case of Core Equity Tier 1 capital (*capital fundamental*) or (iii) 8.5% in the case of Tier 1 Capital (*capital básico*) plus in each case, any other applicable Capital Supplement (currently, a Systemically Important Bank Capital Supplement for Grade IV Banks of 1.50%) and any other Countercyclical Capital Supplement (as defined below) applicable to the Bank.

Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy, are required by the CNBV to constitute an additional capital supplement, as determined from time to time (the “Systemically Important Bank Capital Supplement”). The CNBV also has the authority to require countercyclical capital supplements from any and all Mexican banks, designed to cover adverse economic cycles, in the event that the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy (the “Countercyclical Capital Supplement”).

The CNBV reconfirmed our status as a grade IV bank of systemic importance on April 3, 2017. As a grade IV bank of systemic importance, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 1.50% in May 2016. Also, an initial Countercyclical Capital Supplement of 0.00% was imposed. These Capital Supplements are required to be implemented by us in four annual steps, one fourth each December, starting in December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by us in four annual steps commencing December 31, 2016, the minimum Capital Ratios applicable to us as of the date hereof, including, in each case, the Capital Conservation Buffer, the Systemically Important Bank Capital Supplement and

the Countercyclical Capital Supplement, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

<b><u>Minimum Capital Ratios</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
(i) .... Total Net Capital ( <i>capital neto</i> )	<u>10.88%</u>	<u>11.25%</u>	<u>11.63%</u>	<u>12.00%</u>
(ii) ... Tier 1 Capital ( <i>capital básico</i> )	<u>8.88%</u>	<u>9.25%</u>	<u>9.63%</u>	<u>10.00%</u>
(iii) .. Fundamental Capital ( <i>capital básico fundamental</i> )	<u>7.38%</u>	<u>7.75%</u>	<u>8.13%</u>	<u>8.50%</u>

As of September 30, 2017, our Capital Ratios were (i) 14.58% in the case of Total Net Capital, (ii) 12.61% in the case of Tier 1 Capital and (iii) 12.05% in the case of Fundamental Capital. As of December 31, 2016, our Capital Ratios were (i) 13.73% in the case of Total Net Capital, (ii) 11.40% in the case of Tier 1 Capital, and (iii) 10.73% in the case of Fundamental Capital.

Aggregate net capital consists of Tier 1 Capital (which, in turn, consists of Core Equity Tier 1 and Additional Capital Tier 1) and Tier 2 Capital. The capitalization requirements include among the Core Equity Tier 1 capital, mainly, paid-in capital, which represents the most subordinated right to collect in case of liquidation of a credit institution, which are not due and do not grant reimbursement rights, profits (mainly including retained profits), and capital reserves, and subtract from such Additional Capital Tier 1, among other things, certain subordinated debt instruments, issued by financial and non-financial entities, securities representing residual parts of portfolio securitization, investments in the equity of venture-capital funds and investments in or credits to related companies, reserves pending creation, loans and other transactions that contravene applicable law, and intangibles (including goodwill). Additional Capital Tier 1 is comprised of preferential shares, regarding which the issuer has the right to cancel the dividend payments, and subordinated debt instruments, which are not subject to a due date or forced conversion, regarding which it is possible to cancel the interest payments and which may become shares of a credit institution or a controlling entity or are subject to cancellation (when capitalization problems arise).

The supplementary part of basic capital (Tier 2) comprises capitalization instruments, as long as such capitalization instruments are registered with the RNV, are subordinated to deposits and any other debt of the credit institution, do not have any specific guarantee, have a term of at least five years and are convertible into shares at their maturity date, and the total allowable reserves without total expected losses up to an amount that does not exceed 0.6% of weighted assets by credit risk. These instruments shall be included as capital based on their maturity date: 100% if the due date exceeds five years, 80% if the due date exceeds four years but is less than five years, 60% if the due date exceeds three years but is less than four years, 40% if the due date exceeds two years but is less than three years, 20% if the due date exceeds one year but is less than two years, and 0% if the due date is less than one year.

Every Mexican bank must create certain legal reserves (*fondo de reserva de capital*), that are considered to be part of Tier 1 capital. Banks must separate and allocate 10.0% of their net result to such reserve each year until the legal reserve equals 100.0% of their paid-in capital (without adjustment for inflation). The remainder of net result, to the extent not distributed to shareholders as dividends, is added to the retained profits account. Under Mexican law, dividends may not be paid out against the legal reserve. As of September 30, 2017, we had set aside Ps. 6,901 million in legal reserves compared to paid-in capital of Ps. 24,143 million (without adjustment for inflation).

## **Corrective Measures**

Pursuant to the Mexican Capitalization Requirements, the CNBV classifies Mexican banks in several categories based on their Capital Ratios and orders corrective measures to prevent and correct problems that may affect the stability or solvency of banks if a bank fails to meet any of the minimum required Capital Ratios.

## **Reserve and Compulsory Deposit Requirements**

The compulsory reserve requirement is one of the monetary policy instruments used as a mechanism to control the liquidity of the Mexican economy to reduce inflation. The objective of *Banco de México's* monetary policy is to maintain the stability of the purchasing power of the peso and in this context, to maintain a low inflation

level. Given the historic inflation levels in Mexico, the efforts of *Banco de México* have been directed towards a restrictive monetary policy. Under this policy, *Banco de México* has elected to maintain a short-term financial creditor stance with respect to the Mexican financial money markets, where *Banco de México* compensates liquidity deficits through daily operations in the money market providing adequate liquidity and stability to these markets.

In order to manage its maturity exposures to the Mexican financial markets, *Banco de México* has been extending the maturities of its liabilities for longer terms to avoid the need for continuing refinancing of its liabilities. Those liabilities have been restructured into voluntary and compulsory deposits (*Depósitos de Regulación Monetaria*), and into investment securities such as longer-term government bonds (*Bondes*) and compulsory monetary regulatory bonds (*Brems*). At the same time, *Banco de México* has elected to hold short-term assets, thus allowing it the ability readily to refinance its positions of assets and reduce its maturity exposure to the financial markets.

*Banco de México* may impose on Mexican commercial banks reserve and compulsory deposits from time to time. The amount of the deposit that each bank has to make is determined based on each bank's pro rata share of total Mexican financial institution time deposits allocated and registered as of certain date. Such compulsory deposits have an indefinite term. During the time, these reserves are maintained on deposit with *Banco de México*, each banking institution receives interest on such deposits every 28 days. *Banco de México* provides advance notice of the date and the procedure to withdraw the balance of these compulsory deposits at such time, if any, that the compulsory deposit reserves are suspended or terminated.

### **Classification of Loans and Allowance for Loan Losses**

The Loan Classification and Rating Rules set forth under the General Rules Applicable to Mexican Banks, provide a methodology to classify (i) consumer loans (i.e., each of credit card exposure and loans to individuals, divided as separate groups) considering as principal factors (a) for credit card exposure, the probability of non-payment and potential losses (taking into account collateral received), and (b) for loans to individuals, the probability of non-payment, potential losses (taking into account collateral received), and credit exposure (net of reserves created), (ii) mortgage loans (i.e., residential, including loans for construction, remodeling or improvements), considering as principal factors delinquency periods, possibility of non-payment and potential losses (taking into account collateral and guarantees received), and (iii) commercial loans, based principally on an evaluation of the borrower's ability to repay its loan (including country risk, financial risk, industry risk and payment history) and an evaluation of the related collateral and guarantees. Based on this methodology, the percentage of required reserves is determined. The Loan Classification and Rating Rules also permit banks, subject to prior approval by the CNBV, to develop and adopt specific internal procedures and methodologies within certain parameters to grade the loans in their loan portfolio. See "Selected Statistical Information."

The Loan Classification and Rating Rules require that Mexican banks grade 100.0% of their commercial loan portfolio (except loans made to or guaranteed by the Mexican Government) as of the end of each month. The classification of mortgage and consumer loans is required to be made monthly and reported to the CNBV.

The allowance for loan losses for our commercial loan portfolio is calculated primarily based on the classification of the loans into prescribed categories. To calculate our commercial loan loss reserve, the Loan Classification and Rating Rules require that we follow a methodology that incorporates an evaluation of the borrower's ability to repay its loan and of the related collateral and guarantees in the loan's rating analysis to estimate a probable loss and define the percentage of necessary reserves. The Loan Classification and Rating Rules allow us to use our own methodology following certain parameters to assign a risk rating to each borrower. The CNBV approved our internal methodology in April 2014 for the portfolios of companies and large companies, and reapproved it in February 2016. Although there is an internal methodology, as of September 30, 2017 we used the CNBV methodology in which we are required to classify 100% of the aggregate balance of our commercial loans, including all loans with an outstanding balance equal to or greater than 14,000,000 UDIs, as of the classification date. The commercial loans should, at the same time, be classified by sector as Financial Entities, States and Municipalities and Investment Projects or by Sales Volume by Small, Medium or Large Companies. Once we have this classification, we are expected to calculate the expected loss as a result of probability of default, loss severity and exposure at default, based on the parameters established by the CNBV in the particular annexes (21, 22, 23 and 24)

of the Unique Bank Agreement. If our analysis of the classification of a commercial loan changes from period to period, then the calculation of the amount of our loan loss reserve will adjust accordingly.

The Loan Classification and Rating Rules establish the following categories corresponding to levels of risk and set forth procedures for the grading of commercial loans: Grade “A” loans, representing minimal risk of non-payment; Grade “B” loans, represent low risk loans; Grade “C” loans, representing loans with moderate risk; Grade “D” loans, represent high risk loans; and Grade “E” loans, representing non-collectible loans.

We classify each loan in our commercial loan portfolio based on the following default probability percentages:

<b>Probability of Default</b>	<b>Risk Level</b>
0.000% to 0.90% .....	A1
0.901% to 1.5% .....	A2
1.501% to 2.0% .....	B1
2.001% to 2.50% .....	B2
2.501% to 5.0% .....	B3
5.001% to 10.0% .....	C1
10.001% to 15.5% .....	C2
15.501% to 45.0% .....	D
Greater than 45% .....	E

We record loan loss allowances for individual loans on a monthly basis, and apply the results of the classification monthly to the balance of the loan recorded on the final day of each month.

In June 2011, the CNBV modified the methodology to grade commercial loans granted to states and municipalities, as well as the accounting treatment of such loans.

The new methodology establishes that allowances will be made based on the expected loss, considering the likelihood of default, the severity of the loss and the exposure to default. The likelihood of default shall be determined based on quantitative (Payment experience, Risk Rating Agencies, Financial Risk) and qualitative (Socioeconomic and Financial Strength) scores considering several risk factors and will range from 0.5%, for loans guaranteed by programs under Mexican federal law included in the federal expense budget, to 100%, when the loan is past due. Real and personal collateral as well as loan derivatives will be considered to determine the severity of the loss and the exposure to default.

#### *Consumer revolving loans (including credit cards)*

Our internal advanced model for the classification of consumer revolving loans (including credit cards) was certified by the CNBV in June 2011, with our annual reauthorization last in February 2017.

We determine the allowance for loan losses based on the following criteria:

- *Probability of default:* Based on variables, such as portfolio type, account aging, admission tool or the behavior of loans with at least three outstanding payments, together with a 100% rating for loans with three or more outstanding payments.
- *Severity of loss:* Calculated based on variables like portfolio type, balance aging and noncompliance period.
- *Exposure:* Determined according to the credit limit and current balance.

The allowance made according to the following percentages:

<b>Probability of Default</b>	<b>Risk Level</b>
0.00% to 3.0%	A1
3.01% to 5.0%	A2
5.01% to 6.5%	B1
6.51% to 8.0%	B2
8.01% to 10.0%	B3
10.01% to 15.0%	C1
15.01% to 35.0%	C2
35.01% to 75.0%	D
Greater than 75.01%	E

*Consumer non-revolving loans (excluding credit card loans)*

We determine the allowance for loan losses for our consumer loan portfolio by applying specific percentages to the number of billing periods with payments in default as of the classification date. These billing periods may be weekly, bi-weekly or monthly. We determine our loan loss allowances for our consumer and mortgage loan portfolio based on the following percentages in accordance with the Loan Classification and Rating Rules:

<b>Probability of Default</b>	<b>Risk Level</b>
0.00% to 2.0%	A1
2.01% to 3.0%	A2
3.01% to 4.0%	B1
4.01% to 5.0%	B2
5.01% to 6.0%	B3
6.01% to 8.0%	C1
8.01% to 15.0%	C2
15.01% to 35.0%	D
Greater than 35.01%	E

*Residential mortgage loans*

We determine loan loss allowances for our mortgage portfolio by applying specific percentages to a borrower's unpaid balances, net of supports. Our mortgage loan portfolio is classified into levels based on the number of monthly installments that a loan is in default as of the classification date:



- *Probability of default*: an allowance percentage range of 100% is assigned to loans in default for four months or more. For loans in default for less than four months, the variables that are considered to estimate the allowance percentage are listed as follows: Amount of non-performing periods and average of the last seven billing periods (CNBV methodology).
- *Severity of loss*: an allowance percentage of 100% is applied to loans in default of 48 months or more. For loans that are in default for less than 48 months, the variables that are considered to estimate the allowance percentage are listed as follows: Credit Recuperation Rate, Long to Value, Outstanding Balance, an index (it considers if the credits are associated to trusts, judicial agreements and the geographical region), Monthly Payments covered by an Unemployment Insurance, and INFONAVIT and FOVISSSTE (social security agencies) outstanding balances that may serve as collaterals (CNBV methodology).

In addition to the allowance requirements under the Loan Classification and Rating Rules for mortgage loans, we contribute a supplementary allowance that reflects the application of our internal model for the classification of mortgage loans, which consists of applying specific percentages (expected loss) to a debtor's unpaid balance. The sum of both methodologies (CNBV and the internal model) is the allowance considered as official, and the one registered in the Financial Statements.

The loan loss reserves are held in a separate account on our balance sheet and all write-offs of uncollectible loans are charged against this reserve. Mexican banks are required to obtain authorization from their boards of directors to write-off loans. In addition, Mexican banks are required to inform the CNBV after such write-offs have been recorded.

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

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

### **Liquidity Requirements for Foreign Currency-Denominated Liabilities**

Pursuant to the regulations of *Banco de México*, the liabilities of Mexican banks denominated in foreign currencies (including dollars) are subject to a liquidity coefficient equal to the amount obtained by multiplying all foreign currency-denominated indebtedness which will become due within 60 days or less by a percentage factor dependent on the remaining maturity of the liability (netted against liquid foreign currency-denominated assets also weighted depending on their maturity), which resulting amount must be invested in low-risk and highly liquid instruments and deposits, including, among others:

- U.S. dollar-denominated cash or cash denominated in any other currency freely convertible, and with no transfer restrictions, to U.S. dollars;
- deposits with *Banco de México*;
- treasury bills, treasury bonds and treasury notes issued by the United States government;
- one-day deposits or one to seven-day deposits in foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P;
- investments in mutual funds or companies identified by *Banco de México* upon the banks' request;

- unused lines of credit granted by foreign financial institutions rated at least P-2 by Moody's or A-2 by S&P, subject to certain requirements; and
- foreign currency-denominated deposits made with foreign financial institutions rated P-2 by Moody's or A-2 by S&P that may be drawn against on demand or on two-day notice.

Such liquid assets may not be granted as collateral, lent or subject to repurchase transactions or any other similar transactions that may limit their transferability. In addition, the total amount of maturity-adjusted average net liabilities denominated or indexed in foreign currencies that Mexican banks, their subsidiaries or foreign agencies may have (calculated daily) are limited to 1.8 times the amount of their Tier 1 Capital. In recent years, the Mexican Banking Regulation has also incorporated Basel III best practices, including the LCR, and it is in the process of implementing amendments to regulate the NSFR.

We are in compliance with the applicable reserve requirement and liquidity coefficients in all material aspects.

### **Lending Limits**

In accordance with the General Rules Applicable to Mexican Banks, restrictions relating to the diversification of a bank's financing transactions are determined in accordance with the bank's compliance with Mexican Capitalization Requirements. For a bank with:

- Capitalization ratio greater than 8% and up to 9.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 12.0% of the bank's Tier 1 Capital;
- Capitalization ratio greater than 9% and up to 10.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 15.0% of the bank's Tier 1 Capital;
- Capitalization ratio greater than 10% and up to 12.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 25.0% of the bank's Tier 1 Capital;
- Capitalization ratio greater than 12.0% and up to 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 30.0% of the bank's Tier 1 Capital; and
- Capitalization ratio greater than 15.0%, the maximum financing exposure to a person or a group of persons representing common risk to the bank is limited to 40.0% of the bank's Tier 1 Capital.

The limits mentioned in the prior paragraphs are required to be measured on a quarterly basis. The CNBV has discretion to reduce the aforementioned limits, if internal control or the risk management of the bank is inadequate.

Financings guaranteed by unconditional and irrevocable security interests or guarantees, that may be enforced immediately and without judicial action, granted by Mexican credit institutions or foreign financial institutions with investment grade ratings and domiciled in a country member of the European Union or the Organization for Economic Cooperation and Development (which guarantees must be accompanied with a legal opinion as to their enforceability), securities issued by the Mexican Government, and cash (transferred to the bank lender under a deposit that may be freely disposed of by the lender) are exempted from the aforementioned guidelines, but such financings may not exceed 100.0% of a bank's Tier 1 Capital.

Likewise, financings granted to Sofomes for which the bank owns at least 99% of its capital stock, are exempted from the aforementioned guidelines, but such financings may not exceed 100% of a bank's Tier 1 capital. Notwithstanding, if the Sofomes maintain or grant financing (regardless of the origin of the resources) to a person or a group of persons representing common risk, such financing shall comply with the aforementioned limits.

In addition, the aggregate amount of financings granted to the three largest borrowers of a bank, may not exceed 100.0% of the bank's Tier 1 Capital. Banks are not obligated to comply with the aforementioned limits with respect to financings made to the Mexican Government, local governments (subject to such financings being guaranteed by the right to receive certain Federal taxes), *Banco de México*, the IPAB and development banks guaranteed by the Mexican Government. The aforementioned guidelines do not apply to financings made to Mexican banks. The aggregate financings to Mexican banks and to government-controlled companies and decentralized agencies may not exceed 100.0% of such bank's Tier 1 Capital.

Banks are required to disclose, in the notes to their financial statements, (i) the number and amount of financings that exceed 10% of Tier 1 Capital, and (ii) the aggregate amount of financings made to their three largest borrowers.

### **Funding Limits**

In accordance with the General Rules Applicable to Mexican Banks, Mexican banks are required to diversify their funding risks. In particular, a Mexican bank is required to notify the CNBV on the business day following its receipt of funds from a person or a group of persons acting in concert that represent in one or more funding transactions, more than 100% of a bank's Tier 1 Capital. As of September 30, 2017, none of our liabilities to a person or group of persons exceeded the 100% threshold.

### **Related Party Loans**

Pursuant to the Mexican Banking Law, the total amount of the transactions with related parties may not exceed 35% of the bank's Tier 1 capital. For the case of loans and revocable credits, only the disposed amount will be counted. See "Related Party Transactions—Loans to Related Parties."

### **Foreign Currency Transactions**

*Banco de México* regulations govern transactions by banks, denominated in foreign currencies. Mexican banks may, without any specific additional approval, engage in spot, foreign exchange transactions (i.e. transactions having a maturity not exceeding four business days). Other foreign currency transactions are deemed derivative transactions and require approvals as discussed below. At the end of each trading day, banks are generally obligated to maintain a balanced foreign currency position (both in the aggregate and by currency). However, short and long positions are permitted in the aggregate, so long as such positions do not exceed 15% of a bank's Tier 1 Capital. In addition, Mexican banks must maintain certain minimum liquidity, prescribed by regulations issued by *Banco de México*, in connection with maturities of obligations denominated in foreign currencies (as discussed under "—Liquidity Requirements for Foreign Currency—Denominated Liabilities" above).

### **Derivative Transactions**

Certain *Banco de México* rules apply to derivative transactions entered into by Mexican banks. Mexican banks are permitted to enter into swaps, credit derivatives, futures forwards and options with respect to the following underlying assets:

- specific shares, groups of shares or securities referenced to shares, that are listed in a securities exchange,
- stock exchange indexes,
- Mexican currency, foreign currencies and UDIs,

- inflation indexes,
- nominal and real interest rates, including those referring to debt instruments an index referring to such rates,
- loans and other advances,
- yellow corn (maize), wheat, soybeans, sugar, rice, sorghum, cotton, oats, coffee, orange juice, cacao, barley, bovine and porcine livestock, milk, canola, soy oil and soy paste, lean value hog carcasses, natural gas, heating oil, gasoline, gas oil, crude oil, aluminum, copper, nickel, platinum, lead and zinc,
- gold or silver, and
- futures, forwards, options and swaps with respect to the underlying assets referred to above.

Mexican banks require an express general approval, issued in writing by *Banco de México* to enter into, as so-called intermediaries, into derivative transactions, with respect to each class or type of derivative. Mexican banks that have not received the relevant general approval, would require a specific approval from *Banco de México* to enter into such derivative transactions (or even if in possession of such general approval, to enter into derivative transactions with underlying assets different from the assets specified above). Mexican banks may, however, enter into derivatives without the authorization of *Banco de México*, if the exclusive purpose of such derivatives is to hedge the relevant bank's existing risks. Authorizations may be revoked if, among other things, the applicable Mexican bank fails to comply with Mexican Capitalization Requirements, does not timely comply with reporting requirements, or enters into transactions that contravene applicable law or sound market practices.

Banks that execute derivative transactions with related parties or with respect to underlying assets of which the issuer is a related party, are subject to lending limits and other requirements generally specified in connection with related party transactions, set forth in Mexican Banking Law.

Institutions may collateralize derivative transactions through cash deposits, receivables and/or securities of its portfolio. In the case of derivative transactions that take place in OTC markets, collateral may be granted only when the counterparties are credit institutions, brokerage firms, foreign financial institutions, mutual funds, mutual funds manager of pension funds and any other counterpart authorized by *Banco de México*. Mexican banks are required to periodically inform their board of directors with respect to the derivatives entered into, and whether or not the Mexican bank is in compliance with limits imposed by the board of directors and any applicable committee. Mexican banks must also inform *Banco de México* periodically of derivative transactions entered into and whether any such transaction was entered into with a related party. The counterparties in respect of derivatives transactions entered into by Mexican banks, must be other Mexican banks, Mexican financial entities authorized to enter into such derivatives by *Banco de México* or foreign financial institutions. Derivatives must be entered into pursuant to master agreements that must include international terms and guidelines, such as ISDA master agreements. As an exception to applicable rules, Mexican banks may pledge cash, receivables and securities to secure obligations resulting from their derivative transactions.

We carry out swaps, futures forwards and options related to pesos and foreign currencies in the underlying assets described above, except gold or silver, as well as of credit derivatives related to interest rate.

### **Repurchase Operations and Securities Lending**

Under a circular issued by *Banco de México*, Mexican banks may enter into repurchase operations with Mexican and foreign counterparts. Repurchase operations may be entered into in respect of bank securities, Mexican Government securities, debt securities registered with the CNBV and certain foreign securities. Repurchase operations must be entered into under master agreements, such as the master agreements of the International Securities Market Association and the Public Securities Association. Collateral may be provided in connection with repurchase operations.

*Banco de México* has also authorized Mexican banks to participate in securities lending activities on terms similar to those applicable to repurchase operations.

### **Limitations on Investments in Other Entities**

Under the Financial Groups Law, subsidiaries of a financial services holding company may not directly or indirectly own capital stock of their own financial services holding company, unless they hold such stock as institutional investors under the Financial Groups Law. Institutional investors under the Financial Groups Law are insurance and bond companies that invest their technical reserves, investment funds and pension funds. In addition, members of a financial group may not extend credit in connection with the acquisition of their capital stock, the capital stock of their financial services holding company or the capital stock of other subsidiaries of their financial services holding company. Without the prior approval of the Ministry of Finance and Public Credit (which shall take into consideration the opinions of *Banco de México* and the primary Mexican regulatory commission supervising the financial entity), members of a financial group may not accept as collateral shares of stock of Mexican financial institutions. Mexican banks may not acquire or receive as collateral, certain securities issued by other Mexican banks in authorization from the Ministry of Finance and Public Credit is required prior to acquisition of shares of capital stock of non-Mexican financial entities.

In addition, Mexican Banking Law imposes certain restrictions on investments by Mexican banks in equity securities of companies engaged in non-financial activities. Mexican banks may own equity capital in such companies in accordance with the following guidelines: (i) up to 5.0% of the capital of such companies at any time; (ii) more than 5.0% and up to 15.0% of the capital of such companies for a period not to exceed three years, upon prior authorization of a majority of the members of each class of the bank's board of directors; and (iii) for higher percentages and for longer periods, or in companies engaged in new long-term projects or carrying out development related activities, with prior authorization of the CNBV. The total of all such investments made by a bank may not exceed 30.0% of such Tier 1 Capital.

### **Restrictions on Liens and Guarantees**

Under the Mexican Banking Law, banks are specifically prohibited from (i) pledging their properties as collateral (except when pledging collection rights or securities in transactions with *Banco de México*, development banks, public federal trust and IPAB or if the CNBV so authorizes or as described above with respect to derivative transactions, securities lending and repurchase transactions) and (ii) guaranteeing the obligations of third parties, except, generally, in connection with letters of credit and bankers' acceptances.

### **Bank Secrecy Provisions; Credit Bureaus**

Pursuant to the Mexican Banking Law, a Mexican bank may not provide any information relating to the identity of its customers or specific deposits, services or any other banking transactions (including loans) to any third parties (including any purchaser, underwriter, or broker or holder of any of the bank's securities) other than (i) the depositor, debtor, accountholder or beneficiary and their legal representatives or attorneys-in-fact, (ii) judicial authorities in trial proceedings in which the accountholder is a party or defendant; (iii) the Mexican federal tax authorities for tax purposes; (iv) the SHCP for purposes of the implementation of measures and procedures to prevent terrorism and money laundering; (v) the Federal Auditor (*Auditoría Superior de la Federación*), to exercise its supervisory authority; (vi) the supervisory unit of the Federal Electoral Agency, and (vii) the federal attorney general's office (*Procuraduría General de la República*) for purposes of criminal proceedings, among others. In most cases, the information needs to be requested through the CNBV.

The Mexican Banking Law authorizes the CNBV to furnish foreign financial authorities with certain protected information under the Mexican bank secrecy laws; provided, however, that an agreement must be in place between the CNBV and such authority for the reciprocal exchange of information. The CNBV must abstain from furnishing information to foreign financial authorities if, in its sole discretion, such information may be used for purposes other than financial supervision, or by reason of public order, national security or any other cause set forth in the relevant agreement.

Banks and other financial entities are allowed to provide credit related information to duly authorized Mexican credit bureaus. We currently use the services of Buró de Crédito, S.A. de C.V., a Mexican credit bureau created jointly by us, other Mexican banks and a Mexican affiliate of TransUnion, a leading U.S. credit bureau.

### **Money Laundering Regulations**

Mexico has in effect rules relating to money laundering; the most recent set of rules have been in effect since April 21, 2009 (the “Money Laundering Rules”) and were last amended in February 2017.

Under the Money Laundering Rules, in order to prevent actions, omissions or transactions that might favor, assist or cooperate in any manner with terrorism or money laundering activities (as defined in the Mexican Federal Criminal Code (*Código Penal Federal*)) we are required to satisfy various requirements, including:

- the establishment and implementation of client identification and know-your-customer policies, including stricter measures for higher risk clients;
- implementing procedures for detecting relevant, unusual and suspicious transactions (as defined in the Anti-Money Laundering Rules);
- reporting of relevant, unusual and suspicious transactions to the SHCP, through the CNBV;
- the establishment of a communication and control committee in charge of, among other matters, submitting to the Audit Committee the Money Laundering policies and procedures for approval, monitoring suspicious or unusual activities detected and supervising compliance with anti-money laundering provisions; and
- the appointment of a compliance officer in charge of, among other matters, the elaboration of the anti-money laundering policies and procedures, supervising the correct implementation of the communication and control committee’s determinations, and informing said committee of high risk relationships.

We are also required to organize and maintain a file before opening an account or entering into any kind of transaction, for the identification of each client (each, an “Identification File”).

An individual’s Identification File shall include, among other information, a copy of the following documentation or data: (i) full name, (ii) gender, (iii) date of birth, (iii) nationality and place of birth, (iv) tax identification number and the certificate evidencing the tax identification number issued by the SHCP and/or the population registry identification number and evidence thereof issued by the Ministry of Interior, as the case may be, (v) occupation, profession, main activity or line of business, (vi) complete domicile (including telephone number), (vii) e-mail address, if any, and (viii) advanced electronic signature series number, when applicable.

An entity’s Identification File shall include, among other information, a copy of the following documentation or data: (i) corporate name, (ii) domicile, (iii) nationality, (iv) name of the sole administrator, the members of the board of directors, the general manager or any relevant attorney-in-fact, (v) main activity or line of business, (vi) tax identification number and the certificate evidencing the tax identification number issued by the SHCP, (vii) advanced electronic signature series number, when applicable, (viii) copy of the public deed containing its constitutive documents, and (ix) identification and copy of the public deed containing the powers of attorney of its representative.

Identification Files shall be maintained for the complete duration of the corresponding agreement entered into with such client, and for a minimum term of ten years from the date such agreement is terminated.

Under the Money Laundering Rules, we must provide to the SHCP, through the CNBV, (i) quarterly reports (within ten business days from the end of each quarter) with respect to transactions equal to, or exceeding, U.S. \$7,500, (ii) monthly reports (within 15 business days from the end of the month) with respect to international funds transfers, received or sent by a client, with respect to transactions equal to, or exceeding, U.S. \$1,000, and (iii) reports

of unusual transactions from employees and clients within three calendar days counted from the date an unusual transaction is reviewed by the communication and control committee, which should analyze the case within 60 calendar days counted from the date the alert was detected by our systems, among others.

Additionally, anti-money laundering regulations restrict cash transactions denominated in U.S. dollars that may be entered into by Mexican banks. Pursuant to such regulations, Mexican banks are not permitted to receive physical cash amounts in U.S. dollars from individual customers in excess of U.S. \$4,000 per month for deposits. Mexican banks are also not permitted to receive physical cash amounts in U.S. dollars from their corporate clients, except in limited circumstances.

Furthermore, Mexican banks are not permitted to receive physical cash amounts in U.S. dollars from individual non-customers in excess of U.S. \$300 per day for individual foreign exchange transactions. In each case, the monthly amount per individual for such transactions cannot exceed U.S. \$1,500.

Finally, the newly amended Money Laundering Rules, published in February 2017 and to be effective as of November 2017, set forth obligations for Mexican banks to obtain information to identify the natural person that ultimately is the beneficial owner of all corporate clients and to update their Identification Files with the frequency established in the anti-money laundering policy.

Apart from the Mexican regulation as described above, we have included in our anti-money laundering policies the obligation to screen customers and potential customers against OFAC lists, and we have implemented an automated screening process to identify any person included in those lists as well as procedures to close the accounts of any customer included in those lists in accordance with applicable laws. Accordingly, our anti-money laundering policies include those obligations which can be enforced by Mexican authorities.

## **Rules on Interest Rates**

*Banco de México* regulations limit the number of reference rates that may be used by Mexican banks as a basis for determining interest rates on loans. For peso-denominated loans, banks may choose either: a fixed rate, TIIE, *Cetes*, MEXIBOR (Mexican Bank Overnight Rate), CCP (*costo de captación promedio a plazo*), the rate determined by *Banco de México* as applied to loans funded by or discounted with NAFIN or the rate agreed to with development banks in loans funded or discounted with them. For UDI-denominated loans, the reference rate is the UDIBONOS. For foreign currency-denominated loans, banks may choose either a fixed rate, EURIBOR, LIBOR or the rate agreed with international or national development banks or funds, for loans funded by or discounted with such banks or funds. For dollar-denominated loans, banks may choose either a fixed rate, CCP-Dollars, LIBOR or the rate agreed with international or national development banks or funds, for loans funded by or discounted with such banks or funds.

The rules also provide that only one reference rate can be used for each transaction and that no alternative reference rate is permitted, unless the selected reference rate is discontinued, in which event a substitute reference rate may be established. Similarly, a bank's spread has also been restricted to a single formula of either a fixed percentage or a number of basis points to be added to the selected reference rate.

On July 11, 2008, *Banco de México* issued rules regulating a bank's yield on credit card debt and provided that certain information regarding interest charges be included on the credit card statements sent to card users.

## **Fees**

Under *Banco de México* regulations, Mexican banks and Sofomes may not, in respect of loans, deposits or other forms of funding and services with their respective clients, (i) charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (*costo anual total*), (ii) charge alternative fees, except if the fee charged is the lower fee, and (iii) charge fees for the cancellation of credit cards issued. In addition, among other things, Mexican banks may not (i) charge simultaneous fees, in respect of demand deposits, for account management and relating to not maintaining minimum amounts, (ii) charge fees for returned checks received for deposit in a deposit account or as payment for loans granted, (iii) charge fees for cancellation of deposit accounts, debit or teller

cards, or the use of electronic banking services, or (iv) charge different fees depending upon the amount subject of a money transfer. Under the regulations, fees arising from the use of ATMs must be disclosed to users.

Mexican banks and Sofomes permitting customers the use of, or operating, ATMs must choose between two options for charging fees to clients withdrawing cash or requesting balances: (i) specifying a fee for the relevant transactions, in which case, Mexican banks and Sofomes issuing credit or debit cards (“Issuers”) may not charge cardholders any additional fee (Issuers are entitled to charge operators the respective fee), or (ii) permit Issuers to charge a fee to clients, in which case, Mexican banks and Sofomes may not charge additional fees to clients.

*Banco de México*, on its own initiative or as per request from the CONDUSEF (*Comisión Nacional para la Defensa de los Usuarios de las Instituciones Financieras*), banks or Sofomes, may assess whether reasonable competitive conditions exist in connection with fees charged by Banks or Sofomes in performing financial operations. *Banco de México* must obtain the opinion of the Federal Competition Commission (*Comisión Federal de Competencia*) in carrying out this assessment. *Banco de México* may take measures to address the issues.

### **Law for the Protection and Defense of Financial Service Users**

A Law for the Protection and Defense of Financial Service Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) is in effect in Mexico. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services and that has very wide authority to protect users of financial services (including imposing fines). CONDUSEF acts as arbitrator in disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. As a banking institution, we must submit to CONDUSEF’s jurisdiction in all conciliation proceedings (initial steps of a dispute) and may choose to submit to CONDUSEF’s jurisdiction in all arbitration proceedings that may be brought before it. The law requires banks to maintain an internal unit designated to resolve any and all controversies submitted by clients. We maintain such a unit.

CONDUSEF maintains a Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*), in which all financial services providers must be registered, that assists CONDUSEF in the performance of its activities. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial institutions. Furthermore, CONDUSEF may scrutinize banking services provided by using standard accession agreements.

We may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. We may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. We may be subject to coercive measures or sanctions imposed by CONDUSEF. We are not the subject of any material proceedings before CONDUSEF.

### **Law for the Transparency and Regulation of Financial Services**

The law for the Transparency and Regulation of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), published in the Federal Official Gazette in June 2007 and amended on January 10, 2014, aims to regulate (i) the fees charged to customers of financial institutions for the use and/or acceptance of means of payment, as with debit cards, credit cards, checks and orders for the transfer of funds; (ii) the fees that financial institutions charge to each other for the use of any payment system; (iii) interest rates that may be charged to customers, and (iv) other aspects related to financial services, in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants *Banco de México* the authority to regulate interest rates and fees and establish general guidelines and requirements relating to payment devices and credit card account statements. *Banco de México* has the authority to specify the basis upon which each bank must calculate its aggregate annual cost (*costo anual total*), which comprises interest rates and fees, on an aggregate basis, charged in respect of loans and other services. The aggregate annual cost must be publicly disclosed by each bank. The law also regulates the terms that banks must include in standard accession agreements and the terms of any



publicity and of information provided in account statements. We must inform *Banco de México* of any changes in fees at least 30 calendar days before they become effective.

### **Law on Transparency and Development of Competition for Secured Credit**

On December 30, 2002, the Mexican Congress enacted the Law on Transparency and Development of Competition for Secured Credit (*Ley de Transparencia y de Fomento a la Competencia en el Crédito Garantizado*, or the “Secured Credit Law”), as amended on June 15, 2007. The Secured Credit Law provides a legal framework for financial activities and certain other services performed by private credit institutions (as opposed to governmental entities) in connection with secured loans relating to real property in general and housing in particular (*i.e.*, purchase, construction, restoration or refinancing). In particular, the Secured Credit Law established specific rules requiring the following: (i) the disclosure of certain information by credit institutions to their clients prior to the execution of the relevant loan agreement, including the disclosure of certain terms relating to interest rates, aggregate costs and expenses payable; (ii) the compliance by credit institutions and borrowers with certain requirements in the application process; (iii) that offers made by credit institutions granting secured loans shall have binding legal effect; (iv) the inclusion of mandatory provisions in loan agreements; and (v) the assumption of certain obligations by public officers (or notaries) before whom secured loans are granted.

In addition, the Secured Credit Law seeks to foster competition among credit institutions by permitting security interests underlying a secured loan to survive any refinancing thereof, even if such loans were granted by different credit institutions. This provision of the Secured Credit Law is designed to reduce expenditures made by borrowers in connection with refinancings.

### **Financial Groups Statutory Responsibility**

The Financial Groups Law requires that each financial services holding company, enter into an agreement with each of its financial services subsidiaries, which includes us. Pursuant to such agreement, the financial services holding company is responsible secondarily and without limitation for the satisfaction of the obligations undertaken by its subsidiaries as a result of the activities that each such subsidiary is authorized to conduct under the applicable laws and regulations, and is fully responsible for the losses of its subsidiaries, up to the total amount of the holding company’s assets. For such purposes, a subsidiary is deemed to have losses its assets are insufficient to meet its payment obligations.

In the event of a financial services holding company’s statutory responsibility with respect to a bank, IPAB must determine the amount of the preliminary losses of such bank. The financial services holding company is required to create a capital reserve for the amount of such losses. The financial services holding company is also required to collateralize the payment of the bank’s losses that are paid by IPAB pursuant to the Mexican Banking Law. Such collateral may be created over the financial services holding company’s assets or over such company’s shares or those of its subsidiaries.

A financial services holding company is not allowed to pay any dividends or transfer any monetary benefit to its shareholders as of the date on which IPAB determines the bank’s losses, up to the date on which the financial services holding company has paid for the bank’s losses.

No subsidiary is responsible for the losses of the financial services holding company or of the Financial Services holding company’s subsidiaries. GFBB has entered into such an agreement with us and its other financial services subsidiaries.

### **Ownership Restrictions; Foreign Financial Affiliates**

Ownership of a financial services holding company’s capital stock is no longer limited to specified persons and entities under the Financial Groups Law and the group’s corporate charter. Series F shares may be purchased, directly or indirectly, by foreign financial institutions who are residents of a country that has entered into a free trade agreement with Mexico and must represent at all times at least 51% of the paid-in capital.

Notwithstanding the above, under the Financial Groups Law, foreign governments cannot purchase a financial services holding company's capital stock, directly or indirectly, except (i) pursuant to preventive temporary measures, such as financial support or rescue programs, (ii) when control over such institution is held through official entities (such as funds or support governmental entities) and there is evidence that such entities do not exercise any authority functions and their decision making bodies operate separately from the relevant foreign government, and (iii) when the participation is indirect and does not imply the control by the relevant foreign government over the financial services holding company. Mexican financial entities, including those that form part of a financial group, cannot purchase a financial services holding company's capital stock, unless such entities are qualified investors as defined in the Financial Groups Law.

In accordance with applicable law (1) the capital of banks may be composed of voting Series O shares, which may be owned both by Mexican and non-Mexican investors, by Series F shares, which may be owned only by foreign financial institutions or Series B shares, which represent a minority interest in a bank controlled by a foreign financial institution and may be owned by Mexican or foreign investors and, (2) any transfer of shares representing more than 2% of the outstanding capital stock of a Mexican bank is required to be reported to the CNBV, (3) the CNBV has been granted broader discretion to authorize the acquisition of more than 5% of the outstanding shares of a Mexican bank and (4) the composition of the boards of directors of Mexican banks has been limited to a total of 15 members and their alternates (as opposed to the former rule of 11 members or multiples thereof), 25% or more of whom must qualify as independent. Minority shareholders own our Series B shares.

The change in foreign ownership rules continued the liberalization of the Mexican banking system commenced under NAFTA. Pursuant to NAFTA, the Free Trade Agreement between Mexico and the European Union, the Free Trade Agreement between Mexico and Japan, the Free Trade Agreement between Mexico and European Free Trade Zone and applicable Mexican laws and regulations, foreign financial entities incorporated in the United States, Canada, member states of the European Union, Japan and other countries with which Mexico has executed relevant international trade agreements, or financial services holding companies formed in Mexico by such foreign financial entities, will be treated identically to Mexican investors when investing in affiliate banks and other financial entities.

A holder that acquires shares in violation of the foregoing restrictions, or in violation of the percentage ownership restrictions, will have their corporate and economic rights under such shares suspended, and may not be enforced until the necessary authorizations have been obtained or the necessary requirements have been met, as required under the Financial Groups Law.

### **Pension Fund Management**

The Mexican Social Security Law (*Ley del Seguro Social*) established the AFORE pension system. Among other economic benefits and other services to be provided to participants in the social security system, the Social Security Law provides that each worker may establish an independent retirement account, which is to be managed by an approved AFORE. Pursuant to the AFORE Law (*Ley de los Sistemas de Ahorro para el Retiro*), the main functions of an AFORE include, among others, (1) administering pension funds in accordance with the Social Security Law, (2) creating and administering individual pension accounts for each worker, (3) creating, administering and operating specialized pension funds (*Sociedades de Inversion Especializadas en Fondos para el Retiro*), or SIEFOREs, (4) distributing and purchasing SIEFOREs' shares, (5) contracting pension insurance and (6) distributing, in certain cases, the individual funds directly to the pensioned worker.

The AFOREs and SIEFOREs are subject to the supervision of CONSAR, which is charged with the coordination, regulation and supervision of the pension system. Under the Social Security Law, no AFORE may have more than 20% of the total market, which as of September 30, 2017, according to the CONSAR, consisted of approximately 59.1 million accounts of workers.

### **Related Party Transactions**

The Banking Law requires that the board of directors of a bank approves any transaction in which a related party becomes a debtor of a bank. Such transactions include deposits, loans, credits, discounts and the net position

of derivatives transactions. The total amount of related party transactions may not exceed 35% of Tier 1. Related parties include, among others, persons that own directly or indirectly 2% or more of the shares of the relevant bank or of its holding or other members of the financial group, directors and officers of the bank or of any entity in which the bank or its holding company have more than 10% of the shares or any corporation in which the officers and directors are part of the management.

The approval process for related party transactions is similar to any other loan, except that any loans to a related party above 1.0% of Tier 1 Capital or 2 million UDIs, which is determined based on the National Consumer's Price Index, an inflation index determined by *Banco de México*, must be approved by our board of directors with the favorable opinion of our credit committee.

#### **Texas Banking Supervision and Regulation**

See above under "The Texas Agency."

## DESCRIPTION OF THE NOTES

We will issue the Notes through our Texas Agency (the “Agency”). The Notes will be issued under an indenture, dated as of January 17, 2018, among us and The Bank of New York Mellon as trustee, paying agent, registrar and transfer agent (the “Trustee”), which may be amended or supplemented from time to time (the “Indenture”). This summary describes the general terms and provisions of the Notes. The description of certain provisions of the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture and the Notes, including the definitions of certain terms included therein. We urge you to read each of the Indenture and the forms of the Notes because they, and not this description, define your rights as a holder of Notes. In case of any conflict regarding the rights and obligations of the holders of the Notes under the Indenture, the Notes and this offering memorandum, the terms of the Indenture will prevail. In case of any conflict regarding the translation of the provisions of the applicable Mexican law, the official text in Spanish of the Mexican law will prevail. Capitalized terms not otherwise defined in this “Description of the Notes” have the meanings ascribed to them in the Indenture. You may obtain a copy of the Indenture and the forms of the Notes by contacting the Trustee at the address indicated in this offering memorandum.

### General

The Notes will be issued in the aggregate principal amount of U.S. \$1,000,000,000 in registered form, in minimum denominations of U.S. \$200,000 and integral multiples of U.S. \$1,000 in excess thereof. We will issue the Notes through the Agency, but the Notes will represent our general, unsecured and subordinated, preferred obligations. The Notes constitute Subordinated Preferred Indebtedness and will rank (i) subordinate and junior in right of payment and in liquidation to all of our present and future Senior Indebtedness (ii) *pari passu* without preference among themselves and with all our present and future other unsecured Subordinated Preferred Indebtedness and (iii) senior only to our Non-Preferred Subordinated Indebtedness and all classes of our equity or capital stock, as described in this offering memorandum. See “—Subordination.” We may incur additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness from time to time, and the provisions of the Indenture does not prohibit or limit the incurrence of additional indebtedness, including additional Senior Indebtedness, Subordinated Preferred Indebtedness and Subordinated Non-Preferred Indebtedness.

**THE NOTES WILL BE UNSECURED AND WILL NOT BE INSURED OR GUARANTEED BY ANY OF OUR SUBSIDIARIES OR AFFILIATES, INCLUDING OUR PARENT COMPANY, OR BY THE IPAB OR ANY OTHER MEXICAN GOVERNMENTAL AGENCY, AND THE NOTES ARE NOT CONVERTIBLE, BY THEIR TERMS, INTO ANY OF OUR DEBT SECURITIES, SHARES OR ANY OF OUR EQUITY CAPITAL OR ANY DEBT SECURITIES, SHARES OR EQUITY CAPITAL OF ANY OF OUR SUBSIDIARIES OR AFFILIATES.**

Subject to the occurrence of one or more Write-Downs (as defined below), unless the Notes have been redeemed as described below or a Suspension Period (as defined below) is in effect on the Maturity Date, the Notes will mature and be payable in full on January 18, 2033 (the “Maturity Date”). We may redeem the Notes under the circumstances described below under “—Redemption—Optional Redemption,” “—Redemption—Withholding Tax Redemption” and “—Redemption—Special Event Redemption.” Other than in accordance with an Optional Redemption, a Withholding Tax Redemption or a Special Event Redemption, the Notes will not be redeemable prior to the Maturity Date.

Unless other arrangements are made, payments of principal and interest on the Notes will be made as described below under “—Book-Entry System.”

We will maintain an office or agency in the Borough of Manhattan, The City of New York, where the Notes may be presented for exchange or transfer. Such office or agency initially will be located at The Bank of New York Mellon, 101 Barclay Street, 7E, New York, New York, 10286, Attention: Global Finance Americas. The holders of the Notes will not have to pay a service charge to register the transfer or exchange of any Notes, but we may require that holders pay any applicable tax or other governmental charge.

The Indenture and the Notes do not contain any provision that would protect the holders of the Notes against a sudden and dramatic decline in our credit quality resulting from a takeover, recapitalization or other restructuring or other event involving us that may adversely affect our credit quality.

## Principal and Interest

### *Interest periods*

Subject to deferral during any Suspension Period (as defined below), an earlier redemption date and to one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from (and including) January 17, 2018 (the “Issue Date”), up to (but excluding) January 18, 2028, or the “Optional Call Date,” at a fixed rate per annum equal to 5.125%, payable semi-annually in arrears on July 17 and January 17 of each year (each an “Interest Payment Date”), commencing on July 17, 2018.

Subject to deferral during any Suspension Period, an earlier redemption date and to one or more Write-Downs, the Notes will bear interest on the then Current Principal Amount (as defined below) from time to time outstanding from (and including) the Optional Call Date to (but excluding) January 18, 2033, or the “Maturity Date,” at a fixed rate per annum equal to the sum of (a) the Treasury Yield (as defined below) and (b) 265 basis points payable semi-annually in arrears on each Interest Payment Date, commencing on July 17, 2028.

“*Treasury Yield*” is defined in the Indenture to mean, as of any date of determination, an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the per annum rate equal to the semiannual yield to maturity for United States Treasury securities maturing on the Maturity Date, and trading in the public securities markets either as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Maturity Date, and (B) the other maturity as close as possible to, but later than the Maturity Date, in each case as published in the most recent H.15 (519) or, if a weekly average yield to maturity for United States Treasury securities maturing on the Maturity Date is published in the most recent H.15 (519), such weekly average yield to maturity as published in such H.15 (519); and

“*H.15 (519)*” is defined in the Indenture to mean the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System and most recent H.15 (519) means the H.15 (519) published prior to the close of business on the third Business Day prior to the applicable payment date.

Upon the occurrence of a Write-Down, any holder of Notes will be deemed to have irrevocably waived its right to claim or receive the Written-Down Principal (as defined below) of the Notes or any interest with respect thereto (or Additional Amounts), including any and all accrued and unpaid interest.

The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date to (but excluding) the Optional Call Date, the Maturity Date or an earlier redemption date, as the case may be, is called an “Interest Period.” If any Interest Payment Date would otherwise fall on a date that is not a Business Day (as defined below), the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay. Interest on the Notes in respect of an Interest Period will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Notes will be paid on the dates specified above to the person in whose name a Note is registered at the close of business on the fifteenth day preceding the respective Interest Payment Date (such date, a “Record Date,” whether or not a Business Day).

For purposes hereof, the term Business Day is defined in the Indenture for the Notes as any day other than a Saturday or a Sunday, or a day on which banking institutions in The City of New York, New York or Mexico City, Mexico are authorized or required by law or executive order to remain closed.

“Current Principal Amount” means in respect of each Note, at any time, the outstanding principal amount of such Note, being the Original Principal Amount of such Note as such amount may be reduced, on one or more occasions, as a result of a Write-Down or a redemption of the Notes, as the case may be.

“Original Principal Amount” means, in respect of each Note, the amount of the denomination of such Note on the Issue Date.

### ***Payment upon Maturity***

Subject to the occurrence of one or more Write-Downs, unless the Notes have been redeemed prior thereto or a Suspension Period (as described below) is in effect on the Maturity Date, the Notes will be repaid on the Maturity Date at their then Current Principal Amount outstanding, together with any accrued and unpaid interest thereon to (but excluding) the Maturity Date and any other amounts, including Additional Amounts (as defined below), due thereunder, in each case as provided in this offering memorandum.

For deferral of interest and principal payments during a Suspension Period, see below in “—Deferral of Interest and Principal Payments.”

For possible reduction or suspension of interest and principal payments due to a Write-Down, see below in “—Trigger Event and Write-Down.”

### **Unclaimed Money, Prescription**

If money deposited with the Trustee or any agent for the payment of principal of, premium, if any, or interest or Additional Amounts (as defined below), if any, on the Notes remains unclaimed for two years, the Trustee or such paying agent shall return the money to us, upon our written request, subject to applicable unclaimed property law. After that, holders of the Notes entitled to the money must look to us for payment unless applicable unclaimed property law designates another person. Other than as set forth in this paragraph, the Indenture does not provide for any prescription periods for the payment of principal of, premium, if any, or interest or Additional Amounts, if any, on the Notes.

### **No Further Issuances**

No additional notes may or will be issued under the Indenture.

### **Payment of Additional Amounts**

All payments made by or on our behalf in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or governmental charges of whatever nature, imposed or levied by or on behalf of Mexico, the United States, or any other jurisdiction through which payments are made (each a “Relevant Jurisdiction”) or any authority or agency therein or thereof having power to tax (collectively, “Relevant Tax”) unless the withholding or deduction of such Relevant Tax is required by law. In that event, we will pay additional amounts (“Additional Amounts”) as may be necessary so that the net amounts received by the holders or beneficial owners of the Notes or their nominees after such withholding or deduction will equal the amount which would have been received in respect of the Notes in the absence of such withholding or deduction, except that no Additional Amounts will be payable to a holder (or beneficial owner) to the extent that such Relevant Tax:

(1) is imposed only by virtue of such holder (or beneficial owner) having some connection with the Relevant Jurisdiction, other than being a holder (or beneficial owner) of the Notes or, receiving payments, of any nature, on the Notes or enforcing rights under the Notes; or

(2) is imposed only by virtue of such holder or any other person having failed to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or other lack of connection with the Relevant Jurisdiction or any similar claim for exemption or reduction in the rate of withholding, if satisfying such requirement or making such claim is a precondition to exemption from, or reduction in the rate of, the imposition, withholding or deduction of any Relevant Tax, provided that (x) we have or our agent has provided the Trustee with at least 60 days’ prior written notice of an opportunity to satisfy such a requirement or make such a claim (such notice to be provided by the Trustee to the registered holder of the Notes), and (y) in no event, shall such holder’s obligation to satisfy such a requirement or to make such a claim require such holder to provide any materially more onerous information, documents or other evidence than would be required to be provided had such holder been required to file IRS Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP and/or W-8IMY; or

(3) is imposed only by virtue of such holder (or beneficial owner) not having presented the Notes (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such holder would be entitled to Additional Amounts had the Notes been surrendered during such 30-day period; or

(4) is imposed only by virtue of such holder or beneficial owner (or any financial institution through which the holder or beneficial owner holds any Notes through which payment on such Note are made) having failed to comply with any certification, information, identification, documentation or other reporting requirement (including entering into and complying with an agreement with the Internal Revenue Service) imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code as in effect on the Issue Date or any successor or amended version of these provisions that is substantially comparable and materially more onerous to comply with; or

(5) in the event the holder is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual holder of the Note; or

(6) is an estate, inheritance, gift, sale, transfer, personal property or similar tax or assessment;  
or

(7) is imposed as a result of any combination of (1) through (6) above.

We will also (1) make such withholding or deduction and (2) remit the full amount withheld or deducted to the relevant taxing authority in the Relevant Jurisdiction in accordance with applicable law.

We will furnish to the Trustee, within thirty Business Days after the date of payment of any such taxes or the receipt of any credit or refund in respect to such taxes, an officer's certificate and other documentation acceptable to the Trustee, including certified copies of returns, evidencing such payment (or credit or refund received) by us. Upon written request made by the holders to the Trustee, copies of such officer's certificate or other documentation, as the case may be, will be made available to the holders.

To give effect to the foregoing, we will, upon the written request of any holder, indemnify and hold harmless and reimburse the holder for the amount of any Relevant Taxes (other than any Relevant Taxes for which the holder would not have been entitled to receive Additional Amounts pursuant to any of the conditions described in the first paragraph of this section titled "Payment of Additional Amounts") so imposed on, and paid by, such holder as a result of any payment of principal or interest on the Notes, so that the net amount received by such holder after such reimbursement will not be less than the net amount the holder would have received if such Relevant Tax had not been imposed or levied and so paid. Holders will be obligated to provide reasonable documentation in connection with the foregoing.

We will also pay any stamp, administrative, court, documentary, excise or similar taxes arising in a Relevant Jurisdiction in connection with the Notes and will indemnify the holders for any such taxes paid by holders.

All references to principal or interest payable on the Notes shall be deemed to include any Additional Amounts payable by us under the Notes or the Indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the Notes and the Indenture.

If we shall at any time be required to pay Additional Amounts to holders pursuant to the terms of the Notes and the Indenture, we will use our reasonable efforts to obtain an exemption from the payment of the Relevant Tax that has resulted in the requirement that we pay such Additional Amounts.

In the event that Additional Amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of the Notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, such holder shall, by accepting the Notes, be

deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto. We will inform the Trustee of the refund or credit within 30 Business Days of our determination that we are entitled to receive such refund or credit.

#### **Treatment of Interest and Principal During a Suspension Period**

##### ***Deferral of Interest and Principal Payments***

**WE HAVE THE RIGHT TO AND WILL DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS), THE PAYMENT OF INTEREST DUE ON THE NOTES AND DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS), THE PAYMENT OF PRINCIPAL THEREOF FOR THE DURATION OF ANY SUSPENSION PERIOD (SEE “—SUSPENSION PERIODS”). IN THE EVENT OF A DEFERRAL OF THE PAYMENT OF INTEREST ON THE NOTES OR DEFERRAL OF PAYMENT OF PRINCIPAL THEREOF, WE WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. PAYMENTS OF INTEREST DUE ON THE NOTES WILL BE CUMULATIVE, SO THAT IN THE EVENT THAT PAYMENTS OF INTEREST ARE DEFERRED DURING A SUSPENSION PERIOD AND SUBJECT TO THE OCCURRENCE OF ONE OR MORE WRITE-DOWNS, HOLDERS OF THE NOTES WILL HAVE THE RIGHT TO RECEIVE FOLLOWING THE TERMINATION OF THE SUSPENSION PERIOD ALL INTEREST ACCRUED PRIOR TO AND DURING THE SUSPENSION PERIOD, BUT NOT PAID AS A RESULT OF SUCH SUSPENSION PERIOD, AND SUCH INTEREST WILL BE PAYABLE (WITHOUT ANY INTEREST ON SUCH PREVIOUSLY ACCRUED INTEREST) ON THE NEXT SUCCEEDING INTEREST PAYMENT DATE ON WHICH A SUSPENSION PERIOD IS NO LONGER IN EFFECT, UNLESS SUCH INTEREST PAYMENT DATE OCCURS ON A DATE THAT IS LESS THAN TWELVE BUSINESS DAYS AFTER SUCH SUSPENSION PERIOD ENDS, IN WHICH CASE ANY AND ALL INTEREST THEN PAYABLE SHALL BE PAID ON THE DATE THAT IS TWELVE BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS, EXCEPT TO THE EXTENT SUCH INTEREST IS CANCELLED PURSUANT TO ONE OR MORE WRITE-DOWNS. IF A SUSPENSION PERIOD IS IN EFFECT ON THE MATURITY DATE OR ANY REDEMPTION DATE OR THE MATURITY DATE OR SUCH REDEMPTION DATE IS ON A DATE THAT IS LESS THAN TWELVE BUSINESS DAYS AFTER A SUSPENSION PERIOD ENDS, PAYMENT OF PRINCIPAL WILL BE DEFERRED WITH INTEREST UNTIL THE DATE THAT IS TWELVE BUSINESS DAYS AFTER THE DATE ON WHICH SUCH SUSPENSION PERIOD ENDS, EXCEPT TO THE EXTENT SUCH PRINCIPAL IS CANCELLED PURSUANT TO ONE OR MORE WRITE-DOWNS. WHEN A SUSPENSION PERIOD IS NO LONGER IN EFFECT, WE WILL NOTIFY THE HOLDERS OF THE NOTES AND THE TRUSTEE IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. IF A WRITE-DOWN OCCURS, THE WRITTEN-DOWN PRINCIPAL, AND ANY INTEREST ACCRUED WITH RESPECT THERETO DURING ANY SUSPENSION PERIOD, WILL BE CANCELLED.**

##### ***Suspension Periods***

**FOR PURPOSES HEREOF, A SUSPENSION PERIOD WILL COMMENCE AND WE WILL DEFER BUT NOT CANCEL (EXCEPT PURSUANT TO ONE OR MORE WRITE-DOWNS) THE PAYMENT OF INTEREST AND PRINCIPAL DUE THEREON UPON THE OCCURRENCE OF ONE OF THE FOLLOWING EVENTS:**

- (1) ANY OF THE FOLLOWING CAPITAL RATIOS APPLICABLE TO US DECLINES BELOW THE MINIMUM PERCENTAGE REQUIRED, FROM TIME TO TIME, BY THE MEXICAN CAPITALIZATION REQUIREMENTS WHICH AS OF THE DATE HEREOF ARE: (A) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (B) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), OR (C) 7.0% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*), PLUS, IN EACH CASE, ANY OTHER APPLICABLE CAPITAL SUPPLEMENT (CURRENTLY, A SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT (AS DEFINED BELOW) FOR GRADE IV BANKS OF 1.50% AND ANY COUNTERCYCLICAL CAPITAL SUPPLEMENT (AS DEFINED BELOW)**



**APPLICABLE TO US, BOTH TO BE CREATED BY US IN FOUR ANNUAL STEPS COMMENCING DECEMBER 31, 2016) (A “CAPITAL RATIOS EVENT”); OR**

**(2) THE CNBV INSTITUTES A PREVENTIVE OR CORRECTIVE MEASURE AGAINST US PURSUANT TO ARTICLES 121 AND 122 OF THE MEXICAN BANKING LAW OR ANY SUCCESSOR PROVISIONS (INCLUDING THE CORRESPONDING RULES SET FORTH UNDER THE GENERAL RULES APPLICABLE TO MEXICAN BANKS), WHICH REQUIRES DEFERRING OR CANCELING PAYMENTS OF INTEREST AND PRINCIPAL OTHERWISE DUE ON THE NOTES IF WE ARE CLASSIFIED AS CLASS III (OR EQUIVALENT CLASSIFICATION UNDER SUCCESSOR PROVISIONS) OR BELOW UNDER THE MEXICAN CAPITALIZATION REQUIREMENTS (A “MEXICAN REGULATORY EVENT.”)**

***General Rules Applicable to Mexican Banks and their Application to Us***

Article 121 of the Mexican Banking Law provides that in the exercise of its supervisory duties the CNBV, through general regulations approved by its Board of Governance, will classify banking institutions based on their compliance with the provisions of the Mexican Capitalization Requirements, which may take into account Capital Ratios that reflect the degree of stability and solvency of a bank.

Article 122 of the Mexican Banking Law provides that if a Mexican bank does not comply with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements, such bank must implement the corrective measures ordered by the CNBV, including:

(1) informing the bank’s board of directors of its classification, based on the Capital Ratios thereof, and submit a detailed report containing an evaluation of the bank’s overall financial status and its level of compliance with applicable regulations; the bank shall provide written notice to the general director and the chairman of the board of directors of the bank’s regulated holding company (*sociedad controladora del grupo financiero*) with respect to such events and the status thereof;

(2) within a period not to exceed seven (7) Business Days, filing with the CNBV, for its approval, a capital recovery plan to increase the bank’s Capital Ratios; the bank’s capital recovery plan shall be approved by such bank’s board of directors before it is submitted to the CNBV;

(3) suspending any payment of dividends to its shareholders, as well as any mechanism or act for the making of any distributions or the granting of any economic benefits to shareholders;

(4) suspending any share repurchase programs;

(5) deferring or canceling payment of interest and deferring or canceling the payment of principal on outstanding subordinated debt, as the case may be, or, if applicable, exchanging outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency if ordered by the CNBV; these corrective measures shall be applicable to subordinated debt considered part of the bank’s Tier 1 Capital (*capital básico*) or Tier 2 Capital (*capital complementario*); in the event that the bank issues subordinated debt, the bank is obligated to include in the documentation evidencing such debt, in the applicable Indenture and in the applicable offering document, that such deferral of payment of principal or deferral and cancellation of payments of interest, as the case may be, shall apply upon the occurrence of certain events as provided in the General Rules Applicable to Mexican Banks and that the implementation of such measures shall not be considered a default under the documents evidencing such debt;

(6) suspending payment of any extraordinary benefits and bonuses that are not a component of the ordinary salary of the general director or any officer within the next two levels of seniority, and suspending the granting of new benefits to the general director and the officers mentioned above until the bank complies with the minimum Capital Ratios set forth under the Mexican Capitalization Requirements;

(7) abstaining from increasing outstanding amounts of any loans granted to any person who is a related party of the bank; and

(8) any other corrective measures that, in each case, are provided by the General Rules Applicable to Mexican Banks.

Article 122 of the Mexican Banking Law further provides that:

(1) If a Mexican bank complies with the minimum Capital Ratios required pursuant to the Mexican Capitalization Requirements but any of its Capital Ratios is not equal to or greater than the minimum Capital Ratios required to be satisfied for a bank not to be subject to any corrective measures, such bank must implement certain corrective measures ordered by the CNBV, including, among others, (A) informing the bank's board of directors of its classification, based on the Capital Ratios thereof and submitting a detailed report containing an evaluation of the bank's overall financial status and its level of compliance with applicable regulations including the principal regulatory ratios, that reflect the Bank's degree of stability and solvency (together with any determinations or indications made by any of the CNBV or *Banco de México*) and providing written notice to the general director and the chairman of the board of directors of the bank's regulated holding company (*sociedad controladora del grupo financiero*) with respect to such events and the status thereof; (B) abstaining from entering into any transaction that may decrease the bank's Capital Ratios below the Mexican Capitalization Requirements; and (C) any other corrective measures ordered by the CNBV.

(2) Regardless of the capitalization level, the CNBV may order the implementation of additional special corrective measures, including, among others: (1) requiring compliance with additional corrective measures that the bank will be required to carry out to avoid a decrease of its Capital Ratios; (2) special audits to be performed by special auditors in connection with specific matters; (3) abstaining from increasing the salaries and benefits of all officers and employees of the bank, except for any change in salary previously agreed on and subject to the officers' and employees' labor rights; (4) removing officers, directors, statutory auditors or external auditors or appointing any persons to such positions; or (5) any other measures ordered by the CNBV, based on its inspection and supervision authorities.

(3) Corrective measures will not be applicable to Mexican banks with a Capital Ratio equal to or greater than the minimum Capital Ratios required by the Mexican Capitalization Requirements.

The Mexican Banking Law and the General Rules Applicable to Mexican Banks classify Mexican banks in categories from I through V based on their capital ratios for Total Net Capital (*capital neto*), Tier 1 Capital (*capital básico*) and Fundamental Capital (*capital básico fundamental*); corrective measures are imposed based on such classification, starting at the time a bank is included in the category Class II.

Article 122 of the Mexican Banking Law specifies that if a bank does not satisfy the Capital Ratios pursuant to the Mexican Capitalization Requirements, the bank must implement the corrective measures ordered by the CNBV. Currently, the minimum Capital Ratios required to be classified as Class I are, including the capital supplement required to be equivalent to 2.5% of the bank's total risk weighted assets, pursuant to Section III(a) of Article 2 Bis 5 of the General Rules Applicable to Mexican Banks (the "Capital Conservation Buffer"): (i) 10.5% in the case of the Total Net Capital (*capital neto*), (ii) 8.5% in the case of Tier 1 Capital (*capital básico*) and (iii) 7.0% in the case of Fundamental Capital (*capital básico fundamental*), plus, in each case, any other applicable Capital Supplement.

If the minimum Capital Ratios to be classified as Class I are not satisfied, Mexican banks shall be classified as Class II, III, IV or V, as the case may be, according to the General Rules Applicable to Mexican Banks then in effect.

The General Rules Applicable to Mexican Banks, further provide that corrective measures applicable to Mexican banks classified in Class II, III, IV or V include, among others, requiring a bank to suspend or cancel payment of interest and defer or cancel payment of any principal on outstanding subordinated debt or exchange outstanding convertible subordinated debt into shares of the bank in the amount necessary to cover the capital deficiency; in the event that the bank issues subordinated debt, a bank must include in the relevant debt documentation, in the applicable indenture and in the applicable offering memorandum, that such suspension or cancellation of payment of interest and deferral or cancellation of payment of principal shall apply to subordinated debt in the event that a bank is classified in Class II, III, IV or V and that the implementation of such measures shall not be considered a default under the relevant debt documentation.

Mexican banks that are determined by the CNBV to be of systemic importance, in light of the impact that their default may cause to the Mexican financial system, the Mexican payment system or the Mexican economy, are required by the CNBV to constitute an additional capital supplement, as determined from time to time (the “Systemically Important Bank Capital Supplement”). The CNBV also has the authority to require a countercyclical capital supplement from any and all Mexican banks, designed to cover adverse economic cycles, in the event that the aggregate financing received by the Mexican private sector grows at a higher level as compared to the level of growth of the Mexican economy (the “Countercyclical Capital Supplement”).

We were ratified as a grade IV bank of systemic importance by the CNBV on April 3, 2017. In May 2016, as a grade IV bank of systemic importance, we were required by the CNBV to constitute a Systemically Important Bank Capital Supplement of 1.50%. Also, an initial Countercyclical Capital Supplement of 0.00% was imposed. These Capital Supplements are required to be implemented by us in four annual steps, one fourth each December, starting in December 31, 2016.

As a result of the foregoing, and considering the Capital Supplements to be created by us in four annual steps commencing December 31, 2016, the minimum Capital Ratios applicable to us as of the date hereof, including, in each case, the Capital Conservation Buffer, the Systemically Important Bank Capital Supplement and the Countercyclical Capital Supplement, to remain classified as Class I pursuant to the Mexican Capitalization Requirements are as follows:

<b>Minimum Capital Ratios</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
(i) .... Total Net Capital ( <i>capital neto</i> ).....	10.88%	11.25%	11.63%	12.00%
(ii) ... Tier 1 Capital ( <i>capital básico</i> ).....	8.88%	9.25%	9.63%	10.00%
(iii) .. Fundamental Capital ( <i>capital básico fundamental</i> ) .....	7.38%	7.75%	8.13%	8.50%

As of September 30, 2017, our Capital Ratios were (i) 14.58% in the case of Total Net Capital, (ii) 12.61% in the case of Tier 1 Capital and (iii) 12.05% in the case of Fundamental Capital. As of December 31, 2016, our Capital Ratios were (i) 13.73% in the case of Total Net Capital, (ii) 11.40% in the case of Tier 1 Capital, and (iii) 10.73% in the case of Fundamental Capital.

We are currently classified as Class I and, as a result, are not subject to any corrective measures.

#### ***Conclusion of a Suspension Period***

Subject to the occurrence of one or more Write-Downs, a Suspension Period shall terminate and the payment of interest or principal due on the Notes thereof will resume:

- (1) if such Suspension Period was triggered by a Capital Ratios Event, when the Capital Ratios Event has terminated; or
- (2) if such Suspension Period was triggered by a Mexican Regulatory Event, when the Mexican Regulatory Event has terminated.

#### ***Further Provisions for Suspension Periods***

Notwithstanding anything in this offering memorandum to the contrary, the occurrence or continuance of a Suspension Period shall not give rise to any Event of Default under the Indenture or the Notes.

We must give notice of any Suspension Period affecting the Notes to the holders via the applicable clearing system and to the Trustee in writing at least five Business Days prior to the earlier of (1) the date the interest due on the Notes would have been payable except for such Suspension Period and (2) the date the Trustee is required to give notice to any securities exchange or to holders of the Notes of the record date or the date such interest is payable but in any event not less than five Business Days prior to such record date. We must also give notice of the termination of any Suspension Period to the holders via the applicable clearing system and to the Trustee in writing not more than three Business Days after the Suspension Period is no longer in effect.

Unless all payable accrued interest and any Additional Amounts on the Notes have been paid or been cancelled pursuant to one or more Write-Downs, following termination of such Suspension Period we shall not:

- (1) declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock (which includes common and preferred stock);
- (2) make any payment of premium, if any, or interest on or repay, repurchase or redeem any of our debt securities that rank *pari passu* with or junior in right of payment and in liquidation to the Notes;
- (3) to the extent any such guaranty is permitted under applicable law, make any guaranty payments with respect to any guaranty by us of the debt securities of any of our subsidiaries if such guaranty ranks *pari passu* with or junior in right of payment and in liquidation to the Notes; or
- (4) take any other action in violation of any other order by CNBV, *Banco de México*, Ministry of Finance and Public Credit or any other relevant Mexican authority;

*provided, however*, that the foregoing shall not apply to the extent that we obtain prior regulatory approval for any action that would otherwise be prohibited.

#### **Trigger Event and Write-Down**

##### ***Trigger Event***

##### **A “TRIGGER EVENT” WILL BE DEEMED TO HAVE OCCURRED IF:**

(I) THE CNBV PUBLISHES A DETERMINATION, IN ITS OFFICIAL PUBLICATION OF CAPITALIZATION LEVELS FOR MEXICAN BANKS, THAT OUR FUNDAMENTAL CAPITAL RATIO, AS CALCULATED PURSUANT TO THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS, IS EQUAL TO OR BELOW 4.5% (FOUR POINT FIVE PERCENT);

(II) BOTH (A) THE CNBV HAS NOTIFIED US THAT IT HAS MADE A DETERMINATION, PURSUANT TO ARTICLE 29 BIS OF THE MEXICAN BANKING LAW, THAT A CAUSE FOR REVOCATION OF OUR LICENSE HAS OCCURRED RESULTING FROM (X) OUR ASSETS BEING INSUFFICIENT TO SATISFY OUR LIABILITIES, (Y) OUR NON-COMPLIANCE WITH CORRECTIVE MEASURES IMPOSED BY THE CNBV PURSUANT TO THE MEXICAN BANKING LAW, OR (Z) OUR NON-COMPLIANCE WITH THE CAPITALIZATION REQUIREMENTS SET FORTH IN THE MEXICAN CAPITALIZATION REQUIREMENTS AND (B) WE HAVE NOT CURED SUCH CAUSE FOR REVOCATION, BY (a) COMPLYING WITH SUCH CORRECTIVE MEASURES, OR (b)(1) SUBMITTING A CAPITAL RESTORATION PLAN TO, AND RECEIVING APPROVAL OF SUCH PLAN BY, THE CNBV, (2) NOT BEING CLASSIFIED IN CLASS III, IV OR V, AND (3) TRANSFERRING AT LEAST 75% (SEVENTY FIVE PERCENT) OF OUR SHARES TO AN IRREVOCABLE TRUST, OR (c) REMEDYING ANY CAPITAL DEFICIENCY, IN EACH CASE, ON OR BEFORE THE THIRD OR SEVENTH BUSINESS DAY IN MEXICO, AS APPLICABLE, FOLLOWING THE DATE ON WHICH THE CNBV NOTIFIES US OF SUCH DETERMINATION; OR

(III) THE BANKING STABILITY COMMITTEE, WHICH IS A COMMITTEE FORMED BY THE CNBV, THE MINISTRY OF FINANCE AND PUBLIC CREDIT (*SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO*), *BANCO DE MÉXICO* AND THE *INSTITUTO PARA LA PROTECCIÓN AL AHORRO BANCARIO* OF MEXICO, DETERMINES PURSUANT TO ARTICLE 29 BIS 6 OF THE MEXICAN BANKING LAW THAT, UNDER ARTICLE 148, SECTION II, PARAGRAPHS (A) AND (B) OF THE MEXICAN BANKING LAW, FINANCIAL ASSISTANCE IS REQUIRED BY US TO AVOID REVOCATION OF OUR LICENSE BECAUSE OUR ASSETS ARE INSUFFICIENT TO SATISFY OUR LIABILITIES, OR OUR FAILURE TO COMPLY WITH CORRECTIVE MEASURES, TO COMPLY WITH CAPITALIZATION REQUIREMENTS, OR TO SATISFY CERTAIN LIABILITIES WHEN DUE, AS A MEANS TO MAINTAIN THE

SOLVENCY OF THE MEXICAN FINANCIAL SYSTEM OR TO AVOID RISKS AFFECTING THE MEXICAN PAYMENTS SYSTEM AND SUCH DETERMINATION IS EITHER MADE PUBLIC OR NOTIFIED TO US (FOR THE AVOIDANCE OF DOUBT, PURSUANT TO ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS, A TRIGGER EVENT SHALL OCCUR IF FINANCIAL ASSISTANCE OR OTHER LOANS SHALL BE GRANTED TO THE BANK PURSUANT TO ARTICLE 148, SECTION II, PARAGRAPHS (A) AND (B) OF THE MEXICAN BANKING LAW).

*Write-Down*

IF A TRIGGER EVENT OCCURS, THE FOLLOWING WRITE-DOWNS SHALL BE DEEMED TO HAVE OCCURRED ON THE WRITE-DOWN DATE (AS DEFINED BELOW), AUTOMATICALLY AND WITHOUT ANY ADDITIONAL ACTION BY US, THE TRUSTEE OR THE HOLDERS OF THE NOTES:

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

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

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

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

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

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

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

### **Subordination**

The Indenture for the Notes provides that the Notes constitute Subordinated Preferred Indebtedness (*obligaciones subordinadas preferentes*), (i) will rank junior to all of our present and future Senior Indebtedness, (ii) will rank *pari passu* with all other present or future Subordinated Preferred Indebtedness and (iii) will be senior to unsecured Subordinated Non-Preferred Indebtedness (*obligaciones subordinadas no preferentes*) and all classes of our capital stock. No payment of premium, if any, or interest on the Notes may be made at any time when (1) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (2) the maturity of any Senior Indebtedness has been accelerated because of a default.

In the event of the acceleration of the maturity of the Notes due to our insolvency or liquidation and upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *liquidación or resolución* or similar proceedings in connection with our insolvency or bankruptcy, (1) all principal, premium, if any, and interest due or to become due on all Senior Indebtedness must be paid in full before the holders of Subordinated Preferred Indebtedness (including the Notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of unsecured Subordinated Preferred Indebtedness (including the Notes) will be entitled to receive *pari passu* among themselves any payment in respect thereof. The Notes and all other Subordinated Preferred Indebtedness will be senior to our Subordinated Non-Preferred Indebtedness and all classes of our capital stock.

### **Definitions**

For the purposes of the Notes:

(1) The term “Senior Indebtedness” is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment and in liquidation to the Subordinated Preferred Indebtedness (including the Notes) or Subordinated Non-Preferred Indebtedness, and any deferrals, renewals or extensions of such Senior Indebtedness;

(2) The term “Subordinated Preferred Indebtedness” (including the Notes) is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment and in liquidation to Senior Indebtedness, but is senior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness and all classes of our capital stock, and any deferrals, renewals or extensions of such Subordinated Preferred Indebtedness;

(3) The term “Subordinated Non-Preferred Indebtedness” is defined in the Indenture to mean all Indebtedness for Money Borrowed, whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, which terms specifically provide that it is junior in right of payment

and in liquidation to Senior Indebtedness and Subordinated Preferred Indebtedness, but is senior in right of payment and in liquidation to all classes of our capital stock, and any deferrals, renewals or extensions of such Subordinated Non-Preferred Indebtedness; and

(4) The term “Indebtedness for Money Borrowed” is defined in the Indenture to mean any obligation of, or any obligation guaranteed by us (to the extent permitted under applicable law) for the repayment of borrowed money, whether or not evidenced by notes, debentures or other written instruments, but shall not include (a) any trade accounts payable in the ordinary course of business, (b) any such indebtedness that by its terms ranks junior in right of payment and in liquidation to Subordinated Non-Preferred Indebtedness, (c) indebtedness to any of our employees, (d) our indebtedness which, when incurred, was without recourse to us, and (e) any other indebtedness that would otherwise qualify as Indebtedness for Money Borrowed to the extent that such indebtedness, by its terms, ranks *pari passu* with or junior in right of payment and in liquidation to any of the indebtedness described in clause (a) or (b) above.

## **Redemption**

### ***Optional Redemption***

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

**WE MAY REDEEM THE NOTES ONLY IF (I) WE ARE THEN IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE REDEMPTION, WE MAINTAIN EACH OF OUR CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), AND (Z) 7% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*) PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR WE ISSUE SECURITIES THAT REPLACE THE NOTES SUCH THAT WE REMAIN IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) WE HAVE OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, OR A SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED, THEN WE SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR OPTIONAL REDEMPTION.**

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

### ***Withholding Tax Redemption***

**WE HAVE THE OPTION, BUT NO OBLIGATION, UNDER THE INDENTURE TO REDEEM THE NOTES AT ANY TIME PRIOR TO THE MATURITY DATE, IN WHOLE (UP TO THE THEN CURRENT PRINCIPAL AMOUNT) BUT NOT IN PART, AT PAR PLUS ACCRUED AND UNPAID INTEREST DUE ON, OR WITH RESPECT TO, THE NOTES, PLUS ADDITIONAL AMOUNTS, IF ANY,**

UP TO, BUT EXCLUDING, THE DATE OF REDEMPTION, UPON THE OCCURRENCE OF A WITHHOLDING TAX EVENT (AS DEFINED BELOW) AFFECTING THE NOTES (A “WITHHOLDING TAX REDEMPTION”); *PROVIDED, HOWEVER*, THAT IN THE EVENT OF SUCH A WITHHOLDING TAX REDEMPTION, (I) WE SHALL BE IN COMPLIANCE WITH THE APPLICABLE MEXICAN CAPITALIZATION REQUIREMENTS IN EFFECT ON THE APPLICABLE REDEMPTION DATE, (II) AFTER GIVING EFFECT TO THE WITHHOLDING TAX REDEMPTION, WE MAINTAIN EACH OF OUR CAPITAL RATIOS EQUAL TO, OR EXCEEDING, THE THEN-APPLICABLE CAPITAL RATIOS REQUIRED BY THE CNBV IN ACCORDANCE WITH SECTION IV, C), 1 OF ANNEX 1-S OF THE GENERAL RULES APPLICABLE TO MEXICAN BANKS OR ANY SUCCESSOR REGULATION, WHICH AS OF THE DATE OF THIS OFFERING MEMORANDUM ARE (X) 10.5% IN THE CASE OF TOTAL NET CAPITAL (*CAPITAL NETO*), (Y) 8.5% IN THE CASE OF TIER 1 CAPITAL (*CAPITAL BÁSICO*), AND (Z) 7% IN THE CASE OF FUNDAMENTAL CAPITAL (*CAPITAL BÁSICO FUNDAMENTAL*) PLUS THE THEN-APPLICABLE COUNTERCYCLICAL CAPITAL SUPPLEMENT AND SYSTEMICALLY IMPORTANT BANK CAPITAL SUPPLEMENT, OR WE ISSUE SECURITIES THAT REPLACE THE NOTES SUCH THAT WE REMAIN IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS, AND (III) WE HAVE OBTAINED THE AUTHORIZATION FROM *BANCO DE MÉXICO* TO REDEEM THE NOTES PRIOR TO THE APPLICABLE REDEMPTION DATE; *PROVIDED, HOWEVER*, THAT IF AT ANY TIME A TRIGGER EVENT SHALL HAVE OCCURRED, OR A SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED, THEN WE SHALL HAVE NO OBLIGATION TO REDEEM ANY NOTES CALLED FOR WITHHOLDING TAX REDEMPTION.

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

FOR THE PURPOSES OF THE FOREGOING, THE TERM WITHHOLDING TAX EVENT IS DEFINED IN THE INDENTURE TO MEAN (I) THE RECEIPT BY US AND THE DELIVERY TO THE TRUSTEE OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF (A) ANY AMENDMENT TO OR CHANGE (INCLUDING ANY ANNOUNCED PROSPECTIVE CHANGE) IN THE LAWS OR TREATIES (OR ANY RULES OR REGULATIONS THEREUNDER) OF ANY RELEVANT JURISDICTION AFFECTING TAXATION, (B) ANY JUDICIAL DECISION, OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OR REGULATORY PROCEDURE, OF ANY RELEVANT JURISDICTION, (EACH AN “ADMINISTRATIVE ACTION”), OR (C) ANY AMENDMENT TO OR CHANGE IN THE OFFICIAL POSITION OR THE OFFICIAL INTERPRETATION OF SUCH ADMINISTRATIVE ACTION THAT PROVIDES FOR A POSITION WITH RESPECT TO SUCH ADMINISTRATIVE ACTION THAT DIFFERS FROM THE THERETOFORE GENERALLY ACCEPTED POSITION, IN EACH CASE, BY ANY LEGISLATIVE BODY, COURT, GOVERNMENTAL AUTHORITY OR REGULATORY BODY HAVING APPROPRIATE JURISDICTION, IRRESPECTIVE OF THE MANNER IN WHICH SUCH AMENDMENT OR CHANGE IS MADE KNOWN, WHICH AMENDMENT OR CHANGE IS EFFECTIVE OR SUCH PRONOUNCEMENT OR DECISION IS ANNOUNCED ON OR AFTER THE DATE OF ISSUANCE OF THE NOTES OR WITH RESPECT TO ANY JURISDICTION OTHER THAN MEXICO, AFTER SUCH JURISDICTION HAS BECOME A RELEVANT JURISDICTION, (COLLECTIVELY, A “CHANGE IN TAX LAW”), THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT WE ARE OR WILL BE LIABLE FOR MORE THAN A *DE MINIMIS* PAYMENT OF ADDITIONAL AMOUNTS IN RESPECT OF THE NOTES IN EXCESS OF THE GROSS AMOUNT OF ADDITIONAL AMOUNTS PAYABLE IN RESPECT OF THE NOTES PRIOR TO SUCH CHANGE IN TAX LAW AND (II) THE DELIVERY TO THE TRUSTEE OF AN OFFICER’S CERTIFICATE STATING THAT THE REQUIREMENT TO MAKE SUCH WITHHOLDING OR DEDUCTION CANNOT BE AVOIDED BY TAKING REASONABLE MEASURES AVAILABLE TO US (SUCH MEASURES NOT INVOLVING ANY MATERIAL COST TO US OR THE INCURRING BY US OF ANY OTHER TAX OR PENALTY).



### *Special Event Redemption*

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

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

#### FOR THE PURPOSES OF THE FOREGOING:

(1) THE TERM “SPECIAL EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN A CAPITAL EVENT OR A TAX EVENT (BOTH AS DEFINED BELOW);

(2) THE TERM “CAPITAL EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN THE REASONABLE DETERMINATION BY US THAT, AS A RESULT OF (A) THE OCCURRENCE OF ANY AMENDMENT TO OR CHANGE IN THE LAWS OR ANY REGULATIONS THEREUNDER OF MEXICO OR (B) ANY OFFICIAL ADMINISTRATIVE PRONOUNCEMENT OR JUDICIAL DECISION INTERPRETING OR APPLYING THESE LAWS OR REGULATIONS, WHICH AMENDMENT OR CHANGE IS EFFECTIVE OR WHICH PRONOUNCEMENT OR DECISION IS ANNOUNCED ON OR AFTER THE ISSUE DATE, THERE IS MORE THAN AN INSUBSTANTIAL RISK THAT WE WILL NOT BE ENTITLED TO TREAT THE NOTES AS TIER 2 CAPITAL, OR THE THEN EQUIVALENT OF TIER 2 CAPITAL FOR PURPOSES OF THE RULES FOR CAPITALIZATION AND MEXICAN CAPITALIZATION REQUIREMENTS, AS THEN IN EFFECT AND APPLICABLE TO US;

(3) THE TERM “TAX EVENT” IN RESPECT OF THE NOTES IS DEFINED IN THE INDENTURE TO MEAN THE RECEIPT BY US OF AN OPINION OF A NATIONALLY RECOGNIZED LAW FIRM EXPERIENCED IN SUCH MATTERS TO THE EFFECT THAT, AS A RESULT OF A CHANGE IN TAX LAW, THERE IS MORE THAN AN INSUBSTANTIAL RISK

**THAT INTEREST PAYABLE BY US ON THE NOTES IS NOT OR WILL NOT BE DEDUCTIBLE BY US IN WHOLE OR IN PART FOR MEXICAN INCOME TAX PURPOSES.**

***Redemption Procedures***

**IF WE GIVE A NOTICE OF AN OPTIONAL REDEMPTION, WITHHOLDING TAX REDEMPTION OR SPECIAL EVENT REDEMPTION IN RESPECT OF THE NOTES, IN ACCORDANCE WITH THE INDENTURE BY 12:00 P.M., NEW YORK CITY TIME, ON THE APPLICABLE REDEMPTION DATE, TO THE EXTENT FUNDS ARE LEGALLY AVAILABLE, WITH RESPECT TO THE NOTES BEING REDEEMED AND HELD BY THE DEPOSITORY TRUST COMPANY (“DTC”) OR ITS NOMINEE, THE TRUSTEE OR THE PAYING AGENT WILL PAY THE APPLICABLE REDEMPTION PRICE TO DTC. SUCH NOTICE WILL ALSO BE MADE IN ACCORDANCE WITH THE PROCEDURE SET FORTH IN “—NOTICES” BELOW. WITH RESPECT TO THE NOTES BEING REDEEMED AND HELD IN CERTIFICATED FORM, THE TRUSTEE, TO THE EXTENT FUNDS ARE LEGALLY AVAILABLE, WILL PAY THE APPLICABLE REDEMPTION PRICE TO THE HOLDERS THEREOF UPON SURRENDER OF THEIR CERTIFICATES EVIDENCING THE NOTES. INTEREST PAYABLE ON OR PRIOR TO THE REDEMPTION DATE SHALL BE PAYABLE TO THE HOLDERS OF THE NOTES ON THE RELEVANT RECORD DATES. IF NOTICE OF REDEMPTION SHALL HAVE BEEN GIVEN AND FUNDS DEPOSITED WITH THE TRUSTEE TO PAY THE APPLICABLE REDEMPTION PRICE FOR THE NOTES BEING REDEEMED, THEN UPON THE DATE OF SUCH DEPOSIT, ALL RIGHTS OF THE HOLDERS OF THE NOTES WILL CEASE WITH RESPECT TO THE PORTION OF NOTES BEING SO REDEEMED, EXCEPT THE RIGHT OF THE HOLDERS OF THE NOTES TO RECEIVE THE APPLICABLE REDEMPTION PRICE, BUT WITHOUT INTEREST ON SUCH REDEMPTION PRICE, AND THE NOTES SO REDEEMED WILL CEASE TO BE OUTSTANDING. IN THE EVENT THAT ANY REDEMPTION DATE IN RESPECT OF THE NOTES, IS NOT A BUSINESS DAY THEN THE APPLICABLE REDEMPTION PRICE PAYABLE ON SUCH DATE WILL BE PAID ON THE NEXT SUCCEEDING DAY THAT IS A BUSINESS DAY (WITHOUT ANY INTEREST OR OTHER PAYMENT IN RESPECT OF ANY SUCH DELAY) WITH THE SAME FORCE AND EFFECT AS IF MADE ON SUCH REDEMPTION DATE. IN THE EVENT THAT PAYMENT OF THE APPLICABLE REDEMPTION PRICE IS IMPROPERLY WITHHELD OR REFUSED AND NOT PAID BY US (1) INTEREST DUE ON THE NOTES BEING REDEEMED WILL CONTINUE TO ACCRUE AT THE THEN APPLICABLE RATE, FROM THE REDEMPTION DATE ORIGINALLY ESTABLISHED BY US TO THE DATE SUCH APPLICABLE REDEMPTION PRICE IS ACTUALLY PAID, AND (2) THE ACTUAL PAYMENT DATE WILL BE THE REDEMPTION DATE FOR PURPOSES OF CALCULATING THE APPLICABLE REDEMPTION PRICE.**

**IF WE HAVE DELIVERED A NOTICE OF AN OPTIONAL REDEMPTION, WITHHOLDING TAX REDEMPTION OR SPECIAL EVENT REDEMPTION IN RESPECT OF THE NOTES, BUT PRIOR TO THE PAYMENT OF THE REDEMPTION AMOUNT WITH RESPECT TO ANY SUCH REDEMPTION, (X) A TRIGGER EVENT HAS OCCURRED OR A SUSPENSION PERIOD SHALL HAVE COMMENCED AND NOT TERMINATED; (Y) *BANCO DE MÉXICO* HAS REFUSED TO APPROVE THE REDEMPTION; OR (Z) WE ARE NOT IN COMPLIANCE WITH THE MEXICAN CAPITALIZATION REQUIREMENTS OR ANY ALTERNATIVE OR ADDITIONAL PRE-CONDITIONS REQUIRED BY *BANCO DE MÉXICO* AS A PREREQUISITE TO ITS PERMISSION FOR ANY SUCH REDEMPTION, SUCH NOTICE OF REDEMPTION SHALL BE RESCINDED AND SHALL BE OF NO FORCE AND EFFECT, AND NO PAYMENT IN RESPECT OF THE REDEMPTION AMOUNT SHALL BE DUE AND PAYABLE; PROVIDED HOWEVER THAT PURSUANT TO THE INDENTURE, WE WILL BE REQUIRED TO GIVE NOTICE OF SUCH RESCISSION TO THE HOLDERS OF THE NOTES IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN “—NOTICES” BELOW AND TO THE TRUSTEE IN WRITING.**

**IN THE EVENT OF A PARTIAL OPTIONAL PREPAYMENT OF THE NOTES, THE NOTES TO BE REDEEMED THAT ARE NOT HELD THROUGH DTC SHALL BE SELECTED BY THE TRUSTEE BY LOT, PRO RATA, OR BY SUCH OTHER METHOD AS THE TRUSTEE SHALL DEEM FAIR AND APPROPRIATE, AND THE NOTES TO BE REDEEMED THAT ARE HELD THROUGH DTC SHALL BE SELECTED BY DTC IN ACCORDANCE WITH ITS PROCEDURES.**

**WE SHALL DELIVER NOTICE OF ANY REDEMPTION TO THE TRUSTEE AT LEAST 40 DAYS PRIOR TO THE APPLICABLE REDEMPTION DATE. THE TRUSTEE SHALL, UPON OUR REQUEST, IN TURN GIVE NOTICE OF ANY SUCH REDEMPTION AT LEAST 30 DAYS BUT NOT MORE THAN 60 DAYS PRIOR TO THE REDEMPTION DATE TO EACH HOLDER OF THE NOTES IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE. UNLESS WE DEFAULT IN PAYMENT OF THE APPLICABLE AMOUNTS DUE ON, OR IN THE REPAYMENT OF, THE NOTES, ON AND AFTER THE APPLICABLE REDEMPTION DATE, INTEREST DUE WILL CEASE TO ACCRUE ON THE NOTES CALLED FOR REDEMPTION.**

#### **Rule 144A Information**

For so long as any of the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer shall furnish, upon the request of any holder, such information as is specified in Rule 144A(d)(4) under the Securities Act: (i) to such holder, (ii) to a prospective purchaser of such Note (or beneficial interests therein) who is a qualified institutional buyer (“QIB”) designated by such holder and (iii) to the Trustee for delivery to any applicable holders or such prospective purchaser so designated, in each case in order to permit compliance by such holder with Rule 144A in connection with the resale of such Note (or beneficial interest therein) in reliance upon Rule 144A. All such information shall be in the English language.

#### **Periodic Reports**

So long as the Notes are outstanding, we will furnish to the Trustee, who will in turn furnish to the holders of such Notes:

(a) Within 120 days following the end of each of our fiscal years, (i) our consolidated audited income statements, balance sheets and cash flow statements and the related notes thereto for the two most recent fiscal years in accordance with Mexican Banking GAAP (“GAAP”), which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission, together with an audit report thereon by our independent auditors, (ii) the English version of our annual financial statements and (iii) our annual financial information included in the English version of our annual report as provided to our shareholders, and

(b) Within 60 days following the end of the first three fiscal quarters in each of our fiscal years, (i) quarterly reports containing unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for us and our consolidated subsidiaries on a consolidated basis, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X as promulgated by the U.S. Securities and Exchange Commission and (ii) our quarterly financial information included in the English version of our quarterly report as provided to our shareholders;

*provided that* any such information or reports will be deemed to have been delivered to the holders of the Notes and the Trustee on the date any such information or reports is posted by us on our website as long as the Trustee has been notified in writing, who in turn will notify the holders of the Notes, that such information has been posted on our website.

None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the U.S. Securities and Exchange Commission. In addition, we shall furnish to the holders of the Notes, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by Persons who are not “affiliates” under the Securities Act.

#### **Events of Default, Notice and Waiver**

An Event of Default is defined in the Indenture as:

- a default in the payment of interest or Additional Amounts, if applicable, due and payable in respect of any of the Notes, unless such payment of interest or Additional Amounts is deferred as a result of a Suspension Period, and such default continues for a period of 30 calendar days;
- a default in the timely payment of the principal due and payable of the Notes, as applicable under the Indenture, other than during a Suspension Period;
- a payment by us, during a Suspension Period, of dividends or other distributions in respect of our capital stock; or
- certain events involving our liquidation (including *liquidación* or *resolución*) or dissolution.

For the avoidance of doubt, the occurrence of one or more Write-Downs shall not constitute an Event of Default.

The payment of the principal of the Notes or interest accrued and unpaid thereon may be accelerated only upon the occurrence of an Event of Default described in the last bullet point above, referred to as a “Liquidation Event of Default.” There is no right of acceleration of the payment of principal or accrued and unpaid interest of the Notes upon the occurrence of any of the other Events of Default noted above, including a default in the payment of principal or interest. If payment of the principal of the Notes or accrued and unpaid interest is accelerated, we shall promptly notify holders of our Senior Indebtedness of the acceleration. If an Event of Default occurs under the Indenture and is continuing, the Trustee may pursue any available remedy (excluding acceleration, except as provided above) under the Indenture to collect the payment of due and unpaid principal of and interest on the Notes, or to enforce the performance of any provision of the Notes or the Indenture.

If and only if a Liquidation Event of Default occurs and is continuing, the Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any holder of the Notes. The Notes will become immediately due and payable at their Current Principal Amount together with accrued and unpaid interest up to (but excluding) the date on which the Liquidation Event of Default occurs, without further action by any person. For the avoidance of doubt, no Capital Ratios Event or Mexican Regulatory Event will constitute a Liquidation Event of Default, nor during a Suspension Period in respect of the Notes will a deferral in the payment of interest or principal on the Notes, as applicable, entitle the holders of the Notes to accelerate the payment of principal or accrued and unpaid interest of the Notes. In the event of a Liquidation Event of Default, holders of the Notes may not be able to collect the full amount payable under the Notes and other bankruptcy rules may affect the timing or amount paid to holders of the Notes. In addition, holders of the Notes may have no enforcement remedies for an Event of Default upon the occurrence of a Trigger Event and resulting Write-Down. See “Risk Factors—If we do not satisfy our obligations under the Notes, whether due to a Write-Down or otherwise, your remedies will be limited.”

Holders may not enforce the Indenture or the Notes except as provided in the Indenture. The holder of any Note, however, will have the right to receive payment of the principal of and interest on that Note on or after the due dates, Redemption Dates or Maturity Date expressed in the Indenture or such Note and, subject to one or more Write-Downs and the deferral provisions set forth in the Note and the Indenture and certain other limitations and conditions, to institute a lawsuit for the enforcement of any such payment on or after such respective dates. The Trustee may refuse to enforce any of the provisions of the Indenture or the Notes unless it receives indemnity or security satisfactory to it. Subject to certain limitations, holders of a majority in principal amount of the outstanding Notes may direct the Trustee under the Indenture in its exercise of any trust or power in respect thereof. The Trustee may withhold from holders notice of any continuing Event of Default (except a default in payment of principal or interest) if the Trustee in good faith determines that withholding notice is in their interest.

Under the Indenture, we must furnish the Trustee annually with a statement regarding any default in the performance of our obligations thereunder.

### ***Modification of Indenture; Waiver of Covenants***

Subject to authorization by *Banco de México*, we and the Trustee may amend, waive or supplement each of the Indenture or the Notes without notice to or consent of any holder in certain circumstances, including, among other things, to cure any ambiguity, omission, defect or inconsistency, to conform the text of the Indenture or the Notes to any provision in this “Description of the Notes” and to make any change that does not adversely affect the rights of any relevant holder in any material respect. In addition, subject to authorization by *Banco de México* and the approval by 75% of the members of our Board of Directors as provided by the Mexican Banking Law, we and the Trustee may amend, waive or supplement the Indenture or the Notes with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding Notes. However, without the consent of the holder of each Note, we may not, among other things:

- change the maturity date of the principal of or any interest payment date (or periods on any Note);
- reduce the principal amount of or interest on any Note (except in the case of one or more Write-Downs);
- change the currency of payment of principal or interest on any Note;
- modify any other payment provision of any Note;
- impair the right to sue for the enforcement of any payment on or with respect to any Note;
- reduce the percentage in principal amount of outstanding Notes that is required for the consent of the holders in order to modify or amend the Indenture or to waive compliance with some provisions of the Indenture or to waive some defaults; or
- modify the subordination provisions relating to the Notes in any manner adverse to the holders of the Notes.

The holders of a majority in aggregate principal amount of the outstanding (as defined in the Indenture) Notes may waive any past default or Event of Default under the Indenture, except a default under a provision that cannot be modified without the consent of each holder of a Note that would be affected.

### **Consolidation, Merger, Sale or Transfer of Assets**

We may not, without the consent of holders of at least 66 2/3% in aggregate principal amount of the outstanding Notes, consolidate with or merge into, or convey or transfer, in one transaction or a series of transactions, all or substantially all of our properties and assets to any person, unless:

- (1) the resulting entity, if other than us, is organized and existing under the law of Mexico and, by execution of a supplemental indenture delivered to the Trustee, assumes all of our obligations to:
  - (x) pay the principal of, and interest on, the Notes; and
  - (y) perform and observe all of our other obligations under the Indenture; and
- (2) we are, or any successor entity is, as the case may be, not, immediately after any such transaction, in default under the Indenture.

### **Restrictions Applicable to Mexican Financial Institutions**

Unless otherwise permitted by applicable law, the Indenture will provide that the Notes (i) may not constitute collateral granted in favor of Mexican credit institutions (*instituciones de crédito*) including us and (ii) may not be

directly or indirectly acquired by us for our own account by any person controlled by us, or by any of the following entities:

(a) Mexican financial entities (*entidades financieras*) of any kind that acquire the Notes for their own accounts except for (1) investment companies that invest in debt and variable yield instruments (*fondos de inversión en instrumentos de deuda y de renta variable*), (2) securities brokers (*casas de bolsa*) that acquire the Notes for placement with investors, and (3) insurance companies (*instituciones y sociedades mutualistas de seguros*) and bonding companies (*instituciones de fianzas*) to the extent they acquire the Notes to invest their technical reserves; *provided, however*, that the exceptions referred to in (1), (2) and (3) of this paragraph shall not apply to (x) investment companies in which we or any other entity that forms part of our financial group (*grupo financiero*) holds, directly or indirectly, the majority of its fixed capital and (y) financial entities that form part of our financial group (*grupo financiero*);

(b) Mexican or non-Mexican entities with respect to which we (1) own voting stock representing at least 51 percent of their outstanding paid-in capital, (2) have control of the shareholders' meetings of such entity, as such term is defined in the Mexican Securities Market Law or (3) are in a position to appoint the majority of the members of such entity's board of directors;

(c) Mexican pension or retirement funds if managed by us or another entity that forms part of our financial group (*grupo financiero*); and

(d) We or another entity that forms part of our financial group (*grupo financiero*) acting in its capacity of trustee, representative, agent or attorney-in-fact if, by acting in such capacity, it has discretionary investment authority; *provided, however*, that any Mexican financial entity or Mexican pension or retirement fund that is not otherwise prevented from investing in the Notes may acquire, together with any other such entity that is an affiliate or that forms part of the same financial group on a collective basis, up to 10% of the aggregate principal amount of the outstanding Notes.

## Notices

Notice to holders of the Notes if they are global Notes will be given in accordance with the procedures of the applicable clearing system; if they are certificated Notes notice to holders will be given by mail to the addresses of such holders as they appear in the security register.

## Book-Entry System

The Notes will be initially represented by one or more Global Notes.

The Global Notes representing the Notes will be issued in the form of one or more registered notes in global form, without interest coupons and will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes are being offered and sold in this initial offering in the United States solely to qualified institutional buyers under Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Notes may be sold:

- to qualified institutional buyers under Rule 144A;
- to non-U.S. persons outside the United States in reliance on Regulation S; and
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, as described under "Transfer Restrictions."

### ***Rule 144A Global Notes***

Notes offered and sold to qualified institutional buyers under Rule 144A are referred to collectively as the “Rule 144A Global Notes.” Interests in the Rule 144A Global Notes will be available for purchase only by qualified institutional buyers.

### ***Regulation S Global Notes***

Notes offered and sold in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933 to persons which are non-U.S. persons are referred to collectively as the “Regulation S Global Notes” and, together with the Rule 144A Global Notes, the “Global Notes.”

On or prior to the 40th day after the date of issuance of the Notes sold pursuant to Regulation S, any resale or transfer of beneficial interests in the Regulation S Global Notes to U.S. persons shall not be permitted unless such resale or transfer is made pursuant to Rule 144A or Regulation S.

Investors may hold their interest in a Global Note representing the Notes through organizations that are participants in DTC (including, Euroclear or Clearstream, Luxembourg).

### ***Exchanges among the Global Notes***

Transfers by an owner of a beneficial interest in a Regulation S Global Note representing the Notes to a transferee who takes delivery of that interest through a Rule 144A Global Note representing the Notes will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest in the form provided in the Indenture to the effect that the transfer is being made to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A.

Transfers by an owner of a beneficial interest in a Rule 144A Global Note representing the Notes to a transferee who takes delivery of the interest through a Regulation S Global Note representing the Notes will be made only upon receipt by the Trustee of a certification from the transferor of the beneficial interest in the form provided in the Indenture that the transfer is being made outside the United States to a non-U.S. person in accordance with Regulation S or, if available, Rule 144 under the Securities Act.

Any beneficial interest in one of the Global Notes representing the Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note representing the Notes will, upon transfer, cease to be an interest in that Global Note and become an interest in the other Global Note and, accordingly, will then be subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

### ***Book-entry procedures for the Global Notes***

Ownership of beneficial interests in a Global Note representing the Notes will be limited to DTC and to persons that may hold interests through institutions that have accounts with DTC. Beneficial interests in a Global Note will be shown on, and transfers of those ownership interests will be effected only through, records maintained by DTC, and its respective participants for that Global Note. The conveyance of notices and other communications by DTC to its participants and by its participants to owners of beneficial interests in the Notes will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect.

DTC holds the securities of its respective participants and facilitates the clearance and settlement of securities transactions among its respective participants through electronic book-entry changes in accounts.

Principal and interest payments on the Notes represented by a Global Note will be made to DTC, as the sole registered owner and the sole holder of the Notes represented by the Global Note for all purposes under the Indenture. Accordingly, we, the Trustee, any paying agents, transfer agents or registrars will have no responsibility or liability for:

- any aspect of DTC's records relating to, or payments made on account of, beneficial ownership interests in a Note represented by a Global Note;
- any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a Global Note held through those participants; or
- the maintenance, supervision or review of any of DTC's records relating to those beneficial ownership interests.

### ***DTC***

DTC has advised us that upon receipt of any payment of principal of or interest on a Global Note representing the Notes, DTC will immediately credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Note as shown on DTC's records. The initial purchasers of the Notes will initially designate the accounts to be credited. Payments by participants to owners of beneficial interests in a Global Note will be governed by standing instructions and customary practices, as is the case with securities held for customer accounts registered in "street names," and will be the sole responsibility of those participants.

The Notes represented by a Global Note can be exchanged for definitive Notes of the same series in registered form only if:

- DTC notifies us that it is unwilling or unable to continue as depositary for that Global Note or at any time DTC ceases to be a clearing agency registered under the Exchange Act, and a successor depositary is not appointed by us within 90 calendar days; we, in our sole discretion, determine that such Global Note will be exchangeable for definitive Notes in registered form and notify the Trustee of our decision; or an Event of Default with respect to the Notes represented by that Global Note has occurred and is continuing.
- A Global Note representing the Notes that can be exchanged under the preceding sentence will be exchanged for definitive Notes that are issued in authorized denominations in registered form for the same aggregate amount. Those definitive Notes will be registered in the names of the owners of the beneficial interests in the relevant Global Note as directed by DTC and may bear the legend as set forth under "Transfer Restrictions."

### **Registrar, Transfer Agent and Paying Agents**

The Trustee will act as registrar for the Notes. The Trustee will also act as transfer agent and paying agent for the Notes. We have the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as we may require) in respect of any tax or other governmental charges that may be imposed in relation to it. We will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption.

### **Listing**

Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC.



## **The Trustee**

The Bank of New York Mellon will act as Trustee under the Indenture. Notices to the Trustee should be directed to the Trustee at its Corporate Trust Office, located at 101 Barclay Street, 7 East, New York, NY 10286, Attention: Global Finance Americas - BBVA Bancomer S.A. The Trustee also will initially act as registrar, paying agent, transfer agent and agent for service of demands and notices in connection with the Notes and the Indenture. The Trustee may resign or be removed under circumstances described in the Indenture and we may appoint a successor Trustee to act in connection with the Indenture. Any action described in this offering memorandum to be taken by the Trustee may then be taken by the successor trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with us or our affiliates with the same rights it would have if it were not trustee. Any paying agent, registrar or co-registrar may do the same with like rights.

The Indenture contains some limitations on the right of the Trustee should it become a creditor of ours, to obtain payment of claims in some cases or to realize on some property received regarding any such claim, as security or otherwise. The Trustee will be permitted to engage in transactions with us. The occurrence of a default under the Indenture could create a conflicting interest for the Trustee. In this case, if the default has not been cured or waived within 90 days after the Trustee has or acquires a conflicting interest, the Trustee generally is required to eliminate the conflicting interest or resign as trustee for the Notes. In the event of the Trustee's resignation, we will promptly appoint a successor trustee for the Notes.

The Trustee may be removed by the holders of a majority of the outstanding aggregate principal amount of the Notes if an Event of Default under the Indenture has occurred and is continuing. No resignation or removal of the Trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the Indenture.

## **Governing Law; Consent to Jurisdiction**

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

**WE WILL CONSENT TO THE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK, BOROUGH OF MANHATTAN, COUNTY OF NEW YORK, OR THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND WILL AGREE THAT ALL DISPUTES UNDER THE INDENTURE AND THE NOTES MAY BE SUBMITTED TO THE JURISDICTION OF SUCH COURTS. WE WILL IRREVOCABLY CONSENT TO AND WAIVE TO THE**

**FULLEST EXTENT PERMITTED BY LAW ANY OBJECTION THAT WE MAY HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING AGAINST US OR OUR PROPERTIES, ASSETS AND REVENUES WITH RESPECT TO THE INDENTURE AND THE NOTES OR ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY SUCH COURT AND ANY RIGHT TO WHICH WE MAY BE ENTITLED ON ACCOUNT OF PLACE OF RESIDENCE OR DOMICILE.**

**TO THE EXTENT THAT WE OR ANY OF OUR REVENUES, ASSETS OR PROPERTIES SHALL BE ENTITLED TO ANY IMMUNITY FROM SUIT, FROM THE JURISDICTION OF ANY SUCH COURT, FROM ATTACHMENT PRIOR TO JUDGMENT, FROM ATTACHMENT IN AID OF EXECUTION OF JUDGMENT, FROM EXECUTION OF A JUDGMENT OR FROM ANY OTHER LEGAL OR JUDICIAL PROCESS REMEDY, WE WILL IRREVOCABLY AGREE NOT TO CLAIM AND WILL IRREVOCABLY WAIVE SUCH IMMUNITY TO THE FULLEST EXTENT PERMITTED BY THE LAWS OF SUCH JURISDICTION.**

**WE WILL AGREE THAT SERVICE OF ALL WRITS, CLAIMS, PROCESS AND SUMMONS IN ANY SUIT, ACTION OR PROCEEDING AGAINST US OR OUR PROPERTIES, ASSETS OR REVENUES WITH RESPECT TO THE INDENTURE AND THE NOTES OR ANY SUIT, ACTION OR PROCEEDING TO ENFORCE OR EXECUTE ANY JUDGMENT BROUGHT AGAINST US IN THE STATE OF NEW YORK MAY BE MADE UPON CT CORPORATION SYSTEM, 111 EIGHTH AVENUE, NEW YORK, NEW YORK 10011, AND WE WILL IRREVOCABLY APPOINT CT CORPORATION SYSTEM AS OUR AGENT TO ACCEPT SUCH SERVICE OF ANY AND ALL SUCH WRITS, CLAIMS, PROCESS AND SUMMONSES.**

#### **Currency Rate Indemnity**

We have agreed that, if a judgment or order made by any court for the payment of any amount in respect of the Indenture or any Notes is expressed in a currency other than U.S. dollars, we will indemnify the relevant recipient against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from our other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the Notes.

#### **Replacement of Notes**

In case of mutilated, defaced, destroyed, lost or stolen Notes, application for replacement thereof may be made to the Trustee or us. Any such Note shall be replaced by the Trustee in compliance with such procedures, on such terms as to evidence and indemnification as the Trustee and we may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

## **TRANSFER RESTRICTIONS**

### **General**

The notes have not been registered, and will not be registered, under the Securities Act or any state securities laws, and the notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the notes are being offered and sold only:

- to QIBs (as defined in Rule 144A) pursuant to Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Regulation S under the Securities Act.

### **Purchasers' Representations and Restrictions on Resale and Transfer**

Each purchaser of notes and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- 1) it is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a QIB and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;
- 2) it acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any state and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- 3) it understands and agrees that notes initially offered to QIBs will be represented by a global note and that notes offered outside the United States pursuant to Regulation S will also be represented by a global note;
- 4) it will not resell or otherwise transfer any of such notes except (a) to the Issuer or any of our subsidiaries, (b) within the United States to a QIB in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States and other jurisdictions;
- 5) it agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;
- 6) it acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture, including with respect to notes sold or transferred pursuant to Rule 144A or Regulation S;
- 7) it acknowledges that the trustee, registrar or transfer agent for the notes may not be required to accept for registration or transfer of any notes acquired by it, except upon presentation of evidence satisfactory to the Issuer that the restrictions set forth herein have been complied with;
- 8) it acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify the Issuer and the initial purchasers; and

- 9) if it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.
- 10) if it is (1)(i) a pension, profit-sharing or other employee benefit plan subject to ERISA, (ii) a plan or arrangement subject to Section 4975 of the Code, (iii) an entity whose underlying assets are deemed to be the assets of any such employee benefit plan, plan or arrangement or (iv) an employee benefit plan or arrangement subject to provisions under any other federal, state, local, non-U.S. or other laws or regulations that are substantially similar to the provisions of ERISA or Section 4975 of the Code or (2) a person acting on behalf of or with the assets of any such employee benefit plan, plan, arrangement or entity, then such purchase, holding and disposition of the notes is (a) covered by the exemptive relief provided by (i) Prohibited Transaction Class Exemption ("PTCE") 96-23, 95-60, 91-38, 90-1 or 84-14, (ii) Section 408(b)(17) of ERISA or Section 4975(d)(20) of the Code, or (iii) another applicable statutory or administrative exemption and (b) not a violation of any applicable federal, state, local or non-US law that is substantially similar to ERISA or Section 4975 of the Code.
- 11) if it is (i) a pension, profit-sharing or other employee benefit plan subject to ERISA, (ii) a plan or arrangement subject to Section 4975 of the Code, (iii) an entity whose underlying assets are deemed to be the assets of any such employee benefit plan, plan or arrangement each, a "Plan"), including if a fiduciary is purchasing the Notes on behalf of a Plan or who represents a Plan with respect to such purchase, it will be deemed to have represented by the purchase of the Notes that: (1) none of the Transaction Parties has provided or will provide advice with respect to the acquisition of the Notes by the Plan; (2) with respect to the purchase of the Notes, the Plan is represented by a fiduciary (the "Plan Fiduciary") that either: (a) is a bank as defined in Section 202 of the Investment Advisers Act of 1940 (the "Advisers Act"), or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency; (b) is an insurance carrier which is qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of assets of a Plan; (c) is an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the state in which it maintains its principal office and place of business; (d) is a broker-dealer registered under the Exchange Act, as amended; or (e) has, and at all times that the Plan is invested in the Notes will have, total assets of at least U.S. \$50,000,000 under its management or control (provided that this clause (e) shall not be satisfied if the Plan Fiduciary is either (i) the owner or a relative of the owner of an investing individual retirement account or (ii) a participant or beneficiary of the Plan investing in the Notes in such capacity); (3) the Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition by the Plan of the Notes; (4) the Plan Fiduciary is a "fiduciary" with respect to the Plan within the meaning of Section 3(21) of ERISA, Section 4975 of the Code, or both, is "independent" within the meaning of the Department of Labor's Regulation Section 29 C.F.R. § 2510.3-21(c) and is responsible for exercising independent judgment in evaluating the Plan's acquisition of the Notes; (5) none of the Transaction Parties has exercised any authority to cause the Plan to invest in the Notes or to negotiate the terms of the Plan's investment in the Notes; and (6) the Plan Fiduciary has been informed by the Transaction Parties: (a) that none of the Transaction Parties is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with the Plan's acquisition of the Notes; (b) of the existence and nature of the Transaction Parties financial interests in the Plan's acquisition of the Notes; and (c) that none of the Transaction Parties receives a fee or other compensation from the Plan for the provision of investment advice with respect to the purchase of the Notes.

## Legends

The following is the form of restrictive legend which will appear on the face of the Restricted Global Note and which will be used to notify transferees of the foregoing restrictions on transfer. This legend will only be removed with our consent. If we so consent, it will be deemed to be removed.

THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE

OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE BANK THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A)(I) TO THE BANK OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.

THIS LEGEND MAY ONLY BE REMOVED AT THE OPTION OF THE BANK.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE (2)(A)(V) ABOVE, THE BANK RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS, OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The following is the form of restrictive legend which will appear on the face of the Regulation S Global Note and which will be used to notify transferees of the foregoing restrictions on transfer:

THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")), THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON, EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE. THE TERMS "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.

The following is the form of Mexican restrictive legend which will appear on the face of the Restricted Global Note and the Regulation S Global Notes and which will be used to notify transferees of the foregoing restrictions on transfer.

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

If you are a Plan, including if you are a fiduciary purchasing the Notes on behalf of a Plan or who represents a Plan with respect to such purchase, you will be deemed to have represented by your purchase of the Notes that: (1) none of the Transaction Parties has provided or will provide advice with respect to the acquisition of the Notes by the Plan; (2) with respect to the purchase of the Notes, the Plan is represented by a fiduciary (the “Plan Fiduciary”) that either: (a) is a bank as defined in Section 202 of the Investment Advisers Act of 1940 (the “Advisers Act”), or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency; (b) is an insurance carrier which is qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of assets of a Plan; (c) is an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the state in which it maintains its principal office and place of business; (d) is a broker-dealer registered under the Exchange Act, as amended; or (e) has, and at all times that the Plan is invested in the Notes will have, total assets of at least U.S. \$50,000,000 under its management or control (provided that this clause (2) shall not be satisfied if the Plan Fiduciary is either (i) the owner or a relative of the owner of an investing individual retirement account or (ii) a participant or beneficiary of the Plan investing in the Notes in such capacity); (3) the Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition by the Plan of the Notes; (4) the Plan Fiduciary is a “fiduciary” with respect to the Plan within the meaning of Section 3(21) of ERISA, Section 4975 of the Code, or both, is “independent” within the meaning of the Department of Labor’s Regulation 29 C.F.R. § 2510.3-21(c) and is responsible for exercising independent judgment in evaluating the Plan’s acquisition of the Notes; (5) none of the Transaction Parties has exercised any authority to cause the Plan to invest in the Notes or to negotiate the terms of the Plan’s investment in the Notes; and (6) the Plan Fiduciary has been informed by the Transaction Parties: (a) that none of the Transaction Parties is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with the Plan’s acquisition of the Notes; (b) of the existence and nature of the Transaction Parties financial interests in the Plan’s acquisition of the Notes; and (c) that none of the Transaction Parties receives a fee or other compensation from the Plan for the provision of investment advice with respect to the purchase of the Notes. The above representations in this paragraph are intended to comply with the Department of Labor’s Regulation Sections 29 C.F.R. 2510.3-21(a) and (c)(1) as promulgated on April 8, 2016 (81 Fed. Reg. 20,997). If these regulations are revoked, repealed or no longer effective, the representations in this paragraph that are responsive to such Sections of the Department of Labor’s Regulation will be deemed to not be in effect.

#### **Restrictions on marketing and sales to retail investors in the European Economic Area**

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

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

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

- 1) you are not a retail client in the EEA (as defined in the PI Rules);
- 2) whether or not you are subject to the PI Rules, you will not (a) sell or offer the Notes (or any beneficial interests therein) to retail clients in the EEA or (b) communicate (including the distribution of this offering memorandum or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules), in any such case other than (i) in relation to any sale or offer to sell the Notes (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell the Notes (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (x) you have conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Notes (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Notes (or such beneficial interests therein) and (y) you have at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) (“MiFID”) to the extent it applies to you or, to the extent MiFID does not apply to you, in a manner which would be in compliance with MiFID if it were to apply to you; and
- 3) you will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

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

## TAXATION

### Certain United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a beneficial owner of the Notes that is a citizen or resident of the United States, a domestic corporation or is otherwise subject to U.S. federal income tax on a net result basis in respect of the Notes (a “United States holder”), as well as certain considerations (described in “—*Information Reporting and Backup Withholding*” and “—*FATCA*” below) relevant to a holder of a Note that is not a United States holder. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Notes. In particular, the summary deals only with holders that will acquire Notes as part of the initial offering at their issue price and will hold them as capital assets. It does not address all aspects of the tax treatment of holders that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, tax-exempt entities, financial institutions, traders in securities that elect to use the mark-to-market method of accounting for their securities, partnerships that hold the Notes or partners therein, non-U.S. persons who are individuals present in the United States for 183 days or more within a taxable year, persons that own (directly or by attribution) 10 percent or more of our voting stock, or persons that hedge their exposure in our securities or will hold the Notes as a position in a “straddle” or “conversion” transaction or as part of a “synthetic security” or other integrated financial transaction. Moreover, this discussion does not address any tax consequences relating to the alternative minimum tax or the Medicare tax on investment income or any tax consequences other than U.S. federal income tax consequences (such as the estate or gift tax).

This summary is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, in each case as of the date hereof, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein, possibly with retroactive effect. No ruling is being requested from the U.S. Internal Revenue Service (the “IRS”) and no legal opinion is being given regarding the tax consequences of investing in the Notes. Furthermore, no assurance can be given that the IRS or the courts will agree with the discussions set forth herein. The below discussion is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of the Notes. Each holder should consult its own tax advisors about the tax consequences of the purchase, ownership and disposition of the Notes in light of such holder’s particular circumstances, including the tax consequences under state, local, non-U.S. and other tax laws and the possible effects of any changes in applicable tax laws.

### *Characterization of the Notes*

No statutory, judicial or administrative authority directly addresses the characterization of the Notes or instruments similar to the Notes for U.S. federal income tax purposes (specifically, debt instruments with a write-down feature). As a result, significant aspects of the U.S. federal income tax consequences of an investment in the Notes are uncertain. However, the Notes are more likely than not to be treated as our equity for U.S. federal income tax purposes (and not as debt), and we intend, absent a change in law, to so treat the Notes. In general, under the Code, the characterization of an instrument for U.S. federal income tax purposes as debt or equity of a corporation by its issuer as of the time of issuance is binding on an owner of the instrument unless the owner discloses on its tax return that it is taking an inconsistent position. The issuer’s characterization, however, is not binding on the IRS.

Except as stated below under “—*Possible Alternative Treatment of the Notes*,” the following discussion assumes that the Notes will be treated as our equity for U.S. federal income tax purposes. Treatment of the Notes as debt for U.S. federal income tax purposes would significantly change the tax treatment of the Notes in ways that are potentially adverse to holders.

### *Tax Treatment of Payments on the Notes*

Subject to the discussion below under “—*PFIC Rules*,” payments of stated interest on the Notes will be treated as distributions on our stock and as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Because we do not expect to maintain



calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions paid to a United States holder generally will be reported as dividends.

Subject to the discussion below under “—*PFIC Rules*,” dividends received by an individual generally will be subject to taxation at the maximum rate applicable to long-term capital gains if the dividends are “qualified dividends.” We expect that dividends received or accrued on the Notes will be of the type of dividend that is eligible to be a qualified dividend, although there is some uncertainty as to the application of the qualified dividend rules to instruments that are treated as equity for U.S. federal income tax purposes but have the legal form of debt. United States holders should consult their own tax advisors regarding the availability of this reduced dividend tax rate for interest payments on the Notes.

### ***Sale, Exchange, Redemption or Write-Down of the Notes***

Subject to the discussion below under “—*PFIC Rules*,” a United States holder will recognize capital gain or loss upon the sale, exchange, redemption or other taxable disposition of Notes or a Write Down of Notes in an amount equal to the difference between the amount realized on such disposition (or zero in the case of a Write Down) and the holder’s adjusted tax basis in the Notes. A holder’s tax basis in a Note generally will be the price you paid for the Note. Any capital gain or loss will be long-term if the Notes have been held for more than one year at the time of such sale, exchange, redemption or other taxable disposition or Write-Down. Certain non-corporate United States holders (including individuals) may be eligible for preferential rates of taxation on long-term capital gains. The deductibility of capital losses is subject to limitations.

### ***PFIC Rules***

Special U.S. federal income tax rules would apply to us if we were classified as a passive foreign investment company (“PFIC”). We will be classified as a PFIC in any taxable year in which, after taking into account our income and gross assets (and the income and assets of our subsidiaries pursuant to applicable “look-through rules”) either (i) 75% or more of our gross income consists of certain types of “passive income” or (ii) 50% or more of the average quarterly value of our assets is attributable to “passive assets” (assets that produce or are held for the production of passive income). If a company is considered to be an active bank for purposes of the PFIC rules, its “banking income” is treated as active income even if it would otherwise be classified as passive income. Based on our audited consolidated financial statements for the year ended December 31, 2016, our unaudited interim financial statements for the first nine months of 2017 and certain administrative pronouncements by the IRS and proposed Treasury regulations which are not yet in effect, we believe that we were not a PFIC for U.S. federal income tax purposes in 2016 and do not expect to be a PFIC in 2017.

If we were to become a PFIC, a United States holder, that does not make a “mark-to-market” election may incur significantly increased U.S. federal income tax on gain recognized on the sale or other disposition of the Notes and on the receipt of payments on the Notes to the extent such payments are treated as “excess distributions” under the U.S. federal income tax rules. In addition, payments on the Notes would not be eligible for treatment as qualified dividend income, a United States holder of our Notes would be subject to additional U.S. tax form filing requirements, and the statute of limitations for collections may be suspended for a United States holder that does not file the appropriate form.

### ***Possible Alternative Treatment of the Notes***

As discussed above, significant aspects of the U.S. federal income tax consequences of an investment in the Notes are uncertain. The IRS could assert that the Notes should be characterized as debt for U.S. federal income tax purposes. If the Notes were so treated, interest on the Notes would be ordinary income and would not be eligible for the lower rate for “qualified dividends” discussed above in “—*Tax Treatment of Payments on the Notes*.” Moreover, in that event, the Notes may be treated as contingent payment debt instruments, with the consequences, among others, that (i) United States holders would be required to accrue interest on the Notes even if such holders otherwise use the cash method of accounting for U.S. federal income tax purposes, (ii) the amount of interest that must be accrued in any period may differ from the amount of stated interest accruing in that period, and (iii) gain from the sale, exchange or redemption of the Notes would be ordinary income.

Prospective investors should consult their tax advisors as to the tax consequences to them if the Notes were characterized as debt for U.S. federal income tax purposes.

### ***Information Reporting and Backup Withholding***

The Paying Agent will be required to file information returns with the IRS with respect to payments made to certain holders of Notes. In addition, certain United States holders may be subject to backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers to the Paying Agent. Persons holding Notes who are not United States holders may be required to comply with applicable certification procedures to establish that they are not United States holders in order to avoid the application of such information reporting requirements and backup withholding tax. Any amounts withheld under the backup withholding rules will be allowed as a credit against a United States holder's United States federal income tax liability, if any, or as a refund, provided the required information is timely furnished to the IRS.

### ***FATCA***

We and other non-U.S. financial institutions through which payments are made (including the Paying Agent) may be required pursuant to FATCA to collect and provide to the U.S. tax authorities substantial information regarding the investors in the Notes. As such, holders may be required to provide information and tax documentation regarding their tax identities as well as that of their direct and indirect owners.

Additionally, starting at the earliest on January 1, 2019, we and other non-U.S. financial institutions through which payments are made (including the Paying Agent) may be required pursuant to FATCA (or any law or intergovernmental agreement implementing FATCA) to withhold U.S. tax on payments on the Notes made to an investor who fails to provide sufficient identifying information, or to an investor who is (or holds the Notes directly or indirectly through) a non-U.S. financial institution that is not in compliance with FATCA to the extent such payments are considered "passthru payments" under the FATCA rules. It is currently unclear if and to what extent payments on securities such as the Notes will be passthru payments subject to FATCA withholding. If an amount of, or in respect of, such withholding taxes were to be deducted or withheld from any payments in respect of the Notes as a result of an investor or intermediary's failure to comply with these rules, no additional amounts will be paid on the Notes held by such investor as a result of the deduction or withholding of such tax. Holders should consult their own tax advisors on how the FATCA rules may apply to payments they receive in respect of the Notes.

### **Certain Mexican Income Tax Consequences**

The following summary contains a description of the principal Mexican Federal tax consequences of the purchase, ownership and disposition of Notes by a Non-Mexican Holder (as defined below). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Notes. In addition, it does not describe any tax consequences: (1) arising under the laws of any taxing jurisdiction other than Mexico, (2) arising under the laws of any state or municipality within Mexico, or (3) that are applicable to a resident of Mexico for tax purposes.

A "Non-Mexican Holder" is a holder who is not a resident of Mexico for tax purposes, as defined by the Mexican Federal Fiscal Code (*Código Fiscal de la Federación*), or that does not conduct a trade or business in Mexico through a permanent establishment for tax purposes in Mexico. For purposes of Mexican taxation, tax residency is a highly technical definition that involves the application of a number of factors. Generally, an individual is a resident of Mexico if he or she has established his or her home in Mexico and a corporation is considered a resident if it has established its principal place of business management or its effective seat of business management in Mexico. However, any determination of residence should take into account the particular situation of each person or legal entity.

This summary is based upon Mexican Income Tax Law and Mexican Federal Fiscal Code in effect as of the date of this offering memorandum, which are subject to change. Prospective purchasers of the Notes should consult their own tax advisors as to the Mexican or other tax consequences of the purchase, ownership and disposition of Notes, including, in particular, the effect of any foreign state or municipal or local tax laws. The acquisition of the

Notes by an investor who is a resident of Mexico will be made under its own responsibility. Residents of Mexico who become holders of Notes are urged to notify us upon their acquisition of the Notes.

Mexico has entered into, and is negotiating several, tax treaties with various countries, that may affect the Mexican withholding tax liability of Non-Mexican Holders. Prospective purchasers of the Notes should consult their own tax advisors as to the tax consequences, if any, of such treaties.

Under the Mexican Income Tax Law, and the regulations thereunder, principal and interest on the Notes (which includes any amounts paid in excess of the issue price for the Notes, which under Mexican law is deemed to be interest) paid by us, through our Texas Agency, to a Non-Mexican Holder will not be subject to Mexican withholding or other similar taxes.

Capital gains realized from the sale or other disposition of the Notes by a Non-Mexican Holder will not be subject to any Mexican income or other taxes.

A Non-Mexican Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership, or disposition of the Notes, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

### **The Proposed Financial Transactions Tax**

The European Commission has published a proposal, (“the Commission’s Proposal”), for a Directive for a common financial transactions tax (“FTT”), in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the “participating Member States”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes in certain circumstances.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State. The FTT remains subject to negotiation between participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## CERTAIN ERISA CONSIDERATIONS

A fiduciary of a pension, profit-sharing or other employee benefit plan (as defined in Section 3(3) of ERISA) (a “Plan”), should consider the fiduciary standards of ERISA in the context of the Plan’s particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit Plans, as well as any plan or arrangement subject to Section 4975 of the Code, including, without limitation, individual retirement accounts and Keogh plans and any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by Section 3(42) of ERISA) or otherwise (each also, a “Plan”), from engaging in certain transactions involving “plan assets” with any persons who are “parties in interest” under ERISA or “disqualified persons” under the Code (“Parties in Interest”) with respect to such Plan. Such Parties in Interest could include, without limitation, the Bank, the initial purchasers, the Trustee, the registrar and each of their respective affiliates and agents. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those Parties in Interest, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Governmental plans (as defined in section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), non-U.S. plans (as described in Section 4(b)(4) of ERISA) or other arrangements (“Non-ERISA Arrangements”) are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to substantially similar provisions under applicable federal, state, local, non-U.S. or other regulations, rules or laws (“Similar Laws”).

The acquisition, holding and/or disposition of the Notes by a Plan or any entity whose underlying assets are deemed to be the assets of a Plan with respect to which we or certain of our affiliates is or becomes a Party in Interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired, held or disposed of pursuant to and in accordance with an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions (“PTCEs”) that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions are:

- PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities and related lending transactions, provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more than “adequate consideration” in connection with the transaction (the “service provider exemption”).

Any purchaser or holder of a Note or any interest therein, including any transferee of such Note or interest, will be deemed to have represented and warranted by its purchase and holding of the Notes that it either (1) is not, and for so long as it holds the Notes or any interest therein, will not be a Plan, a Non-ERISA Arrangement and is not purchasing those Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement or any entity whose underlying assets are deemed to be the assets of a Plan pursuant to 29 C.F.R. Section 2510.3-101 (as modified by

Section 3(42) of ERISA) or otherwise or (2) the purchase, holding and disposition of the Notes is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code (or, in the case of a Non-ERISA Arrangement, from any Similar Laws) pursuant to the PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, the service provider exemption or another applicable statutory or administrative exemption (or, in the case of a Non-ERISA Arrangement, a substantially similar exemption under Similar Laws).

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the service provider exemption or any other applicable exemption, or the potential consequences of any purchase, holding or disposition of the Notes under Similar Laws, as applicable.

None of the Issuer, the initial purchasers or any of their respective affiliates (each, a “Transaction Party”) has undertaken to provide impartial investment advice, or to give advice in a fiduciary capacity, and no Transaction Party has or shall provide any advice or recommendation with respect to the management of any interest in the Notes or the advisability of acquiring, holding, disposing or exchanging of any such interest.

In addition, each purchaser of the Notes that is a Plan, including any fiduciary purchasing the Notes on behalf of a Plan or who represents the Plan with respect to such purchase, will be deemed to have represented by its purchase of the Notes that: (1) none of the Transaction Parties has provided or will provide advice with respect to the acquisition of the Notes by the Plan; (2) with respect to the purchase of the Notes, the Plan is represented by a fiduciary (the “Plan Fiduciary”) that either: (a) is a bank as defined in Section 202 of the Investment Advisers Act of 1940 (the “Advisers Act”), or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency; (b) is an insurance carrier which is qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of assets of a Plan; (c) is an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the state in which it maintains its principal office and place of business; (d) is a broker-dealer registered under the Exchange Act, as amended; or (e) has, and at all times that the Plan is invested in the Notes will have, total assets of at least U.S. \$50,000,000 under its management or control (provided that this clause (2) shall not be satisfied if the Plan Fiduciary is either (i) the owner or a relative of the owner of an investing individual retirement account or (ii) a participant or beneficiary of the Plan investing in the Notes in such capacity); (3) the Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition by the Plan of the Notes; (4) the Plan Fiduciary is a “fiduciary” with respect to the Plan within the meaning of Section 3(21) of ERISA, Section 4975 of the Code, or both, is “independent” within the meaning of the Department of Labor’s Regulation 29 C.F.R. § 2510.3-21(c) and is responsible for exercising independent judgment in evaluating the Plan’s acquisition of the Notes; (5) none of the Transaction Parties has exercised any authority to cause the Plan to invest in the Notes or to negotiate the terms of the Plan’s investment in the Notes; and (6) the Plan Fiduciary has been informed by the Transaction Parties: (a) that none of the Transaction Parties is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with the Plan’s acquisition of the Notes; (b) of the existence and nature of the Transaction Parties financial interests in the Plan’s acquisition of the Notes; and (c) that none of the Transaction Parties receives a fee or other compensation from the Plan for the provision of investment advice with respect to the purchase of the Notes. The above representations in this paragraph are intended to comply with the Department of Labor’s Regulation Sections 29 C.F.R. 2510.3-21(a) and (c)(1) as promulgated on April 8, 2016 (81 Fed. Reg. 20,997). If these regulations are revoked, repealed or no longer effective, the representations in this paragraph that are responsive to such Sections of the Department of Labor’s Regulation will be deemed to not be in effect.

## PLAN OF DISTRIBUTION

### General

Under the terms and subject to the conditions contained in a purchase agreement to be dated January 11, 2018 we have agreed to sell to the initial purchasers and the initial purchasers have severally agreed to purchase, the principal amount of Notes opposite their name on the table herein.

<b>Initial Purchasers of the Notes</b>	<b>Principal Amount of the Notes</b>
BBVA Securities Inc.....	U.S.\$250,000,000
BNP Paribas Securities Corp.....	U.S.\$250,000,000
J.P. Morgan Securities LLC .....	U.S.\$250,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated .....	U.S.\$250,000,000
<b>Total</b> .....	<b>U.S.\$1,000,000,000</b>

The purchase agreement provides that the initial purchasers are obligated to purchase all of the Notes, if any are purchased. The purchase agreement also provides that if an initial purchaser defaults, the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated. We have agreed to indemnify the several initial purchasers against liabilities or to contribute to payments which they may be required to make in that respect.

The initial purchasers propose to offer the Notes initially at the offering price on the cover page of this offering memorandum and may also offer the Notes to selling group members at the offering price less a selling concession. After the initial offering, the offering price may be changed. The initial purchasers may offer and sell the Notes through one or more of their respective affiliates. The offering of the Notes by the initial purchasers is subject to receipt and acceptance and subject to the initial purchasers' right to reject any order in whole or in part.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons in offshore transactions in reliance on Regulation S under the Securities Act. Each of the initial purchasers has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the Notes (1) as part of its distribution at any time, or (2) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells the Notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of such Notes within the United States, or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the Notes are restricted as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

### Sales Outside the United States

#### *United Kingdom*

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

activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

### ***European Economic Area***

In relation to each member state of the European Economic Area (each, a “Member State”) which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive was implemented in that Relevant Member State (the “Relevant Implementation Date”), no offer of the Notes may be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that the initial purchasers may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

- to any legal entity which is a “qualified investor” as defined in the Prospectus Directive;
- to fewer than 150 natural or legal persons per Relevant Member State (other than “qualified investors” as defined in the Prospectus Directive); or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any Notes as a “financial intermediary,” as that term is used in Article 3(2) of the Prospectus Directive, will be deemed to have represented, acknowledged and agreed that (x) the Notes acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than “qualified investors” as defined in the Prospectus Directive, or in circumstances in which the prior consent of the subscribers has been given to the offer or resale, or (y) where Notes have been acquired by it on behalf of persons in any Relevant Member State other than “qualified investors” as defined in the Prospectus Directive, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of the foregoing, “offer of Notes to the public,” in relation to any Notes in any Relevant Member State, means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto including the 2010 PD Amending Directive), and includes any relevant implementing measure in the Relevant Member State; and “2010 PD Amending Directive” means Directive 2010/73/EC.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”) or (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the European Economic Area has been prepared, and therefore offering or selling the Notes or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

### ***Hong Kong***

This offering memorandum has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. The Notes will not be offered or sold in Hong Kong other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the

document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) has been issued or will be issued in Hong Kong or elsewhere other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### ***Singapore***

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act (Chapter 289) (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, the securities, debentures and units of securities and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the securities under Section 275 except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (ii) where no consideration is given for the transfer; or (iii) by operation of law.

### ***Japan***

The Notes offered in this offering memorandum have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “Financial Instruments and Exchange Act”). The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Act and (ii) in compliance with any other applicable requirements of Japanese law.

### ***Mexico***

The Notes have not been and will not be registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the CNBV, and may not be publicly offered or sold in Mexico. As required under the Mexican Securities Market Law, we will notify the CNBV of the offering of the Notes outside of Mexico. Such notice will be delivered to the CNBV to comply with a legal requirement and for information purposes and the delivery and the acceptance by the CNBV of such notice, does not imply any certification as to the investment quality of the Notes or our solvency, liquidity or credit quality. The information contained in this offering memorandum is exclusively our responsibility and has not been reviewed or authorized by the CNBV.

### ***Chile***

Pursuant to Law No. 18,045 of Chile (the securities market law of Chile) and Rule (*Norma de Carácter General*) No. 336, dated June 27, 2012 (Rule 336), issued by the Superintendency of Securities and Insurance of Chile (*Superintendencia de Valores y Seguros de Chile* or “SVS”), the Notes may be privately offered in Chile to



certain “qualified investors” identified as such by Rule 336 (which in turn are further described in rule No. 216, dated June 12, 2008, of the SVS).

Rule 336 requires the following information to be provided to prospective investors in Chile:

1. Date of commencement of the offer of the Notes in Chile: January 4, 2018.
2. The offer of the Notes is subject to Rule 336.
3. The offering of the Notes is not registered with the Securities Registry (*Registro de Valores*) of the SVS nor with the foreign securities registry (*Registro de Valores Extranjeros*) of the SVS and as such;
4. Since the Notes are not registered in Chile there is no obligation by the issuer to:
  - a. The Notes are not subject to the oversight of the SVS; and
  - b. The issuer of the Notes is not subject to the obligation to make publicly available information about the Notes in Chile.
5. The Notes may not be subject to public offering in Chile unless and until they are registered with the relevant Securities Registry of the SVS.

*Los Valores se ofrecen privadamente en Chile de conformidad con las disposiciones de la Ley N° 18.045 de Mercado de Valores, y la Norma de Carácter General N° 336 de 27 de Junio de 2012 (“NCG 336”) emitida por la Superintendencia de Valores y Seguros de Chile.*

*En cumplimiento de la NCG 336, la siguiente información se proporciona a los potenciales inversionistas residentes en Chile.*

1. *La oferta de estos Valores en Chile comienza el día 4 de enero de 2018.*
2. *La oferta se encuentra acogida a la NCG 336.*
3. *La oferta versa sobre valores que no se encuentran inscritos en el Registro de Valores ni en el Registro de Valores Extranjeros que lleva la Superintendencia de Valores y Seguros, por lo que:*
  - a. *Los Valores no están sujetos a la fiscalización de esa Superintendencia; y*
  - b. *El emisor de los Valores no está sujeto a la obligación de entregar información pública sobre los valores ofrecidos.*
4. *Los Valores no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el Registro de Valores correspondiente.*

## **Colombia**

The Notes have not been and will not be authorized by the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*) and will not be registered with the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) or on the Colombian Stock Exchange (*Bolsa de Valores de Colombia*). Therefore, the Notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 and Regulation 029 of 2014 issued by the Colombian Superintendency of Finance, as modified, complemented or substituted from time to time, to privately market and offer the Notes to their Colombian clients.

## **Peru**

The Notes and the information contained in this offering memorandum have not been and will not be registered with or approved by the Peruvian Superintendency of the Securities Markets (*Superintendencia del Mercado de Valores* or “SMV”) or the Lima Stock Exchange (*Bolsa de Valores de Lima* or “BVL”). Accordingly, the Notes cannot be offered or sold in Peru, except if such offering is considered a private offering under the securities laws and regulations of Peru. The Peruvian securities market law establishes that any particular offer may qualify as private, among others, if it is directed exclusively to institutional investors.

## **Canada**

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement and the accompanying prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering

## **Other Matters**

Purchasers of Notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering memorandum.

Some of the initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. BBVA Securities Inc., one of the initial purchasers, is our affiliate.

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. The initial purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. They are not obligated, however, to make a market in the Notes and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Notes.

The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

**These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.**

We have agreed that we will not, for a period of 30 days after the date of this offering memorandum, without the prior written consent of the initial purchasers, offer, sell, contract to sell, pledge or otherwise dispose of any debt securities issued or guaranteed by the Bank that are substantially similar to the Notes and have a tenor of more than one year (other than under the Bank's *Programa de Emisión de Certificados Bursátiles* (Program for the Issuance of the Certificates) Revolving Bond Program pursuant to which it may issue up to 20 billion pesos of indebtedness with maturities up to 35 years).

We expect that delivery of the Notes will be made to investors on or about January 17, 2018, which will be the third business day following the date of this offering memorandum (such settlement being referred to as "T+3"). Under Rule 15c6-1 under the Securities Exchange Act of 1934, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder may be required, by virtue of the fact that the Notes initially settle in T+3, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

## **GENERAL INFORMATION**

### **Clearing Systems**

We have applied to have the Notes accepted for clearance through Euroclear and Clearstream. In addition, application will be made to have the Notes accepted for trading in book-entry form by DTC. For the Rule 144A Global Note, the ISIN number is US05533UAF57 and the CUSIP number is 05533U AF5, and for the Regulation S Global Note, the ISIN number is USP16259AM84 and the CUSIP number is P16259 AM8.

### **Listing**

Application has been made to the ISE for the approval of this document as Listing Particulars. Application has been made to the Irish Stock Exchange PLC for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. For so long as the Notes are listed on the Global Exchange Market of the ISE, copies of the following items will be available in physical form for inspection at our principal executive offices, as well as at the corporate trust office of the Trustee, paying agent, transfer agent and registrar and at the offices of the Listing Agent, as such addresses are listed on the inside back cover page of this offering memorandum: this offering memorandum, our bylaws and articles of association, a copy of the license of the Texas Agency issued by the State of Texas, pursuant to Section 204.103 of the Texas Finance Code, the Indenture, as may be amended or supplemented from time to time, our published annual audited consolidated financial statements, any published quarterly unaudited consolidated financial statements and any other documents related to the offering of the Notes.

We believe the auditor's reports included herein have been accurately reproduced. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware), during a period covering at least the previous twelve months, which may have, or have had in the recent past, significant effects on the issuer's financial position or profitability. There has been no material adverse change in the prospects of the Issuer since December 31, 2016 and no significant change in the financial or trading position of the Issuer since September 30, 2017. Except as otherwise disclosed herein, there are no potential conflicts of interest between the duties of the members of our board of directors and their private interests.

### **Authorization**

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes.

## **LEGAL MATTERS**

The validity of the Notes will be passed upon for us by our General Counsel, Lic. José Fernando Pío Díaz Castañares, Clifford Chance US LLP, New York, New York and Mayer Brown LLP, Houston, Texas. Certain legal matters will be passed upon for the initial purchasers by Shearman & Sterling LLP, New York, New York, and Bufete Robles Miaja, S.C., Mexico City, Mexico. Clifford Chance US LLP and Shearman & Sterling LLP will rely upon our General Counsel, Lic. José Fernando Pío Díaz Castañares, and Bufete Robles Miaja, S.C. with respect to matters governed by Mexican law and upon Mayer Brown LLP, with respect to matters governed by Texas law.

## **INDEPENDENT AUDITORS**

With respect to our unaudited interim financial information for the period ended September 30, 2017, included herein, KPMG Cardenas Dosal, S.C., independent auditors, have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included in our financial information for the period ended September 30, 2017, and included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Our Audited Financial Statements included in this offering memorandum have been audited by Galaz, Yamazaki, Ruiz, Urquiza, S.C., a member of Deloitte Touche Tohmatsu Limited, independent accountants, as stated in their report. Galaz, Yamazaki, Ruiz, Urquiza, S.C., a member of Deloitte Touche Tohmatsu Limited, independent auditors, is a member of the Association of Public Accountants of Mexico (*Colegio de Contadores Públicos de México, A.C.*).

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## **ANNEX A – SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP**

Mexican banks prepare their financial statements in accordance with Mexican Banking Accounting Criteria (“Mexican Banking GAAP”) as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for Banks as issued by the CNBV and, to the extent that such accounting rules do not address a given accounting topic, Mexican Financial Reporting Standards (“MFRS”) prescribed by the Mexican Board for the Research and Development of Financial Information Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (“CINIF”). Mexican Banking GAAP differs in certain significant respects from U.S. GAAP. Such differences might be material to the financial information contained in this offering memorandum. A summary of certain differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this offering memorandum. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and U.S. GAAP, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and U.S. GAAP. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this offering memorandum a reconciliation of our Mexican Banking GAAP financial statements to U.S. GAAP.

### **Loan loss reserve**

The accounting rules for loan loss reserves under Mexican Banking GAAP are set forth in the “General Regulations Applicable to Credit Institutions” issued by the CNBV. These provisions require the creation of allowances for loan losses for each type of loan, providing for the assignment of a rating based on risk (i.e., country, financial and industry sector), payment history and the value of credit enhancements for each borrower that is evaluated individually. Groups of homogenous loans are classified into ratings that are determined using a parametric analysis based on the number of months elapsed as of the first default. Such ratings are used, among other things, to estimate a loan loss reserve. The methodologies developed by the CNBV for recognizing and measuring loan loss reserves contemplate expected loss models. In certain cases, the provisions allow entities to determine loan ratings and the corresponding recognition and measurement of loan loss reserves using internal methodologies previously authorized by the CNBV. Also, the CNBV permits recognition of additional discretionary reserves based on preventative criteria. We apply an internally developed model that has been approved by the CNBV and that is based on expected loss models to determine loan loss reserves related to credit card loans.

We assign an individual risk category to each commercial loan based on the borrower’s financial and operating risk level, its credit experience and the nature and value of the loans’ collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolios, the risk rating procedure and the establishment of loan reserves considers the period of time a loan is delinquent, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

Past-due loans are classified as non-performing under the following circumstances: If the borrower is declared bankrupt in accordance with the Commercial Bankruptcy Law, except for the following: (i) loans on which we continue to collect payments under the terms of the fraction VIII, article 43 of the Commercial Bankruptcy Law; (ii) loans that are granted under the terms of article 75 in relation with the fractions II and III of article 224 of the Commercial Bankruptcy Law; (2) loans with a single payment of principal and interest at maturity are classified as non-performing 30 calendar days after the maturity date; (3) loans with a single payment of principal at maturity and with scheduled interest payments are classified as non-performing 30 calendar days after principal becomes past-due and 90 calendar days after interest becomes past-due; (4) loans requiring payment of principal and interest in accordance with scheduled payments are classified as non-performing 90 days after the first installment is past due; (5) revolving lines of credit are considered non-performing when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 calendar days following maturity, and (6) overdrafts are reported as non-performing loans at the time the overdraft occurs.

Under U.S. GAAP, estimated loan losses are determined using incurred loss models. Accordingly, such losses should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated.

Specific loss reserves are calculated for large non-homogeneous loans and for groups of smaller-balance homogeneous loans when it is determined that it is probable that a bank will not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms. Estimated losses are measured at the present value of expected future cash flows discounted at the loan's effective rate, or at the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent.

To calculate the allowance required for homogenous pools of smaller-balance impaired loans and unimpaired loans, loan provisions are estimated based on historical experience.

Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. For U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

### **Non-performing loans**

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans are classified as non-performing based on the criteria established by the CNBV.

Under U.S. GAAP, the accrual of interest income is generally discontinued to the extent that such amounts are not expected to be recovered.

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

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, U.S. GAAP establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company's financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable..

### **Securitized transactions and the consolidation of special-purpose entities**

Under Mexican Banking GAAP, securitized transactions must fulfill the requirements established in accounting criterion C-1 "Recognition and Derecognition of Financial Assets" in order to be considered a sale and transfer of assets. If such requirements are not met, the assets must remain on the balance sheet, together with the



respective debt issuances. Furthermore, a company must consolidate a special-purpose entity (SPE) when the economic basis of the relationship between both entities shows that the SPE is controlled by the former. Also, all securitized transactions made before the effective date of criterion C-1, are not consolidated since this criterion was issued considering a prospective implementation.

Under U.S. GAAP, the guidance surrounding the derecognition of financial assets is focused on an evaluation of control. In a transfer of financial assets (e.g. a securitization), an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if all of the following conditions are met:

- The transferred assets have been isolated from the transferor (beyond the reach of the transferor and its creditors), even in bankruptcy.
- Each transferee (or, if the transferee is a qualifying special-purpose entity (SPE), each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- The transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

### **Business combinations**

Under Mexican Banking GAAP, the separately identifiable assets acquired and liabilities assumed in connection with a business combination are measured at their acquisition-date fair values, with the exception of acquired loan portfolios, which are measured based on the criteria set forth by the CNBV. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired.

Under U.S. GAAP, an acquirer in a business combination recognizes assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at fair value as of the acquisition date.

### **Employee retirement obligations**

Under Mexican Banking GAAP, companies must determine whether termination benefits, such as severance indemnity benefits, are provided in accordance with employee contracts or implied based on past practice regarding the payment of such benefits, in which case they are accounted for as post-employment benefits and a provision is recognized as employee services are provided. Otherwise, termination benefits are recognized when an event occurs (such as a restructuring) that gives rise to an obligation to pay such benefits.

Companies reporting under U.S. GAAP have always been required to recognize a pension liability for severance indemnity liabilities.

### **Guarantees**

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For U.S. GAAP purposes, an entity recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing such guarantee.

## **Accounting Changes**

In certain cases, the accumulated effects of accounting changes issued by the CNBV pursuant to new or revised accounting criteria are charged or credited to retained earnings and not to the statement of income for the period.

Under U.S. GAAP, accounting changes such as changes in accounting principles or corrections of errors are generally recognized with retrospective adjustments to previously reported financial statements.

## **Deferred Income Tax**

Mexican Banking GAAP is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under Mexican Banking GAAP, deferred tax assets must be reduced by a valuation allowance if it is “highly probable” that all or a portion of the deferred tax assets will not be realized. The determination of the need for a valuation allowance must consider future taxable income and the reversal of temporary taxable differences. Net deferred income tax assets or liabilities are presented within long-term assets or liabilities.

Under U.S. GAAP, a valuation allowance is recognized if, based on the weight of all positive and negative available evidence, it is “more likely than not” that all or a portion of the deferred tax asset will not be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if the company has experienced recent cumulative losses, little weight, if any, may be placed on future taxable income as evidence to support the recoverability of a deferred income tax asset. U.S. GAAP requires that deferred tax assets and liabilities be classified as current or long-term depending on the classification of the asset or liability to which the deferred relates.

## **Consolidation**

Under Mexican Banking GAAP, an investor is required to consolidate subsidiaries over which it is has established control. An investor controls an investee when the investor has all the following:

- a. power over the investee,
- b. exposure, or rights, to variable returns from its involvement with the investee, and
- c. the ability to use its power over the investee to affect the amount of the investor’s returns.

Under U.S. GAAP, entities consolidate the financial statements all investees over which a controlling financial interest is held (either through a majority voting interest or through the existence of other control factors).

Entities over which a controlling financial interest is achieved through means other than voting rights are known as variable-interest entities (“VIEs”). Generally, VIEs are to be consolidated by the primary beneficiary which is the entity that has the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

## **Effects of inflation**

Through December 31, 2007, Mexican Banking GAAP required that the effects of inflation be recorded in financial information and that financial statements be restated to constant pesos as of the latest balance sheet date presented. Beginning January 1, 2008, Mexican Banking GAAP modified the accounting for the recognition of the effects of inflation and defines two economic environments: (i) an “inflationary environment,” in which the cumulative inflation of the three preceding years is 26% or more, in which case the effects of inflation should be recognized using the comprehensive method; and (ii) a “non-inflationary environment,” in which the cumulative

inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements.

Under U.S. GAAP, historical costs must be maintained in the basic financial statements. Business enterprises are encouraged to disclose certain supplemental information concerning changing prices on selected statement of income and balance sheets items unless the company operates in a hyperinflationary economy. A hyperinflationary economy is generally defined as one in which the cumulative three year inflation rate exceeds 100%.

## **ANNEX B – SIGNIFICANT DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND IFRS**

Mexican banks prepare their financial statements in accordance with Mexican Banking Accounting Criteria (“Mexican Banking GAAP”) as prescribed by the CNBV. Mexican Banking GAAP encompasses general accounting rules for Banks as issued by the CNBV and, to the extent that such accounting rules do not address a given accounting topic, Mexican Financial Reporting Standards (“MFRS”) prescribed by the Mexican Board for the Research and Development of Financial Information Standards (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* (“CINIF”). Mexican Banking GAAP differs in certain significant respects from International Financial Reporting Standards (“IFRS”). Such differences might be material to the financial information contained in this offering memorandum. A summary of certain differences is presented below. We have made no attempt to identify or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of the Company, including the terms of this offering and the financial information contained in this offering memorandum. Potential investors should consult with their own professional advisors for an understanding of the differences between Mexican Banking GAAP and IFRS, and how those differences might affect the financial information herein.

This summary should not be taken as exhaustive of all differences between Mexican Banking GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in financial statements, including the notes thereto. We have not included in this offering memorandum a reconciliation of our Mexican Banking GAAP financial statements to IFRS.

### **Loan loss reserve**

The accounting rules for loan loss reserves under Mexican Banking GAAP are set forth in the “General Regulations Applicable to Credit Institutions” issued by the CNBV. These provisions require the creation of allowances for loan losses for each type of loan, providing for the assignment of a rating based on risk (i.e., country, financial and industry sector), payment history and the value of credit enhancements for each borrower that is evaluated individually. Groups of homogenous loans are classified into ratings that are determined using a parametric analysis based on the number of months elapsed as of the first default. Such ratings are used, among other things, to estimate a loan loss reserve. The methodologies developed by the CNBV for recognizing and measuring loan loss reserves contemplate expected loss models. In certain cases, the provisions allow entities to determine loan ratings and the corresponding recognition and measurement of loan loss reserves using internal methodologies previously authorized by the CNBV. Also, the CNBV permits recognition of additional discretionary reserves based on preventative criteria. We apply an internally developed model that has been approved by the CNBV and that is based on an expected loss models to determine loan loss reserves related to credit card loans.

We assign an individual risk category to each commercial loan based on the borrower’s financial and operating risk level, its credit experience and the nature and value of the loans’ collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolios, the risk rating procedure and the establishment of loan reserves considers the period of time a loan is delinquent, the probability of noncompliance, the severity of the loss based on its balance and the nature of any loan guarantees or collateral.

### **Non-performing loan portfolio**

We apply the following criteria to classify outstanding loans as non-performing:

Past-due loans are classified as non-performing under the following circumstances: (1) If the borrower is declared bankrupt in accordance with the Commercial Bankruptcy Law, except for the following: (i) loans on which we continue to collect payments under the terms of paragraph VIII, article 43 of the Commercial Bankruptcy Law; (ii) loans that are granted under the terms of article 75 in relation to paragraphs II and III of article 224 of the Commercial Bankruptcy Law; (2) loans with a single payment of principal and interest at maturity are classified as non-performing 30 calendar days after the maturity date; (3) loans with a single payment of principal at maturity and with scheduled interest payments are classified as non-performing 30 calendar days after principal becomes past-due

and 90 calendar days after interest becomes past-due; (4) loans requiring payment of principal and interest in accordance with scheduled payments are classified as non-performing 90 days after the first installment is past due; (5) revolving lines of credit are (6) considered non-performing when payment has not been received for two normal billing periods or, when the billing period is not monthly, 60 calendar days following maturity, and (6) overdrafts are reported as non-performing loans at the time the overdraft occurs.

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

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

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

Entities reporting under IFRS may determine estimated credit losses using the incurred loss model of IAS 39, or they may early adopt IFRS 9 and apply the expected loss model set forth therein.

Under IFRS estimated losses should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated.

Under the incurred loss model, specific loss reserves are calculated for large non-homogeneous loans and for groups of smaller-balance homogeneous loans when it is determined that it is probable that a bank will not recover the full contractual principal and interest on a loan (impaired loan), in accordance with the original contractual terms. Estimated losses are measured at the present value of expected future cash flows discounted at the loan's effective rate, or at the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent. To calculate the allowance required for homogenous pools of smaller-balance impaired loans and unimpaired loans, loan provisions are estimated collectively based on historical experience.

Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. At each reporting date, an entity shall assess whether the credit risk on a financial asset has increased significantly since initial recognition. Estimated credit losses on a financial asset for which the risk of credit loss has not increased significantly since initial recognition are equal to credit losses expected to occur over the following 12-month period. An entity shall measure the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. Under Mexican Banking GAAP, loans may be written-off when collection efforts have been exhausted or when they have been fully provisioned. For IFRS, loans should be written-off in the period in which the entity has no reasonable expectations of recovering the asset in its entirety or a portion thereof.

### **Interest accrual on non-performing loans**

Under Mexican Banking GAAP, the recognition of interest income is suspended when loans are classified as non-performing based on the criteria established by the CNBV.

Under IFRS, the accrual of interest income on non-performing loans is adjusted based on the amounts expected to be recovered.

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

Mexican Banking GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, IFRS establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company's financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1 – Quoted prices for identical instruments in active markets.
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### **Business combinations**

Under Mexican Banking GAAP, the separately identifiable assets acquired and liabilities assumed in connection with a business combination are measured at their acquisition-date fair values, with the exception of acquired loan portfolios, which are measured based on criteria set forth by the CNBV. Goodwill is recognized for the excess of purchase consideration paid over the fair value of net assets acquired.

Under IFRS, an acquirer in a business combination recognizes assets acquired and liabilities assumed at fair value as of the acquisition date. Noncontrolling interest is measured at fair value or the proportionate share held in the acquiree's identified net assets.

### **Employee benefits**

Under Mexican Banking GAAP, actuarial gains and losses reclassified to other comprehensive income are amortized to income over the estimated service life of the employees. Under IFRS, actuarial gains or losses recorded directly stockholders' equity and are not subsequently recycled to earnings.

The benchmark rate used to discount employee benefit liabilities to present value for purposes of Mexican Banking GAAP is the market rate for high quality corporate bonds denominated in pesos. Under IFRS, the benchmark rate is the market rate for debt issued by the Mexican Government.

### **Deferred statutory profit sharing (PTU) benefits**

Under Mexican Banking GAAP, entities are required to recognize deferred PTU assets and liabilities arising from temporary differences between the income tax and financial reporting bases of assets and liabilities.

For purposes of IFRS, PTU benefits are accounted for as a short-term employee benefits under IAS 19, *Employee Benefits*. This accounting model does not contemplate the recognition of deferred PTU assets or liabilities arising from temporary differences between the income tax and financial reporting bases of assets and liabilities.

## **Guarantees**

For Mexican Banking GAAP purposes, guarantees are recorded at cost at inception and disclosed in memorandum accounts unless payments in connection with the guarantee are probable, where the amounts expected to be paid are recorded.

For IFRS purposes, an entity recognizes, at the inception of a guarantee, a provision for the fair value of the obligation undertaken in issuing such guarantee.

## **Accounting Changes**

In certain cases, the accumulated effects of accounting changes issued by the CNBV pursuant to new or revised accounting criteria are charged or credited to retained earnings and not to the statement of income for the period.

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Under IFRS, historical costs must be maintained in the basic financial statements unless the entity is deemed to operate in a hyperinflationary economy. A hyperinflationary economy is generally defined as one in which the cumulative three year inflation rate exceeds 100%.

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